

**NUKUORO MUNICIPAL GOVERNMENT**

**AUDIT REPORT NO.001-18**

**FISCAL YEARS 2016 AND 2015**



**POHNPEI STATE OFFICE OF THE PUBLIC AUDITOR**

**P.O BOX 370  
Kolonia, Pohnpei 96941  
Federated States of Micronesia**



# OFFICE OF THE POHNPEI STATE AUDITOR POHNPEI STATE GOVERNMENT

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February 15, 2018

Honorable Marcelo K. Peterson, Governor  
Honorable Fernando Scaliem, Speaker, 9<sup>th</sup> Pohnpei Legislature  
Honorable Members, 9<sup>th</sup> Pohnpei Legislature  
Honorable Senard Leopold, Mayor, Nukuoro Municipality  
Mr. Feliciano M Perman, Director, DoT&A  
Mr. Dana Smith, Attorney General, Pohnpei

**RE: Performance Audit Report on NMG Revenue Collection and Cash Disbursements**

## **EXECUTIVE SUMMARY**

Maingkoa:

As part of the Pohnpei Office of the Public Auditor (POPA) work plan for fiscal year 2017 and 2018, we conducted a performance audit on the Nukuoro Municipal Government (NMG) revenue collection and cash disbursement activities for fiscal years 2015 and 2016. The audit was conducted in accordance with the auditing standards generally accepted in the United States of America and the Government Auditing Standards issued by the Comptroller General of the United States. We also performed the audit pursuant to the Article 11, Section 8 (2) of the Pohnpei Constitution and the State Law No. 1L-10-79, as amended.

The audit objectives were to determine whether:

- 1) The NMG revenues collected during the audited period were properly documented, accounted for and timely deposited intact in the NMG approved depository account at the designated bank in accordance with applicable laws; and,
- 2) The NMG cash expenditures were properly authorized, documented, supported and disbursed pursuant to applicable laws and common best practices.

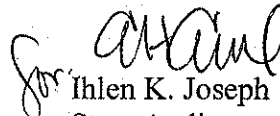
At the outset and based on the result of our examination, we conclude that the NMG did not fully comply with the applicable laws and best practices in its revenue collection and cash disbursement activities during the audited period. We found that the NMG did not have in place written policies and procedures to keep track of its collection and disbursement activities. As a result, the NMG was exposed to high risk of loss, abuse and mismanagement of its financial resources. Refer to the Schedule of Findings and Recommendations on pages 5, 6, and 7.

We recommend the NMG management to give immediate and priority consideration to establish and implement adequate internal control procedures to guide its revenue collection and cash disbursement activities. We provided copies of the NMG draft audit report to the Mayor and Senator Lekka for review, and held an audit exit conference with them on February 07, 2018. The auditee (NMG) was requested to prepare and submit a written comment on the draft report to be incorporated as part of the final audit report. Refer to the auditee's written comments responding to the audit findings and recommendations on pages 8 and 9 of this report.

We appreciate very much the cooperation and support extended to our Audit Team by the NMG management and staffs during the audit.

With friendly greetings and warm regards, I am

Sincerely,

  
Ihlen K. Joseph  
State Auditor  
Pohnpei

NUKUORO MUNICIPAL GOVERNMENT

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AUDIT REPORT

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YEARS ENDED SEPTEMBER 30, 2016 AND 2015

**NUKUORO MUNICIPAL GOVERNMENT  
PERFORMANCE AUDIT ON REVENUE COLLECTION AND CASH DISBURSEMENT  
FISCAL YEARS 2015 AND 2016**

**AUDIT REPORT NO. 001-18**

**INTRODUCTION**

The Pohnpei Office of the Public Auditor (POPA) conducted a performance audit of the Nukuoro Municipal Government (NMG) revenue collection and cash disbursement activities for the fiscal years 2015 and 2016. This report contains the findings and the conclusion of the Audit Team.

**BACKGROUND**

The Nukuoro Municipal Government (NMG) is one of the eleven local or municipal governments of Pohnpei State. Similar to the primary government, NMG is composed of three branches. The Executive Branch is headed by the Mayor, the Legislative Branch by the Speaker, and the Judiciary Branch is headed by the Chief Justice.

The executive power of NMG is vested in the Mayor who is elected by the qualified voters of Nukuoro. The Mayor is responsible for the faithful execution of the provisions of laws and the Constitution of Nukuoro. As head of the Executive Branch, the Mayor is responsible to ensure that government operation and projects and programs identified in the local plans of NMG are administered effectively and efficiently based on the approved budget and in accordance with all applicable laws and regulations.

