

POHNPEI OFFICE OF THE PUBLIC AUDITOR

PERFORMANCE AUDIT ON SOKEHS MUNICIPAL GOVERNMENT CASH RECEIPTS AND DISBURSEMENTS

AUDIT REPORT NO. 03-26



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**SOKEHS MUNICIPAL GOVERNMENT
PERFORMANCE AUDIT ON CASH RECEIPTS AND CASH DISBURSEMENTS
FISCAL YEARS 2024 AND 2025**

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May 12, 2026

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 Sokehs Municipal Government
The Honorable Stanley Ernest, Chief Magistrate, Sokehs Municipal Government

EXECUTIVE SUMMARY

The Pohnpei Office of the Public Auditor (POPA) conducted the audit to evaluate whether the Sokehs Municipal Government (SMG) 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 SMG's:

1. Collections are properly recorded, safeguarded, and deposited in a timely manner, and,
2. Disbursements are authorized, supported and accounted properly in accordance with applicable laws, regulations and/or good practice.

Why POPA did this Audit?

We conducted this audit in line with our mission to promote accountability and transparency in the local governments.

What POPA Found?

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

1. Cash Receipt:
 - **Significant Delays and Other Deficiencies in Collections:** SMG failed to meet the FMR requirement to deposit collection on a daily basis. A total amount of \$475,614 was held for multiple days, increasing the risk of loss or misuse.
2. Cash Disbursements:
 - A. **Multiple Payments to Officials and Employees.** SMG issued checks payable to its officials and employees a total of \$62,554 in fiscal years 2024 and 2025 combined instead of legitimate vendors.
 - B. **Significant Control Deficiencies in the Disbursement Process.** Multiple instances of disbursements totaling \$487,161 were not supported by approved and certified purchase orders, price quotations, job order, and/or proforma invoices as required by the FMR.
 - C. **Control Weaknesses in the Payroll Process.** We found that all timesheets were not supported by a verifiable time and attendance record or time cards; several employees received advance of payroll ("early release") totaling \$18,466, of which \$2,438 is still outstanding; SMG did not deduct income

taxes for the portion of annual income over \$11,000 and COLA, and owe unpaid income tax of approximately \$15,438; instances where employee hours reported did not tally with the hours paid; 45 employees received 27 payrolls in fiscal year 2025, but SMG could not provide the schedule of payrolls for confirmation; and, actual salaries/wages expense exceeded the personnel budget amount by \$4,299.

What POPA Recommends

1. Strictly enforce timely deposit requirements in accordance with the FMR and controlled procedures; ensure proper documentation and reporting by requiring civil fines to be deposited at SMG Treasury before remitting to appropriate recipient; Speaker and SMG Council should strengthen its oversight responsibility by properly reviewing, overseeing and ensuring that the requirements of SMG FMR are complied with, including compelling the Chief Magistrate and the Treasurer to prepare and implement an action plan to resolve the audit findings.
2.
 - A. Direct the Treasurer and Treasury staff to stop processing checks to employees for purpose of procuring goods, supplies, or services; Committee on Ways and Means and J & Go should conduct an oversight on Chief Magistrate and Treasurer to ensure that all unsupported payments made to officials/employees are paid back to the SMG.
 - B. Enforce documentation requirements by requiring that all disbursements be supported by complete and appropriate documentation prior to payment processing; strengthen review and approval controls by ensuring that all transactions are reviewed, approved by the appropriate official, and certified for fund availability by the Treasurer before disbursement.
 - C. Strengthen payroll processing controls by requiring complete documentation, thorough review and approval of the master timesheet prior to disbursement; require all employees to pay back to SMG for amount still owed due to “early release” of payrolls; implement reliable timekeeping systems; ensure compliance with FSM income tax laws.

Why It Matters?

- The current management and practices of the SMG do not provide sufficient assurance that public resources are properly used and protected. The situation demands immediate intervention.
- The public expects good governance and high standards of integrity and governance from the SMG officials responsible for managing public finances.
- Our goal is to re-establish a culture of fiscal responsibility and openness for the people of Sokehs.

Generally, SMG management concurred with the result of our audit and have provided its response to our audit findings and recommendations. Please refer to Management Response on pages 15 to 23 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 Sokehs Municipal Government’s management and staff for their support and assistance extended to us during the course of our audit.

