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June 11, 2011

The Board of Directors
Chuuk Public Utility Corporation:

In planning and performing our audit of the financial statements of the Chuuk Public Utility Corporation (CPUC), as of and for the year ended September 30, 2010 (on which we have issued our report dated June 11, 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 CPUC'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 CPUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CPUC'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 CPUC'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 management, also dated June 11, 2011, on our consideration of CPUC'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 and others within the organization, 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.

Very truly yours,

Deloitte & Touche LLP

## SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving CPUC's internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

**Inactive Bank Accounts**

Comment: Three bank accounts totaling $1,314 have been inactive for more than one year and no transactions. Also, monthly bank statements have not been received from the bank. It appears that the accounts are no longer active.

Recommendation: We recommend the accounts be investigated and appropriate adjustments be made.

**Long Overdue Account**

Comment: CPUC should review the account receivable subsidiary ledger and follow up on accounts that are over ninety days past due. Numerous receivable balances are over ninety days past due, including several more than one year old.

Recommendation: We recommend the following:

- To minimize future collectibility problems, management should emphasize the importance of timely follow-up on outstanding invoices by implementing a system of customer contact when receivables become greater than thirty days old.
- That a policy be established whereby a listing of all accounts with balances ninety days and older are submitted to management to review for collectibility, increase collection efforts wherever possible and write off all uncollectible receivable balances.

**Proper Recordkeeping of Documents**

Comment: For transaction MC-R0019, no invoice was provided to substantiate the recorded amount of $1,402.

Recommendation: CPUC should strengthen its controls to properly safekeep its documents.

**Billing Adjustment Approval**

Comment: Billing adjustments are not consistently reviewed and approved by the management prior to recordation.

Recommendation: CPUC should strengthen its controls and review and approve billing adjustments prior to posting.

**Prenumbered Purchase Order**

Comment: Purchase orders are not prenumbered and are not frequently used.

Recommendation: We recommend that purchase orders be prenumbered and be used to track outstanding purchases and to document related approvals.

**Improper Recording of Fixed Asset**

Comment: The fixed asset register should detail assets owned. A fixed asset owned by another party was recorded in the books.

Recommendation: We recommend that only assets owned by CPUC be recorded in the fixed asset register.

**Construction in Progress**

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 extension.

## SECTION II – DEFINITION

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *control 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 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 is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

**APPENDIX II**

## 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

CPUC'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.