



POHNPEI UTILITIES CORPORATION

March 1, 2002

Ms. Ursula S. Abalos
Acting State Auditor
Pohnpei State Government
Kolonias Pohnpei FM 96941

BOARD OF DIRECTORS

Dear Acting Auditor:

Anna Mendiola
Chairman

I am submitting our responses that you will insert in our audited report. I like to take the opportunity to thank you and your staff for the invaluable lessons shared on how we can improve our operations.

Euginio Ardos
Vice Chairman

The audit is timely. As you know, we have just completed our strategic plan for the next ten years. Your audit will be among the tools used to guide us in improving our operations and services to our customers. I hope that the information presented by the audit will not be used as a stumbling block for PUC operations and basis of criticism, but a base for which we can learn from our weaknesses and try to improve on our operation.

Bumio Silbanuz
Secretary

Albert Falcam
Director

For the last decade, we faced a challenge to put back our utility services into a safe, reliable and quality service, a task that is not easy to make. It requires commitments, understanding, will power and of-course speed, which sometimes causes us to implicate our own internal control issues, something that is unavoidable when you want to get the utility back on its full service. I call the decade, the era of extinguishing forest fires. Once the forest fire is contained, we can do our clean up. Like our operations, we have achieved reliable services, it is time to work on our in-house matters of concern. Our strategic plan has highlighted this issue for us and we will gladly apply our audit as the first step in implementing that goal.

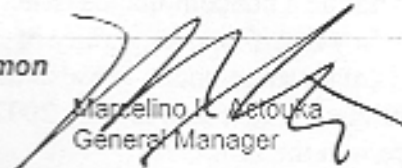
Wilbur Walter
Director

Ringlen Ringlen
Director

I thank you for your time and understanding.

Sincerely,

Nicholson Solomon
Director


Marcelino K. Actouka
General Manager

**Marcelino K.
Actouka**
General Manager

Xc. PUC Board of Directors

Finding 1. PUC Services not billed to customers

Auditee Response:

- The state auditor has agreed to drop this finding from the report after our review.

Finding 2. Noncompliance to discount policy

Auditee Response:

- There were times when bills were not printed on time. Our cashiers apply discounts to any account that were cleared at the time of payment. We can only describe these instances by posing a scenario. A customer walks in on the 13th of this month to pay for his bill. The Bill is \$100. The customer pays \$90 and gets a \$10 discount. Than on the 15th, the next bill was printed but in our system, it was dated on the 12th, our billing cut off date. Let's say the bill is \$100. Because a payment was received on the 13th and the bill was printed at a later date, the cashiers were right in giving that discount. It may seem that the payment should have been \$180 because of the billing cut off date, but since the bills were delayed, the system was showing a \$100 outstanding at the time of payment. The problem is not of the giving of discounts but the timing of printing. We have taken note of the problem and would make sure the bills are printed on time. We also experience complains from customers that since the receipts can't be delivered the day after the printing they should be given discounts. For these instances, we often grant discounts, so we don't ruin our business relationship with these good paying customers over this trivial issue.
- When a customer decides to clear his account at the time of payment, the age of arrears does not matter. As long as they clear what is showing on the screen at the time of payment, they are eligible for discount, even the past dues are applied the discount. This should not be a noncompliance issue. Management is implementing a discount policy that allows eligibility of discount even to past dues if full payment is made all at once. We also like to report that the Board has adopted to discontinue the discount in May 2002, so the problems reported would not be a concern in the future.
- As for customers who allot their payments, their discount will be given at the time when refund is requested.

3. Noncompliance to PUC policy on disconnection.

- The number of delinquency rate has been on the rise and more than PUC can handle in a month. This is the result of economic recession and other reasons.

Disconnection will continue and these delinquent accounts will eventually be visited, however time and improvement in public relations will play important roles in PUC's effective implementation of the disconnection policy.

