

POHNPEI OFFICE OF THE PUBLIC AUDITOR

PERFORMANCE AUDIT ON NDG CASH RECEIPTS AND DISBURSEMENTS

**AUDIT REPORT NO. 02-26:
FISCAL YEARS 2024 and 2025**



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**NETT DISTRICT GOVERNMENT
PERFORMANCE AUDIT ON CASH RECEIPTS AND CASH DISBURSEMENTS
FISCAL YEARS 2024 AND 2025**

AUDIT REPORT NO. 02-26

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May 07, 2026

The Honorable Stevenson Joseph, Governor, State of Pohnpei
The Honorable Marvin Yamaguchi, Speaker, 11th Pohnpei Legislature
The Honorable Members of the 11th Pohnpei Legislature
The Honorable Council Members of Nett District Government
The Honorable Daniel Edgar, District Administrator, Nett District Government

EXECUTIVE SUMMARY

The Pohnpei Office of the Public Auditor (POPA) conducted the audit to evaluate whether the Nett District Government (NDG) maintained effective internal controls over cash receipts and disbursements for Fiscal Years 2024 and 2025. This audit was conducted in accordance with 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 primary objectives of the audit were to determine whether NDG's:

1. Cash receipts are properly receipted, recorded, kept secured and deposited intact timely, and,
2. Cash disbursements are properly documented, authorized, disbursed and accounted for in accordance with applicable laws, regulations, procedures and/or good practice.

Why POPA did this Audit?

We conducted this audit to ensure that NDG officials and administrators remain accountable to the citizens of Nett in the management of public funds. This is aligned with the mission of POPA to promote transparency and accountability in the local governments.

What POPA Found?

The audit identified significant weaknesses in NDG's internal control environment that affect the government's ability to safeguard its funds and ensure accountability. Summary of our findings and recommendations are discussed below:

1. Cash Receipt:
 - **Late bank deposits.** NDG failed to meet the FMR requirement to deposit collection daily to the bank unless the amount is less than \$100. In the period audited the amount of \$937,583.41 or 43% were deposited up to 28 days late, increasing the risk of loss or misuse.
 - **No proper segregation of duties.** The Treasurer who is the only authorized signatory of the NDG bank account has custody of collections, prepares and makes deposits, receives and keeps the bank statements.

- **Lack of Bank Reconciliation.** Monthly bank reconciliations are not performed of the Nett District Government's bank account, limiting the ability to detect errors or other irregularities in a timely manner.
2. Cash Disbursements:
- A. **Significant Deficiencies in the Disbursement Process.**
 - **Lack of proper authorization and fund certification by allottee** in 16 purchase orders totaling \$15,545.26.
 - **Missing required supporting documentations** on 77 transactions totaling \$204,634.07.
 - **Poor records management** that leading to 598 disbursements amounting to \$392,926.54 are missing.
 - **Lack of proper documentation over POL** for 208 transactions amounting to \$30,379.36.
 - B. **Councilmen are involved in the implementation of projects of NDG.**
 - The Councilmen appropriated \$34,000 for 270 Solar lights for 9 sections, each section receiving 30 solar lights. The Councilmen carried out the distribution of the solar light.
 - C. **Disbursements for Goods and Services payable to the Employees.**
 - 6 instances that payments amounting to \$59,354 were paid in advance to NDG former and current employees for various activities. Most of the checks are still outstanding.
 - D. **Deficiencies Found in the Payroll System of NDG.**
 - No effective time monitoring system, unverified timesheets and the processing of payroll without proper certification heightens the risk of payments for unworked hours or to non-existent employees. Total personnel cost exceeded the approved budget amounting to \$52,143 in FY2024 and \$51,233 in FY2025. In addition, NDG did not deduct or pay \$17,568 income taxes for salaries over \$11,000 and Cola.

What POPA Recommends

1. Strictly enforce timely deposit of collections, implement proper supervisory review and monitor cash handling procedure.
2.
 - A. Enforce strict compliance with FMR, strengthen procurement control and improve record keeping and filing system.
 - B. The NDG Legislature and Executive branch should ensure clear segregation of implementation and oversights and governance roles for each branch.
 - C. Prohibit the practice of issuing checks to employee instead of legitimate vendors for the purpose of procuring goods and supplies; conduct an oversight to ensure that all unsupported payments are paid back to the NDG.
 - D. Enforce payroll policies and procedure; reject or withhold payroll process without effective timekeeping system and strengthen supervisory review for the payroll system.

Why It Matters?

- The current management practice could expose NDG to reputational damage, misuse and/or loss of funds and other serious problems/issues. The audit matters because it improves operational discipline;
- Public expects and deserves good governance from government leaders entrusted with public funds; and,
- To restore financial accountability and transparency to the people of Nett.

