

June 30, 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, 2007, on which we have issued our report dated June 30, 2008, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

### **Finding No. 1 - Proper Recordkeeping of Documents**

#### **Comment:**

Documents such as vendor invoices, lease agreements and cancelled checks should be maintained and safeguarded. We noted the following conditions:

1. Documents, such as invoices or lease agreements, were not provided for the following transactions:

<u>G/Lref./Ck #</u>	<u>G/L Date</u>	<u>GL Amount</u>
9930	11/30/06	\$15,540
9962	12/31/06	\$27,503
9971	12/31/06	\$29,841
JE-J0051	8/28/07	\$ 5,767
CM-J0018	3/22/07	\$ 2,453
CM-J0015	11/21/06	\$ 1,759
JE-J0045	9/30/07	\$ 1,600

2. A cancelled check was not provided for check number 9930.

#### **Recommendation:**

CPUC should strengthen controls and retain documents on file.

### **Finding No. 2 - Revenue Recording**

#### **Comment:**

CPUC should record revenue when services have been rendered and billed to customers. We noted the following conditions:

1. For 16 of 113 samples tested, a variance exists between the Read Entry Worksheet and the Monthly Live Bill Register.

**Finding No. 2 - Revenue Recording, Continued**

2. The July 2007 commercial billing summary sheet does not agree with the general ledger.
3. For 1 of 113 samples tested, the correct billing rate was not applied.

Recommendation:

We recommend that management ensure that (1) meter readings are accurately posted to the billing system, (2) monthly billing summaries agree with the general ledger, and (3) the appropriate billing rate is applied.

**Finding No. 3 - Bank Reconciliation**

Comment:

CPUC should perform monthly bank reconciliations. Management could not explain an unlocated difference of \$8,878 in the September 30, 2007 bank reconciliation.

Recommendation:

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

**Finding No. 4 - Fixed Assets**

Comment:

The fixed asset register should detail owned assets. CPUC has not performed a physical inventory count of its fixed assets during the past several years.

Recommendation:

We recommend that management perform a physical inventory of its fixed assets.

**Finding No. 5 - Construction in Progress**

Comment:

Construction in progress (CIP) during the year should be capitalized upon completion. Certain projects have been recorded as CIP for a long period of time and management could not advise whether the projects were completed.

Recommendation:

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

**Finding No. 6 - Other Accounts Payable**

Comment:

A detail schedule is maintained to support the ending balance of the other accounts payable account. No documents, such as vendor invoices, could be provided to support \$153,983 of recorded payables.

Recommendation:

We recommend that accounts payable support be maintained.

**Finding No. 7 – Project Completion Deadline**

Comment:

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

Recommendation:

Management should submit and obtain a project completion date extension.

**Finding No. 8 - Long Overdue Accounts**

Comment:

Numerous receivable balances are over ninety days past due, including balances that are greater than one year old. In addition, delinquent accounts over ninety days old 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 billings by implementing a system of customer contact when receivable balances become greater than thirty days old.
- A policy should be considered whereby a listing of all accounts with balances ninety days and older are submitted to management monthly to review for collectability. Collection efforts should increase wherever possible and uncollectible receivable balances should be timely written off.

**Finding No. 9 - Cash Collection Report**

Comment:

Cash receipts are maintained and attached to the Cash Consolidated Report. For two of seventy-six samples tested, the Cash Consolidated Report amount did not agree with the validated deposit slip.

**Finding No. 9 - Cash Collection Report, Continued**

Recommendation:

We recommend that cash receipts be maintained and differences be timely investigated.

**Finding No. 10 - Payroll Transactions**

Comment:

Payroll transactions should be supported by employee personnel action forms, timesheets, and other underlying documentation to validate calculations and recording. Furthermore, payroll documents should be maintained on file and be available. We noted the following conditions:

1. For nine of fifty-four samples tested, employee withholding taxes were not correctly deducted.
2. For five of fifty-four samples tested, actual payrates were not correctly applied. This resulted in miscalculations of salary.
3. For three of fifty-four samples tested, no current personnel action form could be located.
4. For two of fifty-four samples tested, gross salary was not recorded in the correct accounting period.

Recommendation:

CPUC should strengthen its controls to ensure that employee personnel action forms, timesheets, and other underlying supporting documentation are maintained on file. In addition, gross salary and deductions should be correctly calculated and recorded.

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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,

