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June 21, 2013

Ms. Carmen Kigimnang
General Manager
The Diving Seagull, Inc.

Dear Ms. Kigimnang:

In planning and performing our audit of the financial statements of the Diving Seagull, Inc. (the Company), a component unit of the FSM National Government, as of and for the year ended September 30, 2012 (on which we have issued our report dated June 21, 2013), 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Company's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 21, 2013, 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 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 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.

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, and have included below, deficiencies involving the Company's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

Timely Remittance of Social Security Tax

Comment: Two quarterly social security remittances in fiscal year 2012 were not filed on time, which resulted in interest and penalties.

Recommendation: Management should follow up quarterly on tax filings.

Investments were not Reconciled

Comment: Investments were not reconciled to the Morgan Stanley reports.

Recommendation: Management should consider periodically obtaining Morgan Stanley reports and reconciling fair values to the financial statements.

Valuation of Credit Card Receivables

Comment: Credit card receivable accounts do not always register current collections.

Recommendation: A provision for credit card receivables should be established.

Deferred Fuel Costs

Comment: Fuel costs were expensed in fiscal year 2012 and the cost of remaining fuel in the vessels at year-end was not deferred.

Recommendation: We recommend that management obtain a measure of the fuel remaining in the two vessels at year-end from the captain, estimate the value of the fuel, and record the value as deferred fuel costs.

Deferred Engine

Comment: A Rolls Royce engine was re-classed from deferred costs in fiscal year 2011 into cost of sales in fiscal year 2012, even though the engine had not been physically received.

Recommendation: We recommend that management review journal entries and only approve adjustments into cost of sales or expenses for goods/services received.

Delays in Calculation of Final Crew Salaries and Management Fees

Comment: Crew salaries and management fees relating to 2009 to 2011 were posted in 2012, which over-stated current year salaries and management fees.

Recommendation: Crew salaries and management fees should be calculated, accrued and/or settled timely.

Cost of Sales Recorded in the Wrong Period

Comment: A fuel invoice and a repair and maintenance invoice pertaining to fiscal year 2011 were incorrectly recorded in fiscal year 2012.

Recommendation: Invoices for goods/services received near year-end, should be recorded in the period of the goods/services receipt, and not based on invoice date.

SECTION II – DEFINITION

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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 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.