

DIGITAL EQUIPMENT CORPORATION

MANAGEMENT LETTER

year ended June 30, 1973

COOPERS & LYBRAND
CERTIFIED PUBLIC ACCOUNTANTS

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

100 FEDERAL STREET
BOSTON, MASS. 02110
(617) 423-4200

December 20, 1973

Mr. Alfred M. Bertocchi, Vice President
Digital Equipment Corporation
146 Main Street
Maynard, Massachusetts 01754

Dear Mr. Bertocchi:

As you are aware, it is our practice to issue a letter of comments in connection with our annual examination of Digital Equipment Corporation. The format utilized is to include in this letter those general comments which we feel are of direct concern to you as Chief Financial Officer and, in appendices hereto, those comments which are more detailed in nature.

I. Quality of Financial Reporting and Accounting

It is our opinion that the accounting and financial reporting policies of Digital Equipment Corporation are generally conservative. The income recognition policy used to recognize the sales of large computer systems, the details of which we set forth in our 1972 letter, is an exception. We continue to believe the Company should undertake an in-depth study concerning proper sales income recognition and conclude with a written policy which encompasses and addresses itself to all variations of situations which can reasonably be anticipated.

The Company customarily provides us with the prepublication drafts of its quarterly financial statements and the annual reports to stockholders and the S.E.C. Also, as you know, the Company periodically seeks our independent advice on accounting matters which arise in connection with the preparation of these reports. Although we examine only the year end financial statements and do not subject interim statements to any verification procedures, we nevertheless read and review them in their entirety to determine whether the data which they contain, appears conceptually consis-

tent with that previously examined by us and contains complete and meaningful disclosures which are not susceptible to misinterpretation. Based on our review of the Company's interim financial statements we have no reason to believe that any reports we have reviewed and read contained inappropriate or insufficient data for their intended purpose. We believe these reviews have provided a useful vehicle by which we can jointly review issues on a timely basis. In addition, such reviews may soon be required by the SEC; therefore, the formalization of this process in advance will eliminate the possibility of transitional problems.

We also believe that the Company has made significant progress this year in improving its communications with stockholders and the financial community. The interim reports to shareholders which were instituted this year are an excellent communications tool. Further, we believe that the Company may find it useful to submit its 1973 annual report to a group of professional financial analysts for their review and comments on readability, disclosure, etc., in order to continue this trend of increased communications.

The Company conscientiously attempts to comply with the complicated and ever changing accounting and SEC rules and regulations which affect its financial reporting practices. The fact that the registration and sale of 750,000 common shares in September, 1973 was consummated in such a problem-free manner is an indication that these efforts are justified. Some of the proposed changes in SEC regulations which the Company should be aware of and be assessing the future impact of include: disclosure of compensating balance arrangements, additional disclosures on income taxes and leasing, and increased emphasis on product line reporting.

II. Cost Accounting

This is an area which has been identified by the Company as a priority in terms of developing a more refined system of standard setting and cost accumulation and reporting. We agree that this area is of extreme importance. We also view the collective efforts, at all levels of management, of both manufacturing and finance as critical to the success of improvements to the cost accounting and certain manufacturing control systems.

Mr. Alfred M. Bertocchi,
Vice President

-3-

December 20, 1973

Our comments on internal control are summarized in the attached appendices to this letter. Appendix A encompasses comments which were noted in prior years together with the attendant progress made. Appendix B covers matters noted this year which we believe warrant management attention, and Appendix C includes the 1973 management comment letters prepared by other Coopers & Lybrand offices concerning certain foreign subsidiaries.

We look forward to discussing the contents of this letter with you or any of the Company's management.

Very truly yours,

Coopers & Lybrand

FMH:bev
RWU

Enclosures
As above

DIGITAL EQUIPMENT CORPORATION

Appendix A

Our 1972 management letter noted a number of matters for action and also described certain control weaknesses. The following and Appendix B are an update on those comments which set forth our observed progress through the end of fiscal 1973.

Abridged 1972 Comment*

Observed Action Taken

I. Matters for Action (page 6, item III)*

A. Financial Organization:

There is a need for considerably more talent in the financial organization, particularly, cost accounting and financial inventory control.

The Company spends three months reconciling the spring physical inventory to the books.

The Company appears to have strengthened their financial organization considerably. A corporate controller has been hired. A number of experienced cost and inventory personnel have been added.

Some improvement in the reconciliation process has been exhibited but many areas still take extended periods of time to reconcile. Average elapsed time in 1973 approximated three months.

B. Internal Audit Function:

There is a definite need for a strong internal audit function.

An internal audit function was established in fiscal 1973, but little progress was made as the manager of internal auditing was dismissed by the Company. A new manager of internal auditing has recently been hired who is currently establishing a comprehensive program for fiscal 1974.

C. Accounting Policies:

It is, in our opinion, essential that a comprehensive written set of accounting policies be developed, written, agreed upon, communicated to all parties involved and monitored for compliance.

There has been only minor improvement in this area in that some financial managers, principally in revenue accounting and fixed asset accounting, have attempted to document some of the accounting policies that are within their responsibility. However, there has been no corporate-wide attempt to establish a comprehensive written set of accounting policies.

* Reference should be made to our 1972 Comment Letter for the full content of our comments.

DIGITAL EQUIPMENT CORPORATION
Appendix A, Continued

Abridged 1972 Comment

Observed Action Taken

D. Rotation Equipment:

We recommended the Company, after developing the systems to adequately measure and control rotation equipment, commence a policy to systematically and rationally either a) amortize some or all rotation equipment, or b) transfer the non-rotating portions to permanent fixed asset accounts and depreciate accordingly.

We noted little improvement in controlling and inventorying rotation equipment during fiscal 1973. The April physical inventory indicated a substantial write-off of rotation equipment. However, in the first quarter of 1974 we did note additional improvement in the systems controlling rotation equipment. It is our understanding that an aging of rotation equipment will now be prepared on a monthly basis.

II. Weaknesses in Internal Control (Appendix A of 1972 Letter)

1. Inventory:

a. The results of the Company's confirmation efforts on inventory located at customer sites and rotation equipment located at non-manufacturing DEC locations (in lieu of an annual physical count of these inventories) indicated the need for a review of the procedures used to control these inventories.

The same verification procedures were applied this year, and resulted in significant write-offs to both rotation equipment and customer consigned inventory. These write-offs appeared to be due in part to the fact that a more careful job was done this year in reconciling these accounts, but the write-off is an indication of the inefficient control over these inventories.

b. At year-end there were significant amounts of sales which could not be matched against the associated actual costs. This poses several problems. First, not matching sales and cost of sales eliminates the cross check control and provides an opportunity for errors. Secondly, since certain costs of sales figures are estimated, monthly financial statements and cost reporting are done on the basis of estimates.

This situation still exists during fiscal 1973, however, corrective action is being taken in fiscal 1974.

DIGITAL EQUIPMENT CORPORATION

Appendix A, Continued

Abridged 1972 Comment

- c. There are a number of weaknesses in the procedures for controlling intercompany sales and purchases, principally between the parent and DEC de Puerto Rico:
- 1) Intercompany invoices are not sufficiently documented and prepared on a timely basis.
 - 2) Cost accounting is not reconciling or reviewing the area sufficiently.
 - 3) Communication with respect to intercompany billing matters between the parent and the subsidiary is inadequate.

2. Fixed Assets:

- a. Fixed asset subsidiary ledgers do not reconcile to general ledger control accounts. As a result, a \$200,000 charge to income was made at year-end to bring the control accounts into agreement with the subledgers. We suggested these accounts be periodically reconciled, preferably monthly, immediately after closing.
- b. No fixed asset inventories are taken by accounting personnel.

Observed Action Taken

We noted improvement in this area. During the fourth quarter a recent hire in the cost accounting department made a special effort to correct these accounts. While the effort was successful, it is clear that the present manual system for processing intercompany billing should be investigated to determine if it can handle the planned increases in volume. In fact, we believe the systems for all interplant transfers are in need of review and most probably revision.

We have noted some improvement in this area, but the handling of non-standard transactions continues to be troublesome. We believe there is a need for a uniform, company-wide set of intercompany billing procedures for the use by all manufacturing locations.

This recommendation was fully implemented and we found the Company's fixed asset records to be generally in good control.

Little progress has been made in this area. Westfield plant accounting personnel have made some effort to tag their fixed assets. The Company does not view this comment as high on its list of priorities.

DIGITAL EQUIPMENT CORPORATION

Appendix A, Continued

Abridged 1972 Comment

- c. No periodic reviews are made of construction in Progress Accounts.

Observed Action Taken

General accounting now reviews the construction in progress accounts and has instituted procedures to follow up on inactive project numbers.

III. Cash

The main bank account has not been reconciled since September, 1971.

Significant progress has been made in this area. An individual was hired with the responsibility to reconcile the cash accounts. New bank accounts were established, new disbursement procedures have been instituted and current activity has been reconciled.

IV. Accounts Receivable

- a. The accounts receivable subsidiary ledger was not reconciled to the general ledger. The year-end reconciliation resulted in a \$334,000 charge to income.
- b. We noted that the largest single cause of accounts long overdue appeared to be paperwork related problems rather than equipment or credit related problems.

This situation has been completely corrected. Revenue accounting now reconciles the detail to the general ledger on a monthly basis.

While some progress was exhibited in this area, paperwork related problems continue to be a major cause of accounts being long overdue. The Company believes that the specific problems have been identified and corrective action is in progress.

V. Accounts Payable

Certain weaknesses in internal control and check were noted in the accounts payable area:

- 1) One individual is responsible for both the voucher-ing and the cash disbursements function.

We understand that corrective action has been taken in the first quarter of fiscal 1974.

DIGITAL EQUIPMENT CORPORATION
Appendix A, Continued

Abridged 1972 Comment

2) The payables system itself does not generate the proper information for the reconciliation of the cash accounts.

3) Receiving reports are not always required for payment of invoices, and there is no numerical control over receivings.

VI. General Ledger System

In the course of our audit, we noted basic operational and systems weaknesses within the general ledger system.

Observed Action Taken

The system was changed during the year to facilitate the reconciliation of cash. The matter seems substantially resolved.

