

June 27, 2011

Mr. Thomas Pablo  
Director  
Department of Treasury and Administration  
Pohnpei State Government  
Federated States of Micronesia

Dear Director Pablo:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Pohnpei (the State) as of and for the year ended September 30, 2010 (on which we have issued our report dated June 27, 2011), 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 State'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 State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State'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 State's internal control over financial reporting and other matters as of September 30, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Honorable John Ehsa, also dated June 27, 2011, on our consideration of the State'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.

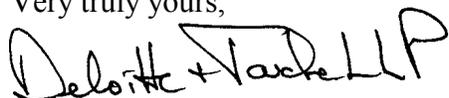
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of State of Pohnpei and the Office of the National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

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 State for their cooperation and assistance during the course of this engagement.

Very truly yours,



**SECTION I – CONTROL DEFICIENCIES**

We identified and have included below, control deficiencies involving the State’s internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention.

**Missing Invoice**

Criteria: In accordance with applicable procurement requirements, expenditures should be supported by procurement documents to substantiate the procurement method. Furthermore, such records should be kept on file and be available for examination.

Condition: For 1 (or .01%) of 57 non-payroll transactions tested, a vendor invoice was not provided to support the procurement:

A4 11 70-71-11300-09 8260	12/31/2009	8260	70519	\$2,321.16
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Recommendation: The State should strengthen controls to ensure that underlying supporting documentation is maintained on file to substantiate procurement methods.

**Equipment**

Criteria: All equipment acquired should be accounted for.

Condition: The following equipment by the Department of Health was not included on the State provided receiving report.

A4 11 70-70-11100-09 8610	3/30/2010	\$5,449.95	17831	4/23/10
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Recommendation: We recommend that all equipment be accounted for, safeguarded and maintained.

**Revenue**

Criteria: A functioning system of internal control requires that cash receipted for the day equal the amount banked and that the daily collection be timely deposited. In addition, financial records such as cash receipts, cash summary reports, and bank deposit slips should be on file to substantiate recorded revenue transactions.

Condition: Total collections were not timely deposited. The following collections were banked after two or more business days.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

Revenue, Continued

<u>No.</u>	<u>Amount</u>	<u>Date</u>	<u>Fund</u>	<u>REF</u>	<u>TRANS</u>	<u>Cash Receipt Number</u>	<u>Cash Receipt Date</u>	<u>Bank Deposit Slip Date</u>
1	(37.20)	10/20/2009	27	1	66010	45854	10/20/2009	10/26/2009
2	(12,303.84)	02/03/2010	27	1	72447	50082	02/03/2010	02/08/2010
3	(90.55)	06/10/2010	27	1	80151	55248	06/10/2010	06/16/2010
4	(25,063.09)	10/14/2009	33	0	65557	45568	10/14/2009	10/16/2009
5	(41,174.87)	04/14/2010	33	0	76645	52936	04/14/2010	04/19/2010
6	(34,240.60)	05/13/2010	33	0	78374	54055	05/13/2010	05/17/2010
7	(36,611.16)	06/14/2010	33	0	80423	55426	06/14/2010	06/17/2010
8	(20,985.66)	10/20/2009	34	1002	65986	45843	10/20/2009	10/26/2009
9	(25,501.22)	11/10/2009	34	1002	67373	46721	11/10/2009	11/18/2009
10	(17,340.73)	02/03/2010	34	1002	72510	50134	02/03/2010	02/08/2010
11	(278.00)	03/02/2010	34	1002	73965	51178	03/02/2010	03/04/2010
12	(45,535.93)	05/07/2010	34	1002	78179	53938	05/07/2010	05/12/2010
13	(246.05)	06/14/2010	34	1002	80430	55432	06/14/2010	06/17/2010
14	(34,658.58)	08/06/2010	34	1002	84082	57809	08/06/2010	08/11/2010
15	(4,039.52)	04/13/2010	34	1003	76574	52881	04/13/2010	04/19/2010
16	(10,084.66)	09/01/2010	34	1003	85948	58928	09/01/2010	09/06/2010
17	(25,924.89)	04/07/2010	87	0	76196	52637	04/07/2010	04/09/2010
18	(100.00)	06/11/2010	87	0	80295	55341	06/11/2010	06/17/2010

