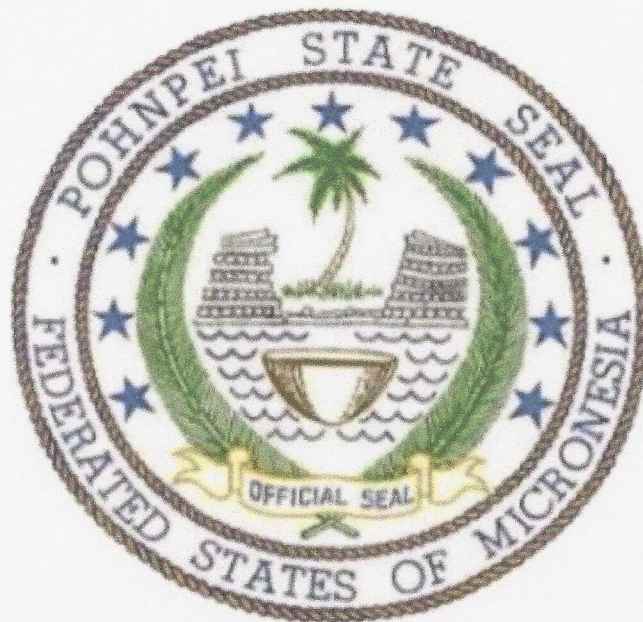


U MUNICIPAL GOVERNMENT
AUDIT OF CASH RECEIPTS AND CASH DISBURSEMENTS
FOR THE FISCAL YEARS 2023 AND 2024

AUDIT REPORT NO. 007-25

Office of the Public Auditor
State of Pohnpei



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U MUNICIPAL GOVERNMENT
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December 19, 2025

The Honorable Stevenson Joseph, Governor, State of Pohnpei
The Honorable Marvin T. Yamaguchi, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
Honorable Rofino Primo, Chief Minister, U Municipal Government
Honorable Councilmen of U Municipal Government

EXECUTIVE SUMMARY

We conducted an audit of U Municipal Government's (UMG) cash receipts and cash disbursements for Fiscal Years 2023 and 2024. The audit was conducted in accordance with applicable provisions of the Pohnpei State Constitution and laws, and in conformity with generally accepted government auditing standards.

The audit focused on assessing whether UMG's internal controls over collections and disbursements were adequate and effective in safeguarding public funds, ensuring that receipts were properly recorded and deposited, and that disbursements were authorized, supported, and legitimate. We also followed up on the status of issues reported in prior audits and identified opportunities for improvement.

Our audit identified significant deficiencies in internal controls and oversight. Specifically, weaknesses in collection processes led to irregularities; and, improper handling of disbursements and safeguarding of unused checks resulted in non-compliance with UMG's financial management regulations, sound practices, and created a heightened risk of the loss of Municipality's funds.

We conclude that UMG has not taken sufficient corrective action to strengthen controls, management, and oversight over cash receipts and disbursements. As a result, serious irregularities occurred and were not detected or addressed in a timely manner. Notably, similar findings have been repeatedly reported in prior audits.

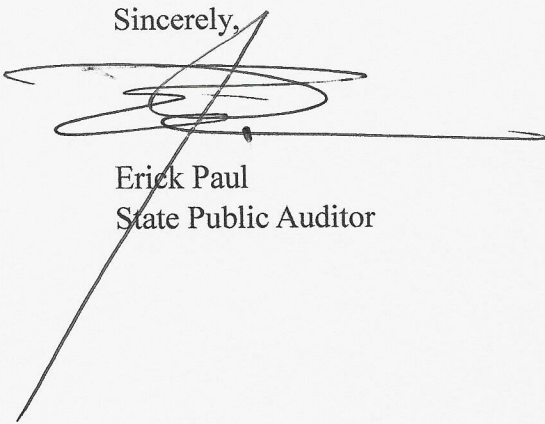
During the course of our engagement, disbursement-related irregularities were investigated by the Department of Public Safety and referred to the Office of the Attorney General. Separately,

irregularities involving cash receipts were investigated by the Compliance Investigation Division of the Office of the Public Auditor and likewise referred to the Office of the Attorney General. UMG management was provided the opportunity to review and respond to the draft audit report, and its responses are included in this report. In accordance with Pohnpei State law, UMG is required to submit monthly progress reports to the Office of the Public Auditor detailing corrective actions taken or planned until all findings are resolved, not to exceed one year. The first progress report is due in January 2026.

We appreciate the cooperation and assistance provided by UMG management and staff during this audit.

With warmest regards, I remain,

Sincerely,

A handwritten signature in black ink, appearing to read "Erick Paul", is written over a horizontal line. The signature is stylized with several loops and a long horizontal stroke extending to the right.