Respectfully,


for Erick Paul
State Public Auditor

**SOKEHS MUNICIPAL GOVERNMENT
AUDIT REPORT
FISCAL YEARS 2024 AND 2025**

Introduction

We have completed an audit of cash receipts and cash disbursements activities of the Sokehs Municipal Government for the Fiscal Years 2024 and 2025. This engagement was started based on audit priorities and plans of the Pohnpei Office of the Public Auditor to promote accountability, transparency and good governance not only in the primary government but also in the local governments as well. This report presents the results of our audit.

Background

Sokehs Municipal Government (SMG) is one of the 11-eleven local governments of Pohnpei State. Similar to the other local governments, Sokehs Municipal Government is composed of three branches, which are the Executive, Legislative and Judiciary branches. The Chief Magistrate heads the Executive branch and the twelve (12) -member Legislature is represented by Speaker, all of whom are elected by the people of Sokehs to a four- year term. The Chief Justice who heads the Judiciary branch is appointed by the Chief Magistrate with the consent of 2/3 of Sokehs Legislature.

The Sokehs Municipal Government operates similar to Pohnpei State Government but in a much smaller scale. It has its own Constitution, Financial Management Regulations and Manual of Administration. These legal and administrative frameworks require that all public monies raised, received or collected shall be deposited into one bank account no later than the close of business.

Sources of Funds

Annually, SMG 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 \$512,724 and \$512,724 respectively.

The Municipality also collects revenues from locally imposed taxes, fines, licenses, penalties, fees and other government services. Moreover, from time to time it received grants from the State Government and the FSM National Government for local projects and programs. For the fiscal years 2024 and 2025, the Municipality reported its revenues as follow:

Table I

Revenue	FY 2024	FY 2025	Total
30% Rev Share	\$ 512,724	\$ 512,724	\$ 1,025,448
Locally imposed taxes	44,360	45,482	89,842
Reimbursement of Alcohol license	15,797	15,581	31,378
Miscellaneous Income	15,080	15,267	30,347
Other Finances	230,461	387,231	617,692
Total	\$ 818,422	\$ 976,285	1,794,707

Source: Sokehs Municipal Government Budget Acts for the fiscal year 2024 and 2025.

Generally, about 43% of the SMG’s revenues are received from local income earning activities of the government, whereas, the other 57% is from the revenue sharing arrangements with the Pohnpei State Government.

Uses of Funds

The Sokehs Municipal Government expended \$1,844,638 for its operations and development projects/programs approved for the fiscal years 2024 and 2025. In the fiscal year 2025, the SMG expense was increased by \$183,266, from \$830,686 to \$1,013,952.

The SMG operational expense averaged around 91% and the project/programs at 9% of its total expense for two years period. Personnel cost is the highest expense for the SMG at \$916,241 or 50% of the total government expense. Summary of the SMG expenditures is shown in Table II below.

Table II

Expense Category	FY 2024	FY 2025	Total
Personnel	\$338,170	\$578,071	\$916,241
Contractual services	12,000	18,300	30,300
All others	204,273	107,116	311,389
Total Operational Expense	120,248	108,967	229,215
Projects and Programs	64,635	81,718	146,353
COLA	91,360	119,780	211,140
Total expense	\$830,686	\$1,013,952	\$1,844,638

Source: Sokehs Municipal Government Budget Acts for the fiscal year 2024 and 2025.

Administration of funds

The SMG financial management regulations require Treasury Office within the Executive Branch to manage the Municipal’s cash receipts and cash disbursements as follows:

Cash Receipts

- The Revenue Collector must immediately issue an official receipt for each sum of revenue collected for the account of Government.
- Each receipt must be dated the same date the money was received by the revenue collector.
- The Treasurer must approve the form of all receipts to be issued.