Generally, NDG management concurred with the result of our audit and have provided its response to our findings and recommendations. Please refer to the Management Response on pages 18 to 22 of this report as Appendix I.

The auditee is required by the Pohnpei 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 Nett District Government's management and staff for their support and assistance extended to us during the course of our audit.

Respectfully,

A handwritten signature in blue ink, appearing to read "Erick Paul", with several loops and a long horizontal stroke extending to the right.

Erick Paul
State Public Auditor

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INTRODUCTION

We have conducted and completed a performance audit of cash receipts and cash disbursements of the Nett District Government for the fiscal years 2024 and 2025. The audit is included in our work plan for the fiscal year 2026, and was performed pursuant to the provisions of Title 11, Section 8 (2) of the Pohnpei Constitution and the State Law No. 1L-10-79, as amended. This report contains the results of our audit.

BACKGROUND

The Nett District Government (NDG) is one of the eleven (11) local governments that comprise the State of Pohnpei. The NDG is divided into three branches namely, the Executive, the Legislative and the Judiciary. The District Administrator heads the executive branch, while the Speaker and the Chief Justice Head the Legislative and judiciary branches respectively.

In the executive branch, the key personnel aside from the Administrator include the Administrative Officer, Treasurer, Project Coordinator and Chief of Police.

ADMINISTRATION OF FUNDS

The NDG follows its Financial Management Regulation of 2002 and Executive Manual in the administration and use of funds. These regulations also define the duties and responsibilities of the Treasurer. The District Administrator with the consent of its council members appoints the Treasurer. Among the duties and responsibilities:

- Accounting and administration of all funds;
- Fund certification prior to disbursement;
- Maintenance of General and Special Journals, General and Subsidiary Ledgers;
- Preparation of financial reports for the Public and District Administrator; and,
- Recording of all funds and expenditures including liabilities.

SOURCES OF FUND

By virtue of the “Local Government Revenue Sharing Act of 1989”, the NDG receives financial assistance yearly from Pohnpei State for operations and development projects identified in its local plan. The Act provides that at least 30% of all taxes collected by the primary government from sources within Pohnpei State shall be allocated to the eleven municipalities based on population.

Accordingly, for the periods covered under this audit, the Municipality’s share was \$544,385 and \$516,006, respectively.

In addition, NDG earns revenues from locally imposed taxes, fines, penalties, licenses and fees. Table I below presents the summary of NDG’s total revenues for the two-year period audited.

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Table I

Revenue Sources	FY 2024	FY 2025	Total
Revenue Sharing - 30%	\$ 544,385	\$ 516,006	\$ 1,060,391
Local revenue	584,156	648,697	1,232,853
Total Revenues	\$ 1,128,541	\$ 1,164,703	\$ 2,293,244

Source: NDG Accounting Record for Fiscal Years 2024 and 2025

Generally, about 54% of NDG’s revenues are received from local income earning activities of the government, whereas, the other 46% is from the revenue sharing arrangements with Pohnpei State Government.

USES OF FUNDS

For the fiscal years 2024 and 2025, the Nett District Government spent more than two million for its operations and local projects/programs. The largest spending was employees’ salaries and benefits, which accounted for about 51% of the total expenditures. The summary of the two-years period audited is presented in Table II, below.

Table II

Expenditures	FY 2024	FY 2025	TOTAL
Salaries & Benefits	\$ 548,776	\$ 543,188	\$ 1,091,964
Project Cost	364,483	277,977	642,461
Office Operation	171,525	220,574	392,099
Total Expenses	\$ 1,084,783	\$ 1,041,739	\$ 2,126,523

Source: NDG Accounting Record for Fiscal Years 2024 and 2025

AUDIT OBJECTIVES

The objectives of the audit were to determine whether:

- a) Cash Receipts were properly receipted, recorded, accounted for and deposited intact timely.
- b) Cash Disbursements were properly authorized, documented and accounted for in accordance with all applicable laws, regulations and procedures.

Our audit was conducted in accordance with 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

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SCOPE AND METHODOLOGY

The engagement covered Fiscal Years 2024 & 2025 from October 1, 2023 to September 30, 2025. 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. Our audit was conducted from October 20, 2025 to March 27, 2026.

To accomplish our audit objectives, we applied the following 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 objective

PRIOR AUDIT COVERAGE

Our most recent audit of the Nett District Government (NDG) was issued in February 2022, Audit Report No. 001-22, covering Fiscal Years 2019 and 2020. The two (2) significant audit findings reported were:

- Significant internal weaknesses resulted in missing collections and non-compliance with NDG Financial Management Regulations; and,
- Deficient controls and lack of documentations for disbursements.

