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June 29, 2013

Mr. Faustino Yangmog
General Manager
Yap State Public Service Corporation
P.O. Box 667
Colonia, Yap 96943

Dear Mr. Yangmog:

In planning and performing our audit of the financial statements of the Yap State Public Service Corporation (the Corporation), a component unit of the State of Yap, as September 30, 2012, (on which we have issued our report dated June 29, 2013), 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 Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Attachment I, deficiencies related to the Corporation's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 29, 2013, on our consideration of the Corporation'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 Attachment 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 Attachment 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, others within the organization, and the Office of the FSM National Public Auditor 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.

We wish to thank the staff and management of the Corporation for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

ATTACHMENT I

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Corporation's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

Fixed Assets

Condition:

1. No physical inventory of fixed assets occurred during fiscal year 2012

2. The existence of the following items could not be determined due to lack of detailed descriptions.

Asset	Acquisition Date	Cost
1 lot Elect Petro computers - inv1334	03/21/01	$ 17,261
Mid Tower Desktop #BT0970937	06/30/08	5,191
Metal storage container 42'x100'	01/28/11	4,500
PP relocation	03/14/06	3,709
Cabinet, W/dust Collector	10/07/86	1,525
		$ 32,186

3. Three assets included in the fixed asset listing were unserviceable

Asset	Acquisition Date	Cost
Two used Olympian Cat gensets	05/13/98	$ 54,747
1990 Ford Versalift bucket	05/02/01	52,579
Dell Power Edge Server/Accessories	06/01/05	13,473
		$ 120,799

4. Test of additions indicated the following:

   a. Invoices were not provided for the following:

Asset	Acquisition Date	Cost
Asor & Fadrai Solar PV systems	10/31/2011	$ 48,351
Woleai Prepayment System	09/30/12	34,421
24,000 Hrs Maintenance Work (Overhaul)	09/30/2012	56,019

b. Documentation relating to the cost of labor and services provided by YSPSC employees was not provided for the following:

Asset	Acquisition Date	
Bldg C Extension (Maintenance Dept)	09/30/2012	$ 29,595

c. Copy of check relating to payment were not provided for the following:

Asset	Acquisition Date	
24,000 Hrs Maintenance Work (Overhaul)	09/30/2012	$ 11,593
Woleai Prepayment System	09/30/2012	34,271
		$ 45,864

Recommendation: We recommend that management adopt fixed asset policies and procedures to govern property acquisition, capitalization, disposal, reconciliation, physical inventory and depreciation. Additionally, the policies and procedures should assist in ensuring that fixed assets are physically inventoried, identified and referenced in the fixed asset register.

Inventory

Condition:

1. No physical inventory count was scheduled to verify inventory quantities as of September 30, 2012. Test counts were performed on October 1, 2012 upon the auditors' request.

2. YSPSC does not maintain perpetual inventory records. No updated inventory listing was provided during tests count and therefore, the inventory listing as of September 30, 2011 was used. The Plant Operations Manager represented that there were no significant inventory movements during the year.

3. Of seventeen inventory items tested, invoices supporting unit cost were not provided for two.

Description	Qty.	Unit Cost	Recorded value
Push rod	6	748	$ 2,354
Gasket-Manifold to Cylinder Head	32	1	31
			$ 2,385

4. Inventory purchases are recorded as an expense. Inventory at year end is adjusted against expense. There is a risk that inventory loss or theft is undetected by management.

Recommendation: We recommend that management adopt inventory policies and procedures. Further, we recommend that YSPSC consider implementing a perpetual inventory system.

ATTACHMENT I

Journal Entries

Condition: No review and approval was evident for the following journal entries tested:

Journal Entry No.	Date
GJ 12' 07-03	07/31/2012
GJ 12' 07-05	07/31/2012
GJ 12' 07-11	07/31/2012
GJ 12' 07-13	07/31/2012
GJ 12' 09-02	09/30/2012
GJ 12' 09-03	09/30/2012
GJ 12' 09-05	09/30/2012
GJ 12' 09-13	09/30/2012
GJ 12' 10-04	10/31/2011
GJ 12' 10-05	10/31/2011
GJ 12' 10-15	10/31/2011
GJ 12' 08-04	08/31/2012

Recommendation: We recommend that the Comptroller or another officer review and approve journal entries.

Inventory Storeroom

Comment: The inventory store room leaks and inventory is exposed to the impact of rain as a result.

Recommendation: We recommend that YSPSC improve the inventory storage condition.

Accounts Payable

Comment: The invoice supporting the disbursement of check 101 dated 11/22/2011 ($29,377) was not provided.

Recommendation: We recommend that YSPSC file and maintain relevant invoices supporting payments.

Salaries and Wages

Comment: Salaries and wages were allocated based on program budgets instead of actual time spent per program. Allocated charges to grants during the year were as follows:

Grant	Amount
DOI Grant	$ 20,100
EFII Grant	40,626
CRISP Grant	14,250
	$ 74,976

Recommendation: We recommend that YSPSC maintain contemporaneous records of time spent per employee per grant.

Customer Deposits

Comment: A schedule of $21,741 of refunded customer deposits was not provided. We therefore could not assess the propriety of this account as of September 30, 2012.

Recommendation: We recommend that YSPSC maintain detailed records of refunded deposits.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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.

ATTACHMENT 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

The Company'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.