



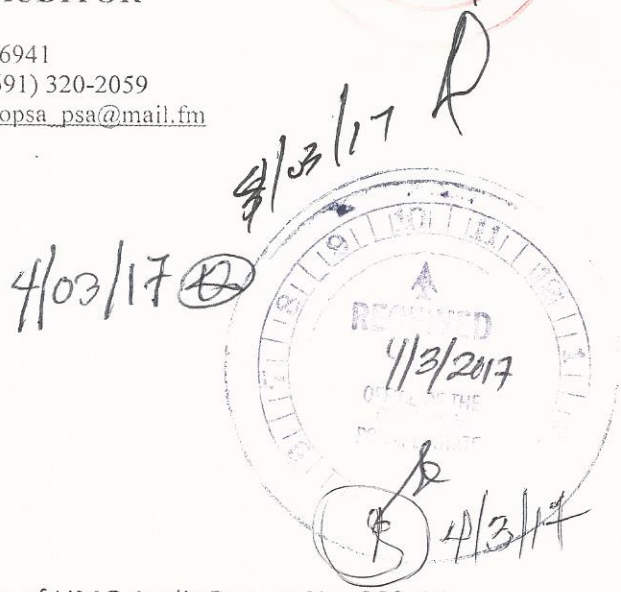
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U. D. R. (handwritten)



March 30, 2017



Honorable Dahker Abraham, Chief Minister
Honorable Estephan Primo, Speaker, UMC
Honorable Members of U Municipal Council
Pohn Isilap, Nan U
U, Pohnpei State, FM 96941

RE: Management Report No. 004-17 – Follow-Up Review of UMG Audit Report No. 003-14.

Maingkoa:

We conducted a follow-up assessment on the status of the internal control weaknesses identified and reported in the U Municipal Government (UMG) Audit Report No.003-14, issued in May 2014. The review was conducted pursuant to the provisions of S. L. No. 5L-08-00 and in accordance with the generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States.

The primary objective of our review is to determine whether responsible UMG management officials have taken action (s) necessary to resolve prior audit findings and conclusions. As part of our review, we interviewed relevant UMG officials, tested a number of financial transactions and observed UMG operations on sight. In short and based on our review, we concluded that:

1. Responsible UMG management officials have not taken appropriate measures necessary to fully resolve the internal control deficiencies identified and reported in the UMG Audit Report No. 003-14, issued in May 2014. Our review disclosed the following:
 - a) Finding No. 01: Relating to “Unrealistic Revenue Projection” has not been properly implemented in part or in whole. We found that UMG revenue forecast for the three fiscal years subsequent to the issuance of the Audit continued to reflect a \$100,000 in CFMS project and program funds that never existed or within the UMG authority to collect, apportion, appropriate and spend.

Responsibility for the collection, appropriation, management, disbursement, accounting and reporting of CFMS project/program funds remain at the FSM

finance. It should be noted also that only UMG includes this as a funding source in its revenue forecasts but not in its appropriation laws for the past ten plus years. We could not, however, find the over \$1 million in revenues collected but not appropriated since the inception of this practice over ten years ago.

2. Finding No. 02: Relating to internal control deficiencies noted in the "collection, management, documentation and accounting of UMG revenues" has not been fully implemented. We found:
 - a) Monies collected are not properly receipted and deposited timely as required by established policies and procedures.
 - b) Absence of Cash Receipt Journal to tract and support collections, regardless of source and amount and financial reporting.
 - c) Lack of supervisory review over revenue collections to ensure proper accountability.
3. Finding No. 03: Concerning "disbursement not in compliance with established policies and procedures" has been partially implemented. Our follow-up review disclosed:
 - a) A check was disbursed without any supporting document.
 - b) A number of checks were disbursed without documentary evidence to support that goods and services were received.
 - c) No Cash Disbursement Journal to record and tract disbursements and support proper accounting and financial reporting in place.

As a result of our follow-up review and based on the internal control deficiencies indicated above, we offer the following recommendations for consideration of responsible UMG management. We believe that timely implementation of these recommended measures will improve UMG financial accountability, transparency and efficiency in delivering public services. Recommendations include:

1. Responsible management officials to prepare and transmit annual revenue projections based on realistic and available resources that are within UMG authority to apportion, appropriate, disburse, account for and report.
2. Require issuance of Cash Receipt for all monies received, regardless of the source and amount, to ensure proper accountability, financial reporting and safeguarding of public resources.
3. Establish and maintain Cash Receipt and Cash Disbursement Journals to ensure proper receipting, disbursement, and financial reporting of UMG financial affairs.


4. Require close supervisory oversight over the receipt, accounting and disbursement of UMG financial and related resources to ensure that all financial and related transactions are properly supported with applicable document as required by established policies and procedures.

It is further recommended that review of this report is conducted in conjunction with our Management Report No.003-17 we recently issued relating to the UMG "Un-Announced Cash Count" engagement.

We appreciate very much the cooperation and assistance provided to our auditors during the audit follow-up engagement. Our OPA Pohnpei is prepared to provide further assistance, if required.

With friendly greetings and warm regards, I am.

Ni Wahu,



Ihlen K. Joseph
State Auditor
Pohnpei

xc: Governor, Pohnpei
Speaker, PSL
Director, DoT&A, Pohnpei
Attorney General, Pohnpei