

April 21, 2008

To the Board of Directors of  
Kosrae Utilities Authority:

In planning and performing our audit of the financial statements of Kosrae Utilities Authority (KUA), as of and for the year ended September 30, 2007, on which we have issued our report dated April 21, 2008, we developed the following recommendations concerning matters related to KUA's internal control and certain observations and recommendations on other accounting and administrative matters. Our observations and recommendations are summarized below.

### **Accounts Receivable and Advances**

#### **Comment:**

Approximately \$12,370 of receivables recorded at September 30, 2007 are due from employees and directors. There appears to be virtually no collections made on the amounts during fiscal year 2007.

#### **Recommendation:**

KUA should ensure that receivables from employees and directors are collected in a timely manner.

### **Receivable Arrears in Cash Power**

#### **Comment:**

Per KUA policy, for customer accounts with arrears of less than or equal to \$5,000, a deduction of 25% of each cash power purchase will be applied to the arrears until paid in full. We noted one customer (number 2728000) with a balance of \$2,893 outstanding since fiscal year 2003. The 25% deduction was not applied to this account. KUA represented the business has closed; however, the outstanding balance will be applied against the owner's personal account in fiscal year 2008.

#### **Recommendation:**

KUA should ensure that timely application of payment occurs for non-moving accounts.

### **Variance in the Revenue Report**

#### **Comment:**

Cash power sales monitoring occurs by manually summing daily sales and kilowatt hours sold from the revenue report. We noted three immaterial discrepancies in the sub selections tested that arose from improperly documenting adjustments for cancelled sales.

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Recommendation:

Cancelled sales should be reviewed and be documented to ensure appropriate treatment in the revenue report.

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This report is intended solely for the information and use of Board of Directors and management of KUA, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

