



# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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February 26, 1996

Mr. Timothy P. Villagomez  
Executive Director  
Commonwealth Utilities Corporation  
Lower Base  
Saipan, MP 96950

Dear Mr. Villagomez:

Subject: **Letter Report on the Audit of CUC-Rota's Collections on  
December 18, 1995 (LT 96-1)**

This report presents the results of our audit of the Commonwealth Utilities Corporation - Rota Office's (CUC-Rota) collections on December 18, 1995. The audit showed that collections totaling \$1,829.29 were misappropriated by the cashier.

We recommended that (1) the CUC Executive Director report the missing funds to the Attorney General's Office; (2) the Executive Director initiate strong disciplinary actions against the cashier; (3) the Assistant Comptroller issue a written directive prohibiting check accommodation; and (4) the Rota Deputy Director implement more stringent measures to ensure that undeposited collections are sufficiently safeguarded.

The CUC Executive Director responded promptly to our recommendations. He (1) asked the Attorney General's Office to follow up on the criminal investigation request made to the Rota Department of Public Safety, (2) initiated a termination action against the cashier, and (3) issued a memorandum that prohibits cashing of employee personal checks with CUC funds. Moreover, (4) the Rota Deputy Director issued a memorandum implementing the measures we recommended to safeguard undeposited collections.

## BACKGROUND

The Commonwealth Utilities Corporation (CUC) was established as a Public Corporation by Public Law 4-47, as amended by Public Law 5-47, effective October 1, 1985, and began operations on October 1, 1987 on the islands of Saipan, Tinian, and Rota. CUC is responsible for establishing rates, metering, billing and collecting fees for electricity, water and sewer services.

## ***Collection System Description***

A centralized accounting system was established shortly after CUC began operations whereby collections at the Rota office are recorded in the Saipan office, and cash and checks received are deposited daily in CUC's general operations bank account.

Procedures state that Rota should prepare a Daily Cashier Collection Report (DCCR) showing the following information: (1) date of collection; (2) series of corresponding official receipt numbers used; (3) the amounts classified as to type of customer and services rendered; and (4) reconciliation of the day's collection with the bank deposit. In addition, a manual listing of daily collections is required detailing the (1) customer's name and account; (2) official receipt numbers; (3) date of collection; and (4) amounts applicable to power, water, or sewer services. For monitoring purposes, the DCCR, listing of daily collections, and deposit tickets are to be faxed daily to Saipan.

## **OBJECTIVE AND SCOPE**

At the request of the Rota Deputy Director, we audited the collections of December 18, 1995. The objective of the audit was to determine if collections were recorded in the books and deposited in the bank promptly.

Our audit was conducted on Rota in January 1996. Where applicable, the audit was made in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included tests and such other auditing procedures as were considered necessary in the circumstances.

## **FINDINGS**

CUC policies and procedures require that all collections be receipted and recorded in the books and promptly deposited in the bank. Our audit showed, however, that a CUC Rota cashier misappropriated collections when she removed cash from collections totaling \$1,829.29. To conceal the funds taken, the cashier (1) issued her personal check of \$1,000 with insufficient funds and (2) did not issue a receipt to a customer's payment of \$829.29.

## ***Discussion***

Our investigation revealed that the cashier included two checks, which were not receipted, as part of the deposit for the collections on December 18. One was the cashier's personal check of \$1,000, which was subsequently returned by the bank for insufficient funds, and the other was a customer's check for \$829.29, which was not a part of the receipted collections on December 18. The cashier used these two checks to replace the cash she took from the day's collections before making the deposit.

## **I. Cashier's Personal Check - \$1,000**

In an interview on January 3, 1996, the cashier admitted having issued her personal check for \$1,000 in exchange for cash from collections. The cashier wrote her check no. 154 for \$1,000 payable to CUC and made it a part of the December 18th collections deposited on December 19, 1995. The next day, the Bank of Guam debited CUC's depository account for the amount of \$1,005 (including a \$5 service charge) due to insufficient funds<sup>1</sup> to cover the amount of the cashier's personal check no. 154. On January 3, 1996, CUC redeposited the check, but on January 5, the bank debited CUC's account again for the amount of check, plus \$10 service charge because the cashier's account was closed.

It appeared that the cashier knew that her checking account had insufficient funds prior to issuing the check to CUC. The CUC Rota Deputy Director told us on January 11, 1996 that the Bank of Guam - Rota Branch Manager initiated the closing of the cashier's checking account (No. 0112-011606) on December 29, 1995 because of a prevailing bad bank record.

Strong internal controls over cash require that check accommodations be prohibited. While the standing CUC treasury practice does not allow check accommodations, CUC policies and procedures, nevertheless, do not include any specific provision to that effect.

## **2. Unreceipted Customer Check - \$829.29**

A customer complaint about CUC's failure to reconnect service despite the payment of \$829.29 came to our attention while investigating the reported missing official receipt (OR) forms on January 19, 1996. We later met with a representative of a Korean customer, and learned that the cashier received the check payment from the customer at around 11:00 a.m. of December 18, 1995, but did not issue any OR to acknowledge the payment.

