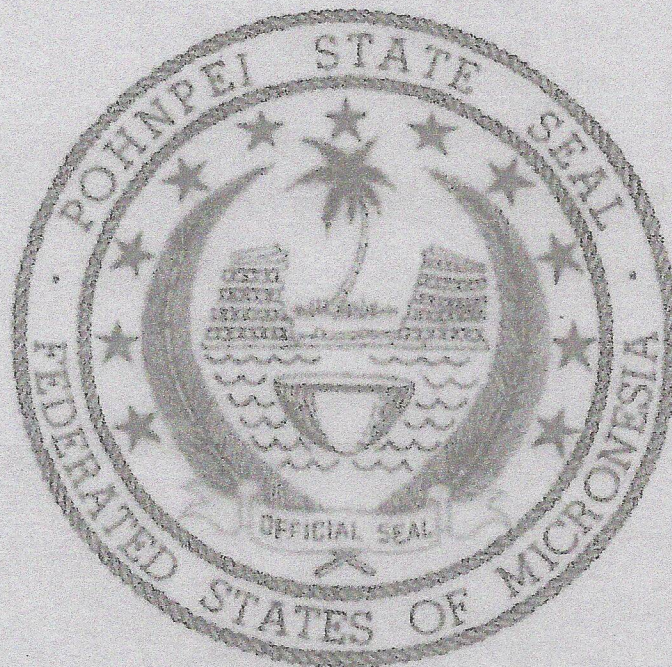


**OFFICE OF THE PUBLIC AUDITOR
POHNPEI STATE GOVERNMENT**

**PERFORMANCE AUDIT ON CASH RECEIPTS
AND CASH DISBURSEMENTS OF KITTI
MUNICIPAL GOVERNMENT**

FISCAL YEARS 2023 AND 2024

AUDIT REPORT NO. 004-25



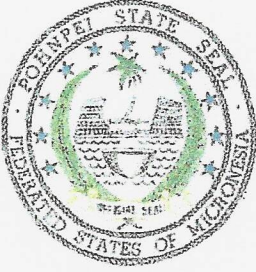
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KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT NO. 004-25
FISCAL YEARS 2023 AND 2024

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OFFICE OF THE PUBLIC AUDITOR POHNPEI STATE GOVERNMENT

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July 02, 2025

The Honorable Stevenson Joseph, Governor, State of Pohnpei
The Honorable Marvin Yamaguchi, Speaker, 11th Pohnpei Legislature
The Honorable Members of 11th Pohnpei Legislature
The Honorable Members of the Isokohnedi (Councilmen), Kitti Municipal Government
The Honorable Emerson Eperiam, Luhkenmoanlap, Kitti Municipal Government

EXECUTIVE SUMMARY

We are pleased to submit our audit report on the review of cash receipts and cash disbursements of Kitti Municipal Government for Fiscal Years 2023 and 2024. The audit was conducted in accordance with the generally accepted government auditing standards as applicable to performance audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. The audit was also performed pursuant to Article 11, Section 8(2) of the Pohnpei State Constitution.

The objectives of our audit were to determine whether: (1) the revenues were properly receipted, recorded, kept secured and deposited intact timely and (2) the expenditures were properly documented, authorized, disbursed and accounted for in accordance with all applicable laws, regulations, and procedures. For those reasons, we included such test of records and other auditing procedures that were considered necessary to achieve the audit objectives.

Based on the result of our audit, we conclude that the Municipality's handling of its cash receipts and cash disbursements has improved however there still exist risks for abuse, misuse or theft of the Municipality's funds. Our audit disclosed the following:

- Late deposit of collections up to 36 days;
- Disbursements not in compliance with the Municipality's Financial Management Act (FMA); and,
- Non-compliance with payroll policies.

Our audit findings are detailed in the Schedule of Findings and Recommendations on pages 6 to 10 of this report. We strongly encourage management to adopt and implement our recommendations, as we believe, once implemented they could further improve and enhance the Municipality's handling of its cash receipts and cash disbursements.


We have discussed the draft report with the management of Kitti Municipal Government and have requested for management response to our findings. The Management Response is shown on pages 11 to 14 of this report as Appendix I.

The auditee is required by the Pohnci State Law No. 5L-08-00, as amended, to submit monthly reports to the Public Auditor indicating its progress in clearing the deficiencies cited in the audit report. All findings should be satisfactorily resolved soon but not later than one year period.

In closing, we would like to extend our sincere appreciation to the Kitti Municipal Government's staff members for their support and assistance extended to us during the course of our audit.