Our follow up review showed that management has not fully resolved all issues regarding cash receipts and cash disbursements. Similar conditions affecting cash receipts and disbursements were found in the current audit. Our audit findings are detailed in the *Schedule of Findings and Recommendations*, on pages 5 to 17 of this report.

AUDIT CONCLUSION

As a result of our audit, we conclude that the Nett District Government management has not implemented appropriate internal controls over cash receipts and cash disbursements to ensure they are properly accounted for, maintained and safeguarded against loss. We have identified significant management control weaknesses and deficiencies in the cash disbursement process and in the handling of collections. Current issues affecting the effective maintenance of internal controls over cash receipts and cash disbursements are similar to those cited in the prior years' audit of NDG.

The situation reflects ineffective management and oversight who are "out of touch" or not concern about the government handling of its collections and disbursements. The condition exposes NDG

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to higher possibility and opportunities for abuse, misuse, theft and/or fraud to happen. NDG needs to take immediate and appropriate actions to respond to the risks facing its operation.

We have observed opportunities and have included in our recommendations for the government to implement to strengthen and improve its fiscal accountability to provide reasonable assurance that its cash receipts and cash disbursements are safeguarded from significant unintentional error and/or potential wrongdoing.

Our findings and recommendations are detailed on pages 5 to 17 of this report. We consider these findings significant and urge management to adopt and implement our recommendations, which we believe, could improve the Nett District Government's management and handling of its cash receipts and cash disbursements.

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Finding No. 1 - Control Deficiencies in the Handling of Cash Receipts and Collections

Criteria:

The Nett District Government’s Financial Management Regulations (FMR), Part 2 Section 2.7 require that all collections be properly accounted for and deposited daily to the bank unless the total amount is less than \$100. Accordingly, management is responsible for establishing and enforcing control policies and procedures that ensure proper handling, timely depositing and safeguarding of all collections and related documentation.

Condition:

The Nett District Government is not consistently complying with its own FMR regarding timely deposit of collections. For fiscal years 2024 and 2025, NDG reported total collections of \$2,293,244 across 2,627 receipts. We examined 865 receipts (421 receipts for fiscal year 2024 and 444 for fiscal year 2025) totaling \$2,001,826.27 and found the following:

FY 2024

Of the 421 receipts tested, 389 with the total amount of \$443,321.34 were deposited 2 to 28 days late, as summarized in the table below.

Nature of Collections	No. of Cash Receipts	2 to 28 days late
Cash	349	\$416,353.44
Checks	40	\$ 26,967.90
Total	389	\$443,321.34

FY 2025

Similarly, of the 444 receipts tested for Fiscal Year 2025, **399 totaling \$493,965.07 were deposited 2 to 21 days late.** Summary is shown in the table below.

Nature of Collections	No. of Cash Receipts	2 to 21 days late
Cash	139	\$ 20,624.84
Check	260	\$473,340.23
Total	399	\$493,965.07

In summary, of the \$2,001,826.27 in cash receipts tested for the period audited, **\$937,583.41 or 47% were deposited late.**

In addition, we found four (4) receipts for FY 2025 missing; and, five (5) were voided but original receipts were missing. We also noted other deficiencies in the accountability of cash receipts, such as:

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No Proper Segregation of Duties. The Treasurer who is the only authorized signatory of the NDG bank account has custody of collections, prepares and makes deposits, receives and keeps the bank statements. Although this situation may be due to budgetary constraints; however, management should be aware that lack of segregation of duties increases the risk for mishandling and misuse of funds.

Lack of Bank Reconciliation. Monthly bank reconciliations are not performed of the Nett District Government's bank account, limiting the ability to detect errors or other irregularities in a timely manner.

Except for the missing original of voided receipts, these issues were reported in the prior audit of NDG for the fiscal years 2019 and 2020, Audit Report number 001-22. This clearly indicates that corrective actions have not been effectively implemented.

Cause:

The condition is due to weak oversight and insufficient enforcement of internal policies for handling cash receipts and collections. The situation reflects a persistent failure by management to exercise due diligence and commitment to improve NDG's control environment. Despite prior audit findings, the District Administrator and Treasurer have not taken corrective action to ensure that policies and procedures are duly followed to properly account for and safeguard NDG's cash receipts/collections. Additionally, the condition reflects that monitoring, periodic review, and evaluation of fiscal policies and processes are not done consistently allowing control deficiencies to remain unaddressed.

Effect:

As a result, there is still increased risk of loss, misuse, or theft of NDG funds; potential loss of interest income due to undeposited collections; heightened exposure to risk of fraud due to inadequate segregation of duties; and, less ability to detect errors or irregularities in timely manner due to lack of bank reconciliation.

