

January 23, 2008

The Board of Directors
Chuuk Public Utility Corporation:

Gentlemen:

In planning and performing our audit of the financial statements of Chuuk Public Utility Corporation (CPUC) for the year ended September 30, 2006, on which we have issued our report dated January 23, 2008, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

Finding No. 1 - Bank Reconciliation

Criteria:

CPUC should perform monthly reconciliations of its bank accounts.

Condition:

Management could not explain an unlocated difference of \$8,762 in the September 30, 2006 bank reconciliation.

Recommendation:

We recommend that bank reconciliations be performed on a monthly basis and ensure that differences are researched and cleared.

Finding No. 2 - Long Overdue Accounts

Criteria:

CPUC should review the accounts receivable subsidiary ledger and follow-up on accounts that are over ninety days past due.

Condition:

While reviewing the accounts receivable subsidiary ledger, we noted numerous receivable balances over ninety days past due, including several that are more than one year old. In addition, delinquent accounts over ninety days are not timely followed up.

Recommendation:

We recommend the following:

- To avoid future collectibility problems, management should emphasize the importance of timely follow-up on outstanding invoices by implementing a system of customer contact when receivable balances become greater than 30 days old.

Finding No. 2 - Long Overdue Accounts, Continued

- That a policy be established whereby a listing of all accounts with balances ninety days and older are submitted to management monthly to review for collectibility, collection efforts should be increased wherever possible and write-off of uncollectible receivable balances should occur.

Finding Number 3 - Accounts Receivable Customer Accounts

Criteria:

The accounts receivable subsidiary ledger should reflect actual customer outstanding balances.

Condition:

We noted the following conditions:

1. Several confirmed customer accounts resulted in differences, which CPUC could not explain.
2. Certain customers have an agreement with CPUC to offset accounts. However, CPUC has not updated its subsidiary records to reflect account offsets.

Recommendation:

We recommend that management review the accounts subsidiary ledger to ensure that customer balances are properly recorded.

Finding Number 4 - Recordkeeping of Official Cash Receipt

Criteria:

Official cash receipts should be kept and maintained to substantiate customer payments.

Condition:

CPUC could not provide official cash receipts for the following customers.

<u>Customer #</u>	<u>Amount</u>
207300000	\$ 20,653
1116300000	\$ 12,216
200400000	\$ 2,130
706500000	\$ 1,143
401530000	\$ 1,000
408700000	\$ 250
504000000	\$ 100

Recommendation:

We recommend that management strengthen its internal control to ensure proper control over official cash receipts.

Finding Number 5 - Fixed Assets

Criteria:

The fixed asset register should detail assets owned.

Condition:

Certain fixed assets could not be located during our physical observation. We also noted that CPUC has not performed a physical inventory count of its fixed assets for the past several years.

Recommendation:

We recommend that management perform a physical inventory of fixed assets to ensure that assets are properly accounted for in the fixed asset register.

Finding Number 6 - Construction in Progress

Criteria:

Construction in progress (CIP) during the year should be capitalized upon completion.

Condition:

We noted that certain projects have been recorded as CIP for a long period of time and management could not advise whether the project was ever completed.

Recommendation:

We recommend that management closely monitor construction projects to ensure that completed projects are properly capitalized and related depreciation expense recorded.

Finding Number 7 - Other Accounts Payable

Criteria:

A detail schedule should be maintained to support the ending balance of the other accounts payable account.

Condition:

We noted that no documents, such as vendor invoices, could be provided to support \$127,858 of recorded payables.

Recommendation:

We recommend that accounts payable be maintained and reconciled to ensure proper recording of liabilities.

Finding Number 8 - Revenue Recording

Criteria:

CPUC records revenue when services have been rendered and billed to the customer.

Conditions:

We noted the following conditions:

1. For one of fifty-five samples tested, customer account # 1102360000 was not disconnected and continues to incur usage. However, no charges were billed to the customer.
2. For one of fifty-five samples tested, customer account # 1104900000 was not being billed for actual usage but was merely billed at a flat rate.
3. For two of fifty-five samples tested, usage for customer account # 502500000 and # 503500000 were not billed in the proper period.
4. For one of fifty-five samples tested, no usage for customer account # 1112710000 was billed during the fiscal year.
5. Two months of total sales from the monthly billing register do not agree with General Ledger balances.
6. Related revenue on account offsets against customer accounts was not properly recorded.

Recommendation:

We recommend the following: 1) management should ensure that disconnections are performed timely, 2) customer charges should be based on actual usage and should be billed in the proper period, and 3) related revenue on account offsets should be captured and recorded during the period.

Finding Number 9 - Proper Recordkeeping of Documents

Criteria:

Documents such as vendor invoices and lease agreements should be maintained and safeguarded to substantiate activities undertaken during the period.

Finding Number 9 - Proper Recordkeeping of Documents, Continued

Conditions:

We noted the following conditions:

1. There is no authorized signatory on the check disbursement voucher for the following transactions.

<u>Inv#</u>	<u>Inv Date</u>	<u>Amount</u>
10509542	10/27/05	\$ 9,661.20
10509545	11/1/05	\$ 9,641.20
10509590	12/6/05	\$ 9,371.60
10509628	1/10/06	\$ 6,400.50
10509654	1/26/06	\$ 6,420.50
10509723	3/15/06	\$ 6,561.90
10509738	3/22/06	\$ 6,561.90
10509795	5/9/06	\$ 7,789.70
10509813	5/23/06	\$ 7,789.70
10509841	6/13/06	\$ 7,854.60

2. No supporting documents, such as vendor invoices, lease agreements, etc. could be provided for the following transactions:

<u>Inv#</u>	<u>Inv Date</u>	<u>Amount</u>
303503	9/29/05	\$ 8,955.57
10509841	6/13/06	\$ 7,854.60
10509846	6/15/06	\$ 7,874.60
303559	6/22/06	\$ 7,854.60

<u>Check No.</u>	<u>Amount</u>
9684	\$ 2,772.00
9751	\$ 1,000.00
9743	\$ 1,249.50

Recommendation:

CPUC should strengthen its internal control to ensure proper safekeeping of its supporting documents.

Finding Number 10 - Payroll Documentation

Criteria:

Payroll documents, such as actual timesheets and personnel action forms, should be maintained to document actual time charges and pay rates.

Finding Number 10 - Payroll Documentation, Continued

Conditions:

We noted the following conditions:

1. For four of forty-seven samples tested, there is no current personal action form on file. However, after our request, the payroll clerk subsequently obtained management's approval to update the file.
2. For one of forty-seven samples tested, an employee was overpaid.
3. For eleven of forty-seven samples tested, employee hourly pay rates were not consistently calculated based on an 80 hour biweekly period but were instead calculated based on a 72 hour biweekly period.
4. For twelve of forty-seven samples tested, no actual timesheets could be provided.

Recommendation:

CPUC should strengthen its internal control to ensure that the 1) personnel action forms are on file, 2) proper pay rate calculations occur, and 3) actual timesheets are maintained on file.

Finding Number 11 – Project Completion Deadline

Criteria:

Project completion date should be followed.

Condition:

The Pole Hardening Project is still in progress and has passed the extended completion deadline of October 11, 2006. No additional extension was obtained.

Recommendation:

Management should submit and obtain a project extension.

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This report is intended solely for the information and use of the Board of Directors and management of the CPUC and the FSM Office of the Public Auditor.

We wish to express our appreciation for the cooperation of the staff and management of CPUC during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