With warmest regard, I remain,

Sincerely,


Erick Paul
State Public Auditor

KITTI MUNICIPAL GOVERNMENT
PERFORMANCE AUDIT OF CASH RECEIPTS AND CASH DISBURSEMENTS
FISCAL YEARS 2023 AND 2024

AUDIT REPORT NO. 004-25

Introduction

We have completed a performance audit of cash receipts and cash disbursements' activities of the Kitti Municipal Government for the fiscal years 2023 and 2024. The audit was requested by the Speaker of Isokohnedi. The audits of local governments is also a priority of POPA and is included in its strategic management planning. Kitti Municipal Government is one of the three local governments considered for the fiscal year 2025.

Background

Kitti Municipal Government (the Municipality) is one of the 11-eleven local governments of the Pohnpei State. The Municipality, like the primary government, is composed of three branches, as follows:

1. Executive – This branch is headed by the Luhkenmoanlap and is responsible for ensuring that the daily operations of the government are managed effectively and efficiently in accordance with the operational budget and in compliance with all applicable laws and regulations. The Executive Branch includes the Office of the Luhkenmoanlap, the Division of Treasury and Administrative Services, the Division of Security and Public Safety, the Division of Legal Affairs, and the Division of Public Works and Social Services.
2. Legislative - (Isokohnedi or the Council)- This branch is consists of 12 council members including the Speaker. It is responsible for enacting municipal laws governing all activities and the fiscal affairs of the Municipality.
3. Judiciary – The Judiciary Branch serves as the highest court of law of the Municipality and is headed by a Chief Justice. Its primary responsibilities include conducting hearings on court cases, interpreting laws, and issuing judgements based on the laws.

The Luhkenmoanlap and Isokohnedi members are elected by their constituents every four years while the Chief Justice is appointed by the Luhkenmoanlap with the advice and consent of the Isokohnedi for a 4-year term

Sources and Uses of Fund

The “Local Government Revenue Sharing Act of 1989” authorized at least 30% of all taxes collected by the Pohnpei State Government (PSG) from sources within the State of Pohnpei to be allocated among the eleven local governments based on population. Kitti Municipal Government receives its annual share in quarterly and monthly allotments from the State Treasury.

The Municipality also generates funds from locally imposed taxes, licenses, court fines, penalties and other fees. Occasionally, it receives grants for projects/programs for support of its operation from the FSM National Government, Pohnpei State, and other donor source. Summarized in Table I below are the revenues for 2023 and 2024 as reflected in the Municipality’s budgets.

Table I

Revenue Source	FY-2023	FY-2024	Total
Revenue Sharing	\$543,306.38	\$543,306.96	\$1,086,613.34
Local Revenues	28,232.50	27,951.00	56,183.50
FSM Congress	2,000.00	1,250.00	3,250.00
Carry Over Funds*	95,768.19	245,020.92	340,789.11
Mwoalen Kopwung	1,289.00	1,019.00	2,308.00
Withheld from FY2019 and FY2020 30% Revenue Sharing	258,741.00	244,984.00	503,725.00
Pohnpei State Emergency Relief	0	37,123.99	37,123.99
Total	\$929,337.07	\$1,100,655.87	\$2,029,992.94

Source: Kitti Municipal Government’ Budget Acts for the Fiscal Years 2023 and 2024. *Unused prior year funds PBC

Table II below shows the overall Kitti Municipal Government expenditures budget for the fiscal years 2023 and 2024. Salaries accounted for about 54% of the Municipality’s operating budgets for the two fiscal years.

Table II

Expenditures	FY-2023	FY-2024	Total
Salaries	\$223,379.64	\$272,661.28	\$496,040.92
Benefits	16671.73	20,150.19	36,821.92

Cola	94,100.00	91,200.00	185,300
Night Differential	3,655.08	4,051.49	7,706.57
Overtime	8,825.34	10,580.88	19,406.22
Rep. Fund	8,072.36	9,078.75	17,151.11
Supplies and Materials	15,986.93	12,080.05	28,066.98
POL	22,635.73	21,211.49	43,847.22
Fixed Assets	2,458.95	1,490.96	3,949.91
Travel & Transportation	0	0	0
Allowance	41,400.00	41,350.00	82,750.00
Contractual Services	12,581.10	8,483.95	21,065.05
All Others (Activities)	185,160.31	232,799.02	417,959.33
Total	\$634,927.17	\$725,138.06	\$1,360,065.23

Source: Kitti Municipal Government Budget Acts for the Fiscal Years 2023 and 2024 and other documents PBC

Administration of Funds

The Municipality accounts for the receipts and disbursements of funds in conformity with its Financial Management Act of 1996, (FMA). The FMA established the Kitti's Treasury within the Executive Branch of the Municipality and at the same time defined its functions. The Treasury is headed by the treasurer who is appointed by the Luhkenmoanlap and confirmed by the Council members.

