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June 28, 2019

Secretary Sihna Lawrence
Madame Secretary
Federated States of Micronesia:

Dear Secretary:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2018, which collectively comprise the FSM National Government's basic financial statements (on which we have issued our report dated June 28, 2019) 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 FSM National Government'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 FSM National Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FSM National Government'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, other matters involving FSM National Government's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention.

We have also issued a separate report to the President of the FSM, also dated June 28, 2019, on our consideration of FSM National Government'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 that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

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 management, the Office of the President, the Office of the FSM National Public Auditor, federal awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Most respectfully,

Deloitte & Touche LLP

SECTION I – OTHER MATTERS

We identified, and have included below, other matters involving FSM National Government's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

(1) Cash Reconciliation

Comment: We noted that of 37 cash accounts tested, the adjusted balance per books at year-end did not agree with the balance recorded in the general ledger.

Cash Account	Adjusted Book Balance as of September 30, 2018	Per GL	Variance
1025	$ 478,727	$ 398,207	$ 80,520
1040	5,418,252	5,477,316	59,064
1021	220,937	218,456	2,481
1052	6,551,163	6,549,317	1,846
1022	37,110	23,627	13,483
1051	2,254,111	2,314,268	60,157
1065	17,344,474	17,361,255	16,781
1064	556,520	578,455	21,935

Recommendation: Bank reconciliations should be performed monthly and be subject to documented reviews.

(2) Investment Reconciliation

Comment: Reconciliation of investment accounts should be timely performed. The FSM Trust Fund investment account was not reconciled until nine months after fiscal year end.

Recommendation: The Government should perform timely reconciliations of all material accounts.

(3) NORMA Advices

Comment: For fourteen of forty fishing fee transactions tested, cash receipts were posted in excess of 3 days from the date of the NORMA advice, resulting in late posting of fishing fees collected.

Recommendation: The Government should perform timely posting of cash receipts after receiving the NORMA advices to verify that fishing fees are timely posted.

(4) CTA Receipts

Comment:

1. For one of 25 tax collections tested, a collection was not timely remitted to the FSM Treasury.

2. For one of of 25 tax collections tested, a gap existed in the sequence of cash receipts issued.

3. For 16 of 25 tax collections tested, documents supporting the tax collection provided were only partial in which there were either missing tax forms, collection details, or tax calculation worksheets.

Recommendation: The Government should monitor collections and reconcile the information daily.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* 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

FSM National Government'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.