<u>No.</u>	<u>Amount</u>	<u>Date</u>	<u>Fund</u>	<u>REF</u>	<u>TRANS</u>	<u>Cash Receipt Number</u>	<u>Cash Receipt Date</u>	<u>Bank Deposit Slip Date</u>
1	(7.00)	12/16/2009	01	0	69595	48156	12/16/2009	12/22/2009
2	(7.00)	07/09/2010	01	0	82136	56542	07/09/2010	07/15/2010
3	(4,595.64)	08/09/2010	01	0101903	84117	57840	08/09/2010	08/11/2010
4	(7,912.27)	03/12/2010	01	0	74688	51639	03/12/2010	03/16/2010
5	(9,022.91)	10/14/2009	01	4019203	65545	45559	10/14/2009	10/16/2009
6	(24,431.45)	10/21/2009	01	4066803	66110	45918	10/21/2009	10/26/2009
7	(18,762.44)	02/11/2010	01	0608503	72787	50344	02/11/2010	02/15/2010
8	(3,597.84)	03/04/2010	01	4023603	74172	51310	03/04/2010	03/08/2010
9	(7,370.15)	04/13/2010	01	4110503	76508	52845	04/13/2010	04/19/2010
10	(17,765.58)	04/14/2010	01	4066803	76592	52892	04/14/2010	04/19/2010
11	(1,095.24)	04/15/2010	01	4139003	76674	52950	04/15/2010	04/19/2010
12	(21,460.89)	05/13/2010	01	0608503	78359	54042	05/13/2010	05/17/2010
13	(1,410.19)	06/07/2010	01	0	79933	55135	06/07/2010	06/17/2010
14	(23,715.86)	06/14/2010	01	0608503	80382	55394	06/14/2010	06/17/2010
15	(8,254.65)	08/16/2010	01	4066803	84646	58208	08/16/2010	08/18/2010
16	(248.60)	06/14/2010	01	1028403	80422	55425	06/14/2010	06/17/2010
17	(8,408.66)	01/26/2010	01	0	71976	49757	01/26/2010	01/29/2010
18	(100,000.00)	06/17/2010	01	0	80734	55660	06/17/2010	06/25/2010

**Revenue, Continued**

The following cash receipts, collection summaries and deposit slips are not available for inspection.

<u>No.</u>	<u>Amount</u>	<u>Date</u>	<u>Description</u>	<u>Fund</u>	<u>Ref 1</u>	<u>Ref 2</u>	<u>Ref 3</u>	<u>Trans NBR</u>
1	(1,773.31)	1/15/2010	XIX STORE KOLONIA	01	0	SALES DECE	Tob. & Alc	71376
2	(3,625.08)	1/15/2010	NIHCO STORE	01	0	SALES DECE	ST Gen Mds	71365
3	(4,380.20)	1/15/2010	Ray & Dor's	01	4058103	SALES DECE	ST Gen Mds	71405

Recommendation: The State should strengthen controls over ensuring that collections are timely deposited and are reconciled with underlying bank deposits. Furthermore, such records should be kept on file and be available for examination.

**Local Appropriations**

Criteria: Local funds can only be expended within legislative appropriation limits.

Condition: The following offices/programs exceeded their expenditure authority due to overtime charges.

<u>Office/Program</u>	<u>Account</u>	
General Fund Spkrs Office	01 00100 00	\$ 376
General Fund Legislative Cncl	01 00112 00	1,091
General Fund Legislative Clrk	01 00113 00	5,094
General Fund PSL Admin Serv	01 00114 00	3,051
General Fund Governor & Staff	01 00410 00	202
General Fund Govrs Bdgt Analyst	01 00430 00	936
General Fund Drctr Treasury	01 01020 00	4,448
General Fund Prsnl, Labor, Manpwr	01 01040 00	886
General Fund Rev & Tax	01 01050 00	6,290
General Fund Collecting prg/nonrecur ajes	01 01095 00	13,106
General Fund Law & Litgn Office	01 02010 00	3,860
General Fund Drctr Public Safety	01 02030 00	1,056
General Fund Police & Security	01 02040 00	40,198
General Fund Correct & Rehab	01 02060 00	12,663
General Fund Trochus Harvest	01 03021 00	8,303
General Fund Trans & Infra Office	01 08010 00	649
General Fund Micro Glory Ops	01 08050 00	62
General Fund PTA	01 08710 00	606
General Fund Elect Cmsn Office	01 09080 00	766
General Fund PNI Const. Convention	01 09829 00	2,759

Recommendation: We recommend that the Division of Public Finance monitor over-time and that over-time be authorized in advance and be certified as available.

## **SECTION II – OTHER MATTERS**

We noted no matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention.

## **SECTION III – DEFINITIONS**

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 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 State’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.