While this situation still exists, the Company maintains there are adequate alternative controls in this area.

There have been systems modifications and people seem to be working more effectively within the system.

DIGITAL EQUIPMENT CORPORATION

Appendix B

I. Taxes

Tax Return Preparation

During fiscal 1973, the Corporation requested that we review and sign its federal income tax return (fiscal 1972).

Digital's federal tax return is a complex one which is becoming increasingly complex as the Corporation grows and organizationally decentralizes. It is our observation that the Corporation does not have the "in place" systems and procedures to generate the data necessary for the routine preparation of its federal income tax return. As a result, we estimate excessive man-hours are employed in preparing the return by manual retrieval and estimates. We recommend that the Corporation review the requirements for tax return preparation and design and implement a system, in conjunction with general accounting and the EDP department, to substantially lessen the effort and cost of preparation and at the same time increase the integrity of the return. Data processing, if properly implemented, can greatly reduce the compliance burden. We understand that a joint program of the tax and controller departments will be implemented in fiscal 1974 to review the tax return preparations and related documentation.

II. Customer Discounts

A master list of all customers receiving discounts does not exist, nor is there a listing of discounts taken by customers during the year. All available information is kept manually on individual customer discount cards. The year-end accrual of these discounts requires an annual review of these cards to estimate the liability for quantity discounts. At present, no system is available for determining the amounts which should be relieved from this liability account, or for determining the proper liability on an ongoing basis. We support the internal proposal for a computer based system to be developed to provide management with information on discounts and to estimate the liability for quantity discounts on a periodic basis for financial statement purposes.

DIGITAL EQUIPMENT CORPORATION

Appendix B, Continued

III. Miscellaneous Receivable Balances

Our review of miscellaneous receivables highlighted a number of items aggregating \$40,000 which dated back to 1968 and 1969. All accounts should be reviewed periodically and stale uncollectable items should be written off. To a lesser extent, we also noted the same phenomenon in trade accounts receivable. Several accounts with balances dated back to 1969, 1970 and 1971. These items should have been either collected or written off.

IV. Standard Cost Accounting

The 1973 standards resulted in unfavorable variances from actual costs which approximated \$4,200,000 for the last six months of fiscal 1973.

The reasons for these variances are varied, many have been identified during fiscal 1973 and some were outlined in our 1972 management letter; however, much more remains to be accomplished if standard costs are to become an effective tool to be used in establishing prices, measuring manufacturing performance and reporting financial results.

During fiscal 1973 the cost accounting staff has been supplemented with experienced new hires and specific proposals for system changes have been made; this represents a beginning in a process of resolving many historical deficiencies in setting and controlling standard costs and analysis of the resultant variances. We believe it is essential to the success of any cost accounting changes that the management of both manufacturing and finance continue to assign the highest priority to all proposals so that a system may be developed which provides both groups with an analytical vehicle useful in both controlling product cost and producing reliable product costs.

V. Annual Physical Inventory

The results of the April physical inventory were indicative of a number of control weaknesses and inadequacies in the inventory system. In our attempt to assess the causes of this problem the most frequent explanation given is poor paperwork processing. We have determined through our procedural testing that while DEC's cost and inventory

DIGITAL EQUIPMENT CORPORATION

Appendix B, Continued

V. Annual Physical Inventory, continued

system may not be ideal for the high volume operation that DEC has become, it does appear to do a reasonable job of processing and summarizing the information fed into it. There exists a high degree of inconsistency within the Corporation regarding the emphasis placed on submitting paperwork correctly on time as well as correcting errors and resubmitting data. Many departments do a conscientious job, but many others place little emphasis on the proper preparation and processing of paperwork.

This may indicate that a lack of discipline exists with respect to the proper submission and processing of paperwork which represents the input to all the accounts and information systems. This lack of discipline may be a result of a lack of timely feedback to these departments. One of the results of poor procedural discipline is excessive adjustments upon completion of the annual physical inventory. We suggest a careful review of the results of physical inventories, including detailed analysis of excessive variances and related follow-up with responsible individuals. This should correct the paperwork problem.

VI. Accounts Payable

As of year-end the accounts payable subledger (Current Payment Authorization Report) exceeded the general ledger by an unreconciled amount of \$125,000. The accounts payable department was unable to identify the difference. The fact that accounts are not reconciled on a periodic basis is indicative of a control weakness.

We recommend that management initiate procedures to reconcile this account on a periodic basis.

VII. Ireland Grant

Digital has an agreement with The Industrial Development Authority of the Republic of Ireland whereby the Authority makes certain cash grants to Digital based on a percentage of DEC's capital investment in its Irish operations and also based on certain training expenses incurred by DEC. Part of the agreement requires that these expenditures be certified by the Company's auditors. In preparing

DIGITAL EQUIPMENT CORPORATION
Appendix B, Continued

VII. Ireland Grant, continued

these certifications we have noted that during the last two years the responsibility for gathering the information to be certified has shifted between departments within the finance function of the Corporation. The continual shifting of this responsibility has caused a number of problems. Since no one has been responsible on a continual basis, the necessary documentation has not been gathered as the transactions have occurred; as a result the process of accumulating the necessary information has been more difficult and time-consuming than it should be which has delayed the processing of grant requests.

We recommend the Corporation review its entire procedure for the preparation of its grant submission data to assure it is done in a timely manner and with the least wasted effort, and arrange to more frequently file for grants.

VIII. EDP

At the time of our examination we noted several indications that the machine capacity is not great enough to supply the needs of the Company. There are areas (some of which we have noted in this letter) which should be computerized. Manufacturing areas do not find many EDP reports useful because the processing time makes the data antique, and in general obtaining additional machine time is often next to impossible.

We recommend the Corporation review its real needs for machine capacity versus its current capabilities and take corrective action if warranted. For example, the volume of leasing records is significant enough to warrant committing computer resources to this area.

DIGITAL EQUIPMENT CORPORATION

Appendix C

INDEX

Subsidiary management reports:

Digital Equipment International Limited
Digital Equipment of Canada Limited
Digital Equipment Corporation de Puerto Rico
Digital Equipment International Europe
Digital Equipment GmbH
Digital Equipment Australia Pty. Limited
Digital Equipment Company Limited
Equipment Digital, S.A.R.L.
Decsys Computer Limited
Digital Equipment Taiwan Ltd.

AND
IN PRINCIPAL AREAS
OF THE WORLD

DONAL D. PLANN
KEITH J. LAMBERT
PATRICK J. DUFFY
MANFRED J. DUFFY
JOHN P. LYONS
ELMER F. HUGHES
BRIAN DUFFY
JOSEPH S. DUFFY

BRIAN HENRY DUFFY OBE
DANIEL L. DUFFY
F. NICK KELLY
JOHN R. KELLY
ANTHONY F. KELLY
THOMAS F. KELLY
JOHN D. KELLY

FITZWILTON HOUSE,

WILTON PLACE,

DUBLIN. 2

OUR REFERENCE 915/1104

20th November, 1973.

Cyrus Kendrick Esq.,
Digital Equipment International Limited.,
Galway Industrial Estate,
Galway.

Dear Mr. Kendrick,

Internal Control

In the course of our audit for the year ended June 30, 1973 we examined the principal internal controls which your company has established to enable it to ensure, as far as possible, the accuracy and reliability of the Galway branch's records and to safeguard its assets. As arranged at our interview with Mr. Bruce Ryan we are writing to you in order to draw your attention to the weaknesses in control which came to our notice during this examination and to suggest ways in which the system could be improved.

2. As we explained at our interview, the examination of a system which we carry out for the purposes of our audit does not necessarily disclose every weakness, and for this reason the matters dealt with in this letter may not be the only shortcomings which exist in the system.

3. Due to its rapid expansion and consequent need to employ and train new personnel and develop new accounting procedures, the company has found it difficult to achieve foolproof internal control in all areas. Although we discovered certain weaknesses in the system, we found no evidence that a material mis-statement in the accounts to June 30, 1973 had resulted therefrom.

4. The paragraphs that follow relate to deficiencies in important areas of internal control. Appendix A contains weaknesses in controls which, though significant to management, are unlikely to give rise to material errors in the accounts.

COMPUTER ORGANISATION AND OPERATION5. Systems and program design and amendment

A standard manual of instructions for investigating, documenting, testing and obtaining approval for new systems is not yet in use in the computer department. The use of such a manual would ensure that control over new systems and programs is maintained at a high standard, independent of personnel employed. We recommend that such instructions include the following:-

- (a) The preparation of an easily understood outline systems description suitable for discussion and approval by management and user departments.

- (b) The preparation of a detailed system specification.
- (c) The desirable program controls applicable to the various types of application.
- (d) The procedures to be followed for alterations in systems and programs and the documentation required.

6. Requests for changes in operational systems and programs are not always made in a formalized manner by the user departments. We recommend that, in addition to the final authorised amendment form at present in use, changes in systems and programs be further documented with formal requests.

7. Computer operating

A procedures manual covering the administrative arrangements and general operational procedures has not yet been prepared, although specific operating instructions are available for each application. We suggest that the company's plans to produce such a manual be implemented as soon as possible.

8. While the console printout, recording operation action during file setup and processing, is reviewed by the operations manager, this review is not evidenced. The managers initials, at the point up to which the printout has been inspected, would be suitable evidence of review.

9. Computer programs: manufacturing system

Our review of transactions in the repair area of the subsidiary computer work-in-process ledger showed that dollar amounts were not being posted to the relevant account, although descriptions were appearing. The postings to the general ledger were correctly summarised at the end of each validation run. We are informed that this error, which was due to incorrect coding of the repair area, has now been rectified. However, its existence highlights the importance of:-

- (a) Regularly reconciling the subsidiary computer files with the general ledger and
- (b) Procedures for ensuring the completeness of testing of programs.

PURCHASES

10. Purchase Invoices

Internal control in the accounts payable area would be improved if the checks made of prices, calculations and extensions and the comparison with purchase orders, receiving records inspection notes, etc. were evidenced either by use of an invoice stamp or by a voucher to be attached to each invoice. At present the only evidence of these checks having been carried out is the signature of the accounts clerk. Where a rubber stamp or voucher is used the person carrying out each check would initial in the space provided, enabling the official signing for final approval to see that all tests had been completed. The stamp or voucher should also have a space for indicating that the invoice had been paid to prevent its re-submission in support of further payments.