Recommendation:

We recommend that the District Administrator take immediate corrective action to strengthen internal controls over cash receipts and collections to ensure compliance with applicable laws and regulations. Actions should include but not limited to:

- Strictly enforce timely deposit requirements in accordance with the Financial Management Regulation or propose amendments as necessary;
- Segregate conflicting duties to the extent practicable to lessen opportunities for errors and other irregularities;
- Implement proper supervisory review and monitoring procedures over cash handling and recording processes;

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- Ensure proper documentation and retention of all receipts, including voided transactions;
- Provide mandatory training for staff and management on internal control practices, and accountability standards for cash receipts and collections; and,
- Require monthly bank reconciliation of the Nett District Government's bank accounts.

We also recommend that the Speaker and NDG Council should do its oversight responsibility properly and compel the District Administrator and the Treasurer to ensure that the action plan to resolve the audit findings is prepared and implemented.

Auditee Response: Please refer to the auditee response on pages 18-22 of this report.

Finding No. 2 – Significant Deficiencies in the Disbursements Process

Criteria:

The Financial Management Regulations (FMR) of NDG and effective internal controls require that all disbursements:

- Follow established procurement processes and be supported by complete and appropriate documentations, such as invoices, price quotations, receipts, purchase requisitions, purchase orders, receiving reports, etc;
- Be properly reviewed and approved by the allottee and fund-certified by the Treasurer prior to payment;
- Be made directly to legitimate vendors or payees; and,
- Be accurately recorded and systematically maintained to ensure a clear audit trail and reference.

Condition:

Our review revealed numerous deficiencies in the documentation, authorization, and record management over the disbursements of Nett District Government for the audited period (FYs 2024 and 2025).

Out of 8,092 transactions totaling \$2,126,512, we reviewed 2,553 transactions amounting to \$1,471,015 and found the following:

- **Lack of Fund Certification and Approval:** Sixteen (16) purchase orders totaling **\$15,545.26** were neither fund certified nor approved by the designated allottee, indicating non-compliance with required authorization procedures.
- **Missing Supporting Documentation:** Seventy-seven (77) transactions totaling **\$204,634.07** lacked required supporting documentation, such as vendor invoices, official

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receipts, purchase orders, and/or receiving reports. As a result, the validity and propriety of these expenditures could not be determined.

- **Discrepancies Between Supporting Documents and Payments:** In three (3) instances, the amounts reflected on issued checks is different than the corresponding invoice amounts. Total invoice amount was \$1,170.50 but checks issued total \$812.14, resulting in variance of \$358.36, which was not explained or supported.
- **Poor Records Management:** Disbursement records were not properly organized or systematically filed. This condition increases the risk of document loss, impairs auditability, and weakens overall internal control. Due to this, we could not review five hundred and ninety-eight (598) disbursements amounting to **\$382,926.54** because NDG was not able to locate the files.
- **Purpose/Justification Not Indicated:** Twenty-six (26) instances where payments totaling \$12,930 for sakau did not clearly indicate the purpose and/or justification for the expenditures.

We also tested two hundred eight (208) POL (Petroleum, Oil, and Lubricants) transactions amounting to \$30,379.36 in FY2024 and FY2025 and found **incomplete documentations** as follows:

- One hundred seventy-seven (177) instances amounting \$1,169.11 where authorization forms were not attached.
- Seventeen (17) instances amounting to \$2,927.20 where no receipt was attached and lacked required supervisory signatures and did not indicate the associated government vehicle license plate numbers, reducing accountability over fuel usage.
- Three (3) instances amounting \$244.25 where checks were not recorded in the accounting system but were issued to vendors.
- One (1) instance where check of \$154.25 was paid to a vendor, which was \$61 less than the invoice amount.
- One (1) instance where check no. 84758 amounting \$249.50 was issued to Dolokey Fuel Station but the attached invoice of \$111.50 was for Seair Petro.
- Sixteen (16) instances where blank checks totaling to \$1,978.60 were issued but in the books the NDG personalized checks marked as voided are recorded in the accounting system instead.
- Six (6) instances amounting to \$1,672.90 where no supporting document were attached for verification of expenses.
- Six (6) invoices where total amount was \$2,017.47 but checks issued total \$1,530.66 with remaining unpaid balance of \$486.81 still owed to vendors.
- An instance where copy of a check for \$234.60 was not filed with the disbursement supporting.

Similar conditions were also cited in the prior audit of Nett District Government for the fiscal years 2019 and 2020.

