

June 23, 2008

Honorable Emmanuel Mori  
 President  
 Federated States of Micronesia:

In planning and performing our audit of the financial statements of the Federated States of Micronesia (FSM) National Government for the year ended September 30, 2007, which collectively comprise the State's basic financial statements (on which we have issued our report dated June 23, 2008), we developed the following recommendations concerning certain matters related to the FSM National Government's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

**Finding Number 1 - Invalid Outstanding Checks**

**Comment:**

Check No	Amount	Account	Remarks	Effect
10655	\$2,663	Hawaii Embassy	The check was voided and was replaced with check 10665 and this should not have been a reconciling item	This resulted in an overstatement of expenditures.
2089	\$1,219	Suva, Fiji Embassy	The check was voided and is not a valid outstanding check.	
2126		Washington DC Embassy	The check was dated 9/24/07 and cleared in October 2007 and should have been included as an outstanding check.	
384255	716	Payroll Account	This was voided but the system was not timely updated	

Below is a summary of negative balance checks included in the General Fund reconciliation as outstanding items. As these are negative amounts, they do not appear to represent valid reconciling items.

49240	9/5/2006	\$ (79.00)
49791	7/7/2007	(115.50)
70934	7/16/2007	(11.49)
70998	7/16/2007	<u>(30.35)</u>
		\$ <u>(236.34)</u>

**Finding Number 2 - Budget Allotments**

**Comment:** Public law 15-3 / 14-107 specified that the amount appropriated was for fuel and utilities. However, per the status report, the amount was allotted as a general budget authorization, account 8501. Since the appropriation was for a specific use, the allotment should have been to the specific object class for POL and utilities.

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**Finding Number 2 - Budget Allotments, Continued**

<u>Org Name</u>	<u>Fund org</u>	<u>Appro</u>	<u>PL Ref</u>
POL & Utilities/Governor Office	118456/410707	\$57,186	15-3/ 14-107

Recommendation: For appropriations for specific use, allotments should be made only to specified object classes.

**Finding Number 3 - Budget Allotment Maintenance**

Comment: No movement in various continuing appropriations from the first Compact funds has occurred in recent years.

Recommendation: Although there is no lapsing period, the National Government may wish to consider whether the underlying appropriations should be rescinded.

**Finding Number 4 - Posting to Appropriate Object Class**

Comment: An incorrect posting of joint law expenditures to an incorrect object class was in a State submitted fund status report..

<u>Ref</u>	<u>Acct</u>	<u>Amount</u>	<u>Should be</u>
JVD0550	REPAIR SERVICES	\$2,500	Communication
JVD0550	COMMUNICATIONS	7,398	POL

Recommendation: Although there is no effect on net assets, improper posting of expenditures may affect budgetary analyses and budget formulation.

**Finding Number 5 - Scholarship Checks**

Comment: Two checks were written to the student/school instead of to the student AND the institution. This was also a finding in the 2006 audit.

<u>FundOrg</u>	<u>CC</u>	<u>Date 1</u>	<u>APV or JV#</u>	<u>FY</u>	<u>Amount</u>	<u>Check No</u>
621000	AS7060	5/9/2007	700760201	2007	\$10,000	56092
621000	AS7061	5/9/2007	700760301	2007	\$10,000	56091

Recommendation: We recommend that scholarship checks read “AND” instead of “/” or “OR” when there are two or more parties (vendors) involved.

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### **Finding Number 6 - Annual Leave**

Comment: For 1 of 3 (34%) tested, annual leave hours may not have been correctly calculated.

<u>Fund</u>	<u>Empl #</u>	<u>A/L as of 9/30/07 (Hrs)</u>	<u>Per DTT</u>	<u>Variance in hours</u>	<u>Variance in \$</u>
591032	902885	382	390	(8)	134.59

For 2 of 3 (67%) tested, the personnel action form was not provided.

<u>Fund</u>	<u>Empl #</u>	<u>Pay rate</u>
101400	36683	12.50
101080	43842	19.23

For 1 of 3 (34%) tested, approved annual leave forms supporting annual leave utilized were not available.

<u>Fund</u>	<u>Empl #</u>	<u>PP</u>	<u>A/L Taken 1-9/2007</u>
101080	43842	2,3,5,14,17,20	-103

Recommendation: We recommend that periodic reviews of annual leave occur to determine compliance with personnel policies and regulations. In addition, annual leave taken should be documented and be readily available for verification.

### **Finding Number 7 - Investment**

Comment: An understatement of \$107,511 in the investment earnings exists between the general ledger and the audit analysis. No rationale was provided by the National Government for the difference.