The Kitti's Financial Management Act also defined and delegated the duties and the responsibilities of the Treasurer of which, among others, include:

1. Accounting and recording of all funds.
2. Maintaining books and records for all revenues and expenditures.
3. Preparing of financial reports of the Municipality.

In practice, the Municipality maintains a primary bank account (General Fund) for general government operations. Additional bank accounts are opened to manage funds received or allocated specifically for certain projects or programs. The Municipality may close or continue maintaining the accounts even when the projects/programs are completed. At the time of the audit, the Municipality maintained five bank accounts, including investment account, designated for the

following: (1) Cultural Center, (2) General Fund, (3) Restoration Project, (4) Solid Waste, and (5) Reserve Account, which is held in time certificates of deposit.

Audit Objectives

The objectives of the audit are to determine whether:

1. Revenues were properly receipted, recorded, kept secured and deposited intact timely.
2. Expenditures were properly documented, authorized, disbursed and accounted for in accordance with all applicable laws, regulations and procedures.

We conducted our 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 and relevant evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides reasonable basis for our findings and conclusions based on our audit objectives.

Scope and Methodology

The engagement included a review and evaluation of the internal control environment as well as compliance with laws and regulations pertaining to the receipts and disbursements of the Municipality' funds for the Fiscal Years 2023 and 2024. Additionally, as part of this audit, we followed up and evaluated the status of the audit findings from the prior years whether management has taken appropriate corrective action to resolve the findings. We conducted our audit from February to May 2025.

To accomplish our audit objectives, we applied the following audit methodologies:

- Reviewed applicable laws and regulations.
- Inquired/interviewed personnel and other individuals, as appropriate;
- Examined/analyzed pertinent documents, data, information, etc.;
- Tested transactions and records;
- Observed the government operations; and,
- Performed other procedures necessary to achieve the audit objectives.

Prior Audit Coverage

The last performance audit of Kitti Municipal Government was performed by the Pohnpei Office of the Public Auditor for the Fiscal Years 2019 and 2020. We compared the results of the current audit with the prior audit and noted improvements in the processes for both cash receipts and cash disbursements. However, certain key recommendations were not implemented fully resulting to certain issues found in this audit were similar to the prior year audit findings.

Conclusion

Based on the result of our audit, we conclude that the Municipality's handling of its cash receipts and cash disbursements has improved however there still exist risks for abuse, misuse or theft of the Municipality's funds. Similar to the prior audit, we found in this audit deficiencies in the processes governing the handling of cash receipts and cash disbursements that need management attention. Our audit findings are detailed in the Schedule of Findings and Recommendations on pages 6 to 10 of this report.

We strongly encourage management to adopt and implement our recommendations, as we believe, once implemented they could further improve and enhance the Municipality's handling of its cash receipts and cash disbursements.

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2023 AND 2024**

Audit Report No. 004-25

Finding No. 1 Deficiencies in Management Controls Over Cash Receipts

Criteria:

The Municipality’s Financial Management Act requires that all collections be accounted for properly and deposited to the bank daily. Hence, it is management responsibility to design and implement effective control activities and processes to ensure that collections are reasonably safeguarded from abuse, misuse, or theft and adhere to Kitti FMA.

Condition:

The Municipality’s internal control over its cash receipts significantly improved in fiscal years 2023 and 2024, as compared to the prior audit conducted for fiscal years 2019 and 2020. The Municipality’s cash receipts for the Fiscal Years 2023 and 2024 totaled \$2,029,993. Our audit confirmed that the collections received or remitted to the KMG Treasury were all deposited intact. While there was improvement, there is still risk existing in the processes and handling of collections. For example, the Municipality’s policy on the depositing of collections was not consistently followed. We noted several instances of delayed deposits ranging from 4 to more than 36 days, involving collections of more than \$153,700, as summarized in the tables below.

Fiscal Year 2023

	4 to 36 days late
Operation	\$135,826.74
Local Revenue	9,621.46
Judiciary	765.77
Total	\$146,213.97

Fiscal Year 2024

	4 to 36 days late
Operation	0
Local Revenue	6,925.05
Judiciary	589.00
Total	7,514.05

Total collections subjected to late deposits **\$153,728.02**

We also observed few instances where collections were receipted after deposits.