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Cause:

These conditions are attributed to weak internal controls, ineffective supervision and management oversight, and NDG's administrations' failure to enforce compliance with the Financial Management Regulations and established policies. Management did not exercise due diligence in ensuring that disbursements were properly documented, approved, recorded and maintained. Also, management has not implemented corrective measures to resolve deficiencies and issues from prior years.

Effect:

The condition significantly increases the risk of funds used for unauthorized purpose; loss of funds due to potential misuse or misappropriation; loss of documentation due to poor record maintenance and management.

Also, ineffective internal controls over the disbursements process undermines the reliability of related financial records, and the trust in the Administration's management of NDG funds to ensure they used effectively and efficiently and only for legitimate government purposes.

Recommendation:

We recommend that the District Administrator and Treasurer take immediate corrective actions to strengthen disbursement and procurement controls, including:

- **Enforce Strict Compliance with the Financial Management Regulations**, ensuring all disbursements are properly documented, reviewed, approved, and fund-certified prior to payment.
- **Strengthen Procurement Controls**, including requiring quotations, proper approvals, and adherence to established purchasing procedures.
- **Improve Recordkeeping and Filing Systems** to ensure all supporting documents are complete, organized, and readily available for audit review.
- **Enhance Supervisory Review and Monitoring** to ensure compliance with established policies and procedures.
- **Provide Training to Staff and Officials** on financial management, internal controls, and ethical responsibilities in handling public funds.

Auditee Response: Please refer to the auditee response on pages 18-22 of this report.

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Finding: 03 – Councilmen Implementing Solar Lights Project

Criteria:

Good governance requires that:

- Implementation of programs and projects be carried out by the Executive branch, with the Legislative branch providing oversight only;
- Adequate controls be in place to ensure transparency, accountability, and equitable distribution of government resources; and,
- Programs/projects be properly documented.

Condition:

It came to our attention during the audit that the Councilmen are involved in the implementation process of the projects that they approved. For example, the NDG Councilmen approved more than \$34,000 for the purchase of 270 solar lights for the communities (9 sections) of Nett District. Each section was allocated thirty (30) solar lights. Our review found:

- The distribution was carried out by the Legislative branch instead of the Executive branch;
- For some sections (communities), complete lists of recipients were not provided, limiting audit verification;
- Field inspection of 150 solar light units revealed irregularities, including:
 - Units not installed or unaccounted for;
 - Multiple units issued to the same individuals;
 - Units issued to individuals not on official lists; and,
 - Units distributed to the Councilmen and/or their family members.
- No acknowledgment or receiving records were maintained to show fair distribution.
- No uniform guidelines or procedures for the distribution of the solar lights;
- The 270 solar lights were purchased without the required approval and fund certification.

The table below shows distribution of solar lights on the basis of sections within NDG along with number of solar units distributed.

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Sections	Number of Solar units Per Councilman	Number of Solar units Inspected	Missing Solar units	Solar Distribution list not available for inspection	Total
Pali Powe	30	27	3	-	30
Palias	30	30	-	-	30
Dolokei	30	30	-	-	30
Kahmar & Leh dau	30	30	-	-	30
Dolonier	30	30	-	-	30
Nanipil	30	-	-	30	30
Parem	30	-	-	30	30
Eirke	30	-	-	30	30
Parem Kep, eitik and Nansakasok	30	-	-	30	30

Cause:

The above condition is due to weak management organization and overstepping of responsibilities by Legislative branch.

Effect:

There is no assurance that the distribution of the solar lights was fair, did not create conflicts of interest, and the government assistance was provided to those who needed them the most. In addition, the condition could be seen as unequal and potentially unjustified distribution of resources.

Recommendation:

We recommend that:

- **The Nett District Government Legislature and Executive branch should ensure clear segregation of duties and governance roles**, with the Executive branch solely responsible for project implementation and the Legislative branch limited to oversight functions;

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- **The Nett District Government Legislature and Executive branch should establish proper accountability mechanisms for all projects, including:**
 - Appropriate documentation to prove projects were implemented properly;
 - Signed acknowledgment receipts for assistance received; and,
 - Monitoring and inspection of project implementation.

- **District Administrator and Treasurer to ensure that implementation of projects** are pre-planned, rational behind distributions and approved with sufficient evidence including the information of recipient, their roles and duties to safeguard and provide proper accountability for government projects/programs.

Auditee Response: Please refer to the auditee response on pages 18-22 of this report.

Finding No. 04 – Disbursements for Goods and Services Payable to the Employees

Criteria:

Good governance and sound internal control practices require that all disbursements of public funds be made directly to legitimate vendors or payees, supported by properly approved documentation, and in accordance with applicable procurement laws, regulations, and established policies. Checks should not be issued in the name of employees for the purpose of procuring goods, supplies, or awards on behalf of the government, except in clearly defined and authorized circumstances (e.g., approved petty cash or reimbursement procedures). Procurement transactions should follow formal purchasing processes, including proper authorization, vendor selection, and direct payment to suppliers. Additionally, key duties such as authorization, custody of funds, procurement, and recordkeeping should be adequately segregated.