Recommendation: Investment discrepancies should be timely investigated and documented.

### **Finding Number 8 - Incorrect Accounting Period**

Comment: We found various expenditures that were recorded in the incorrect accounting period. While the aggregate amount of such expenditures was not found to be material to the financial statements, the National Government should exercise formal cut-off procedures to ensure that expenditures are recorded in the correct year. The main cause of this problem appears to be recording liabilities based on invoice dates rather than service dates.

Recommendation: We recommend that the National Government ensure that it records liabilities based on service dates and not just based on invoice dates.

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### **Finding Number 9 - Late Deposit of Cash**

#### **Comment:**

1. The following was deposited 2 days after collection.

<u>Fund</u>	<u>Acct No</u>	<u>Acct Name</u>	<u>Date</u>	<u>Rec #</u>	<u>Amount</u>	<u>Deposit Amount</u>
545401	7111	PASSPORT FEES	2/7/2007	105852	\$525	\$37,243

2. The following accrued revenues were deposited late:

<u>CR #</u>	<u>Tax Description</u>	<u>Desc</u>	<u>Amount Tested</u>	<u>Deposit Date</u>	<u>Amount Deposited</u>
111131	INCOME TAX	CTA COLLECTION FOR 10/26/	\$ 2,506.27	10/29/2007	\$ 23,239.93
111295	INCOME TAX	CTA COLLECTION FOR 10/31/	209,886.68	11/1 & 11/5 2007	724,710.26
111295	GRT TAX	CTA COLLECTION FOR 10/31/	148,534.34	11/1 & 11/5 2007	724,710.26

**Recommendation:** We recommend that deposits occur on the day of collection or the next business day to avoid risk of misappropriation of assets.

### **Finding Number 10 - ADB Cash**

**Comment:** The ADB fund has a negative cash account balance of \$8,360. This account is used as a clearing account. However, the National Government cannot identify the nature of the negative balance as there does not appear to be timely reconciliations of the account.

**Recommendation:** Timely reconciliation of accounts should occur.

### **Finding Number 11 - Missing Search Documents**

**Comment:** For 5 of 208 (or 18%) samples tested, no supporting check files could be located.

**Recommendation:** Check files should be locatable.

### **Finding Number 12 - Stale Dated Checks**

**Comment:** Outstanding checks aged more than one year are still included as outstanding checks and have not been classified as a liability.

**Recommendation:** The FSM National Government should review the outstanding list and identify stale dated checks and reclassify them to accounts payable in accordance with National Government policy.

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**Finding Number 13 - Difference in Subsidiary Ledger and General Ledger**

Comment: An aggregate difference of \$19,657 exists between the accounts payable general ledger and the subsidiary ledger.

Recommendation: The FSM National Government should timely reconcile the subsidiary ledger with the general ledger.

**Finding Number 14 - Accounts Receivable**

Comment: The following items could not be located:

<u>Acct</u>	<u>Fund</u>	<u>Nature</u>	<u>Reference</u>	<u>Amount</u>	<u>Remarks</u>
AR-248	GF	General	CONTINENTAL MICRO. PNI	\$179,527	Billing was not available
AR-252	GF	NOAA	AR07WY11	37,058	billing made is not available
AR-252	GF	NOAA	AR07WY46	33,543	billing made is not available
AR-252	GF	NOAA	AR05Q002	231,308	billing made is not available
AR-252	GF	NOAA	AR05Q003	49,564	billing made is not available
AR-252	GF	NOAA	AR05Q004-2	49,587	billing made is not available

The billings were not available and the accounts were included in the allowance for doubtful accounts.

Recommendation: The FSM National Government should maintain records in a manner that allows for their retrieval.

**Finding Number 15 - Timely Collection of Travel Advances**

Comment: There appears to be lack of aggressive effort to collect travel advances. Two employees who died during the year still have outstanding advances. It appears that outstanding advances were not considered in determining final settlement with the employee. However, the National Government has provided a sufficient allowance to cover these uncollectible advances and therefore, this matter does not have a material impact on the financial statements.

Travel advances	\$ 1,587,891
Allowance	<u>1,432,300</u>
Remaining	\$ <u>155,591</u>

Recommendation: The FSM National Government should adhere to the policy in travel advances to ensure collectibility.

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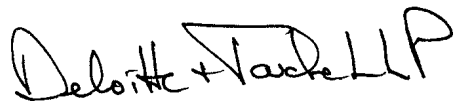
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We have also communicated certain matters noted during our audit of financial statements of the FSM National Government for the year ended September 30, 2007, which we considered to be significant deficiencies in our report dated June 23, 2008.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

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