PHYSICAL INVENTORY

11. During our observation of the company's annual physical inventory count, we noted the following:-

- (a) Inventory was counted by persons who are also responsible for its custody.
- (b) Except on a test basis by senior accounts staff, there was no count and separate check by another individual.
- (c) In some cases, count cards were written up in pencil and unsigned.
- (d) Occasionally, inventory in several locations was covered by a single card. This made the overall review of the completeness of the count more difficult.

We suggest the following procedures:-

- (a) Where practicable, it is preferable if the count is made by two people, one of whom should be familiar with the inventory. The other person should check the count and record the results, which can then be test checked by senior staff as at present.
- (b) Count cards should be written in ink, signed, and should cover inventory in a single location.

12. We shall be grateful if you will inform us, in due course, of the steps you intend taking in relation to these matters.

Yours truly,

c.c. Mr.J. Kropper
Mr.S.Bell
Mr.J.Forrest
Coopers & Lybrand, Boston.

DIGITAL EQUIPMENT INTERNATIONAL LIMITED

APPENDIX A: MINOR WEAKNESSES

PAYROLL

1. Wages Payout

Our observation of the payout of wages revealed a number of areas where security could be improved:-

- (a) The wages office was not locked during the makeup of the wages, with a consequent flow of personnel in and out of the room while money was lying about.
- (b) There was no overall control on the number of packets prepared.
- (c) Wages were collected by supervisors on behalf of employees, but there was no list of the names of employees whose wages were to be handed to each supervisor. A book was signed by the supervisor showing the number of packets taken, but in many cases this was written up by the supervisor without further check. Some supervisors handed several packets to someone else to distribute in another area.
- (d) The wages for the factory in the industrial estate were transported there by its supervisor. The position regarding fidelity insurance for this cash was not clear at the time of our test.

2. Recommendations

We recommend that:-

- (a) The wages office be kept locked at all times when cash is not in the safe.
- (b) Numerical control be exercised over the persons on the payroll with weekly reconciliations of starters and leavers.
- (c) A list should be prepared each week showing the names of employees whose wages are to be collected by each supervisor, and the supervisors should sign this list as evidence of receipt of the wage packets. The supervisor should be made aware that he is responsible for the packets until handed over to the employee and he should obtain the employees signature as evidence of receipt of his wages.
- (d) The position regarding fidelity insurance should be clarified.

We understand that these recommendations have already been implemented.

3. Payroll Preparations

Although the cheque signatory signs the wages summary, the sheets are not signed by the persons responsible for makeup and checking. While recognising that internal control will be improved by the proposed placing of wages on the computer, we suggest that preparation and checking functions should be evidenced by signature or initials on the relevant documents.

4. Unclaimed Wages

It is not formally laid down by the company that employees collecting wages on behalf of others should sign an unclaimed wages book. We recommend that such a procedure be adopted to prevent any irregularities.

5. Salaries

Salaries sheets are not signed by those responsible for preparation and checking. We suggest that such signatures are appropriate in view of the increasing number of salaried staff, and the fact that several calculation errors come to light during our tests.

6. National Insurance Cards

Our checks revealed that:-

- (a) Stamping of cards was four weeks in arrears.
- (b) At least thirty five employees had not submitted cards.
- (c) The cards and weekly reconciliations were not periodically examined by a responsible official.

7. We recommend that cards and reconciliation be regularly inspected to ensure up-to-date stamping, and that this check be evidenced on the wages sheets.

COPY FOR Mr. F. M. Hennessey

June 29, 1973

PRIVATE AND CONFIDENTIAL

Mr. D. J. Doyle,
General Manager,
Digital Equipment of
Canada Limited,
100 Herzberg Road,
Kanata, Ontario.

Dear Mr. Doyle:

We have recently completed our interim audit of the system of internal control and the accounting records of Digital Equipment of Canada Limited for the year ending June 30, 1973. During the examination the following matters arose which we wish to bring to your attention. We have discussed them with Mr. C. F. Welton.

1. Sales invoicing

During our examination of sales invoices we discovered two items which had not been recorded as sales. We suggest a closer supervision over the operation of the numerical sequence control over all invoices.

2. Sales pricing

We understand that various persons in the sales administration department have the capability of updating prices stored in the computer. To guard against accidental alterations we suggest that the prices should be printed out periodically and compared to the official price list. All changes should be approved.

3. Credit management

With respect to sales of modules, it came to our attention that a listing of C.O.D. sales was not being kept current and in several cases was not being adhered to. We approve of the fact that a credit manager has recently been hired.

4. Distribution of manufacturing labour

We observed that the total hours from the weekly labour distribution report were not being agreed to the total hours reported for payroll purposes. Thus when time sheets were not given to cost accounting the labour cost was not distributed to work in process and the discrepancy not discovered until some weeks later. We recommend that the two totals should be reconciled each week.

5. Inventory analysis

We observed that inventory records were being kept by product line, a system which has caused considerable reconciliation difficulties subsequent to the physical inventory taken at April 28, 1973. In view of the limited use of the information provided, we question whether such analysis is justified.

6. Accounts payable

We noted that a comparison of the company's accounts payable records to the suppliers' statements had been commenced and was disclosing discrepancies, arising mainly from a failure to set up unmatched receiving reports. We suggest a more frequent follow up of unmatched receiving reports and a procedure be implemented to review unpaid balances brought forward on vendor statements.

7. Purchase requisitioning

During our examination of internal control over purchasing we discovered that many purchase requisitions were not being authorized by department supervisors. Such omissions were particularly noticeable on requisitions from the maintenance department.

We feel that this is a control weakness which should be rectified immediately.

8. Receiving reports

No sequential control was being maintained over receiving reports although the form is numerically identified. Because the reports are filed alphabetically by supplier in the receiving department it was difficult to establish accurate cut-off information at physical inventory. We suggest that a system should be instituted to account for the numerical sequence of the reports.

9. Purchase invoices

Our examination of purchase invoices revealed no indication that adds and extensions are being checked. We feel that invoices have been checked, they should be initialled to indicate such checking.

Mr. D. J. Doyle

- 3 -

June 29, 1973

10. Capital equipment purchases

Use of the required authorization form for the purchase of capital equipment is not universal. We recommend that steps are taken as soon as possible to enforce proper control in this area.

11. Unfilled orders and unbilled shipments

We understand that it is proposed that there be a monthly printout of unfilled customer orders and unbilled shipments. We recommend that this proposal be implemented as soon as possible.

12. Bank reconciliation

Although bank reconciliations are currently up to date, in the past they have tended to lag several months. It is important that they be maintained on a current basis.

We wish to take this opportunity to thank you and your staff for the co-operation afforded us during the course of our audit. If you have any questions regarding the above or any other matter, please call.

Yours very truly,

Cth

DAR/ch

c.c. Mr. C. F. Welton
Mr. F. M. Hennessey
Mr. A. Bertocchi

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

G P O Box 3929
SAN JUAN, PUERTO RICO 00936

November 16, 1973

Mr. Richard Esten, President
Digital Equipment Corporation de
Puerto Rico
P. O. Box 106
San Germán, Puerto Rico 00753

Dear Mr. Esten:

We have summarized our observations which resulted from our review and tests of the accounting procedures and related controls in connection with our examination of the 1973 financial statements of Digital Equipment Corporation de Puerto Rico.

Our detailed findings and recommendations, as discussed with Mr. John Galvin, appear in the attachment to this letter together with Mr. Galvin's comments thereon.

We feel it is appropriate to indicate that we noticed a significant improvement within the accounting department and that all our recommendations and suggestions made last year were either implemented or corrected.

We want to take this opportunity to thank your staff for the invaluable assistance they rendered us during our examination.

Very truly yours,

Coopers & Lybrand

D WDC:sr
3 GRR
✓ Enclosure 1

cc. Mr. Richard Stewart - Digital Equipment Corporation
Maynard, Massachusetts (Enclosures 3)

Mr. Narmo Ortiz, Controller (Enclosures 3)
Digital Equipment Corporation de Puerto Rico
San Germán, Puerto Rico

Mr. Frank M. Hennessey (Enclosure 1)
Coopers & Lybrand - Boston, Massachusetts

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO

REPORT TO MANAGEMENT

1973

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO

REPORT TO MANAGEMENT

TABLE OF CONTENTS

	<u>Pages</u>
BUYING CYCLE/CASH DISBURSEMENTS	
1. Checks Dated Before Cut-off Date Should Be Included In The EDP Report Of Cash Disbursements.	1
2. Reconciling Items In The Bank Account Reconciliations Are Not Investigated And Cleared Currently.	1
3. Standard Bank Reconciliation Forms Should Be Adopted And Reconciliations Should Be Reviewed By Persons Independent Of Preparers.	1-2
4. Employees Expense Reports Should Be Submitted And Authorized On A Timely Basis.	2
5. Properly Supported Petty Cash Vouchers Should Be Approved By Authorized Employee.	2
6. The Cash Disbursement Procedure Should Be Improved.	2-3
7. The Checking Of Invoices For Payment Should Be Strengthened.	3
BUYING CYCLE/ACCOUNTS PAYABLE	
8. Numerical Control On Debit Memoranda Should Be Established To Assure Proper Recording.	3
9. Approval For Payment Of Invoices Should Be Made In Ink.	3-4
10. Accounts Payable Detail Has Not Been Reconciled To The General Ledger.	4
11. Copy Of Purchase Order Used As Receiving Report Should Not Include Units Or Quantities.	4
SELLING CYCLE/CASH RECEIPTS	
12. A Listing Of Cash Receipts Should Be Prepared Before Checks Are Given To The Accounts Receivable Supervisor.	4-5
13. Cash Receipts Should Be Deposited Promptly.	5
14. The Number Of Copies Of Sales Invoices Can Be Reduced.	5

