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July 9, 2019

Mr. Jared C. Morris
Chief Executive Officer
Federated States of Micronesia Petroleum Corporation
P.O. Box 1762
Kolonia, Pohnpei FM 96941

Dear Mr. Morris:

In planning and performing our audit of the financial statements of the Federated States of Micronesia Petroleum Corporation (the Company), a component unit of the FSM National Government, as of December 31, 2018, (on which we have issued our report dated July 9, 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 the Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Attachment I, deficiencies related to the Company's internal control over financial reporting and other matters as of December 31, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 9, 2019, on our consideration of the Company'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 Attachment 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 Attachment II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, 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.

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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 Company for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I –DEFICIENCIES

We identified the following deficiencies involving the Company's internal control over financial reporting as of December 31, 2018 that we wish to bring to your attention.

(1) Petty Cash

Comment: Petty cash fund should be timely replenished and accounted. The Company's petty cash fund as of December 31, 2018 included unliquidated invoices of $200 of which $140 were disbursed for the purchase of personal items.

Recommendation: Petty cash fund should be liquidated and reviewed timely, preferably no later than the end of the following month. Disbursements should also be timely monitored and approved for business related expenses.

(2) Prepayments

Comment: The following prepayment matters were noted:

- Prepayments included nonmoving items for more than 1 year of approximately $108,000; however, this amount was not considered material to the financial statements.

- Certain prepayments schedules provided did not have transaction dates.

Recommendation: Management should perform timely review of prepayments, including the matching with receiving reports. Long-standing items should be investigated and, where applicable, adjusted.

(3) Capital Assets

Comment: The following capital asset matters were noted:

- 11 of 16 assets tested were not tagged. Additionally, a complete physical count of capital assets has not been completed in the last two years.

- 1 of 3 additions tested was assigned with inappropriate useful life resulting in incorrect depreciation.

Recommendation: The Company should improve its capital asset tagging system to facilitate accurate record keeping and accountability. Additionally, management should scrutinize the existing capital asset register to identify items that do not represent unique assets and perform physical verification procedures to identify those that are no longer in existence.

(4) Accrued Liabilities

Comment: The following accrued liability matters were noted, which were corrected through post-closing adjusting entries during the audit process:

- An overaccrual of $74,000 for the employer's portion of social security tax for the 4th quarter of 2018 was recorded due to the Abra System not properly set up for the cap of taxable wages.

- An overaccrual of $18,000 for health insurance paid for the first two pay periods in 2019.

- An overaccrual of $7,000 was recorded for the 4th quarter of 2018 relating to GRT and withholding tax payments for the Pohnpei location.

Recommendation: Accruals should be timely verified for application and/or adjustment. We recommend that the Company strengthen control procedures to determine proper inclusion and exclusion of liabilities as of fiscal year end.

SECTION II –OTHER MATTERS

We noted below other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention.

(1) Lease Agreements

Comment: For 2 of 37 lease transactions tested, updated signed lease agreements were not made available. Additionally, three lease agreements did not indicate lease start date.

Recommendation: Regular monitoring and scrutiny of lease agreements should be performed.

(2) Journal Entries

Comment: One journal voucher did not have posting comments or description.

Recommendation: We recommend independent review of journal vouchers to ascertain completeness of information indicated in the journal entry.

SECTION III – DEFINITION

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 Company'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.