The legislative power is vested in a 5- member Council, which is the law-making body of NMG. The Council established local laws through ordinances for all types of activities, including fiscal issues facing the Municipality.

The judicial power is vested in the Chief Justice who is in charge of NMG Supreme Court. The Judiciary Branch is responsible for interpreting and judging issues, actions, and/or other matters based on the law and may impose fines and penalties, as appropriate.

**REVENUE SOURCE**

The main source of income for NMG comes from the revenue sharing arrangement as provided in the "Local Government Revenue Sharing Act of 1989". The Act allocates not less than 30% of all taxes received by Pohnpei State Government from sources within Pohnpei to the eleven local governments to be apportioned based on population. NMG received \$46,746 each year or a total of \$93,492 from this source for the two fiscal years being reviewed. In addition, NMG receives revenues from other shared fees collected by the State and from its own locally imposed fees, taxes and fines.

## **COLLECTION OF REVENUES**

NMG receives its share of the Pohnpei Government collected taxes on a quarterly basis, or when disbursements are issued from the State Finance. Although not all revenues collected were properly receipted, these funds were deposited at the NMG approved depository account in the designated bank after they were received. NMG maintains only one bank account at one of the local financial institutions located in Kolonia, Pohnpei.

NMG Representative Office in Kolonia also received the local revenues collected and sent from Nukuoro Island. Receipts were not issued for these collections but sometimes sheets tallying the amounts were submitted.

## **DISBURSEMENT OF FUNDS**

All disbursement transaction requests were initiated by the purchasing branch. Processing and approval of the purchases are handled by NMG Office. Valid expenditures were approved and disbursed in accordance with the approved budget and related applicable municipal laws.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

The objectives of the audit were to determine whether:

1. The NMG revenues collected during the audited period were properly documented, deposited timely intact, and accounted for in accordance with applicable NMG laws; and,
2. The NMG expenditures were properly authorized, documented, supported, and disbursed pursuant to applicable laws and regulations.

In addition and as part of our audit objectives, we were to assess whether NMG's internal control structure provides reasonable assurance that its cash receipts and cash disbursements are safeguarded from errors, abuse, misuse and other irregularities. This also included evaluating whether findings from prior year's audit have been properly addressed and resolved.

The audit included a review of NMG revenue collection and cash disbursement activities for the fiscal years 2015 and 2016. Due to the absence of cash receipts and the limited supporting documents to substantiate disbursements, our audit coverage was confined to the review of documents that were available and provided to us by the NMG personnel stationed in Kolonia.

We performed the audit in accordance with the government auditing standards generally accepted in the United States of America contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The methods utilized in obtaining our audit evidence:

1. We obtained and reviewed applicable laws, regulations, policies and procedures, including the annual budget ordinances;
2. We interviewed certain personnel of NMG to obtain knowledge of control activities in place and compliance with applicable laws and regulations.
3. We conducted preliminary survey of the Municipality's records to determine completeness and availability of accounting records in order to plan and determine the nature, timing and extent of auditing procedures to be performed.
4. We examined and performed control and compliance tests of records and supporting documents for revenues and disbursements as appropriate. All samples were selected based on auditor's judgment.
5. We confirmed balances from third party as necessary.
6. We performed other procedures deemed necessary to achieve our audit objectives.

### **PRIOR AUDIT COVERAGE**

This is the third audit of Nukuoro Municipal Government conducted by the Office of the Pohnpei State Auditor. The last audit was a comprehensive financial related review of cash receipts and cash disbursements, as well as, NMG's internal control structure and its compliance with applicable laws and regulations covering fiscal years 2001 and 2000. The deficiency of NMG's internal control structure and the problems found and reported back then regarding cash receipts and disbursement still has not been adequately resolved.

### **AUDIT CONCLUSION**

Based on our audit, we conclude that NMG was exposed to high risk of loss, abuse and mismanagement of its financial resources due to the absence of proper internal control measures in place to govern and safeguard its cash receipts and cash disbursement activities. The NMG management is urged to take immediate steps necessary to improve the handling of its cash receipts and cash disbursements processes and to ensure that its funds are sufficiently managed and safeguarded against any irregularities, including but not limited to abuse, theft, mishandling and mismanagement.

### **SUMMARY OF FINDINGS**

Due to lack of suitable policies and procedures in place to properly track the handling, recording and accounting of cash, revenue collections, and cash disbursement activities, NMG is exposed to high risk of loss and abuse of its public funds. We identified the following internal control weaknesses:

#### **Cash Receipts/Revenue Collections**

1. Due to lack of adequate supporting documentations, we were not assured that all cash and revenues received by NMG during the audited period were all accounted for and

deposited timely to the NMG approved depository account at the designated bank account.