Continued

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO
REPORT TO MANAGEMENT

TABLE OF CONTENTS, Continued

	<u>Pages</u>
PRODUCTION CYCLE	
15. General Batch Control Logs Should Be Maintained By Each Department Generating Documents To EDP Department.	6
16. Differences On Stock Status Reports Should Be Recorded Monthly.	6
17. Forms To Change Or Add Parts To The EDP Master Parts File Should Be Approved In Writing.	6
18. Batch Control Forms Should Be Verified And Approved In Writing Before They Are Sent To The EDP Department.	6
PAYROLL CYCLE/COST AND EXPENSES	
19. Payroll Deductions Should Be Based On Employees' Written Authorization.	7
20. No Authorization Is Kept In The Payroll Or Personnel Department For Deductions Made For Employees Cooperative Contributions.	7
21. Unclaimed Wages Should Be Deposited After One Week.	7
FIXED ASSETS	
22. The Company's Policy Of Capitalizing Assets Should Be In Writing.	7-8
23. Assets For Employees' Apartments Should Be Segregated From Company's Plant Assets.	8
INTERCOMPANY ACCOUNTS	
24. Reconciliation Of Intercompany Accounts (DEC-Maynard) Should Be Done On A Monthly Basis.	8

Continued

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO

REPORT TO MANAGEMENT

TABLE OF CONTENTS, Continued

	<u>Pages</u>
GENERAL	
25. Segregation Of Duties Should Be Strengthened.	9
26. The Company Should Implement Or Revise Its Organizational Chart.	9
27. The Chart Of Accounts Should Be Expanded.	9
28. Monthly Financial Statements Should Be Revised.	9
29. All Legal Documents Should be In The Name Of The Corporation.	10
30. No Written Evidence Of Verification Of The Information Used For Posting To The General Ledger.	10

DIGITAL EQUIPMENT CORPORATION DE PUERTO RICO

REPORT TO MANAGEMENT

1973

BUYING CYCLE/CASH DISBURSEMENTS

1. Checks Dated Before Cut-off Date Should Be Included In The EDP Report Of Cash Disbursements.

During our review of the bank reconciliations, we found that several checks dated before the cut-off date were not included in the EDP Report of cash disbursements for that month. The checks were recorded in the following month's transactions.

We recommend that cut-off procedures be strictly followed to assure proper recording of information in the accounting records and to eliminate the possibility of issuing inaccurate interim financial statements.

According to management this practice has been discontinued and the procedures for cash disbursements have been changed.

2. Reconciling Items In The Bank Account Reconciliations Are Not Investigated And Cleared Currently.

During our examination of the bank accounts, we noted some reconciling items which date back to July 1972. Also, there were checks outstanding since May, 1972.

We recommend that these reconciling items be investigated and resolved on a current basis by either adjusting entries or by correspondence or documentation obtained from the banks. Old outstanding checks should be adjusted after proper investigation.

3. Standard Bank Reconciliation Forms Should Be Adopted And Reconciliations Should Be Reviewed By Persons Independent Of Preparers.

In our examination of the bank accounts, we found that no standard form was used for preparing the bank reconciliations. In addition, the person who prepares the bank reconciliation also reviews it.

We suggest the use of a standard bank reconciliation form, also all reconciliations should be reviewed by a person other than the preparer and both the preparer and reviewer should evidence their responsibility by initialing and dating the reconciliation.

3. Standard Bank Reconciliation Forms Should Be Adopted And Reconciliations Should Be Reviewed By Persons Independent Of Preparers, continued

We were informed by management that a standard form will be implemented during the current year.

4. Employees Expense Reports Should Be Submitted And Authorized On A Timely Basis.

During our audit, we noted that there were some advances given to employees more than five months ago for which no expense reports had been prepared and that in many cases there was no approval of the expense reports and no evidence of the expenses incurred. The balance of this account as of February 24, 1973 was \$18,456.83.

We recommend that the company implement a system in which all expense reports are turned in periodically, for example, every two weeks, and are approved by authorized officials.

We were informed that management has taken steps to correct this situation.

5. Properly Supported Petty Cash Vouchers Should Be Approved By Authorized Employee.

During our testing of the buying cycle, we noted that the petty cash vouchers lacked either approval or proper evidence of the expenses or both.

We recommend that no petty cash refund be made without the approval of the immediate supervisor and proper evidence of the expenses incurred.

We were informed by management that our recommendation will be implemented.

6. The Cash Disbursement Procedure Should Be Improved.

In our review of the buying cycle, we noticed that the checks issued in payment of invoices are dated and recorded the day they are prepared. The checks are then filed until payment is due. This method results in cash and accounts payable being understated at the end of the month.

We strongly recommend that checks which are not mailed during the month be reversed to cash not to tend the monthly financial statement misleading.

6. The Cash Disbursement Procedure Should Be Improved, continued

According to management this procedure has been discontinued.
(See comment number 1.)

7. The Checking Of Invoices For Payment Should Be Strengthened.

We noted during our review that there were double charges made by suppliers and also that the invoices received indicated the supporting documentation on a paper which is attached to the invoice.

We recommend that a rubber stamp be used to indicate on the invoice the documentation which supports it. In those cases where the payments are made in accordance with contracts, they should be numbered as payment 1 of 10; 2 of 10; etc. In this way, the company could maintain a more effective control over payments and avoid duplication.

Management agrees with the recommendation and the use of a stamp will be implemented.

BUYING CYCLE/ACCOUNTS PAYABLE

8. Numerical Control On Debit Memoranda Should Be Established To Assure Proper Recording.

During our review of the buying cycle, we noted that although the debit memoranda were prenumbered, the accounting department did not account for the numerical sequence.

We recommend that the numerical control should be closely observed by both purchasing and accounting departments. This procedure will lessen the possibility of the company paying for goods already returned to vendors.

We have been advised that a new procedure has been established whereby the accounting department maintains a file of all debit memoranda prepared by the purchasing department. The file is reviewed each time a payment is made.

9. Approval For Payment Of Invoices Should Be Made In Ink.

We noted during our audit that the approval for payment of invoices is being made in pencil.

9. Approval For Payment Of Invoices Should Be Made In Ink,
continued

We recomend that approval for payments be made in ink to fix more responsibility on the approver.

Management agrees with the recommendation and will implemented it immediately.

10. Accounts Payable Detail Has Not Been Reconciled To The General Ledger.

During our examination of the accounts payable, we noted that the balance per the general ledger exceeded the detail records by approximately \$312,000. Upon further investigation we found that the two records had not been reconciled during the year.

We recommend that the accounts payable detail be reconciled to the general ledger on a periodic basis and that any difference be investigated and resolved on a timely basis.

11. Copy Of Purchase Order Used As Receiving Report Should Not Include Units or Quantities.

During our review of the Buying Cycle, we noted that one copy of the purchase order is used as receiving report. This practice is not effective from a control standpoint because the purchase orders contain units or quantities to be received.

We suggest that the copy of the purchase order sent to the receiving department do not include quantities or units to be received. This will provide a better method for determining that the goods were actually received, in the quantity ordered and in good condition.

Management agrees with our comment and will pursue it with the purchasing department.

SELLING CYCLE/CASH RECEIPTS

12. A Listing Of Cash Receipts Should Be Prepared Before Checks Are Given To The Accounts Receivable Supervisor.

During our review of the selling cycle, we noted that payments received from the Field Service Contracts office are given to the Accounts Receivable Supervisor by the Controller's secretary without her preparing a listing of the checks received.

SELLING CYCLE/CASH RECEIPTS, continued

12. A Listing Of Cash Receipts Should Be Prepared Before Checks Are Given To The Accounts Receivable Supervisor, continued

We recommend that the person receiving the checks prepare a list in original and one copy; the original should be kept by the preparer and the copy should be sent to the General Ledger Supervisor, who will match the checks received from the Accounts Receivable Supervisor with the list when preparing the deposit. Later the secretary could verify the deposit by comparing the authenticated deposit slip with the list of checks received.

We were told that the Controller's secretary will prepare the list of checks prior to the General Ledger Supervisor receiving them.

13. Cash Receipts Should Be Deposited Promptly.

Our examination of bank reconciliations disclosed that deposits in The Chase Manhattan Bank and Banco Popular de Puerto Rico accounts were being made one to four days after they had been recorded on the books.

We recommend that a procedure be implemented whereby a person independent of other cash functions is assigned the duties of preparing bank deposits daily. This procedure will facilitate the recording of checks and cash on a timely basis and also eliminate the possibility of the fund being misplaced.

Management agrees with the recommendation.

14. The Number Of Copies Of Sales Invoices Can Be Reduced.

We noted that the printed sales invoice forms have six copies of which, two are sent to the parent company for each shipment, one is sent to Production Control, two are kept in the accounting department and the other is destroyed.

We recommend that the number of copies be reduced to four since two of them have no specific use. This will reduce the cost of the form and of filing.

Management agrees with the recommendation and will investigate further.

PRODUCTION CYCLE

15. General Batch Control Logs Should Be Maintained By Each Department Generating Documents to EDP Department.

During our procedural review, we noted that the Batch Control Logs in Stockroom 171 have been discontinued. This practice may cause distortion in the processing of the information.

We suggest that the log be put back into use immediately to control the documents that go in and out of EDP. This will also serve as a check of information processed by EDP.

16. Differences On Stock Status Reports Should Be Recorded Monthly.

Stock Status Reports for raw material are being reconciled to the General Ledger since October 1972. However, the differences as determined from the reconciliation are not recorded either on the EDP tab or the general ledger. At February 28, 1973 there were approximately \$260,000 which have not been adjusted.

We strongly recommend that these differences be investigated currently and adjusted on a monthly basis.

Management indicated that differences are now being investigated and adjusted on a current basis.

17. Forms To Change Or Add Parts To The EDP Master Parts File Should Be Approved In Writing.

We noted that the forms used to change and add parts to the EDP Master Parts File are not being approved.

We suggest that these forms be approved by a responsible employee and that both preparer and reviewer evidence their responsibility by initialing and dating the forms.

Management agrees with the recommendation and will implement it.

18. Batch Control Forms Should Be Verified And Approved In Writing Before They Are Sent To The EDP Department.

We noted that the batch control forms are not being verified and approved before they are sent to the EDP Department.