Cash Disbursements

- All prepared purchase order forms must be prepared and verified by the Director (Director of Administration), approved by the allottee, and certified by the Treasurer;
- All completed purchase order forms must be signed by the approval and certifying officers (Preparer, Director of Administration, Supervisors, Treasurer and Chief Magistrate);
- All contracts must be signed;
- All prepared job orders must be approved by the allottee, estimate signed off by the vendor/contractor undertaking the work, estimate accepted by the Chief of Public Works and certified by the Treasurer;
- All invoices/receipts for purchases less than \$1000 must be approved by the Allottee and certified by SMG Treasury;
- All progress payments against job orders and contracts must be signed off by the Allottee, confirming that milestones have been met to a satisfactory standard expected.
- At payment stage, the Allottee must sign the Request Payment form approving payment and also submitting adequate documentation to support the amount to be paid and that the goods and services have been received.

Objective, Scope and Methodology

Our audit was conducted in accordance with government auditing standards generally accepted in the United States of America contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The objectives of our audit were to determine whether:

- a. Cash receipts are properly receipted, recorded, safeguarded for and deposited intact timely.
- b. Cash disbursements are properly authorized, documented, and accounted for in accordance with all applicable laws, regulations and procedures.

The engagement covered Fiscal Years 2024 and 2025, from October 1, 2023 to September 30, 2025.

Prior Audit Coverage

The prior audit was performed and issued in the year 2014 covering fiscal years 2010, 2011, 2012. However, due to the lapse of time, operational environment has significantly changed and the recommendations are no longer practical, and therefore, follow up would not be made of the prior audit findings. On the other hand, a preliminary review and investigation was

performed in 2023 and a Management Advisory was issued regarding the SMG's uses of representation funds. As part of this audit, we followed-up on the management advisory report to determine whether management has taken appropriate action to resolved the prior year outstanding findings.

Audit Conclusion

Based on our audit, we conclude that the SMG needs to institute a set of internal controls over cash receipts and cash disbursements to ensure they are properly accounted for, maintained and safeguarded against loss. We identified significant control weaknesses and deficiencies in the handling and the processing of cash receipts and cash disbursements that resulted to non-compliance with SMG's Financial Management Regulations.

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 14 of this report. We consider these findings significant and urge management to adopt and implement our recommendations, which we believe, could improve the Sokehs Municipal Government's management and handling of its cash receipts and cash disbursements.

**Sokehs Municipal Government
Schedule of Findings and Recommendations
Fiscal Years 2024 and 2025**

Audit Report No. 03-26

Finding number 1: Significant Delays and Other Deficiencies in Collections

Criteria: Sokehs Financial Management Regulations (FMR) 1.30 requires the Revenue Collector to ensure that all revenues collected are deposited on a daily basis. Accordingly, management is responsible for establishing and maintaining an effective system of internal controls to ensure compliance and to safeguard all collections and public funds against loss, misuse, or other irregularities.

Condition: Our audit found that during fiscal years 2024 and 2025, the Revenue Collector of the SMG did not consistently comply with the requirement to deposit collections on a daily basis.

For fiscal year 2024, we tested 865 receipts totaling \$566,734 (out of 1,725 total receipts) and noted the following:

- **843 receipts, totaling \$306,829**, were deposited late (i.e., not on a daily basis), as summarized below:

Number of Receipts (cash and checks)	Amount	Number of Days Late
181	\$ 10,114	One day late
125	4,355	Two days late
144	3,580	Three days late
181	6,172	Four days late
118	236,195	Five days late
47	43,679	Six days late
15	522	Seven days late
5	90	Eight days late
7	750	Nine days late
15	1,269	Ten days late
5	105	Eleven days late
Total	\$306,829	

For fiscal year 2025, we tested 617 receipts totaling \$254,493 (out of 1,443 total receipts) and noted:

- **563 receipts, totaling \$168,785**, were not deposited daily, as shown below:

Number of Receipts (cash and checks)	Amount	Number of Days Late
94	\$ 12,687	Two days late
139	9,082	Three days late
83	47,912	Four days late
93	50,425	Five days late
6	100	Six days late
33	744	Seven days late
84	47,199	Eight days late
10	115	Nine days late
12	220	Eleven days late
7	286	Twelve days late
2	15	Eighteen days late
Total	\$168,785	

Furthermore, during an unannounced cash count conducted on October 27, 2025, the audit team noted that **\$5,570.86** in collections remained undeposited. The Treasurer and Assistant Treasurer indicated that deposits were delayed pending the return of the Revenue Collector from off-island travel and that deposits are typically made on Fridays. However, the cash count revealed collections dating back to October 3, 2025—representing delays of up to **17 days**.