Condition:

Audit review disclosed that the local government issued checks in the names of employees to procure items, supplies, and awards on behalf of the government, rather than paying vendors directly. In several instances, supporting documentation was incomplete or did not clearly demonstrate that funds were used solely for official purposes.

For example, we found the following:

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- 1. In fiscal years 2024 and 2025:** Six (6) instances that payments amounting to **\$59,354** were paid in advance to NDG former or current employees for various activities, as summarized in the table below.

Year of Payment	Activity	Payee Title	Check No.	Amount	Supported	Not Supported
2025	Constitution Day	Project Coordinator	85545	\$14,905		\$14,905
2025	Impiokai	Project Coordinator	86186	\$14,140	\$11,480	\$2,660
2024	Impiokai	Project Coordinator	82125	\$2,820		\$12,820
Total				\$41,865		\$30,385
2024	Volleyball Tournament	Tournament Director	82511	\$1,873		\$1,873
2025	Constitution Day	Chief Justice Court Clerk	85608	\$1,000		\$1,000
2024	Constitution Day	Former Project Coordination	81515	\$14,616		\$14,616
Total				\$59,354	\$11,480	\$47,874

In the table:

- Three (3) checks (nos. 82125, 85545, 86186) totaling \$41,865 were issued or paid to the Project Coordinator supposedly for Nett Constitution Day and Nett Impiokai awards. Out of these three checks, NDG provided the list of Impiokai winners with awards totaling \$11,480, but the check issued (ck no. 86186) was \$14,140. On further inquiry, management explained that the remaining balance of \$2,660 was used for NDG annual Christmas program. They could not provide supporting documents for verification. For the other two checks, there were no supporting documents to justify payments of \$14,905 and \$12,820.
- Check no. 82511 with amount of \$1,873 payable to Former Project Coordinator was not supported with appropriate documents to show how the fund was used.
- Amount of \$1,000 was payable to Chief Justice Court Clerk supposedly for Constitution but NDG could not provide proper documents to show the money was used for intended purpose.
- A check number 81515 for \$14,616 payable to Former Project Coordinator supposedly for Liberation Day awards was not supported with appropriate documents to show the money went to the recipients.

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2. Five (5) checks amounting to \$2,905 were paid to various employees supposedly for the payments of food/drinks, consumables and utilities, etc., as stated in the Cash Disbursement Journal. These are:
- Two Road Maintenance Employees (\$600 each) for the total amount of \$1,200
 - District Administrator for the amount of \$780.
 - A member of Resource Management committee for the amount of \$580.
 - Administrative Officer for the amount of \$345.

There were no supporting documents to show these checks were used for the purpose intended.

Cause:

This condition is attributable to weak internal controls over disbursements and procurement, including the absence of clear policies prohibiting using employees as payees for government purchases. It also reflects inadequate oversight and enforcement of established disbursement/procurement procedures by management. Moreover, management did not exercise due diligence in ensuring that appropriate guidance is provided and good practices are followed in the absence of written policies.

Effect:

The practice increases the risk of misappropriation, misuse, or diversion of public funds, as transactions are not directly traceable to legitimate vendors. It also reduces transparency and accountability, weakens audit trails, and may result in noncompliance with applicable laws and regulations or questionable disbursements. Ultimately, this exposes the government to financial loss, audit findings, and potential reputational damage.

Recommendation:

Management (District Administrator, Speaker and Nett District Councilmen) should strengthen internal controls over disbursements and procurement by implementing the following actions:

- **Prohibit the practice of issuing checks to employees** for the purpose of procuring goods, supplies, or awards, except under formally approved and controlled procedures (e.g., petty cash or reimbursement systems).
- **Conduct an oversight to ensure** that all unsupported payments made to employees be paid back to the Nett District Government.
- **Ensure all payments are made directly to legitimate vendors or suppliers**, supported by complete and properly approved documentation, including purchase requisitions, invoices, receipts, and evidence of delivery.
- **Establish and enforce formal procurement policies and procedures** that clearly define the process for purchasing, approval thresholds, and acceptable payment methods, in compliance with applicable laws and regulations.