We recommend that this procedure be implemented to avoid the processing of erroneous information.

PAYROLL CYCLE/COST AND EXPENSES

19. Payroll Deductions Should Be Based On Employees' Written Authorization.

During our testing of the payroll cycle we noted that in some instances income tax deductions are being made from employees' salaries based on verbal authorization.

We recommend that all deductions made from employees' salaries be made based on written authorization to avoid the possibility of future claims.

20. No Authorization Is Kept In The Payroll Or Personnel Department For Deductions Made For Employees Cooperative Contributions.

In our examination of the employees deductions we noted that neither the Payroll or Personnel Department keep records of the deductions made for employees cooperative contributions.

We recommend that the Personnel Department implement a form to be used as an authorization for making the cooperative deductions. A copy of the form should be kept in the Personnel Department and a copy should be given to the Payroll Department for making the deduction.

21. Unclaimed Wages Should Be Deposited After One Week.

We noted that there were seven pay envelopes which had not been claimed by the employees. Some of the pay envelopes corresponded to pay periods as far as four months back. In addition, we noted that there was free access to the file where the unclaimed wages were kept.

Unclaimed wages should be deposited and a liability recorded within a reasonable time after the pay date. Access to the file should be limited to the employee responsible for unclaimed wages.

FIXED ASSETS

22. The Company's Policy Of Capitalizing Assets Should Be In Writing.

During our testing of the fixed assets we were informed that there is a minimum amount (\$250) to be used as a base for capitalizing assets. We noted that in many cases there were items capitalized which cost was less than \$250.

22. The Company's Policy Of Capitalizing Assets Should Be In Writing,
continued

We recommend that this policy be put in writing for the guidance of interested employees.

According to management, the parent company's policy has been adopted, however, exceptions were made for typewriters and calculators.

23. Assets For Employees' Apartments Should Be Segregated From Company's Plant Assets.

We noted during our audit that the company is recording the assets purchased for the employees' apartments in office furniture and equipment.

We recommend that a separate account and a property ledger be established to record these assets. This will improve the control over the assets being used by company employees.

Management agrees with our comment and will implement the recommendation.

INTERCOMPANY ACCOUNTS

24. Reconciliation Of Intercompany Accounts (DEC-Maynard) Should Be Done On A Monthly Basis.

The accounts receivable and payable with DEC, Maynard, is not reconciled monthly. A detailed listing is sent every month to the parent company but no final agreement is communicated as to the correctness of the ending balance. At March 31, 1973, there was approximately \$1,400,000 not recorded because of lack of documentation.

We suggest that management review this situation with the parent company's employees responsible for these accounts and establish a better line of communication to avoid delays in closing at year-end and to eliminate the additional cost of having an employee come from the parent company to reconcile the accounts.

Management feels that this situation is improving as they stress to the parent company the necessity of strengthening the controls in this area.

GENERAL

25. Segregation Of Duties Should Be Strengthened.

We noted that the same person preparing the bank deposit slips makes entries to the Cash Receipt Book, posts to the General Ledger, prepares bank reconciliations and is the custodian of the petty cash fund.

We strongly suggest that these duties be segregated to strengthen internal control over the company's assets.

Management indicated that additional personnel have been hired and that the duties have been reassigned.

26. The Company Should Implement Or Revise Its Organizational Chart.

The organizational chart presently in use does not provide for a formal expression of assignments showing functional responsibilities or job description. A well prepared organizational chart is an excellent tool for management in assigning job responsibilities and in determining work load distribution.

Management agrees with the observation.

27. The Chart of Accounts Should Be Expanded.

We noted that most of the accounts in the chart of accounts are not supplemented with definitions of items to be recorded in the various accounts. The definitions of accounts promote consistency in recording and summarizing accounting transactions.

Management agrees with the observation.

28. Monthly Financial Statements Should Be Revised.

The monthly financial statements presently in use provides for the determination of increases or decreases in account balances and overhead variances, however, these fluctuations are not explained or commented upon. We also noted that the report includes excessive statistical information and has a wide distribution.

Management agrees as to the needed improvement in the presentation of the financial statements but feels its distribution is adequate.

29. All Legal Documents Should Be In The Name Of The Corporation.

During our examination of the company's lease contracts, we noted that a lease contract for a condominium apartment was signed by an employee. The contract in no instance made reference to Digital Equipment Corporation de Puerto Rico.

We suggest that all legal documents signed on behalf of the company be signed by one of the officers in representation or as agent of the company. Otherwise, the company could be deprived of its legal rights in case of any legal action.

Management agrees with the comment.

30. No Written Evidence of Verification Of The Information Used For Posting To The General Ledger.

During our examination, we noted that there was no evidence of the verifications made by accounting department of the source documents used for posting to the general ledger.

We recommend that the accounting department closely supervise the various centers generating information to be used by EDP to insure that errors rejected during EDP processing are corrected and re-entered to maintain the completeness and accuracy of EDP processing.

COOPERS & LYBRAND S.A.

BALE, ZURICH, GENÈVE, LAUSANNE, BERNE,
MILAN, ROME, TURIN
BARCELONE, MADRID, BILBAO

TÉLÉPHONE: (022) 31 51 33 / 34 / 35
TÉLÉGRAMMES: COOP.YB
TÉLEX: 27779

SOCIÉTÉS DE REVISION AMIES
DANS TOUS LES CONTINENTS

12, RUE BONIVARD
1211 GENÈVE 1
(CASE POSTALE 863)

2nd November 1973

Mr. P-Y. Tiberghien
Finance Manager
Digital Equipment International Europe
81 route de l'Aire
1227 Genève

Dear Sir,

Digital Equipment Corporation S.A.
Digital Equipment Corporation International, Geneva Branch
Internal Control

During the course of our final audit of the above companies for the year ending 30th June 1973 the following matters came to our notice to which we wish to draw your attention.

Pension scheme

In the account 3204 "Company Pension Plan" the following amounts have been accrued as at 30th June 1973 :

S.A.	Sfrs. 181,926
E.H.Q.	Sfrs. 356,106

The company has deducted the employees' share of the pension scheme from the monthly salary payments and accrued this share with the employer's share.

Although the company's employee benefit programme became effective on 1st July 1971, neither has the planned welfare foundation been registered nor has the final contract with the insurance company been signed. We were told by the personnel department that there is a signed preliminary contract with the insurance company, but no such contract could be produced for us. Furthermore, we were unable to obtain from the company the individual accounts of the paid-in amounts for each employee.

We are rather anxious about this outstanding matter, especially since this situation has persisted over a period of two years. In addition the accumulation of the paid-in money in the company instead of being transferred to a welfare foundation contravenes the legal requirements (Swiss Federal Code of Obligations, Article 333, para. 1). Furthermore, if no preliminary contract with the insurance company is in existence, the company is liable to pay compensation in the event of the death or disability of a staff member.

Recommendation

Every effort should be made to register the foundation and to ensure the contract is signed with the insurance company. To comply with the requirements of the supervisory board for foundations, individual accounts of the paid-in amounts per employee should be set-up.

Intercompany accounts

At 30th June 1973 Digital Equipment Corporation S.A. had with the parent company a debit balance of about Sfrs. 1,000,000 as all idle money has been transferred to Digital Maynard. So long as Digital Equipment Corporation S.A. makes profit and this profit is not reinvested otherwise, the debit balance with the parent company will increase.

As the parent company pays no interest on this balance, the tax authorities may consider this as a hidden dividend payment to the shareholders. The consequence would be that the company would have to pay the withholding tax to Berne out of the amount of the unpaid interest (Federal law of withholding tax, Article 4, para. 1, point b, and the corresponding executing ordinance, Article 20, para. 1). Furthermore, the unpaid interest would be liable to be added to the taxable income of the company (Decree of the Federal Income Tax, Article 49, para. 1, point b).

Recommendation

Unless the debit balance with Maynard is a temporary one, an interest of at least 5 $\frac{1}{2}$ % (according to a memorandum of Federal Tax Authorities, dated 30th June 1971) should be computed, in order to avoid the above mentioned tax implications.

Accounts and provisions

Many accrual and provision accounts were not up dated. Where the profit was materially affected, we made the adjustments, except for the accrued quantity discounts (account 3440) in Digital Equipment Corporation S.A.,

as we could obtain the details for this account only after the final closing of the books. The quantity discounts are over-accrued by about Sfrs. 80,000.--.

Recommendation

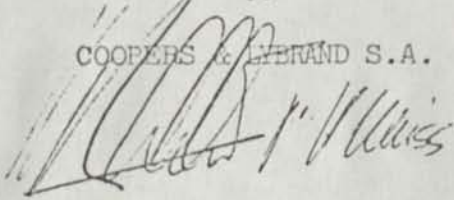
The accrual and provision accounts should be up dated each period in order to reduce time consuming adjustments at the year end.

We should be glad if you would inform us in due course what steps you decide to take in connection with the above matters. Please also inform us from time to time when any changes are made in the existing system of internal control.

If you need any further information please do not hesitate in contacting us again.

Yours truly,

COOPERS & LYBRAND S.A.



HW/mp

COOPERS & LYBRAND

WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT GMBH

GESCHÄFTSFÜHRER

WP SA u. SBH HOLFANG DIETER BLÜDE WP u. SBH NANN-JACHIM KETOMER
WP u. SBH WOLF KRONENBERGER WP u. SBH DI. HENNING LÜCHAU
WP u. SBH DI. EBERHARD SPIETH WP u. SBH DI. WILLI STEINBACH
WP u. SBH DI. BERNHARD UHLIG

SITZ DER GESELLSCHAFT: FRANKFURT/MAIN
AMTSGERICHT FRANKFURT/MAIN 12 HRB NR. 9024

TELEFON: (0611) 597103-04.
TELEGRAMMANSCHRIFT: TREUVEREIN.

