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December 28, 2015

Mr. John Sohl
President/CEO
Federated States of Micronesia
Telecommunications Corporation

Dear Mr. Sohl:

In planning and performing our audit of the financial statements of the Federated States of Micronesia (FSM) Telecommunications Corporation (the Corporation) as of and for the year ended September 30, 2015 (on which we have issued our report dated December 28, 2015), in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service (RUS) Borrowers*, we considered the Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation's internal control over financial reporting and other matters as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated December 28, 2015, on our consideration of the Corporation'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 Corporation 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 Corporation's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

1) Loss from Operations

Comment: The Corporation has incurred an average loss of $1 million from operations since FY2010. As a result, the net position decreased from $28.07 million in FY2010 to $18.91 million in FY2015.

Recommendation: We recommend that the Corporation closely monitor its operations.

2) Accounts Receivable – Trade

Comment: The allowance for doubtful accounts of $1,006,883 as a percentage of gross receivables of $1,537,944 is 66%. Of the total allowance, approximately 50% pertains to disconnected customers.

Recommendation: We recommend that an overall assessment of receivables that should be written-off against the allowance occur at least annually.

3) Travel Advances

Comment: As of September 30, 2015, travel advances approximate $17,279.

Recommendation: We recommend management actively pursue collection of these advances.

4) Inventory Loss

Comment: Approximately $50,000 of inventory losses were recorded. The Corporation cannot determine whether such occurred due to stolen items or occurred due to issuances that were not documented with slips.

Recommendation: We recommend that the Corporation strengthen internal control over inventory issuances.

5) Retirement Plan

Comment: The payable to the retirement plan reflects a $3,953 debit balance.

Recommendation: This account should be subject to periodic reconciliation.

6) Revenues

Comment: Of seventy-five operating revenues tested, two were not provided because customer key values could not be extracted from the billing system. The billing system was upgraded in December 2014 and therefore, management believes that this matter has been resolved.

Recommendation: We recommend management periodically review controls over audit trails between the billing and accounting systems.

SECTION I – DEFICIENCIES, CONTINUED

7) Investment in Caroline Cable Company (CCC)

Comment: CCC financial statements were not available. Reconciliation of the recorded investment balance was not performed.

Recommendation: We recommend management obtain CCC financial statements and perform periodic assessments of the investment balance.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Procedural Manual

Comment: The Corporation's printed procedural manual is outdated relative to system changes.

Recommendation: We recommend that the Corporation update the procedural manual and provide the revisions to all employees.

2) Information Technology (IT) Policy

Comment: IT stores data online within the Corporation's server. However, the Corporation doesn't have an IT disaster recovery program that would provide for reliable back-up in the event that an unexpected disaster occurs. Additionally, the time to automatically lock computer monitors during user inactivity exceeded required IT policy. The policy is 15 minutes but 30 minutes appears to be in use.

Recommendation: We recommend that the Corporation implement an IT disaster recovery program to provide for the possibility that stored back-ups may be restored if an unexpected disaster occurs and improve IT control to comply with established policy.

3) Information Security

Comment: An unspecified number of people access the Corporation's Head Quarter's building. Access to the IT department does not appear be restricted. Unauthorized people are not stopped from entering the building.

Recommendation: We recommend that the Corporation design and implement procedures to restrict access to sensitive areas.

4) Information Security

Comment: We were not provided evidence that the Corporation undergoes periodic penetration tests.

Recommendation: We recommend that the Corporation design and implement procedures requiring periodic penetration testing and assessments of the Corporation's information security processes.

SECTION III – DEFINITIONS

The definition of a deficiency 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 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 Corporation'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.