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- **Strengthen segregation of duties** by ensuring that responsibilities for authorization, procurement, custody of funds, and recordkeeping are assigned to different individuals.
- **Enhance supervisory review and oversight** by requiring management to regularly review disbursement transactions for compliance and to promptly address any deviations from established policies.
- **Provide training to relevant personnel** (including finance and administrative staff) on proper procurement practices, internal controls, and accountability in handling public funds.
- **Implement periodic monitoring and internal audits** to ensure compliance with policies and to detect and correct control weaknesses in a timely manner

Auditee Response: Please refer to the auditee response on pages 18-22 of this report.

Auditor Reply: We appreciate your response noting the switching of activities names. We have made corrections. In regards to Check #86186, the information came from the Treasurer during our interview. He stated that the check was used for Christmas activities. Due to lack of supporting documents, we could not officially verify the legitimacy of the expenses.

Finding No. 05 Deficiencies Found in the Payroll System of NDG

Criteria:

Sound internal control practices and NDG policies require that all payroll expenditures be properly supported with complete and approved documentation, including timesheets and payroll release forms. Attendance and time worked should be accurately recorded and monitored through reliable timekeeping systems.

NDG regulations further require that:

- Requests for annual leave, including short-term leave (one or two days), must be properly justified and approved in advance by the employee's Supervisor.
- Sick leave must be supported by a medical certification from a qualified practitioner, indicating the nature of the illness and the employee's fitness to return to duty.
- All compensation, including allowances such as Cost of Living Allowance (COLA), must comply with applicable FSM tax laws and regulations.

Condition:

Our review of payroll transactions for Fiscal Years 2024 and 2025 disclosed multiple control deficiencies, as follows:

- Payrolls lacked essential supporting documents, including approved timesheets and payroll release forms.

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FISCAL YEARS 2024 AND 2025**

- There was no effective time monitoring system (e.g., time clocks) implemented across all branches.
- Five (5) instances of paid leave were identified, of which:
 - Three (3) lacked adequate supporting documentation or justification; and
 - Two (2) had approved leave forms that did not clearly support the reasonableness or validity of the leave taken.
- Timesheets submitted for review, including those related to leave, were not approved or authorized by Supervisors or the District Administrator.
- Instances were noted where employees were paid overtime despite having no recorded regular working hours.
- Cost of Living Allowances (COLA) paid to employees were not subjected to withholding tax as required by FSM law.
- We estimated that the total personnel cost went over the approved budget by \$ 52,143 for FY 2024 and \$51,233 in FY 2025.
- NDG did not deduct 10% income tax for annual income higher than \$11,000. We also noted that NDG is not withholding income taxes from employees' Cost-of-Living Allowance (COLA) and remitting to FSM Finance. We estimated that for the period audited the unpaid income tax is approximately around \$17,568.

Cause:

The payroll related deficiencies are primarily due to weak enforcement of established payroll policies and procedures, inadequate supervisory review, and the absence of effective monitoring controls over timekeeping and payroll processing. Management did not consistently ensure compliance with documentation requirements and regulatory obligations.

Effect:

These control weaknesses increase the risk of unauthorized, inaccurate, or fraudulent payroll payments, including unjustified leave and overtime claims. The lack of proper documentation and oversight undermines the reliability of payroll records, weakens accountability, and may result in noncompliance with NDG policies and FSM tax regulations. If not addressed, these deficiencies could lead to financial loss and reputational damage.

Recommendation:

We recommend that the District Administrator:

- **Strictly enforce payroll policies and procedures** by requiring complete and properly approved supporting documentation prior to processing any payroll.
- **Reject or withhold payroll processing** for transactions that do not fully comply with established requirements.
- **Implement an effective timekeeping system** (e.g., time clocks or standardized attendance logs) across all branches.

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FISCAL YEARS 2024 AND 2025**

- **Strengthen supervisory review and approval controls** over timesheets, leave requests, and overtime claims.
- **Ensure compliance with FSM tax laws**, including proper withholding and reporting of COLA and other taxable benefits.
- **Conduct periodic internal reviews** of payroll transactions to identify and correct control deficiencies in a timely manner.

Auditee Response: Please refer to the auditee response on pages 18 - 22 of this report.

APENDIX I

AUDITTEE RESPONSE



OFFICE OF THE
DISTRICT ADMINISTRATOR

NETT DISTRICT GOVERNMENT

P.O. Box 1377

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May 6, 2026

Audit Response



Finding No. 1 Control Deficiencies in the Handling of Cash Receipts and Collections.

Condition:

- Your review of 865 receipts from Fiscal Year 2024 and 2025 shows that we are not complying with our own Financial Management Act regarding timely deposit of collections.

Response and Correctives:

- The District Administrator and the Director of Treasury will strictly enforce the requirement for timely deposits in full compliance with the Financial Management Act.
- All Deposits will be reviewed and verified by the Director of Treasury before deposit.
- Treasurer will monitor procedures over cash handling and recording processes.
- Treasurer will do monthly reconciliation of the NDG's bank accounts.