8 MÜNCHEN 15.
SONNENSTR. 33/V
AUFANG B

VERTRETUNGEN IN ZAHLREICHEN LÄNDERN

IN DEUTSCHLAND VERBUNDEN MIT DER
HANDEL-VEREINIGUNG AB
TSCHAFTSPRÜFUNGSGESELLSCHAFT
D STEUERBERATUNGSGESELLSCHAFT

FRANKFURT AM MAIN, BERLIN,
HAMBURG, KARLSRUHE, KÖLN,
MÜNCHEN, PIRMASENS, STUTTGART

UNSER ZEICHEN:

Munich, July 6, 1973

The Management
Digital Equipment GmbH
8 München 15
Wallenstein-Platz 2

Dear Sirs,

Internal Control

Following our interim audit for the year ended June 30, 1973 we should like to report on certain weaknesses of internal control and other problems which came to our attention.

Inventory count

It was difficult for us to establish that the distribution and return of the inventory sheets was properly controlled since some sheets were not prenumbered; these sheets were numbered after the inventory count was completed with the result that certain numbers were duplicated. We recommend that in future more care is taken to ensure that all sheets are numbered before distribution and that sufficient prenumbered sheets are available at each inventory location.

The calculations and additions on the inventory sheets had not been checked independently of the person carrying out the work. In our tests we found numerous calculation and addition errors so that the sheets were returned to the company for checking. We recommend that the sheets be checked independently before being passed as completed.

Due to the nature of Special Equipment Department's work it is not the company's practice to record items of inventory drawn by the department until a job is finished, in the meantime memorandum records are kept of inventory drawn but not yet returned or charged. At the time of the

inventory taking at the end of March 1973 the department was overlooked and no inventory taking took place. This resulted in a difference when reconciling the physical count with the book stocks. It was established by checking the memorandum records of the department at June 10th that the difference was approximately represented by inventory in the department. We recommend that more care is taken when organising the inventory taking to ensure that all departments where inventory is held are covered by the count.

At the time of our interim visit, June 12 to 15, 1973, the inventory had not been valued for the following items: -

- I) Expensed Goods Stockrooms, other than Munich
- II) Expensed Goods Field Service Personell
- III) Demonstration Equipment

In addition we were unable to agree in quantity the demonstration equipment with the analysis of the ledger account as the count was made by individual items but the ledger analysis was made in complete equipments. We suggest these evaluations are made as soon as possible.

At the time of our interim audit no work had been done by the firm in establishing amounts of obsolete stock provisions or provisions for cancelled projects. We suggest this is done as soon as possible.

Purchases and trade payables

In the reconciliation of the general ledger account "Trade payables" with the outstanding invoices for the month of April 1973 there was a difference of DM 797.12 which arose due to a difference between the total invoices credited to the account and the total of the lists of invoices sent to Geneva for processing. The company were unable to find this difference as Geneva had not sent to them the computer print out "Suppliers Proof" to enable it to check this against the lists sent. We recommend that Geneva ensures that the company receives a copy of each print out relating to it.

The company maintains its trade payables on the "open file system" but has no method to ensure that all invoices received are booked, especially since invoices are sent to departments for approval before being booked, and no system to prevent copy invoices being booked and paid as well as the original. We recommend that the company maintains an "Invoice Received Book" (Rechnungseingangsbuch) which should be written up at the time the invoice is received in the post and should record at least the following information: -

- I) date received
- II) invoice date
- III) supplier
- IV) invoice number
- V) amount
- VI) date sent to department, and department
- VII) date returned by department
- VIII) date entered in books

In addition we recommend that all copy invoices received, except those replacing missing invoices, should on receipt be either destroyed or filed separately.

Trade receivables

The general ledger balance at the end of April did not agree with the list of balances as the Geneva computer had booked the receipts for April in the general ledger but the receipts for April and the first week in May to the personal accounts. We recommend that more care is taken in Geneva to ensure that entries are made in the correct period.

It is the practice for Geneva to book all intercompany accounts items from the copy invoice or credit note sent to them direct. In April they entered an amount in the "Trade Receivables" account without making the corresponding entry in the personal account. We recommend

that Geneva leaves open items for which it cannot complete the entries, especially in this case where the intercompany item from America was a duplication of an item notified to America from Germany.

As mentioned in our Internal Control letter of July 13, 1972 reminders are only sent to customers whose accounts are over 60 days old and whose balances are over DM 10,000.--. We recommend that reminders are sent to all customers whose accounts are over 60 days old as there are a large number of balances under DM 10,000.-- but over 60 days old.

Shares in transit

This account represents shares purchase under the company's "Stock Option Plan" however the items in transit are not being cleared promptly as the company is not ensuring that the persons exercising the option notify it when the shares are received as set out in Item 10 of the Memorandum of November 10, 1972 re "Restricted Stock Purchase Plan". We recommend that the company ensures that it is notified when shares are received under the option and clears this account promptly.

General

All these matters have been discussed with the company's management and accounting personnel.

We should like to express our appreciation for the courtesy extended to us by the management and staff of the company during our examination of the accounts.

Should you require any further information concerning matters raised in this letter, please do not hesitate to contact us.

Yours truly,

COOPERS & LYBRAND

Wirtschaftsprüfungsgesellschaft GmbH

Bauer

Maier

COOPERS & LYBRAND
INTER-OFFICE MEMORANDUM

TO COOPERS & LYBRAND, FROM COOPERS & LYBRAND - SYDNEY
100 FEDERAL STREET,
BOSTON, MASS. 02110.
FOR ATTENTION OF _____ NAME OF WRITER P. DARNELL
YOUR REFERENCE _____ OUR REFERENCE 224
DATE 15TH NOVEMBER, 1973.

RE DIGITAL EQUIPMENT AUSTRALIA PTY. LIMITED - MANAGEMENT LETTER

We refer to your telex of 2nd November, 1973 and our reply of 5th November and now enclose copy of our management letter forwarded following completion of our audit. We understand that Mr. Graham will be forwarding a copy of this letter direct to D.E.C.

Encl:

FD/cs

b. l.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

Resident Partners

JAMES H. JAMISON	WALTER H. BRATBY
J. MAXWELL CARUSLE	PETER DARNELL
JOHN N. MILES	MICHAEL J. SHARRI
T. ALAN MILEAN	RONALD G. DAVIES
KEITH A. BENNELL	RICHARD W. N. GIBB
RODERICK C. CAMERON	PAUL D. R. FISHERWOOD
PAUL J. C. BUSH	EVAN R. GROOMEN OGC
JOHN R. GODDARD	GEORGE S. KIRK
ALAN S. NEILSON	JOHN C. PROWSE
NEIL H. MORRIS	ROBERT B. SCOTT
DAVID T. MYLES	ROBERT S. LYNN
JOHN P. BRAGG	DAVID W. SMITHERS

OUR REFERENCE

224

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TELEX 4422608
POSTAL ADDRESS
G.P.O. BOX 2650, SYDNEY, N.S.W. 2001

NORWICH HOUSE
6 O'CONNELL STREET
SYDNEY

ALSO AT
C.B.C. BUILDING
28 GEORGE ST. PARRAMATTA

CANBERRA	SYDNEY	MELBOURNE	BRISBANE
ADELAIDE	PERTH	HOBART	NEWCASTLE
WOLLONGONG	TOWNSVILLE	MOUNT ISA	DARWIN
PORT MORESBY	LAKE	DORORA	MOUNT HAGEN
KIATA	VILA	INVERHERRIDEN	

ASSOCIATED FIRMS
IN PRINCIPAL AREAS
OF THE WORLD

15th November, 1973.

D. Denniston Esq.,
General Manager,
Digital Equipment Australia Pty. Limited,
123-125 Willoughby Road,
CROWS NEST. N.S.W. 2065.

Dear Mr. Denniston,

In the course of our audit for the year ended June 30, 1973 we examined the principal internal controls which your company has established to enable it to ensure, as far as possible, the accuracy and reliability of the company's records and to safeguard its assets. As arranged at our interview, we are writing to you in order to draw your attention to weaknesses in control which came to our notice during this examination and to suggest ways in which the system could be improved.

2. As we explained at our interview, the examination of the system of internal control which we carried out cannot be expected necessarily to disclose every weakness, and for this reason the matters dealt with in this letter are not necessarily the only shortcomings which exist in the system.

Credit notes

3. Several credit notes examined by us were not signed by a responsible senior official. We recommend that all credit notes be signed as evidence of approval by a senior employee of the company. We suggest that managers of each section of the business should sign credits that relate to their operations, e.g. J. Kilkenny should sign maintenance credits.

Inventory records

4. Whilst bin cards are maintained by the storeman for each category of module no detailed inventory records are maintained. As the volume of inventory is increasing we recommend that consideration should be given to establishing an inventory ledger for all classes of inventory which can be reconciled to the inventory control accounts in the general ledger. We consider that these records will provide a more reliable method of preparing final inventory figures and avoid the problems which arose this year where modules were held which had been acquired at

different discount rates from your parent company and no records were available to establish the number acquired at the earlier discount rate. These records will become more important in future years, if increased levels of inventory items purchased from outside the group are held.

Software support and special systems

5. There is no formal system at present to record all costs associated with jobs being carried out by the above sections of your company. We recommend that consideration be given to establishing detailed work in progress ledgers for these sections in which will be recorded all costs, i.e. labour, material and overhead incurred by each job. We shall be pleased to assist in any way in the setting up of these ledgers.

Module inventories - field service

6. These modules are retained for long periods and are used in the servicing of customers computers. We understand that these modules are used to replace faulty modules in computers which are in turn repaired by your technicians and replace stock taken.

7. At present provision for loss in value of these modules is made on an arbitrary basis. We feel that this basis is not entirely satisfactory and recommend that the field service manager should review all stocks held and determine the estimated life of these modules. Provision for loss in value should be made in conformity with this estimate of useful life. In addition, consideration should be given to the creation of a provision for the estimated cost of repairing faulty modules and the amount of this provision deducted from the book value of the modules concerned.

Field service reports

8. We noted that there is no written approval by a senior employee in the computer service department on decisions not to bill customers for costs incurred in servicing customers machines. We recommend that the service manager in each State should sign field service reports as evidence that he approves the non-billing of these costs.

Salaries

9. There is no written evidence available in the personnel records that salaries of employees paid on a weekly basis have been approved by a responsible officer of the company. We recommend that the general manager or such other senior officer as is appointed by him should sign the history record card of the employee to evidence the initial salary rate and any variations made.

