

June 29, 2019

The Board of Directors  
Federated States of Micronesia Telecommunications Cable Corporation

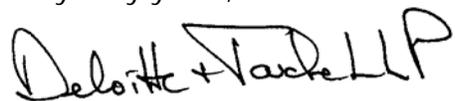
Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Federated States of Micronesia Telecommunications Cable Corporation (the Company) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 29, 2019.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

This report is intended solely for the information and use of the management, the Board of Directors, and others within the Company, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

cc: The Management of Federated States of Micronesia Telecommunications Cable Corporation

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (“generally accepted government auditing standards”), have been described in our engagement letter dated June 29, 2019, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether the statement of net position of the Company as of December 31, 2018 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) and perform specified procedures on the required supplementary information for the year ended December 31, 2018.
- Report on the Company’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended December 31, 2018 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that were 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 not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company’s 2018 financial statements include management’s estimate of allowance for loan losses, which is determined based on past collection experience and aging of the accounts. During the year ended December 31, 2018, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Misstatements that were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period are included in Appendix A to Attachment I. Additionally, we have attached as Appendix B to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are set forth in note 2 to the Company's 2018 financial statements. During the year ended December 31, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority, which did not have material effects on the Company's financial statements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

We have evaluated the significant qualitative aspects of the Company's accounting policies, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

**DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Company's 2018 financial statements.

**OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2018.

**OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as the Company's 2018 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Company's 2018 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

**SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence, were not held in connection with our retention as auditors.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Authority is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated June 29, 2019, on the Company's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have identified, and included in Attachment II, certain deficiencies related to the Company's internal control over financial reporting as of December 31, 2018 that we wish to bring to your attention.

The definition of a control deficiency is also set forth in Attachment II.

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 III and should be read in conjunction with this report.

\* \* \* \* \*



**FSMT Cable Corporation**  
P.O. Box 2202  
Kolonja, Pohnpei, FM, 96941  
Phone: (691) 320-2602

June 29, 2019

Deloitte & Touche  
P.O. Box 753  
Kolonja, Pohnpei 96941

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of Federated States of Micronesia Telecommunications Cable Corporation (the Company) as of December 31, 2018 and 2017 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the basic financial statements of financial position of the Company in conformity with GAAP.
- b. The design, implementation and maintenance of internal control:
  - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - To prevent and detect fraud
- c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
  - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - a. Deposits and investment securities are properly classified in category of custodial credit risk.
  - b. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - c. Required supplementary information is measured and presented within prescribed guidelines.
  - d. Applicable laws and regulations are followed in adopting, approving and amending budgets.
  - e. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - f. Revenues are appropriately classified in the statement of activities.
2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Company has made available to you:
  - a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Meetings were held for the following dates:

May 11, 2017	December 11 – 12, 2017	November 15-16, 2018
July 7, 2017	May 3, 2018	May 6-7, 2019 (Draft)
September 7, 2017	September 6, 2018	

For recent meetings for which minutes have not yet been prepared, nothing of significance was discussed that would require adjustments to, or disclosure in, the basic financial statements.

- b. All financial records and related data for all financial transactions of the Company and for all funds administered by the Company. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Company and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with regulatory agencies.

4. There has been no:
  - a. Action taken by the Company's management that contravenes the provisions of federal laws and FSM National and state laws and regulations, or of contracts and grants applicable to the Company.
  - b. Communications with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole for each opinion unit. A summary of such uncorrected misstatements has been attached as Appendix B.
6. The Company has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Company and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Company involving:
  - a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others, where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.
12. We are responsible for compliance with FSM laws, rules and regulations, including compliance with the provisions of grants and contracts relating to the Company's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Company is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
13. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, immaterial matters less than \$5,200 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

14. Except as listed in Appendix B, there are no transactions that have not been properly recorded and reflected in the financial statements.
15. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
16. Regarding related parties:
  - a. We have disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
17. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
  - b. The effect of the change would be material to the financial statements.
18. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
19. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
20. The Company has complied with all aspects of contractual agreements that may affect the financial statements.
21. No department or agency of the Company has reported a material instance of noncompliance to us.

22. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
  - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
23. Management is aware of its responsibility to disclose whether, subsequent to December 31, 2018, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such change or corrective action has so occurred.
24. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net assets and have been appropriately reduced to their estimated net realizable value.
25. The Company is responsible for determining and maintaining the adequacy of the allowance for doubtful loans receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
26. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
27. During the year ended December 31, 2018, the Company implemented the following pronouncements, which did not have a material effect on the Company's financial statements:
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
  - GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
  - GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital

asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

28. Other than those described in Note 6 to the financial statements, no events have occurred subsequent to December 31, 2018, but before June 29, 2019 the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the Company's financial statements.

Very truly yours,



Pieter Bakker  
Chief Executive Officer



Gordon Segal  
Operations Manager

**APPENDIX A  
CORRECTED MISSTATEMENTS**

#	Name	Debit	Credit
<b>1 AJE Reimbursement related to prior year 2017</b>			
5500	Cost Recovery - World Bank	12,150	
3100	Profit for all prior years		12,150
To record 2017 salaries expense reimbursed by World Bank through FSMNG in 2018.			
<b>2 AJE Depreciation recorded in prior year 2017 not adjusted</b>			
1551	Accumulated Depreciation - Motor Vehicle		543
1552	Accumulated Depreciation - Office Equipment		32
3100	Profit for all prior years	575	
To record depreciation expense for motor vehicle and computer purchased in October 2017.			
<b>3 AJE Adjustment to record loss on lease</b>			
7851	Loss on lease cancellation	38,400	
1300	Prepayments		38,400
To record loss on lease cancellation approved by the Board.			
<b>4 AJE Depreciation expense for capital assets</b>			
7801	Depreciation expenses - Motor Vehicle	2,184	
7802	Depreciation expenses - Office Equipment	947	
7803	Depreciation expenses - Computers and Servers	892	
7804	Depreciation expenses - Furniture, Fittings and Building	2,145	
1551	Accumulated Depreciation - Motor Vehicle		2,184
1552	Accumulated Depreciation - Office Equipment		947
1553	Accumulated Depreciation - Computers and Servers		892
1554	Accumulated Depreciation - Furniture, Fittings and Building		2,145
To record depreciation expense for capital assets			

**APPENDIX B  
UNCORRECTED MISSTATEMENTS**

<b>SUMMARY OF UNCORRECTED MISSTATEMENTS - CURRENT PERIOD</b>									
<b>Description of Misstatement</b>	<b>Assets</b>		<b>Liabilities</b>		<b>Equity</b>		<b>Income</b>		<b>TOTAL</b>
	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	
<b>Current-Period Misstatements</b>									
<b>To record accrued salaries and wages</b>		1,685					1,685		-
<b>Total Misstatements</b>	0	1,685	0	0	0	0	1,685	0	0

## SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of December 31, 2018:

(1) Capital Assets

Test of capital assets noted the following:

- a. The Company does not have a written depreciation policy.
- b. For three capital asset additions (check nos. 1004 of 7,844 and wire transfer no. 2 of \$3,717), procurement documents were not provided.

We recommend that a policy governing depreciation be in place. We further recommend that the Company maintain procurement documents for purchases above \$2,000.

(2) Journal entry

Tests of journal entries noted a \$7,038 journal entry dated March 15, 2018 was recorded without use of a supporting journal voucher. There was no evidence of journal voucher review and approval.

We recommend that journal entries be supported, reviewed and approved prior to posting.

(3) Operating Expenses

For three operating expenses (check no. 1074 of \$5,089 and wire transfer nos. 9 and 16 of \$22,205 and \$20,010, respectively), no procurement documents were provided.

We recommend that the Company maintain procurement documents for purchases above \$2,000.

(4) Bank reconciliation

FSMT Cable Corp. accounting policy and procedures manual includes preparation of monthly bank reconciliations. However, no bank reconciliation was prepared during fiscal year 2018.

We recommend that the Company implement cash monitoring procedures.

## SECTION II – 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.