2. NMG did not employ a cash receipt journal or its equivalent book to keep track of its daily cash or revenue collections.
3. There was absolutely no evidence of management oversight review of the revenue collection activities of NMG during the two years period.

### **Cash Disbursements**

4. We found no organized and summarized records of NMG cash disbursement activities to provide and support reviewing and reporting. Detailed testing of disbursement transactions revealed the following:
  - Instances of issuing checks payable to "cash" that were not monitored and accounted for properly.
  - Blank endorsement checks were allowed.
  - Some payments to vendors were issued in the name of an employee.
  - Unauthorized donation of \$5,000.00 to a non-governmental organization.
  - Instance of cash disbursements without required supporting documents.
  - Insufficient documentation to support payrolls and other cash disbursement transactions. NMG also allowed and provided payroll advance to its officials and employees.
5. We found also that NMG did not establish and employ a cash disbursement journal to keep track of its cash disbursement transactions and related activities for the period being audited.

### **SUMMARY OF RECOMMENDATION**

NMG must give priority consideration for the formulation and implementation of a cash receipt and cash disbursement policy to ensure that all of its incoming and outgoing funds are handled and administered in conformity with applicable laws and best practices.

Please refer to the Schedule of Findings and Recommendations below for further information.



**NUKUORO MUNICIPAL GOVERNMENT**  
**Performance Audit on Revenue Collection and Cash Disbursements**  
**Fiscal Years 2015 and 2016**

**Schedule of Findings and Recommendations**

**Finding No.1: NMG Revenues and Cash at High Risk of Loss**

**Criteria:**

The Pohnpei Government Financial Management Act and the regulations promulgated relative thereto require that, unless otherwise specified by law, all public monies raised or received by a government agency must be properly receipted, accounted for and deposited intact into an Approved Depository Account at the designated bank. In the absence of an established policy and procedure to govern the cash and revenue collection activities of NMG, it is expected that NMG must follow applicable state government revenue collection and cash accounting processes.

**Condition:**

Our review of NMG cash and revenue collection activities for the audited period disclosed that:

- a) NMG did not have a formal policy or procedure in place for handling, managing, and accounting of its cash and revenue collections.
- b) Not all of NMG cash and revenues collected during the audited period were receipted. Revenues collected on Nukuoro Island from domestic sources were not deposited timely due to the island isolation from Pohnpei. For all the deposits made however, not all deposit slips or summary sheets for collection remittance<sup>1</sup> were kept. Thus, we were not assured that all of the cash and revenues raised or received by NMG were deposited in the approved depository account at the designated bank.
- c) NMG did not establish and maintain a cash receipt journal or an equivalent book to keep track of its cash and revenue collection activities. We also found absolutely no evidence of management's oversight review of the NMG revenue collection account and activities during the audited period.

**Cause:**

The deficiencies occurred because of the lack of: a) established policies and procedures in place to govern cash and revenue collection, and b) insufficient control consciousness within NMG to enable it to assess and provide proper management and internal control structure over its cash and revenue collection, management and accounting program.

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<sup>1</sup> NMG Office in Nukuoro collects local revenues and remits to its branch office in Pohnpei proper for deposit to the bank. The money when remitted sometimes accompanies a signed sheet of paper summarizing the revenues collected. The sheet is referred in this report as a summary sheet.

**Effect:**

The situation resulted to NMG being exposed to high risk of cash and revenue loss as well as irregularities over its revenue collection process that will not be detected or prevented timely. Without proper record keeping and the lack of supporting documentation, the total annual revenues of NMG could not be confirmed.

**Recommendation**

We recommend:

1. NMG management to give priority consideration for the establishment and implementation of a revenue collection and cash management policy or procedure to keep track of its revenue collections and cash management and accounting activities.
2. NMG management to commence issuance of cash receipts for all monies raised or received by the NMG, regardless of the source and amount, in support of public purposes.
3. NMG management to develop and implement cash receipt journal to keep track of all monies or revenues raised or received to support its operations and programs, regardless of the source and amount.
4. NMG management to identify and enroll responsible finance staff (s) in programs, including attachment to improve the accounting, record keeping and the general financial management activities of the government.

**Finding No.2: Inadequate Control Over NMG Cash Disbursements****Criteria:**

The Pohnpei financial management legal framework requires that no public funds shall be disbursed except to liquidate valid obligations of the government. Common financial and accounting best practices also require establishment and maintenance of Cash Disbursement Journal (CDJ) that reflects all checks issued or voided by numerical order and at least the following information: 1) date of check, 2) payee of the check, 3) number of the check, 4) purpose of each transaction; and 5) amount of check.