Erick Paul
State Public Auditor

**U Municipal Government
Audit Report No. 007-25
Fiscal Years 2023 and 2024**

INTRODUCTION

The Pohnpei Office of the Public Auditor (POPA) was engaged to perform an audit of U Municipal Government (UMG) for fiscal years 2023 and 2024. The audit is in line with the goal of POPA to perform a review of at least three local governments annually. UMG is one of the three local governments included in the POPA Annual Work Plan for 2025. Based on the result of the preliminary review, the audit focused on cash receipts and cash disbursements. This report presents the results of our review.

BACKGROUND

U Municipal Government is one of the local governments of Pohnpei State. Modeled like the primary government, U has the Executive branch, Legislative and Judiciary branch. The Executive branch is responsible to ensure that the day-to-day operation of the government is run effectively and efficiently based on the approved operation budget and in compliance with all applicable laws and regulations. This branch is headed by the Chief Minister.

The Legislative branch is the law-making body of the Municipality and is headed by the Speaker. This branch is composed of eleven councilmen and through it local laws are enacted for all types of activities, including fiscal issues facing UMG. Conversely, the Judiciary branch which is presided by a Chief Justice, interprets and judge issues, actions or other matters based on the law.

Sources and Uses of Funds

Annually, U Municipal Government receives financial assistance from the Pohnpei State through the “Local Government Revenue Sharing Act of 1989”. The Act authorizes at least 30% of all the taxes received by Pohnpei State Government from sources within Pohnpei to be appropriated among the eleven local governments for operations and development projects identified in the respective local plans. The tax revenues are allocated to the Municipalities by population based on the local citizenship, as determined by the 1985 official census or another census thereafter. Accordingly, for the periods covered under this audit, the Municipality’s share was \$294,959 and \$238,160 for the fiscal years 2024 and 2023, respectively.

The Municipality also collects revenues from locally imposed taxes, fines, licenses, penalties, fees and other government services. Moreover, from time to time it receives grants from the State Government and the FSM National Government for local projects and programs. For the fiscal years 2023 and 2024, the Municipality estimated its revenues as follows:

Table 1

Source of Revenues	FY 2024	FY 2023	Total
Local Collection	25,000	20,000	45,000
Revenue Share	294,959	238,160	533,119
Total	319,959	258,160	578,119

Source: U Municipal Government Budget Acts for the Fiscal Years 2024 and 2023

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The Municipality expends its revenue share from the State Government and the locally earned revenues in accordance with the budget approved by the Councilmen. The expenditures and the accounting of the funds must be in line with the Municipality's Financial Management Regulations and all other applicable laws, regulations, policies and procedures.

Objectives, Scope and Methodology

The objectives of the audit were:

- 1) to determine whether the internal control structures over UMG collections and disbursements are adequate and effective to ensure that government funds are reasonably safeguarded from any irregularities. Specifically, we will determine whether (a) all funds received are properly receipted, recorded, and deposited timely and intact; and, (b) all disbursements are properly approved, supported, and are legitimate expenditures of UMG; and,
- 2) to identify opportunities for improvement (in areas reviewed) and offer recommendations.

The audit covered fiscal years ended September 30, 2024 and 2023 and included review of the Municipality's receipts and disbursements.

We performed the audit pursuant to Article 11 Section 8 (2) of the Pohnpei Constitution which authorizes the Office of the Public Auditor to conduct "audits of all financial transactions and of all accounts kept by and for all departments, offices, agencies and instrumentalities of the Government of Pohnpei and of the local governments."

Our audit conducted, 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 conduct our audit to obtain sufficient, appropriate and relevant evidence to support our findings and conclusion based on our audit objectives. We believe the evidence obtained adequately support our findings and conclusion based on our audit objectives.

To achieve our audit objectives, we employed the following methodologies:

1. Reviewed pertinent laws, regulations, policies and procedures of UMG;
2. Interviewed relevant officials, employees and other individuals of UMG;
3. Examined and tested cash receipts and cash disbursements;
4. Analyzed, compared, and verified data, records, and amounts; and,
5. Performed other procedures, as necessary, under circumstances.

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Prior Audit Coverage

This is the 4th known audit of U Municipal Government undertaken by the Pohnpei Office of the Public Auditor. We reviewed the previous audit reports and identified significant issues related to the current engagement. Accordingly, those matters are indicated and mentioned in this report.