Finding No. 2 Significant Deficiencies in the Disbursements Process

Condition:

- Your review of 2,553 transactions, it shows that Nett District Government lack Fund Certification and approval in the disbursement process. It also shows that there are missing supporting documentation, discrepancies between supporting documents and payments, poor records management, and no justification for expenditures.

Response and correctives:

- District Administrator and Treasurer will ensure all disbursements are properly documented, reviewed, approved, and fund-certified prior to payments.
- Improve procurement controls by requiring quotations, getting proper approvals, and following established purchasing procedures.

- Improve recordkeeping and filing systems to keep all supporting documents complete, organized, and easy to access for audit review.
- Finance and Administrative staff will require training to fully understand the Nett District Financial Management Act.

Finding No. 3 Councilmen Implementing Solar Lights

Condition:

- Your audit review shows that the Legislative Branch carried out the distribution of Solar Lights. Complete lists of recipients were not provided and no acknowledgement or receiving records were maintained to show fair distribution.

Response and Correctives

- The Speaker and District Administrator will ensure clear separation of duties, with executive branch handling project implementation and the legislative branch providing oversight.
- The Executive Branch will establish proper accountability measures for all projects, maintain appropriate documentation to show they were properly implemented, and obtain signed acknowledgment receipts for assistance provided.

Finding No. 4 Disbursements for Goods and Services Payable to the Employees

Condition:

- Your audit review disclose that the local government issued checks in the names of employees to procure items, supplies, and awards on behalf of the government. In several instance, supporting documentation was incomplete or did not clearly demonstrate that funds were solely for official purposes.

Response:

- For the table provided in the Audit review draft, we want to make corrections as follow: Check #85545 payment for Constitution Day Awards not Impiokai; check# 86186 payment for Impiokai awards; Check #82125 payment for impiokai Awards; Check # 85608 Payment for Constitution day(team Blue needs); Check # 81515 payment for Constitution Awards. All these checks are used for Awards.
- For the two checks issued to the District Administrator: Check # 85522 payment for drink (Gatorade) amounting \$300.00 from Refund for the Nett Softball Teams participating in the Holyground Torunament. Check # 88676 payment for Car rental during South Pacific Games in Palau amounting of \$480.00. Receipts were provided to the former Treasurer but did not attach the authorization.
- It is stated in the Audit Review that the remaining balance of \$2,660.00 from the check # 86186 is used for NDG annual Christmas Program. We would like to make a correction

on this. The remaining balance was used for an appreciation program for those who volunteered at the Impiokai.

Correctives:

- Prohibit the issuance of checks to employees for the purpose of procuring goods, supplies, or awards, except under formally approved procedures with proper authorization.
- District administrator and Treasurer will make sure that all payments are paid directly to vendors supported by approved documentation with receipts.
- The Treasurer and District Administrator shall be responsible for establishing and enforcing clear procurement policies that outline purchasing procedures, approval requirements, and acceptable payment methods, in compliance with applicable laws and regulations.
- The Treasurer will regularly review disbursement transactions and address any non-compliance with established policies.
- District Administrator will make sure that finance and administrative staffs receive proper training on proper procurement practices, internal controls, and accountability in handling public funds.

Finding No. 05 Deficiencies Found in the Payroll system of NDG

Condition:


- Our Audit Review shows that NDG payroll transactions lack supporting documentation, no effective time monitoring system, and paid leave lack supporting documentations. NDG also did not deduct 10% income tax for annual income higher the \$11,000.00 and did not withhold income taxes from employees' COLA.

Response and corrective:

- Strict adherence to payroll policies and procedures will be enforced by requiring that all payroll transactions are supported by complete and properly authorized documentation prior to processing.
- Payroll transactions that do not fully comply with established requirements will be rejected or withheld from processing until all deficiencies are addressed and proper compliance is achieved.
- A standardized timekeeping system shall be implemented across all branches to ensure accurate recording of employee attendance, work hours, and leave.
- Supervisory review and approval controls over timesheets, leave requests, and overtime claims shall be strengthened to ensure accuracy and validity.

- The Treasurer shall ensure full compliance with FSM tax laws, including the accurate withholding and reporting of COLA and all other taxable benefits.

In conclusion, we have carefully reviewed the audit findings and acknowledge their validity. We concur with the issues identified and are committed to addressing them appropriately. In addition to the recommended measures, we will implement further corrective actions to strengthen our internal controls and prevent similar errors in the future. We appreciate the opportunity to improve our processes and remain committed to full compliance and accountability moving forward.

✓ Ni Wahu, 

Daniel Edgar

District Administrator

Nett District 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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