- The fact that some government agencies have owed PUC for many years has weakened the implementation of the disconnection policy.
- PUC has instituted a prepayment metering system (CashPower) and by June 2002, 100% of the single-phase customers will be converted to the system. The system will automatically improve delinquency rate since customers will no longer accumulate debts and portion of their past due arrears recovered directly from their purchase of power using the system.
- PUC concurs that the accounts receivable is a critical area to improve and it will do all means available and feasible to solving the problem. It will also require the assistance and support of the government, agencies and customers in dealing with the problem.

The specific about each case reported are being responded to in a separate letter to the auditor.

4. Inaccurate Fuel Rate for Cash Power

- For the 12 customers alleged to have incorrect fuel charges, only two customers (customer #1 & 7) had the incorrect charge. This problem resulted when the fuel rate is entered after the effective date of 12th every month. The problem is noted and the PUC will make sure that the production of the fuel cost charge and the cash power billing system is updated before the 12th of every month.
- For the rest of the customers cited, the audits calculation did not take into account the discounts. We have reproduced these receipts and attached them to this report for analysis. We would appreciate that the auditor drop these accounts from the finding.

5. Operation Cost Not Considered (Cashpower sale question)

- New technologies often times will have factory defects. Currently, PUC is working with the manufacturer to make sure the system is problem free and appropriately working for PUC and the customers. We regard this loss as cost of improvement.

6. Incorrect Customer's Arrear

- Our review revealed that for the seven accounts cited, customer cash power meter

#07029901001 has a correct arrear balance and should be dropped from this finding.
#07028659527 has a correct arrear balance and should be dropped from this finding.
#07028660673 has a correct arrear balance and should be dropped from this finding.
#07028660319 is a honest human posting error. The amount in question is \$61.20 out of an account balance of \$2,445.55. We will adjust the customer's account by this amount.

#07028662026 is a honest human posting error. The amount in question is \$2.48 out of an account balance of \$120.27.

#07028661853 is a honest human posting error. The amount in question is \$1.79 out of an account balance of 1,421.38.

#0702866008 is a honest human posting error. The amount in question is \$20 out of an account balance of \$1,489.32.

Our analysis is attached to this report for review. We suggest that since these findings are a result of an honest human posting error and immaterial - that they be dropped from this audit.

7. Salary Increases not justified and not budgeted

- The salary increases were approved by the board of directors with all justifications documented in the PUC board business papers.
- PUC has a business to run. It will also continue to expand and improve its services beyond the existing capacity to make sure the future has adequate, safe and reliable utility service and is reaching all people of Pohapei. The PUC must incur cost to get there, and among other things that are important now is its human resources.

8. Budget Overrun

The budget overrun is a result of the following.

- First, for FY 2000 operations, FY 1999 budget was approved to be the working budget for the PUC. The approval of the budget is included in the Board's minutes of September 1999. PUC was operating at expense revenue level of year 2000, while the actual budget was prepared for an anticipated 1999 revenue and expense level.
- Second, the other variance in the audit was a result of the differences of cash basis (Budget) and the Accrual (Audited financial statement results).
- Thirdly, there were emergency purchases required during the year in which PUC could not postpone due to their critical nature to the services. These purchases were approved by the board, but not amended in the budget.

9. General Manager's commission from collections

- The Board of Director's has the prerogative to set the commission of the General Manager according to the PUC legislation. The corporation is merely executing the policy that is being set by the board.

10. Inadequate maintenance of meter reading records.

- PUC concurs to the finding and would make sure that the meter readers sign the read entry work sheets and initial all corrections and kept and file the entry sheets in a secure place. We also like to report that the cashpower is the most effective way in eliminating meter reading and corrections. By June 2002, this problem of meter reading will not be an issue.

11. Absence of updated vehicle registration

- PUC concurs with the finding and would make sure that the vehicle registration list is updated regularly.

12. Fuel Purchases

- We reviewed the findings and concur that nine fuel purchases were not stamped however they were fully paid as evidenced by our daily collection recap. (see daily collection recap attach). We will make sure that future purchases are stamped.
- We will also make sure that the receipts are issued in sequence and kept and file in a secure place.
- We have reviewed the six instances where the fuel purchase do not tally with the quantity of fuel purchase and found all of them to be immaterial, and that were a result of a transposition errors. We are human beings and we do make these kinds of mistakes. The mistakes were in cents, with only one case to be \$2.80. We suggest that this citing be dropped for the reason that these are honest human mistakes and they are too small and unfair to be cited as we handle about 300 to 1,000 transactions each day (\$10,000 - \$50,000). The citation over a 20 cents mistake is really insignificant compare to the volume of collection we transact each day.

