

April 27, 2011

The Board of Trustees
FSM Social Security Administration:

Dear Members of the Board:

We have performed an audit of the financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated April 27, 2011.

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 Administration is responsible.

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

Our responsibility under 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, have been described in our engagement letter dated October 15, 2010. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Administration's basic financial statements and the accompanying supplementary information and to disclaim an opinion on the required supplementary information for the year ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and
- To report on the Administration's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2010 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Trustees 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 Trustees of their responsibilities.

We considered the Administration'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 Administration's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

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AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Administration's financial reporting process. Such proposed adjustments, listed in Appendix II, have been recorded in the accounting records and are reflected in the 2010 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the periods presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Administration's 2010 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended December 31, 2010, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

SIGNIFICANT ACCOUNTING POLICIES

The Administration's significant accounting policies are set forth in Note 2 to the Administration's 2010 financial statements. During the year ended December 31, 2010, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Administration:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the financial statements of the Administration.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Administration's 2010 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 Administration's 2010 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.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Administration's 2010 financial statements.

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 2010.

MANAGEMENT'S REPRESENTATIONS

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR 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 Administration's management and staff and had unrestricted access to the Administration's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated April 27, 2011, wherein no matters involving the Administration's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

* * * * *

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

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

Very truly yours,

Deloitte + Tatchell LLP

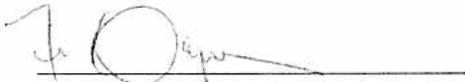
Passed Adjusting Journal Entries

1 PAJE To unwind previous year portion of contributions received from FSM NG

Beginning R/E		295,000.00
Contributions from FSM NG	295,000.00	
	<u>295,000.00</u>	<u>295,000.00</u>

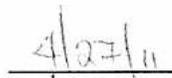
To reverse prior year passed adjustment, unwinding part of income pertaining to prior year. This is a timing error and auto-reversed during current year.

We agree with the above passed adjusting entries, that such should not be recorded and such are not a result of fraudulent activities or illegal acts. Rather such represent immaterial misstatements.

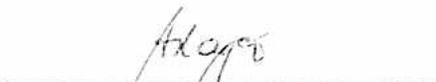


Mr. Alexander Narruhn
Administrator

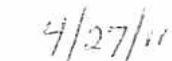
< Signed by Derivista Capelle, Deputy Administrator, on behalf of Alex Narruhn >



Date



Ms. Teresita Dayao
Controller



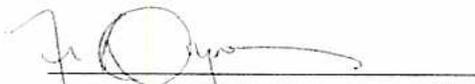
Date

Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE To close out net assets - 1611 (Posted)		
3000	Fund Balance	628.00	-
6810	Contingency & Miscellaneous	-	628.00
		<u>628.00</u>	<u>628.00</u>

To close out differences between prior year net asset and current year beginning net asset balances.

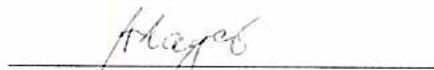
We have reviewed the proposed audit adjustments summarized above and agree that they should be recorded in the general ledger as at December 31, 2010. These adjusting journal entries are the result of errors and not the result of fraud, irregularities or illegal acts.



Mr. Alexander Narruhn
Administrator

<Signed by Bernista Capelle, Deputy administrator, on behalf of Alex Narruhn>

4/27/11
Date



Ms. Teresita Dayao
Controller

4/27/11
Date