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2023 AND 2024**

Audit Report No. 004-25

In addition, monthly bank reconciliation is still not performed of the Municipality's accounts; and, that the Treasurer who is involves in the recording and reviewing of all financial transactions is also the only authorized signatory of the Municipality's checking accounts. The situation increases the risk of errors or other irregularities happening and not be detected or prevented timely.

Cause:

The condition indicates weaknesses in management review and oversight monitoring to ensure fiscal policies are followed or amended as appropriate; and, that management controls over the cash receipts processes and handling are enhanced to ensure related risks are minimized or mitigated.

Effect:

As a result, the Municipality's collections were subjected to late deposits and that the operation is still exposed to risk of potential abuse, misuse and/or theft.

Recommendation:

We recommend that Lukenmoanlap should implement enhanced management review and monitoring to ensure that fiscal policies are followed. Management should also ensure that controls over cash receipts are effectively in place to reduce the risk of unintentional errors or abuse, misuse, and theft. Lukenmoanlap should also take actions to include but not limited to the following.

- Strictly enforce the requirements of the Financial Management Act or propose amendments as appropriate to enhance the management of cash receipts and collections;
- Require monthly bank reconciliation of the Municipality's bank accounts;
- Implement appropriate monitoring and review process; and, as necessary,
- Conduct training of personnel to enable them to carry out their duties effectively.

Auditee Response:

Please refer to auditee response on Appendix I pages 11-14 of this report.

KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2023 AND 2024

Audit Report No. 004-25

Finding No. 02 Disbursements Not in Compliance with the Municipality's FMA

Criteria:

The Kitti Municipal Government's Financial Management Act (FMA) requires that disbursements should be properly supported by vendor's invoice, billings, receipts, requisition forms, purchase orders, receiving reports, and other applicable documents. In addition, disbursements should be properly reviewed and approved by the allottee and fund certified by the Treasurer prior to payment.

Condition:

Our review of 400 selected cash disbursements, (223 for Fiscal Year 2023 and 177 for Fiscal Year 2024) disclosed the following:

1. Twenty seven (27) instances where cash disbursements in the total amount of more than \$47,770 were not signed as appropriate or supported with required documents such as vendor's invoice, billings, receipts, receiving reports, and/or other applicable forms and documents.

Cause:

The above condition shows supervisory review is not done consistently to ensure that all disbursements are appropriately supported and signed.

Effect:

The condition is not compliant with the FMA and pose risk as to the legitimacy of disbursements.

KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2023 AND 2024

Audit Report No. 004-25

Recommendation:

We recommend the Treasurer to implement appropriate controls and good management review over the Municipality's disbursements to ensure compliance with applicable laws, regulations, policies and procedures, and good practice.

Auditee Response:

Please refer to auditee response on Appendix I pages 11-14 of this report.

Finding No. 03 Internal Control Weaknesses and Non-Compliance of Payroll policy

Criteria:

All payrolls and payroll related expenditures should be properly supported. In addition, the Kitti Municipal Government Law No. 5I-52-24 provides that request for annual leave of only one or two days should be approved. The law also requires that annual leave shall be made in advance for submission to the Luhkenmoanlap for approval; and, that sick leave of three (3) days or more shall require certificate from a qualified practitioner attesting to the cause of illness and indicating when the employee will be fit to resume duty.

Condition:

Our review of payroll transactions for Fiscal Years 2023 and 2024 revealed the following:

- 1) Payrolls that lack supporting documents, such as timesheet, or other documents for payroll release.
- 2) Eight (8) instances of paid leaves where five (5) were not justified with relevant supporting documents/information, and three (3) with approved leave forms that did not reflect plausible reasons for the leaves;
- 3) One (1) instance where leave form was not approved by the authorized person.

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2023 AND 2024**

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Cause:

The condition happened because policies and procedures for payrolls and related transactions and documentation requirements were not enforced consistently.

Effect:

This condition undermines prudent practice on payrolls and the KMG's policies. If not corrected, the condition can lead to abuse of leaves, unauthorized or unjustified payrolls.

Recommendation:

We recommend that Luhkenmoanlap should duly enforce the payroll policies and procedures and implement suitable internal control structure that enable improved review and documentation of all matters regarding payroll of Kitti Municipal Government.

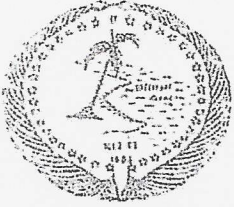
Auditee Response:

Please refer to auditee response on Appendix I pages 11-14 of this report.