10. In addition, we were unable to locate some review application forms or confirmatory telexes from Maynard in respect of senior staff.

D. Denniston Esq.,
General Manager,
Digital Equipment Australia Pty. Limited.

3.

We recommend that all telexes and a copy of all application forms should be retained in the personnel files.

Fixed assets

11. We understand that an inventory was taken during the year of all fixed assets but has not as yet been agreed with the fixed asset register. We consider that the inventory should be agreed with the fixed asset register during the current financial year.

12. We shall be glad if you will inform us in due course what steps you decide to take in connection with the above matters. Please also inform us from time to time when any changes are made in the existing system of internal control.

Yours faithfully,

B. L.

cs

DIGITAL EQUIPMENT COMPANY LIMITED

U.K.

Memorandum of a meeting held on 15th October, 1973 on internal control matters

Present: P. Ladds Digital
C. Atkinson C & L

001 Recommendation

Fixed Assets and Depreciation

1. An amount of £6,445, being fixed assets, was not capitalised and was included in prepayments instead. This was made up as follows:-

Leasehold improvements	2,923
Office equipment	1,117
Motor vehicles	2,400
	<u>£6,445</u>

2. Furthermore, the company failed to capitalise the import duty for the assets bought from Maynard during June 1973 amounting to £1,051.

3. The company also failed to provide for depreciation for all fixed assets bought during June 1973. In some other instances, assets have been over-depreciated in the previous months and the net result was an under-provision of £1,445.

Provision for discounts

4. (a) The company entered into some agreements with various customers whereby higher discounts would be given if the customer bought a certain quantity of equipment. For instance if a customer bought 5 items he would receive a discount of any £10. But if he bought say 10 items he would receive a discount of say 10%. The rates varying depending on who the customer was and the quantities required. It is group policy to provide for this contingent liability.

(b) There has been a breakdown in the accounting system in respect of the above. The company provided for discounts at the quantities ordered rather than quantities invoiced prior to 10th June, 1973. Furthermore it was not possible to establish whether all the agreements were taken into consideration, a provision of £99,887 was finally made in the accounts, which was considered not to be materially inaccurate.

Stock and Work in Progress

5. Field service materials are recorded as expenses one month in arrears. This is because of the complicated calculations involved. At the end of the year the company had a provision of £4,080 which was based on the Stocker level of usage (when this provision was first taken up). The company did not review this matter at year end in order to update the provision. Based on the average usage of the last four months of the financial year, a provision of £16,000 was finally agreed with the accountant and was included in the accounts.

Notes of discussion and action agreed

The treatment was in accordance with instructions from IDC Geneva. The amount was considered too small to warrant adjusting the accounts, after the first closing.

Same comments as above.

Non provision of depreciation on fixed assets bought during June 1973 was in accordance with instructions from IDC Geneva who considered the amount immaterial. The over-provision for depreciation was due to some assets being depreciated at a rate other than that normally used.

Our comments and recommendations were accepted by the company. A proper system is now in operation.

Agreed.

We recommend that greater care should be taken in updating the various accruals and provisions required. Furthermore, the exact amounts should be calculated whenever this is possible.

We recommend that immediate action should be taken to implement a proper accounting system. It should be the accountant's responsibility to ensure that the system is properly operated.

MemorandumCAL RecommendationNotes of discussion and action agreedBank Accounts

3. The reconciliation statement of Barclays Bank (main account) and Chase Manhattan Bank, disclosed differences of £103.00 and £21.51 respectively.

The importance of reconciling bank accounts needs no emphasis. It appears that the necessary attention was not given to this matter.

Reconciliations are carried out monthly. The differences were not considered significant for year end purposes; all differences have now been cleared.

Trade receivables

7. The receivables control account for April disagreed with the total of the ledger balance by £240, which was cleared in May. However a further difference of £262 was disclosed at the year end.

Agreed.

Differences on control accounts should not be accepted under any circumstances and should be fully investigated. Greater care should be exercised in processing the monthly figures so that differences are avoided.

General Ledger

8. The various control accounts in the general ledger e.g. trade receivables, payables etc, were not reconciled as at April 1973.

Agreed. April was an exceptional month.

The importance of regularly reconciling all control accounts is stressed. We recommend that the reconciliations for all control accounts are initiated by the U.K. accountant, thus ensuring that he is aware of any shortcomings.

General

5. The "second closing" journal entries which had been agreed with us were advised to Geneva by telex on 17th and 18th July, 1973 and contained many errors and omissions. There included incorrect account codes, reversal of the debit and credit entries, and the duplication of one entry. Also included were four entries which were prepared without our prior knowledge or consent, three entries which were required to be processed on instructions from Geneva which had not previously been discussed with or agreed to by us, and two items which it had been agreed would be advised to Geneva which were not so advised until a later date after our intervention.

It was agreed that in future Coopers & Lybrand would exercise closer supervision and control over this matter.

We regard this situation as being most unsatisfactory and clearly more attention and supervision should be paid to this most important part in the preparation of the company's financial statements.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

ASSOCIATED FIRMS
IN PRINCIPAL AREAS OF THE WORLDTEL: 256 32-42 / 44 / 46 / 48
TELEGRAMS: LYBACCOUNT PARIS

42, RUE LA BOETIE

B.P. 451-06

75366 PARIS CEDEX 06

France

Mr. P.Y. Tiberghien,
Finance Manager,
Digital Equipment Corporation
International Europe
81, Route de l'Aire,
1227 - Carouge/Geneva
Suisse

Dear Sir,

EQUIPMENT DIGITAL, S.A.R.L.Accounting system and internal controls

As requested by our office in Geneva, we have examined the accounting system and the principal internal controls which Equipment Digital, S.A.R.L. has established to enable it to ensure, as far as possible, the accuracy and reliability of the company's records and to safeguard its assets. We appreciate that the size of the company makes it impracticable to install a complete system of internal control, which provides all the safeguards that are desirable, and that your own department in Geneva keep a close watch on the transactions of the company. For the purposes of our audit we rely on the supervision which is thus carried out, but we consider that certain procedures which came to our notice during the course of our audit could be revised on the lines suggested in this letter, so as to improve the system of internal control.

2. For the sake of clarity we have divided our points into those of major and minor importance and the latter will be found in the Appendix to this letter.

3. As we explained to Mr. Phocas, the examination of the system which we carry out for the purposes of our audit does not necessarily disclose every weakness, and for this reason the matters dealt with in this letter may not be the only shortcomings which exist in the system.

Bank reconciliations

4. The first bank reconciliation prepared in fiscal year 1973 was for April and for that the company had the assistance of one of your central staff. The second, for May, contained a large number of apparently contra items which were still in the process of being eliminated at the time of the termination

of our audit in July. We understand that this undesirable situation arose due to a combination of a shortage of personnel, since alleviated, in the accounts department, together with considerable delays in receiving bank statements in respect of the main accounts.

5. We consider that regular reconciliation of bank accounts is necessary :

- (a) to confirm the company's cash assets, and
- (b) to be in a position to follow up all suspense items.

We recommend therefore that the company make regular monthly reconciliations of its bank accounts and ensure that all suspense items are promptly investigated and cleared. In addition we recommend that a separate reconciliation statement be prepared for each of the Crédit Lyonnais' accounts instead of the present combined statements.

Credit control

6. During our audit we noted that the new credit controller had not been provided with any written instructions as to the company's policy regarding credit control. We consider that the length of credit being allowed to customers, including state departments is unnecessarily long and that the company should immediately plan and implement the normal forms of weekly follow-up procedures.

Bad debt provision

7. During the year the company made only one review of its receivables ledger. Since this was not at the year end, some of the debts reviewed had been settled, and to that extent the provision made was inaccurate.

8. In addition the bad debt provision set up covered the full invoice including sales tax. This is unnecessary in France as relief can be obtained in respect of T.V.A. by adjustment of the periodic payment of this tax, subsequent to the writing off of a bad debt.

9. We recommend that in future the bad debt provision be calculated on sales invoices, less T.V.A. and according to company policy as laid down by the European Accounting Procedures manual, which states that receivables provisions should be set up and reviewed quarterly by the local accountant.

Accruals

10. For the purpose of producing monthly management accounts the company establish accruals based on the difference between budgeted expenditure and actual expenditure for the month. In a situation where actual expenditure is not in line with budget the accrual accounts will become increasingly inaccurate. While appreciating that this approach is necessary in the interest of speed, we consider that regular attempts should be made to reconcile all accrual accounts in order to be able to set up accurate accruals at the year end. We recommend that reconciliations be prepared for all such accounts monthly in arrears, when the majority of invoices will have been received from suppliers.

Sales tax

11. In preparing the monthly sales tax declaration the company takes the computer calculated tax payable, assumes it is all at a standard rate of 20%, and multiplies by five to arrive at the monthly turnover figure, which is entered on the declaration. Although 20% is the main rate applicable to the company's transactions other rates are also used. Thus the turnover figure computed in this way bears little relationship to the actual turnover for the month. French law requires that a sales journal be maintained which gives an analysis by invoice and by each different rate of sales tax for each accountable period. The total sales at each different rate should be entered on the declaration. By not maintaining a journal of this nature the company risks being fined for non-compliance with the law on the occasion of a tax inspection. Such an inspection is now due and we recommend that immediate steps be taken to regularise this situation.

Inventory

12. We noted that receipts into inventory are recorded on record cards by date and, in the case of inventory relief, by date and the field service engineer's initials. We consider that this information is insufficient for the effective control of inventory movements. We recommend that specific reference be made on the cards to the withdrawal return sheet numbers in order that an effective control of physical inventory can be maintained. Provision has already been made in the cards for such document references.

Lunch coupons

13. The company maintain a register of issues of lunch coupons but no attempt is made to justify the balance shown in the general ledger. During the course of our audit we counted the coupons held and tried to reconcile back to the balance at June 30. Even taking the most optimistic figure of average weekly usage, computed by reference to the registers, we fell far short of the required amount. We consider that over a period of time there is a serious risk of loss to the company in respect of these coupons which are readily negotiable.