In addition, we noted that certain civil fines collected pursuant to court orders are remitted directly to vendors rather than deposited into the Treasury for proper recording and accountability.

Cause: The condition is attributable to:

- lack or inadequate management oversight such as bank reconciliation;
- inadequate enforcement of established policies or control activities governing cash handling and deposits, such as segregation of duties;
- monitoring activities, including periodic review and evaluation of internal controls, and,
- untrained staff allowing deficiencies to persist.

Effect: The failure to deposit collections in a timely manner significantly increases:

- the risk of loss, theft, or misuse of funds.
- opportunities to lose potential interest income; and,
- it undermines the reliability and accountability of financial reporting.

In addition, not depositing with Treasury the money collected for third party increases the risk of loss, incomplete recording and lack of accountability over these collections.

Recommendation: We recommend that the Chief Magistrate should take immediate corrective action to strengthen internal controls over cash receipts and collections to ensure compliance with applicable laws and regulations, and proper accountability of all funds received by Treasury or other branches of SMG. Actions should include but not limited to:

- Strictly enforce timely deposit requirements in accordance with the Financial Management Regulations or propose amendments, as necessary;
- Ensure proper documentation, safeguarding and reporting, by depositing civil fines with SMG Treasury (before remittance to appropriate recipient) until Court establish a better system;
- Segregate duties to lessen opportunities for errors and other irregularities;
- Implement proper supervisory review and monitoring procedures over cash handling processes;
- Require the Treasurer to ensure that monthly bank reconciliation of the Sokehs Municipal Government's bank account(s) is performed; and,
- Provide mandatory training for staff and management on internal control practices, and accountability standards for cash receipts and collections.

We also recommend that the Speaker and SMG Council should strengthen its oversight responsibility by properly reviewing, overseeing and ensuring that the requirements of SMG FMR are complied with, including compelling the Chief Magistrate and the Treasurer to prepare and implement an action plan to resolve the audit findings.

We have referred to the Division of Compliance Investigation of OPPA the matter concerning court fines not being deposited with SMG Treasury.

Auditee Response: Please refer to the auditee response on pages 15-23 of this report.

Auditor Reply: Though SMG indicated that late deposits of collections were due to “small collections” and that deposits were delayed during the Revenue Officer’s travel, these reasons do not override the requirements of the SMG FMR. Retaining collections for several days increases exposure to cash handling risks and weakens accountability over public funds. In addition, the absence of alternative arrangements during staff travel demonstrates inadequate continuity of control procedures.

Compliance with prescribed deposit procedures is a fundamental internal control requirement and should not depend on the amount collected or staff convenience. Therefore, we maintain that SMG should comply with the FMR by depositing collections daily and establishing backup procedures to ensure timely deposits during periods when responsible staff are unavailable.

We understand that civil case payments are not government revenues and are ultimately payable to private parties. However, the Court is still responsible for maintaining adequate accountability and transparency over these funds collected, and temporarily held in its custody. Auditors noted that direct remittance procedures lacked sufficient controls and independent oversight to ensure complete accountability for all collections received and remitted to rightful recipient. Issues were raised before regarding these fines.

Hence, until an escrow account and/or formal procedures are established to ensure proper receipting, reconciliation, and documenting remittances of all civil case collections, we urge SMG to consider using its Treasury financial oversight functions to account for these collections to ensure proper accountability and controls over these collections.

Finding No. 02 – Multiple Payments to Officials and Employees

Criteria: Good governance and sound internal control require that all disbursements of public funds be:

- **Made directly to legitimate vendors or payees** through established procurement channels, never to employees or officials acting as intermediaries, except under narrowly defined and formally authorized circumstances (e.g., petty cash advances or documented reimbursements).
- **Supported by complete and properly approved documentation**, including requisitions, purchase orders, invoices, and receipts, ensuring a clear audit trail.
- **Processed in strict compliance with procurement laws**, financial regulations, and municipal policies, with no exceptions permitted outside codified procedures in SMG.
- **Subject to segregation of key duties** - authorization, custody of funds, procurement, and recordkeeping must be performed by different individuals to prevent conflicts of interest and reduce the risk of fraud.
- **Transparent and traceable**, ensuring that every transaction can be independently verified against approved budgets, procurement records, and vendor accounts

Condition: Our review disclosed numerous checks issued in the names of employees and officials mostly based on request to procure goods and/or services on behalf of the government, instead of making payments directly to vendors. In several instances, supporting documentation was lacking, incomplete or did not clearly demonstrate that funds were used solely for legitimate official purposes.

