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June 22, 2015

The Board of Directors  
MiCare Plan, Inc.

Dear Members of the Board:

We have performed an audit of the financial statements of MiCare Plan, Inc. (the Plan), a component unit of the FSM National Government, as of and for the year ended September 30, 2014, 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 22, 2015.

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 Plan is responsible.

#### **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, have been described in our engagement letter dated September 2, 2014. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on whether the statement of net position of the Plan as of September 30, 2014 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended September 30, 2014 (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 September 30, 2014.
- To report on the Plan’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 September 30, 2014 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 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.

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

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 Plan'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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan'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.

### **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 Plan's 2014 financial statements include management's estimate of the unbilled medical claims, which is determined based upon management's estimates of the ultimate net cost of all claims incurred through the financial statement date, and management's estimate on the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts. During the year ended September 30, 2014, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

### **MATERIAL CORRECTED MISSTATEMENTS**

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Appendix A to Attachment I and are reflected in the 2014 financial statements.

### **SIGNIFICANT ACCOUNTING POLICIES**

The Plan's significant accounting policies are set forth in Note 2 to the Plan's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Plan:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the Plan's financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the Plan's financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the Plan's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

#### **OTHER INFORMATION IN THE ANNUAL REPORTS OF THE PLAN**

When audited financial statements are included in documents containing other information such as the Plan's 2014 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 Plan's 2014 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.

#### **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Plan's 2014 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 2014.

#### **SIGNIFICANT 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 Plan's management and staff and had unrestricted access to the Plan's senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of the Plan's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Plan 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, also dated June 22, 2015, wherein no matters involving the Plan'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.

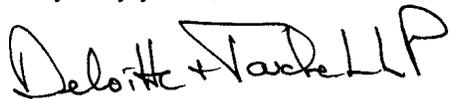
We noted certain matters that we reported to management of the Plan in a separate letter dated June 22, 2015.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, and others within the Plan 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 Plan for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

**MiCare** Federated States of Micronesia

P.O. Box 2156 Kolonia, Pohnpei FM 96941

Tel No. (691) 320-2549/5865 • Fax No. (691) 320-5693 • Email: info@micareplan.fm

June 22, 2015

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

We are providing this letter in connection with your audits of the statements of net position of the MiCare Plan, Inc. (the Plan), a component unit of the Federated States of Micronesia National Government, as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, 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 Plan 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 fair presentation in the basic financial statements of financial position of the Plan in conformity with GAAP
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. 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 GAAP. In addition:
  - a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - b. Deposits and investment securities are properly classified in category of custodial credit risk.
  - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - d. Required supplementary information is measured and presented within prescribed guidelines.
  - e. Applicable laws and regulations are followed in adopting, approving and amending budgets.
  - f. 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.
  - g. Revenues are appropriately classified in the statement of activities.
2. The Plan has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Plan has provided you:
  - a. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Board meetings were held on the following dates:
 

February 14-18, 2014	September 8-12, 2014	November 11, 2014
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  - b. Financial records and related data for all financial transactions of the Plan. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Plan 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.
4. There has been no:
  - a. Action taken by the Plan management that contravenes the provisions of federal laws and Federated States of Micronesia's (FSM) laws and regulations or of contracts and grants applicable to the Plan.
  - b. Communication from 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. There are no 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.
6. The Plan 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 Plan 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 Plan involving:
  - c. Management
  - d. Employees who have significant roles in internal control over financial reporting
  - e. Others if 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 Plan received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments 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 Board ("GASB Codification") Section C50, Accounting Standards Codification (ASC) 450, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for compliance with State and FSM laws, rules and regulations, including compliance with provisions of grants and contracts relating to the Plan'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 Plan is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Plan's ability to initiate, record, process, and report financial information.
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.

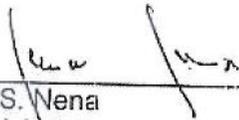
Except where otherwise stated below, matters less than \$30,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

14. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
15. The Plan has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

16. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated accounts receivable or payable, including sales, purchases, loans, transfer, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the Plan is contingently liable.
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. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - f. The concentration exists at the date of the financial statements.
  - g. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
  - h. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
19. There are no:
  - i. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - j. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 6 to the financial statements.
20. The Plan 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.
21. The Plan has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
22. No department or agency of the Plan has reported a material instance of noncompliance to us.
23. No events have occurred subsequent to September 30, 2014, but before June 22, 2015, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

24. 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 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
25. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
26. During fiscal year ended September 30, 2014, the Plan implemented the following pronouncements:
- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the Plan's financial statements.
  - GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the Plan's financial statements.
  - GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the Plan's financial statements.
27. In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.
28. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.

29. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Plan.
30. The Plan is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts 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.
31. The Plan is a party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.
32. The Plan carries vehicle insurance to cover its potential risks. The Plan is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

  
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Nena S. Nena  
Administrator

## APPENDIX A

## Journal Entries - AJE

#	Name	Debit	Credit
<b>1 AJE To adjust FSMNG contributions.</b>			
1300	Contributions from FSM Congress	-	91,086.66
2211	Contractual Services:2211 · Medical audit and actuarial services	91,086.66	-
		<u>91,086.66</u>	<u>91,086.66</u>
	To charge medical claims and actuarial fees to related expense.		
<b>2 AJE To correct accrual for patient share.</b>			
301	Voucher Payable	9,216.45	-
2001	Medical Claims	-	9,216.45
		<u>9,216.45</u>	<u>9,216.45</u>
	To correct accrual for patient's share of the medical billing.		
<b>3 AJE To take up unrecorded liabilities.</b>			
303	IBNR-Incurred But Not Reported	-	8,262.05
2001	Medical Claims	8,262.05	-
		<u>8,262.05</u>	<u>8,262.05</u>
	To record FY2014 liabilities not accrued at 09/30/2.		
<b>4 AJE To adjust customer credit balance.</b>			
171	Accounts Receivable	34,027.00	-
330	Customer Credit Balance	-	34,027.00
		<u>34,027.00</u>	<u>34,027.00</u>
	To adjust debit balance of patients credit balance.		
<b>5 AJE To adjust allowance for doubtful accounts.</b>			
175	Allowance for Bad Debts	-	73,031.31
2350	Bad Debts	73,031.31	-
		<u>73,031.31</u>	<u>73,031.31</u>
	To adjust allowance for bad debts.		