



**POHNPEI STATE GOVERNMENT
OFFICE OF THE PUBLIC AUDITOR**

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Honorable Marcelo Peterson, Governor of Pohnpei State
Honorable Fernando Scaliem, Speaker, 9th Pohnpei Legislature
Honorable Members of the 9th Pohnpei Legislature

Maing Ohloakoa oh Senator S. Lekka:

Introduction

Our Pohnpei Office of the Public Auditor (POPA) has conducted, completed, and issued audit reports on 10 of the 11 municipal/local governments operating in Pohnpei State. The objectives of these audits were to determine:

- 1) Whether revenues collected or cash received by each municipal government were properly receipted, recorded, accounted for and deposited intact timely in their respective account (s) at their designated bank.; and
- 2) Whether the local governments' funds were properly disbursed, supported, recorded, accounted for and financially reported timely in accordance with relevant laws and best practices.

Background

Article 11, Section 3 of the Pohnpei Constitution allocates not less than 30% of all taxes received by the Government of Pohnpei from sources within Pohnpei for the purpose of funding the municipal or local governments' development projects and operations identified in local plans. The Constitution also requires that local plans shall be adopted by statute only after extensive public hearings in each respective local jurisdiction and that the 30% allocated shall be apportioned by population on the basis of local citizenship.

Findings

Our review disclosed that over \$60 million have been paid to finance the development projects and operation of the eleven (11) municipal governments in Pohnpei since the implementation of Section 3, Article 11 of the Constitution became effective in fiscal year 1989. We also

discovered serious internal control weaknesses and deficiencies in the handling, management, accounting, recording, and reporting timely of the local governments' financial affairs, including:

- 1) Lack of proper and close supervisory oversight over the local governments' financial management and administration activities and unskilled and inexperienced financial support staffs;
- 2) Lack of documentary evidence to support collection and expenditure of municipal governments' funds. Reports issued for the 10 local governments' thus far showed inadequate and insufficient documentation to support collection and disbursements of municipal funds. Two municipal governments were declared "UNAUDITABLE" for complete lack of audit trail.
- 3) Misappropriation, theft and embezzlement of governments' funds by Officials and employees of local governments;
- 4) Unlawful and excessive salary advances made and issued to officials and employees of local governments, (loans);
- 5) Check/cash disbursements issued and made payable to municipal government officials or employees for non-payroll related expenses without proper documentary evidence to support actual expenditure of funds;
- 6) Expenditure of local governments' funds without proper authorization and appropriation by law;
- 7) Expenditures of local government funds for non-official related trips by municipal officials;
- 8) Lack of or outdated development projects and operation plan as required by the Constitution; and,
- 9) Outdated or lack of adequate financial management regulations, policies and procedures in place to guide collection and disbursement activities of the local/municipal governments.

It should be noted that audit of the Madolenihmw Municipal Government financial and accounting activities for the two fiscal years recently completed (2017 and 2018) is on-going and we hope to complete and issue relevant report soon.

Recommendation

Based on the summary of findings indicated above, we recommend:

- 1) The Department of Treasury and Administration (DoT&A), Pohnpei Government to assume direct administration and management of the disbursements of local governments' funds. Under this arrangement, DoT&A's duties and responsibilities shall include:
 - a) The collection, fund certification, disbursement, recording, accounting, reconciliation, and timely financial reporting of these funds in conformity with relevant Pohnpei laws and applicable laws and processes of each respective local jurisdiction.
- 2) Each municipal government retains full authority to plan, appropriate and spend their share of the 30% allocated according to their respective approved development projects and operation plan, including:
 - a) Development and submission of approved development projects and operation plan, as required by the Constitution.
 - b) Submission of the annual approved Comprehensive Budget Act (CBA) and related document to DoT&A for reference.
 - c) Preparation and submission of all approved and authorized obligation and expenditure documents (purchase requisitions (PR), travel authorizations (TA), contracts for personnel services and project construction, personnel actions, MS payments, etc.,) to DoT&A for further processing;
 - d) Preparation, approval and submission of any other obligation/expenditure documents required for fund disbursements;
 - e) The working relationship herein proposed should remain in force until such time that DoT&A can certify that:
 - Adequate financial management regulations, procedures, and related instruments are in place and working to guide the administration and management of a local government's financial affairs in accordance with laws and best practices; and,

- Qualified and responsible finance/budget staffs are identified, recruited, and properly trained to assume the management and administration of the financial activities of a municipal government in conformity with appropriate laws and best practices.

The Department of Treasury and Administration may consider entering into a Memorandum of Understanding (MOU) with each respective municipal government to formalize this proposed working relationship in greater detail and to ensure better understanding and proper implementation.

Please do not hesitate to call on us at POPA for additional assistance, if required. With warm regards, I am.

Sincerely,

/s/

Ihlen K. Joseph
State Auditor
Pohnpei

cc: Director, DoT&A
Attorney General, Pohnpei
All Chief Executives, Local Governments
All Presiding Officers, Municipal Councils