Conclusion

Based on our audit we conclude that the Municipality's internal controls were not adequate or effective to ensure that cash receipts and cash disbursements were accounted for properly in accordance with all applicable laws and regulations and established policies and procedures. The condition does not provide reasonable assurance that the Municipality's funds are safeguarded from possible errors, abuse and/or loss.

Our audit found alarming failure of control activities and deficiencies in management oversight leading to the following conditions:

1. **Irregularities over collections.** Cash collections were subjected to unreasonably late deposits and "borrowing" resulting to missing collections. Deficiencies in records and financial reporting coupled with lack of proper oversight contributed to the irregularities not detected and resolved appropriately.
2. Disbursements and related records were not prepared and maintained in accordance with the U Municipal Government's Financial Management Regulations or acceptable business practice. Hence, irregularities occurred resulting to possible loss of funds for the Municipality.

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Schedule of Findings and Recommendations

Finding No. 1 Significant Control Deficiencies and Lack of Oversight Led to Irregularities over Collections

Criteria:

Sound financial management requires that entities establish and maintain effective internal controls and oversight mechanisms to ensure that all collections are properly recorded, safeguarded, and accounted for in accordance with applicable laws, regulations, and management policies. Proper accountability of public funds is reaffirmed in U Municipal Government (UMG) financial laws and regulations.

Condition:

Our audit revealed that the U Municipal Government’s internal control over cash receipts has not improved since our last audit to ensure that collections are properly accounted for and safeguarded against irregularities. Our audit disclosed numerous times that collections were not deposited to the bank timely. The lateness of deposits ranges from more than 2 days to over a year, as illustrated in the table below, for 11 months of FY 2024:

Month	No. of Receipts issued	Total Collection	No of Receipts Deposited After 2 Days	Max days Late	Total Receipts Subjected to Late Deposits	Total Receipts Not deposited in the bank as of our Report Date
October	23	\$ 26,551.96	11	Up to > 1 yr	\$ 1,475.80	\$ 605.00
November	12	25,661.14	7	Up to 87 days	272.48	-0-
December	13	634.80	13	Up to 40 days	634.80	-0-
January	53	6,986.63	46	Up to > 1 yr	5,235.63	350.00
February	53	188,197.77	49	Up to > 1 yr	4,684.93	355.00
March	20	51,409.02	16	Up to > 1 yr	50,130.59	1,105.00
April	14	25,980.96	11	Up to 52 days	1,401.04	-0-
May	9	971.01	9	Up to 34 days	971.01	-0-
June	14	51,916.59	11	Up to > 1 yr	25,727.18	495.00
July+	22	26,905.62	11	Up to > 1 yr	+24,938.62	24,579.92
August	15	68,811.09	13	Up to > 33 days	19,601.27	152.50
September ¹		26,265.42				
Total	248		197		\$ 135,073.35	\$ 27,637.42

+We could not be sure if receipt no. 3835 for \$24,579.92 is a recording error or the collection (check) got lost. The receipt is not reflected in the bank statement. UMG cannot readily explain what happened [whether the collection was recorded twice (with different receipt numbers) or the collection was misplaced or lost.]

¹ Amount is total deposit per bank statement for September 2024. UMG could not provide the Cash Receipt Journal and cash receipts for September 2024. Hence, the amount in the table may be different from the actual total collection for September 2024.

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Schedule of Findings and Recommendations

Late deposits contributed to undeposited or unaccounted collections **estimated over \$27,600**. In addition, “borrowing” from collections has not been explicitly prohibited by the Chief Minister through communication or policy.

Our review also disclosed the following:

- Indications cash collections were being “borrowed” by employee(s);
- Cash receipts journals are not updated and maintained accurately;
- Several receipts voided were not kept and maintained intact; and,
- Instances where amounts of receipts were recorded wrong or not recorded.
- cash receipts journal for the fiscal year 2023 was not prepared; and, the 2024 cash receipts journal was being updated during our fieldwork.

The deficiencies in collections, including “borrowing”, lateness in deposits, and records not updated were cited in the prior audits of the Municipality for the fiscal year ended September 30, 1999, fiscal years 2001 and 2002, and fiscal years 2012 and 2013. In addition, indications of misuse of collections were noted in a “surprise cash count” performed by POPA in July 2024. As a result of the cash count, POPA Compliance Investigation Division (CID) conducted and completed an investigation into the matter and have referred the case to the Office of the Attorney General for legal proceedings, as appropriate.

Cause:

This condition occurred due to the absence of adequate and effective internal controls system over collections and failure of:

- 1) management oversight review and monitoring of significant control activities by the Chief Minister;
- 2) appropriate supervisory review of records and personnel’s work by both the Treasurer and Chief Minister; and,
- 3) management in ensuring personnel are adequately trained to assume and carry out the duties relevant to their positions.