In a meeting also attended by the customer's representative and the Rota Deputy Director on January 19, 1996, the cashier affirmed the correctness of the representative's statements. The cashier said that because of information lacking about the account number, no OR was issued to the customer.<sup>2</sup>

Our investigation established that the cashier deposited the check together with the December 18th collections, took cash equivalent to the \$829.29, and showed matching collection and deposit amounts for the day.

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<sup>1</sup> The bank statement reflected the debit to CUC's account on December 20, 1995.

<sup>2</sup> To the date of this report, no official receipt has been issued to the customer.

## RECOMMENDATIONS

In our draft reports to the CUC Executive Director dated January 11 and 22, 1996, we recommended that: (1) the CUC Executive Director report the missing funds to the Attorney General's Office; (2) the Executive Director initiate strong disciplinary actions against the cashier; (3) the Assistant Comptroller issue a written directive prohibiting check accommodation; and (4) the Rota Deputy Director implement more stringent measures to ensure that: (a) official receipt forms used and unused are fully accounted for; (b) cash and checks received are deposited intact in the bank daily; (c) check accommodations are not practiced; (d) official receipt forms are fully safeguarded from unauthorized access; (e) customer complaints of unrecorded payments are fully investigated; (f) cashiering functions are limited to assigned personnel only; (g) vault number combination is periodically changed; and (h) cashier's room is restricted to authorized personnel only.

## CUC RESPONSE

In response to the foregoing audit recommendations, the CUC Executive Director (1) asked the Attorney General's Office to follow up on the investigation requested of the Rota Department of Public Safety, (2) initiated a termination action against the cashier, and (3) issued a memorandum that prohibits cashing of employee personal checks with CUC funds. Moreover, (4) the Rota Deputy Director issued a memorandum implementing the suggested measures to sufficiently safeguard undeposited collections.

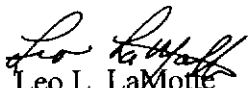
## OPA COMMENT TO CUC RESPONSE

The CUC Executive Director and Rota Deputy Director's responses to the audit recommendations are sufficient for us to consider Recommendations 1 to 4 closed. Attached to this letter report are Exhibit A - CUC Executive Director's Memorandum on Cashing of Personal Checks and Exhibit B- Rota Deputy Director's Memorandum on the Recommendations.

\* \* \*

Should there be any questions or matters that need further discussion, please notify us.

Sincerely,

  
Leo L. LaMotte  
Public Auditor, CNMI

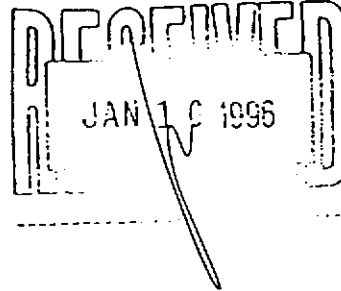
cc: Governor  
Lt. Governor  
10th CNMI Legislature (27 copies)

Secretary of Finance  
Special Assistant for Management and Budget  
Attorney General  
Public Information Office  
CUC Board Chairman  
Press



# Commonwealth Utilities Corporation

Office of the Executive Director



M E M O R A N D U M

January 15, 1996

TO : All CUC Employees  
FROM : EXECUTIVE DIRECTOR  
SUBJECT : Cashing Personal Checks

Effective immediately CUC will not cash personal checks for employees. Employees may continue to pay their utility accounts by personal check. The full amount of the check will be applied to the account and no change will be given. Any exceptions to this rule must be approved by the Executive Director or Deputy Directors.

  
Timothy P. Villagomez

cc: Deputy Executive Director  
Comptroller  
CUC Rora/Tinian

**EXHIBIT A - CUC EXECUTIVE DIRECTOR'S MEMORANDUM ON CASHING OF PERSONAL CHECKS**

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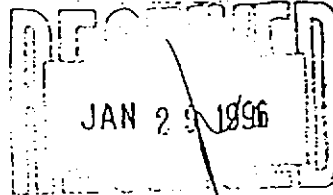
# Commonwealth Utilities Corporation

Rota Branch Office  
Songsong Village, P.O. Box 1166  
Rota, MP 96951



Date: 01/26/96

TO : ACCOUNTING SUPERVISOR, ROTA CUC  
FROM : DEPUTY DIRECTOR, ROTA CUC  
SUBJECT: INTERNAL AUDITOR'S RECOMMENDATIONS



This memorandum is to officially advise you that we must implement the following recommendations of our Internal Auditor immediately. Our CUC Rota Branch office is to implement more stringent measures to ensure that:

- a. Official receipt forms used and unused are fully accounted for;
- b. Cash and checks received are deposited in the bank intact daily;
- c. Check accommodations are not practiced;
- d. Official receipt forms are fully safeguarded from unauthorized access;
- e. Customers of unrecorded payments are fully investigated on and cleared in our records promptly;
- f. Cashiering functions are limited to assigned personnel only; and
- g. Cashier's/and vault rooms are restricted to authorized personnel only.

Our adherence to and compliance with the above prescribed recommendations are very vital for our operations here.

Your cooperation and understanding is greatly appreciated.

Gerald M. Calvo

xc: Executive Director  
Internal Auditor ✓  
Administrative Officer III, Rota  
File

## EXHIBIT B - ROTA DEPUTY DIRECTOR'S MEMORANDUM ON INTERNAL AUDITOR'S RECOMMENDATIONS