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June 18, 2014

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, 2013, (on which we have issued our report dated June 18, 2014), 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, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 18, 2014, 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

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Corporation's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

(1) Utility Plant

Conditions:

1. No physical inventory of utility plant occurred during fiscal year 2013.

2. Three assets included in the fixed asset listing were unserviceable:

Account	Asset	Acquisition Date	Cost
12025	TECO Atlas 15-50 Digger Derrick	3/31/1997	$ 157,487
12061	2 Deutz Gensets	7/31/2000	82,294
12064	3" Diesel Trash Pump	5/24/2004	3,595
			$ 243,376

3. An item receipt was not prepared to support a $924,924 solar panel shipment.

Recommendation:

We recommend that management adopt utility plant policies and procedures to govern property acquisition, capitalization, disposal, reconciliation, physical inventory and depreciation.

(2) Inventory

Condition:

1. The Corporation does not maintain perpetual inventory records.

2. For two of seventeen inventory items tested, invoices supporting unit cost were not provided.

Description	Qty.	Unit Cost	Recorded Value
Locking Screw	2	$136.66	$ 273
Bail Clamp Cu.	42	26.35	1,107
			$ 1,380

3. At September 30, 2013, general ledger inventory accounts were not reconciled to the inventory valuation reports:

Acct. No.	Account	Per General Ledger	Per Subsidiary Ledger	Variance
11071	Fuel	$ 130,526	$ 136,822	$ (6,296)
11072	Inventory - Power Plant	281,547	287,251	(515)
11073	Inventory - Water & Sewer	87,940	94,762	(6,822)
11074	Inventory - Mog Mog	3,403	-	3,403
11075	Inventory - Power Distribution	192,632	277,803	(85,171)
				$ (95,401)

The above condition was corrected through a proposed audit adjustment.

SECTION I –DEFICIENCIES, CONTINUED

(2) Inventory, Continued

Condition, Continued

4. A receiving report/item receipt was not provided for invoice # 93649 dated 9/27/2013 paid with check # 34841.

5. Receiving reports/item receipts for the following fuel purchases were not provided .

Invoice	Invoice date	Amount	Check #	Check date
S041300976	9/27/2013	$ 14,209	34925	10/28/2013
S041300977	9/27/2013	4,736	34925	10/28/2013
S041300989	10/1/2013	14,209	34907	10/21/2013
S041300990	10/1/2013	14,209	34907	10/21/2013
S041300991	10/1/2013	14,209	34907	10/21/2013
S041300999	10/3/2013	14,209	34911	10/23/2013
S041301000	10/3/2013	14,209	34911	10/23/2013
S041301001	10/3/2013	14,209	34911	10/23/2013
		$ 104,199		

6. Parts inventory purchases are recorded as an expense. Inventory at year end is adjusted against expense. There is a risk that inventory loss or theft may be undetected.

Recommendation:

The Corporation should consider implementing a perpetual inventory system. Receiving reports should be prepared for essentially all inventory receipts.

(3) Journal Entries

Condition:

Journal entry review is not timely performed by management.

Recommendation:

Journal entries should be reviewed by management before recording.

(4) Daily Collection/Deposit Report

Comment:

Daily collection/deposit reports for 7/19/13 and 9/20/2013 were not signed by the reviewer and approver.

Recommendation:

Collection/deposit reports should evidence review and approval.

SECTION I –DEFICIENCIES, CONTINUED

(5) Salaries and Wages

Condition:

1. Salaries and wages were allocated based on program budgets instead of actual time spent per program.
2. The personnel action form for employee number 037122, was not signed by the immediate supervisor and was not approved by management.

Recommendation:

Payroll charges should be based on actual time spent per program. Personnel action forms should be approved by authorized personnel.

(6) Subsidiary Ledgers

Condition:

At September 30, 2013, general ledger balances for the following accounts were not reconciled to the subsidiary ledger:

Acct. No.	Account	Per General Ledger	Per Subsidiary Ledger	Variance
11050	Accounts Receivable - Customer	$1,125,823	$1,126,411	$ 588
11057	Other Accounts Receivable	282,626	284,144	(1,518)
21021	Customer Deposits	135,964	137,415	(1,451)
53011-18	Generator Fuel	4,439,868	4,448,442	(8,574)

The above condition was corrected through a late YSPSC adjustment.

Recommendation:

Periodic reconciliation of subsidiary ledgers and general ledgers should be performed.

(7) Travel

Condition:

Travel expenditures facilitated by the Corporation's credit card are not always supported by travel authorizations, itinerary, tickets, receipts and other supporting documents.

Travel authorizations were not provided for the following:

Acct. No.	Account	Date	Amount
52019	Travel Exp - Admin	6/6/13	$ 1,399
58005	Training Expenses - PLT	12/21/12	16,648
58005	Training Expenses - PLT	4/8/13	11,030

In addition, three travel expenditures did not evidence that hotel and car rental arrangements were the most economical.

SECTION I –DEFICIENCIES, CONTINUED

(7) Travel, Continued

Recommendation:

All travel expenses should be supported by approved travel authorizations and supporting receipts or invoices. Further, policies and procedures should be implemented and enforced on use of the credit card.

(8) Collection

Condition:

Four of twelve water revenue payment receipts (OR) were missing:

Customer #	Date	Collection
13601	5/3/2013	$ 253
271400	5/9/2013	228
283400	2/13/2013	836
21021	5/2/2013	8

Due to a system error, official receipts printed from October 1, 2012 to September 25, 2013, failed to show the receipt number. The system error was not resolved until September 26, 2013.

Recommendation:

Collection receipts should be systematically filed to facilitate retrieval in case of questions regarding receivable balances. Official receipts issued should be numerically controlled.

(9) Electric Revenue

Comment:

Customer #269401 was billed $31,779 for approximately $230 of electricity usage. The billing in September 2013 was not reviewed for unusual high or low usage and was not compared to previous and average consumption.

The above condition was corrected through an audit adjustment.

Recommendation:

Reviewing billings for unusually high or low consumption should be performed.

SECTION I –DEFICIENCIES, CONTINUED

(10) Receivable Credit Balances

Comment:

The accounts receivable subsidiary ledger includes two accounts with credit balances totaling $35,654 which represent unclaimed customer refunds mandated by Yap State Public Law # 7-25. The Corporation was unable to provide a listing of customer owed refunds.

Recommendation:

The Corporation should compile a listing of customers owed refunds under YSL #7-25.

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.