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June 19, 2017

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 of and for the year ended September 30, 2016, (on which we have issued our report dated June 19, 2017), 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 Appendix I, deficiencies related to the Corporation's internal control over financial reporting and other matters as of September 30, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 19, 2017, 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 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, 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.

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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 the following deficiencies involving the Company's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

Fuel Meters

The Corporation relies on FSMPC's meter readings and the loading manifest to measure the quantity of fuel delivered and invoiced. YSPSC has no control procedure in place to independently verify actual gallons of fuel delivered as tank meters are not fully functional.

Recommendation: We recommend YSPSC maintain functional meters to verify actual gallons of fuel received. This matter was reported in the prior year letter to management.

Line Losses

For the year ended September 30, 2016, the Company generated 11,829,200 kwh while it billed (including internal use) 10,143,245 kwh. The calculated line loss appears to be 1,685,955 kwh or 15%. Power generation and internal consumption from outer island power plants do not appear to be adequately monitored.

Recommendation: We recommend that the Company adopt appropriate measures to monitor line losses and facilitate line loss reduction.

Cash-Power Arrears

A detailed schedule of cash-power arrears could not be provided due to a system crash.

Recommendation: We recommend that schedules of such balances be maintained and that such be backed-up regularly on external drives.

Procurement

Based on expenditure tests, we noted for 3 purchases (check #38861; #39020; 38894), no documentation was attached to support competitive procurement processes.

Recommendation: We recommend the Company to comply with procurement policy and improve documentation on competitive procurement processes.

Payroll and Employee Advances

Based on tests of payroll, the following were noted:

1. For four employees (#41663; 701730; 700919; 63755), timesheets lacked proper approval by a supervisor or the department head.
2. For one employee (#29921), paid time off was approved subsequent to actual leave date.
3. For one employee (#47250), overtime was not properly approved.

Recommendation: We recommend that all timesheets, leave requests, or overtime be properly and timely approved.

SECTION I –DEFICIENCIES, CONTINUED

Inventories

Of 17 inventory items tested, 8 yielded a net cost understatement of $3,061. The total extrapolated difference amounted to $6,682. The test also noted that inventory issuance forms were not properly utilized as a basis for recording materials and supplies expense.

Recommendation: We recommend management perform adequate review of inventory valuation.

Revenues and Billing

Two of seventy-five revenue items test noted zero consumption for in excess of three billed months without corresponding collections as such were transferred from conventional meters to cash power meters. Accounts should have been properly closed. One account noted zero consumption over three billed months without corresponding collection as the customer moved off-island. Adequate documentation was not provided to support that an investigation was conducted for possible disconnection.

Recommendation: We recommend YSPSC perform timely meter readings and investigate unpaid balances.

Journal Entries

Journal entries lack a preparer and a reviewer signature that evidences independent review prior to posting.

Recommendation: We recommend that adequate review and approval of journal entries occur.

Bank Reconciliation

During tests of bank reconciliations, we noted the following:

1. Bank reconciliations lack appropriate reviewer's signature that evidences independent review.
2. Stale checks of $2,936 for the payroll account were noted as of September 30, 2016.

Recommendation: We recommend management perform and document independent review of bank reconciliations. We also urge management to determine appropriate action of long outstanding stale checks.

Allowance for Doubtful Accounts

Documentation of the allowance assessment for FY16 could not be provided. We further noted that YSPSC did not regularly review cash power accounts to identify nonmovement.

Recommendation: We recommend that YSPSC maintain and document allowance rationale and continue to assess the adequacy. We further recommend that YSPSC perform at least a quarterly review of cash power accounts for nonmovement.

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.

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 Corporation'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.