14. We recommend that all luncheon coupons purchased and issued be controlled so that a balance of coupons in hand at any one time may be struck. This may be done by incorporating all receipts into the register of issues, already kept. This register should be presented to the cheque signatories for initialling when further supplies are ordered; one should also periodically verify that the balance is correctly stated.

15. We should be glad if you would inform us in due course what steps you decide to take in connection with the above matters. Please also inform us from time to time when any changes are made in the existing system of internal control.

Yours truly,

COOPERS & LYBRAND

MINOR WEAKNESSES OF INTERNAL CONTROL

1. The company does not always obtain a signed customer's order for the supply of spare parts. We recommend that this be done in future.
2. The company does not always issue an official order for items such as office supplies. This should be done and a copy of the order should be retained for comparison with the subsequent invoice.
3. We recommend that goods despatched notes and goods received notes be filed with the relevant sales and purchase invoices, for ease of reference.
4. We found that in certain cases there was no evidence of approval of overtime. We recommend that all overtime worked be authorized and evidenced by the signature of a responsible official.
5. In certain cases invoices for field service engineers' visits were established some months after the date of the visit.

C O P Y

KESSELMAN & KESSELMAN

(PRACTISING IN ISRAEL SINCE 1924)

JERUSALEM	TEL - AVIV	HAIFA
P.O.B. 2114	P.O.B. 452	P.O.B. 1234
CODE 41 000	CODE 61 000	CODE 31 000
TEL. 232191	TEL. 411174	TEL. 121249

CABLES: ARDEERAY

Tel-Aviv, July 30, 1973

Decsys Computers Limited
7 Habakook Street
Tel-Aviv

Gentlemen,

RECU le

3 - AOUT 1973

Rép:

Arising out of audit of your accounts as at June 30, 1973, we have the following comments:

1. Provision for service warranties

Under sales contracts with customers the company has assumed service warranties for a period of twelve months. No provision has been made in the accounts for the estimated liability that might be incurred under these warranties. We recommend that an estimate be made of the warranty liability and that adequate provision be set up therefor.

2. Inventories:

- a. No physical count of inventories was taken during the entire period since incorporation (March 8, 1972) to June 30, 1973.
- b. Inventories at June 30, 1973 are valued at IL 282,000. We do not find that any particular person has been assigned responsibility for physical quantities of inventories, nor have we found any regulation providing for such responsibility.
- c. We recommend that the purchase price of small computer parts taken into inventory be entered on the inventory cards. This will permit a more accurate valuation of inventory items.

3. Accounting records:

- a. The general ledger in its present form does not meet company requirements and does not facilitate the audit function. This is due mainly to the fact that each account in the general ledger is divided into twelve different parts and is devoid of all detail. Due to the above facts it is not possible to scan the accounts and makes an analysis of any specific account very difficult.

- b. Certain of the journal entries recorded in the ledger are prepared in Geneva and are not sufficiently explanatory. (See our telex dated 17.7.73).
- c. Allocation of expenses between the different departments is not made on a consistent basis. Certain allocation rates were changed a number of times during the audited period.

4. Internal control

There is an excessive concentration of responsibilities in the hands of one person. This person serves as administrator, bookkeeper and cashier. He prepares all cheques for signature and also mails cheques to payees. This is contrary to internal control requirements.

The branch manager has the authority to sign cheques singly, without a second signature. This does not seem to be acceptable practice.

5. General:

- a. We recommend that the company maintain a fixed asset register, that a count of assets be taken periodically and that results of the count be reconciled with the fixed asset register.
- b. The company has not yet complied with the requirements of the Companies Ordinance as to maintaining certain statutory books, such as minutes book, share register, etc.

Very truly yours,

Kesselman - Kesselman

cc: Coopers & Lybrand S.A.
Geneva

Mr. P.Y. Tiberghien
Geneva

勤業會計師事務所
T. N. SOONG & CO.

CERTIFIED PUBLIC ACCOUNTANTS
P. O. BOX 1539, TAIPEI
REPUBLIC OF CHINA

CABLE ADDRESS:
"CERTIFIED" TAIPEI
TEL. 513025, 513026, 513027
TELEX 11442 CERTIFIED

7TH FLOOR
CENTRAL REINSURANCE BLDG.
53 NANKING E. ROAD, SEC. 2
TAIPEI

August 21, 1973

Digital Equipment Taiwan Ltd.
13-2, Nan Hsin Li
Tachi, Taoyuan

Attention: Mr. Richard Yen
General Manager

Gentlemen:

We submit this report relative to our review of the trial balance of Digital Equipment Taiwan Ltd. for the period ended June 30, 1973.

EXAMINATION OF CASH AND SECURITIES

We made a surprise examination of the following cash funds on hand on July 3, 1973 and found these duly accounted for:

<u>FUND</u>	<u>CUSTODIAN</u>	<u>ACCOUNTABILITY</u>
Cash on hand (U.S. currencies and traveller's checks)	Sam Kao	US\$ 525.40
Petty cash fund		
General	Anne Hsieh	NT\$ 20,000.00
Purchasing	P. W. Tien	2,000.00
Postage fund		
Maintenance	H. C. Huang	250.00
Personnel	Frank Tang	400.00
Office of the General Manager	Linda Liang	1,340.00
Time deposits	Sam Kao	11,000,000.00
Government bonds	Sam Kao	1,000,000.00

The above accountabilities were based on general ledger balances and cash records.

INTERNAL CONTROL AND ACCOUNTING PROCEDURES

We reviewed the Company's system of internal accounting control and found this to be generally satisfactory. We noted, however, certain

deficiencies in the system which we list below together with our recommendations:

A. Bookkeeping

1. Two different sets of forms are used as bases for the preparation, authorization, and recording of cash disbursements.
2. Recording of cash disbursements is not centralized. At present, two sets of books are maintained for cash: a) Voucher Register - for purchases covered by purchase orders, and b) Cash Disbursements Book - for expenses and other purchases not covered by purchase orders.
3. The Cash Disbursements Book has only one column for bank accounts, hence, cash transactions for each bank are maintained in separate pages of the book.
4. Ledger accounts for each expense item, classified by nature of disbursement, are not maintained.
5. Subsidiary records for factory supplies are not kept up-to-date and reconciled with the general ledger and storeroom records.

Recommendations

1. A prenumbered Cash Disbursement Voucher ("CDV") form (Attachment A) should be prepared for all check payments, in lieu of the Voucher Ticket and Check Request presently in use. A CDV shall be prepared (in duplicate) by the accounting section to cover each purchase invoice or receipt as soon as the invoice or receipt and its supporting documents (e.g. purchase orders, receiving report, etc.) are received. The CDV, together with its supports, is forwarded to the Finance Manager for approval, and after approval is then used as basis for preparation of check. The check, together with the corresponding CDV and supports, is forwarded to the authorized check signers for approval and signature. After the check is signed, the General Manager's secretary stamps "PAID" the CDV and the supporting documents and forwards the check and duplicate copy of CDV to the Cashier, and the original CDV and all supporting documents to Accounting. Receipt of the check is to be acknowledged by the payee or his representative by signing or chopping on the cashier's copy of the CDV.

The CDV and the checks issued will be recorded in the Cash Disbursements Book in numerical sequence. Spoiled CDVs and checks should be preserved for future reference and entered in the Cash Disbursements Book as such.

2. The use of the Voucher Register should be discontinued. All CDVs shall be recorded in the Cash Disbursements Book. In this connection, additional columns shall be provided in this book for all bank accounts.
3. Revised Overhead Expense Subsidiary Ledgers (Attachment B) should be adopted to replace the same ledgers presently in use. This revised ledger will control expense items by nature of disbursement and detail the allocation of the expense items to the cost centers. The total of the balances of all expenses for each cost center as shown in all the expense ledgers should be tied up with corresponding cost center control account in the general ledger.
4. Subsidiary records for factory supplies should always be kept up-to-date and periodically reconciled with general ledger control accounts and the records in the stockroom.

3. Payroll

Our tests of the payroll for the month of May, 1973 revealed the following:

Assembler No.	Wages for May	Remarks
22216	NT\$ 316	The time card showed the assembler worked for two days; the payroll voucher and individual payroll records showed six days.
20896	638	The assembler took a personal leave on May 5, 1973; time card showed he was present during the day.
21102	495	Time card showed full attendance; personnel records showed a leave of 1.8 hours on May 18, 1973.
20527	652	The assembler took a leave of 8 hours; no deduction for this leave in the payroll.
20605	560	Overtime shown in payroll exceeds by three hours than that shown in time card.

We were informed that Accounting has adopted the following policies for computing payroll with regard to differences that exist between the time cards and personnel records.

- (a) For deductions due to leaves or absences, the record which shows the longer number of hours is used as the basis.
- (b) Overtime payments are based on the records which show the lesser number of hours.

We suggest that Management adopt control measures to ensure that data shown in the personnel records agree with those shown in the time cards. Payrolls must be prepared based on the time cards.

INSURANCE COVERAGE

The Company should review periodically the adequacy of insurance coverage for its inventories and for inventories consigned to it by Digital Equipment Corporation. As at June 30, 1973, the Company had inventories valued at NT\$13,609,508 (including consigned materials of NT\$6,786,613). Insurance coverage on these inventories is only NT\$2,000,000.

The Company should also determine whether fidelity insurance is required for its employees responsible for cash functions and financing activities.

* * *

Our review of the system of internal accounting control was made incident to our review of the Company's trial balance for the period ended June 30, 1973 and not on a comprehensive study of the Company's system. The foregoing recommendations, therefore, should not be construed as all inclusive of the areas wherein improvements might be called for.

We appreciate the courtesy and cooperation extended to us by Management and staff in connection with this engagement.

Very truly yours,

T. N. Soong & Co.

cc: Coopers & Lybrand

ATTACHMENT A

DATE _____, 19____

THE AMOUNT OF

(NT\$ _____)

PARTICULARS - 摘 要

TO ACCOUNT

[illegible]

PREPARED BY

便核

CHECKED BY

核 准 _____

APPROVED BY

核 准

APPROVED BY _____

收帳

RECEIVED BY

登 帳

RECORDED BY

支樂編

CHECK NO.

CHECK NO. 傳票編號

VOUCHER NO. _____

