Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 24, 2016

Mr. Nena S. Nena
Administrator
FSM National Government Employees' Health Insurance Plan

Dear Mr. Nena:

In planning and performing our audit of the financial statements of the FSM National Government Employees' Health Insurance Plan (the Plan) as of and for the year ended September 30, 2015 (on which we have issued our report dated June 24, 2016), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered the Plan's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Plan's internal control over financial reporting and other matters as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 24, 2016, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management, others within the organization, and the Office of the FSM National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Plan for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified the following deficiencies involving the Plan's internal control over financial reporting for the year ended September 30, 2015 that we wish to bring to your attention at this time:

1. Deposits with Service Providers

Comment: For two deposits with service providers totaling $112,269, the supporting bank confirmation, bank statements or equivalent documentation evidencing existence of the deposits at September 30, 2015 were not provided. For one deposit of $103,770, the bank confirmation or equivalent third party documentation was not available.

Recommendation: We recommend that the Plan obtain monthly bank statements for the deposits with service providers. This was reported in our previous letter dated June 22, 2015.

2. Accounts Receivable

Comment: Tests of accounts receivable noted the following:

- Receivable from patient share increased by $83,810 (or 41%) from $205,181 at September 30, 2014 to $288,991 at September 30, 2015.
- The allowance for doubtful accounts increased by $110,045 (or 45%) from $247,350 at September 30, 2014 to $357,395 at September 30, 2015.
- Long outstanding receivable balances of $208,784 did not move from prior year. Details follow:

Patient share receivable	$ 122,765
Advances to officers and employees	1,168
Travel advances	11,039
Advances to others	73,811
	$ 208,784

Recommendation: We recommend that the Plan strengthen procedures over collection of receivables. The Plan should timely review and analyze long outstanding and nonmoving accounts and make necessary adjustments.

3. Incurred But Not Reported (IBNR)

Comment: The Plan holds its books open until all off-island medical bills are received. As a result, the Plan is unable to timely prepare financial statements.

Recommendation: We recommend that the Plan consider alternative methods by which the IBNR accrual is estimated, which will then allow the Plan to close its books at an earlier date and timely prepare financial reports. The Plan may consider using average medical claims in previous months to estimate IBNR as of yearend. For IBNR subsequently paid prior to closing of books, the Plan may consider using the actual payment amounts made as basis of accrual to exclude subsequently disallowed costs and charges from the accrual. This was reported in our previous letter dated June 22, 2015.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

4. Audit of Participating Employers

Comment: The Plan does not currently possess audit authority.

Recommendation: We recommend that the Plan request the FSM Congress to change the enabling legislation to allow the Plan to have audit authority in the same manner as the FSM Tax Office possesses for tax compliance. This was reported in our previous letter dated June 22, 2015.

SECTION II – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively**.**

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Plan's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.