Effect:

The condition could potentially lead to loss of at least \$27,600 for the fiscal year 2024 and the Municipality is facing the following:

- a) increased risk of collections being subjected to abuse, theft, and loss and not be prevented or timely detected by management,
- b) (b) loss of interests that may have been earned if the money were in the bank timely and intact, and,

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Schedule of Findings and Recommendations

- c) that management could not ensure accurate, reliable and complete financial reporting and, proper maintenance of records, unless appropriate actions are taken.

Recommendation:

We recommend that the Chief Minister should establish and implement proper internal control over the cash receipts of the Municipality. To begin with, the Chief Minister should immediately put a stop to the “borrowing” of government funds by employees, preferably in writing; and consider reorganization of personnel as appropriate to ensure safeguarding of collections.

The Chief Minister should establish policies and procedures to support the Municipality’s Financial Management Act (FMA). The policies and procedures should require but not limited to the following:

- All collections must be receipted, recorded and deposited timely (in line with FMA);
- Supervisory review should be duly performed to ensure policies and procedures are followed;
- Oversight monitoring should be implemented to ensure management directives and objectives are carried out and achieved;
- Reporting of the Municipality’s finances and operational affairs should be done properly to facilitate decision making or actions to take.

In addition, the Chief Minister should ensure that the policies and procedures are communicated to all personnel and they are adequately trained to carry out their duties and responsibilities. Once implemented, the Chief Minister should also monitor significant control activities in order to ensure they are working effectively as designed.

Auditee Response:

Please refer to the auditee response on pages 9-12 of this report.

Finding No. 2 Disbursements Not in Compliance with UMG FMR and Good Practices Resulting to Lost Records, Documents and Possible Theft of Funds

Criteria:

Section 10 of U Municipal Government’s Financial Management Regulations (FMR) requires, in general, that all disbursements should be properly supported and approved. For example, funds must not be obligated for payment of:

- salaries, allowance and contractual services, unless there is a signed authorization by appropriate allottee;

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- consumable goods, fixed assets, materials and equipment, unless there is a certified purchase order; and,
- miscellaneous services, unless properly completed forms are signed by the allottee and the requestor.

In addition to the above, U FMR also requires certification as to the availability of funds before disbursements are made.

Condition:

We selected two hundred seventy-eight (278) disbursement transactions (one hundred fifty (150) for fiscal year 2024 and one hundred twenty-eight (128) for fiscal year 2023) for testing, and found that:

- 197 of them were missing. Copies of checks and related supporting documents were not found at UMG. Of these missing check vouchers, we noted however that fifty-four (54) of them in the total amount of **\$20,164.76**, went through bank.
- Of the remaining eighty-one (81) disbursements found, twenty-nine (29) of them were not properly supported and/or approved.
- the UMG files were disorganized and not filed properly.

Due to numerous check vouchers missing, we examined several bank statements and found additional fifteen (15) checks totaling **\$7,304** where copies and corresponding check stubs were not with UMG Treasury. We further noted indications that these 15 checks may not have been issued by the UMG but were possibly forged. We did not look further, due to the investigation going-on at the time of our fieldwork.

Cause:

The above condition exists because there is a lack of control conscious, commitment and appropriate review within the Municipality to ensure that controls are not circumvented, financial and human resources are managed effectively, and files are duly organized, maintained, and safeguarded.

Effect:

The current practice could expose the Municipality to more errors and deliberate wrong doings if not immediately corrected. The condition could not provide reasonable assurance that disbursements made in the period reviewed were all for valid obligations of the Municipality.

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Recommendation:

We recommend the Chief Minister to take immediate action to protect and safeguard the resources of UMG and enforce compliance with the provisions of the FMR. The Chief Minister should immediately implement suitable control activities over disbursements to provide reasonable assurance that the Municipality's disbursement activities are all legitimate.

Auditee Response:

Please refer to the auditee response on pages 9-12 of this report.

EXHIBIT I



U Municipal Government

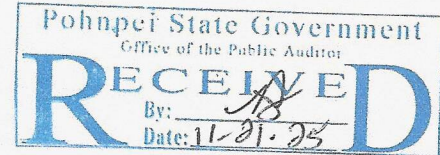
Exhibit I

PohnIsilap, U

P.O Box Kolonia, Pohnpei FM

Phone: (691) 320-8742/4618/3991

Office of the Chief Minister



November 20, 2025

Mr. Erick Paul
Public Auditor
Pohnpei Office Public Auditor
Kolonia, Pohnpei, FSM 96941

Received.
[Signature]
11/21/25

Re: U Municipal Government Management Response to Audit Findings

Introduction: U Municipal Government respectfully submits this comprehensive response to the findings and recommendations presented in your office’s Audit Report covering the period of FY23 and FY24. We wish to thank the State Auditor’s Office and your dedicated staff for the thorough review and professional conduct demonstrated throughout the audit process. Therefore, we view the audit as a valuable and constructive exercise that supports our commitment to continuous improvement, fiscal accountability, and effective program management.