KITTI MUNICIPAL GOVERNMENT

APPENDIX I – AUDITEE RESPONSE

FISCAL YEARS 2023 AND 2024



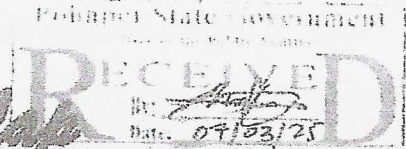
Emerson E. Eperiam/Luhkenmoanlap

Oakpis en Luhkenmoanlap

Kitti Municipal Government

Kitti, Pohnpei FM 96941

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July 29, 2025

The Honorable Erick Paul
State Public Auditor
Pohnpei State Government
P.O.Box 370
Kolonias, Pohnpei 96941

Dear Mr. Public Auditor:

This letter serves as our formal response to the audit findings reported by your office following the review of our Municipality's financial operations for fiscal year 2023 and 2024. We acknowledge the findings and appreciate the opportunity to improve our financial practices. Below are our responses and planned corrective actions for each finding:

Finding No. I - Deficiencies in Management Controls over Cash Receipts

Conditions: The audit identify Municipality's internal control over its cash receipts significantly improved in fiscal year 2023 and 2024, as compared to the prior audit conducted in 2019 and 2020. The audit also confirmed that the collections received and remitted to the KMG Treasury were all deposited intact. While there was improvement, there is still risk existing in the process and handling of collections due to delaying deposits. As the FMA (Financial Management Act) clearly states that all collections be deposited daily. Also, monthly bank reconciliation is still not performed of the Municipality's accounts; and that the treasurer who is the only authorized signatory of the of the Municipality's checking accounts. As stated, this situation increases the risk of errors or other irregularities happening and not be detected or prevented timely.

Response:

We acknowledge the deficiency in management controls over cash receipts. To address this, the Kitti Municipal Government will take the following actions:

- The Treasurer will strictly enforce the requirements of the Financial Management Act or purpose amendments as appropriate to enhance the management of cash receipts and collections;

- Daily Reconciliation: Cash receipts are now reconciled by both the Revenue officer, the Accountant and the treasurer.
- The Councilman's will amend the law from one signatory to two signatory.

Finding No.2 Disbursements Not in Compliance with the Municipality's FMA

Condition: Your review of 400 selected cash disbursement for fiscal years 2023 and 2024 found that some were not supported by proper documentation or did not follow the required authorization process as stated in the act.

Response:

We acknowledge that certain disbursement did not meet compliance requirements. To remedy this, we will implement the following:

- Standardized Disbursement Checklist: All disbursement requests must now go through a verification checklist to ensure complete documentation and approvals.
- Training on Financial Policies: Finance and administrative staff will require to fully understand the Kitti Municipal Financial Management Act (FMA).
- Pre-Audit Reviews: A pre-audit review process will be introduced to catch and correct errors before disbursement.

Finding No.3 Internal Control Weaknesses an Non-Compliance of Payroll policy

Condition: As outlined in the Municipality's payroll policy, all payroll and related expenditures should be properly supported by complete documentation. Additionally, requests for annual leave, regardless of duration (including one or two days), must receive prior approval from the appropriate authority.

Response and Corrective Actions:

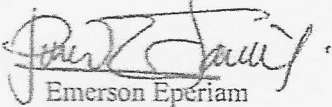
We acknowledge the oversight and confirm that the Kitti Municipal Government will take the following steps to correct the issue and strengthen internal controls:

1. Reinforcement of Leave Policy Compliance: All Employees and supervisors will be reminded that no leave- including one or two-day absences -- will be granted or processed without a signed and approval leave request form.
2. Payroll Documentation Review: The Treasurer will review all payroll records to ensure that each payroll -related expenditure is supported as approved leave forms, attendance records and time sheets.
3. PreProcessing Checklist: A payroll checklist will be made to implement to confirm that all necessary documents are attached before processing each pay period.

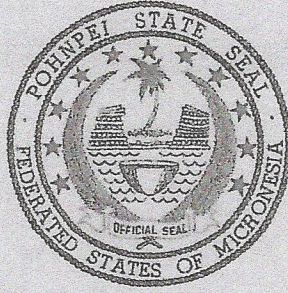
We sincerely appreciate the diligence of your office in identifying these issues and value the guidance you have provided. Please be assured that our Municipality is committed to strengthen our financial management, maintaining transparency, and ensuring compliance with all applicable laws and regulations.

Should your office need any further information or supporting documentation, we are ready to cooperate fully.

Sincerely,



Emerson Eperiam
Luhkenmoanlap
Kitti 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
Kolonia, Pohnpei State, FM 96941
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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