13. Base rate adjusted without consultation of the Board of RPPU

PUC exhausted its attempts to consult with the expired but hold-over members of the Residential Properties and Public Utilities Board in December 1995. On January 22, 1996, the Governor informed PUC that he would not make appointments to the RPPU Board. The PUC Board then proceeded to adopt a new electricity tariff on February 9,

1996 to be effective February 12, 1996. The PUC Board also then adopted a new water and sewer tariff on April 1, 1996 to be effective June 1996.

Plaintiff sued PUC on July 4, 1996, seeking injunctive and declaratory relief against the enforcement of PUC's new tariffs established in February 1996 for electricity and April 1996 for water and sewer, on the basis that PUC had not complied with the PUC law provision requiring PUC to consult with the Board of Residential Properties and Public Utilities (RPPU) prior to adopting any new tariffs. In its answer, PUC argued that it had given the RPPU ample time to comment on the proposed new tariffs, but that that it was out of PUC's control that the RPPU was then inactive. The Pohnpei Supreme Court Trial Division issued a judgment on August 15, 1996, declaring PUC's new tariffs as null and void for PUC's failure to obtain the comments of the RPPU prior to adopting the new tariffs in accordance with the PUC law.

PUC appealed this judgment on August 19, 1996, and also filed a Motion for Stay of Enforcement of Judgment Pending Appeal. The Court ordered on August 26, 1996 that enforcement of its judgment be stayed on the condition that PUC would not apply its new tariff to Plaintiff. In other words, all other customers are subject to the new tariff while the case is on appeal. Plaintiff has therefore been paying 5¢ per kilowatt hour. The case is still pending with the Appellate Division of the Pohnpei State Supreme Court.

The Governor changed his mind and made appointments to the RPPU Board. They received the confirmation of the Legislature and were sworn in on August 27, 1996. From September 4 to 6, 1996, the statutorily required consultations between the PUC Board and the RPPU Board took place. A report dated September 6, 1996 from the RPPU Board contained eight recommendations for improvement but concluded that the RPPU Board "accepts the new electricity and water/wastewater rates adopted earlier this year by the PUC Board as the best available remedy that would ensure continued services."

On September 12, 1996, the PUC Board adopted four resolutions: (1) adopting the new tariffs as of the date of September 12, 1996; (2) adopting the tariffs retroactive to April 1996 for electricity and to June 1996 for water/sewer; (3) ratifying the electricity tariff adopted on February 9, 1996 and the water/sewer tariff adopted on April 1, 1996; and (4) in the event resolutions 2 & 3 are held invalid by a court of competent jurisdiction and the court orders PUC to refund or credit to PUC customers sums held to have been collected illegally, there is hereby adopted a surcharge on the electricity and water/sewer bills of each customer equal in amount to such sums ordered refunded or credited to any such customer.

Management is considering avenues that could resolve this crisis prior to a decision by the Appellate Division. Management has already submitted to the Legislature a proposal that the Legislature either remove the consultation requirement with RPPU in the PUC law or clarify in the PUC law that the PUC law supersedes the RPPU law. Management will continue to work with the Administration and the Legislature in this regard.

14. Incomplete documentation for customer's complaints, including requests for hook up.

- PUC concurs with the auditors finding and would make sure the recommendation are implemented in PUC. These are being addressed by PUC Corporate Strategic Plan, which has been adopted by the Board recently. Customer satisfaction surveys will be among the actions taken to improve our customer service area.

15. Run -up of customers balance.

- PUC has back up copies of its monthly billing, payment and running balance stored in discs and kept in a safe place everyday. However, we concur that we cannot 100% rely on back ups so we will try to maintain some hardcopies whenever possible and when the cost can allow.

Submitted: March 1, 2002



Marcelino K. Aonituka
General Manager