**Condition:**

Our review of the 302 NMG cash disbursement activities for the audited period disclosed:

1. NMG did not develop and maintain a Cash Disbursement Journal to keep track of its cash disbursement activities during the audited period.

2. We found no organized and summarized accounting records of NMG cash disbursement activities to provide and support proper assessment and reporting of its financial affairs.
  - a) Insufficient documentation to properly support payroll, purchases, travel and other cash disbursement transactions of the government;
  - b) Unauthorized donation of \$5,000 to a non-governmental organization
  - c) Instances of checks issued and made payable to "CASH" without proper monitoring and accounting.
  - d) Instances of checks issued and made payable to "EMPLOYEE" and not directly to vendors for purchases.
  - e) Payroll advances issued to officials and employees of the NMG without proper monitoring and accounting.

**Cause:**

NMG did not have in place proper policy guidelines to govern its cash disbursements. The government also lacks the skills necessary to effectively monitor, account for and report properly and timely on its cash disbursements and financial affairs in general.

**Effect:**

NMG was exposed to high risk in its cash disbursement transactions that may have impacted negatively on the government financial resources, transparency and accountability.

**Recommendation**

We recommend:

1. Responsible NMG management official (s) to develop and implement proper policy guidelines to govern its cash disbursements and related services.
2. Responsible NMG official to develop, implement and maintain a Cash Disbursement Journal to keep proper tracking and accounting of its cash disbursement activities at the earliest time possible.
3. Responsible NMG official to identify and enroll its finance staff in appropriate financial and accounting courses, including attachment to enhance capacity and skills in proper accounting and reporting of the government financial affairs.

NUKUORO MUNICIPAL GOVERNMENT

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AUDITEE RESPONSE (EXHIBIT 1)

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YEARS ENDED SEPTEMBER 30, 2016 AND 2015



# NUKUORO MUNICIPAL GOVERNMENT

P.O. Box 2135, Kolonia, Pohnpei FM 96941

tel: (691) 320-1126 Radio Call Signs: NukuoroPAPA29/KoloniaALPHA20

February 13, 2018

Honorable Ihlen K. Joseph  
State Public Auditor  
Pohnpei State Government  
Kolonia, Pohnpei State, FM 96941

**K**  
By: [Signature]  
Date: 02/14/18

Subject: Response communication to Audit Report 001-18

Dear Auditor Joseph,

On behalf of the Nukuoro Government and its people, I am pleased to present our warmest New Years greetings and humble respects to you and all your hard working staffs. We trust that this communication finds you in good health and spirit.

It is with great honor and privilege for me to have the opportunity to represent my people and the Government of Nukuoro to transmit this official response to the findings and recommendations by your respective office in the audit report of our local government for the FY2015 and 2016.

As we reviewed the audit report's findings and recommendations, we are very thankful for the opportunity to witness first-hand with your office and its technical staff's for elaborating and identifying our weaknesses and limitations as per your recommendations to immediately remedy these problems to safeguard our local government financial assets and proper procedures in handling our local governments' financial transactions.

With the findings highlighted in the audit report, we have reviewed these findings after our exit meeting at your office and have concluded our statement as follows:

1. Nukuoro Municipal Government accepts all the findings where the Nukuoro Municipal Government were cited on as identified in the audit report and have also considered and in development of all needed measures to ensure that such activities should never happen again;
2. Nukuoro Municipal Government is in the process of developing its Financial Management Act to provide guidelines and compliance measures to ensure safeguards of public funds;
3. Nukuoro Municipal Government will work closely with the State Auditor Office during the monitoring process to implement immediate measures to remedy the findings of the audit report;
4. Nukuoro Municipal Government will seek training opportunities for all relevant personnel to undertake and improve their skills and capacity in proper financial documentations and proper financial accountability and transparency practices.



# NUKUORO MUNICIPAL GOVERNMENT

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(continue from page 1.)

Nukuoro Municipal Government again expresses our profound heart-felt appreciation for the results of this report, as it will be a guideline and tool to ensure that our staffs are properly trained with necessary skills and acceptable financial practices.

Once again, Nukuoro Municipal Government also would like to take this time to thank all your technical staffs for the tremendous hard work and the ongoing advice our staffs will be expecting during the course of the auditing process. We believe that there will be new changes and skills learned during these few months that will have significant impact in improving our local government.

Respectfully,



Senard Leopold

Mayor

Nukuoro Municipal Government

cc: Hon. Tenny Leopold, Speaker  
Hon. Bermino Retinan, Acting Chief Judge  
Hon. Sendilina Lekka, Senator-PSL  
Itzia Fred, Mayor Representative  
Zipporah Retinan, Chief Finance Officer  
Blumina Leopold, Assistant Finance Officer  
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