Citation 1: Significant Control Deficiencies and Lack of Oversight Led to Irregularities Over Collections

Management Response:

We acknowledge the audit finding regarding control deficiencies and oversight gaps in the collections process. Upon review, the following corrective actions have been initiated:

- A comprehensive review identified that inconsistent reconciliation practices and limited supervisory review contributed to the irregularities.
- We have implemented a standardized collections protocol, including daily reconciliation logs, dual verification for cash handling, and mandatory supervisory sign-off.
- The collections policy has been revised to clearly define roles, responsibilities, and escalation procedures for anomalies.
- Staff involved in collections have undergone refresher training on internal controls and ethical handling of funds. Supervisors are now required to conduct monthly audits and submit oversight reports.
- A dashboard has been introduced to track collection trends and flag deviations for immediate review.

We are committed to restoring integrity and transparency in our financial operations and will continue to monitor compliance closely.

Citation 2: Disbursement Not in Compliance with Established Policies and Procedures

Management Response:

We recognize the importance of strict adherence to disbursement protocols and take this finding seriously. The following steps have been taken to address the issue:

- All disbursement procedures have been re-circulated to relevant departments, emphasizing pre-approval requirements, documentation standards, and authorized signatories.
- A mandatory checklist has been introduced to ensure each transaction meets policy criteria before processing.
- We are transitioning to a digital approval system that enforces compliance checkpoints and retains audit trails.
- Finance and procurement personnel have received targeted training on disbursement protocols and consequences of non-compliance.
- Internal audit will conduct quarterly reviews of disbursement records to ensure sustained compliance and identify areas for improvement.

These measures are designed to reinforce financial discipline and ensure that all future disbursements align with established policies.

Chief Minister's Recommendations:

1- Collection Recommendation:

- a.) **Establish/Enforce Segregation of Duties:** Immediately restructure cash handling roles to ensure the employee receiving and recording cash is separate from the employee preparing and making the bank deposit, and separate from the employee performing the reconciliation.
- b.) **Timely Deposit:** Establish and enforce a written policy require all revenues collected to be deposited in the bank within business day or latest at the end of the week, which is every Friday, whichever comes first.

2- Disbursement Recommendation:

- a.) **Three-way Match Requirement:** Implement a strict procedure requiring all payment vouchers to be supported by a Purchase Order/ Contract/ a Receiving Report/ Proof of Service/ Vendor Voice before the payment processing is initiated.

Conclusion:

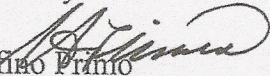
We appreciate all the professional efforts of the State Auditor's office in identifying these areas of improvement. We view this process as a valuable tool for continuous improvement and remain committed to ensuring the highest standards of fiscal integrity and accountability in all our operations. Therefore, we will stay committed to these key factors, which includes:

- a.) **Ongoing Monitoring:** The Department of Finance in coordination with the Office of the Chief Minister, and all the Department Heads will monitor the effectiveness of the internal control policies and make sure to report quarterly.

b.) **Documentation:** All purchases/disbursements/voucher will make sure to be documented properly.

We will remain available to answer any further questions the State Auditor may have regarding our responses.

Sincerely


Rofino Primo
Chief Minister
U Municipal Government



IMPORTANT MESSAGE

We actively solicit and welcome allegations of any insufficient and wasteful practices, fraud and abuse of Pohnpei State Government public resources. Fraud, waste and abuse in government should be concern of everyone in Pohnpei. You can report allegations of fraud and abuse by contacting us at address below:

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P. O. Box 1684
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Phone: (691) 320-2638
Hotline: (691) 320-8497 (24/7)
Email: erickpaul691@gmail.com
Website: www.opapni.fm

MEHN KAPESE KESEMPWAL

Pwukoa en tetehk, apwapwalih oh doadoahki mwohni oh dipwisou en kopwoment en wein Pohnpei sapwelimatail koaros (tohn doadoahk en kopwoment, Ohpis en Public Auditor oh aramas koaros en Pohnpei). Komw kak repwohtki omwi iren kapwunod kan meh pid sou itar en apwalih mwohni, dipwsou de awahn doadoahk en kopwoment en Pohnpei ni ansou karos ohng ni:

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