The summary of the officials and employees that received other payments beside payrolls is shown in the table below:

Position	FY 2024	No. of Check Issued	Position	FY 2025	No. of Check Issued
Speaker	\$1,802.00	11	Speaker	\$1,900.00	4
2 Councilmen	700.00	3			
Sub-total	2,502.00	14		1,900.00	4
Chief Magistrate	350.00	3	Chief Magistrate	673.74	2
Chief Justice	6,381.63	28	Chief Justice	4,809.31	23
38 Employee	21,640.88	170	39 Employee	24,296.75	243
Sub-total	28,372.51	201		29,779.80	268
Total	\$30,874.51	215	Total	\$31,679.80	272

In the table:

- The Speaker received 15 checks in all totaling \$3,702 for both fiscal years 2024 and 2025. Most of the checks were paid in advance for various purpose ranging from funerals, medical expense, “kamadipw” (local party), from the Speaker’s representation funds and meeting allowance.
- Councilman requests for payments were for various items or donations for constituents.
- The amounts paid to SMG Chief Justice are for donations, parties, and others. Mostly paid out of his representation fund.
- Amounts paid to employees are mostly for “early release” of payrolls.

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.

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. More importantly, this exposes the government to financial loss, audit findings, potential reputational damage and overspending of representation fund by \$11,669 for the audited period.

Recommendation: We recommend management (Chief Magistrate, Speaker, Chief Justice) should implement the following actions:

- Direct the Treasurer and Treasury staff to stop processing checks to employees for purpose of procuring goods, supplies, or services, except under formally approved and controlled procedures
- Enhance supervisory review and oversight by requiring management to review disbursement transactions for compliance and to promptly address any deviations from established policies.
- Ensure personnel understand and apply proper procurement practices and accountability in handling public funds.

We also recommend the Committee on Ways and Means and J & Go should conduct an oversight on Chief Magistrate and Treasurer to ensure that all unsupported payments made to officials/employees are paid back to the SMG.

Auditee Response: Please refer to the auditee response on pages 15-23 of this report.

Auditor Reply: The practice of making payments to employees for procuring or providing services to the government bypasses formal procurement processes such as competitive sourcing, vendor approval, pricing benchmarks, and contract management. There is no assurance that SMG is obtaining the best value (and best price). SMG is also exposed to procurement risk without the required quotations, purchase orders, and vendor accountability.

In addition, the practice creates an informal purchasing system outside of established SMG financial rules.

Moreover, the activities such as hosting special guests and/or events are part of government operation/programs and should be planned properly to ensure that laws, regulations, best and responsible practices are complied with.

Our audit found that SMG was not complying or practicing the payroll “early release” principle as approved in the FMR. We found employee(s) who received payroll with hours that were not earned. It is not a matter of “common sense” but following the laws, regulations, policies and procedures. Hence, we urge management to implement our recommendation. (Our reply also applies to Finding 4 on “early release”).

Regardless of SMG’s explanation, there were checks (payment) issued to employees/officials to procure goods and services for the government instead of using legitimate vendors. The practice bypass formal procurement process thereby exposing the government to risks of irregularities including inflated price, inferior goods or services, fraud, etc., and should not be practiced.

Finding number 3: Significant Control Deficiencies in the Disbursements Process

Criteria: All disbursement must be processed in line with SMG FMR 1.38 to 1.50. Basically, the FMR requires that purchase/procurement should be duly prepared, supported with appropriate forms and documentation, certified and approved prior to disbursements. All requests for payments must be checked by the Treasury Department to ensure all required documentation has been attached to the payment request (example: purchase order, invoice, receipt, contract, job order, bill of lading, etc.).”

Condition: During our review of disbursement transactions for fiscal years 2024 and 2025, we identified numerous instances of non-compliance with the Financial Management Regulations (FMR), as well as significant internal control deficiencies within the disbursement process.

For FY2024, we tested 407 out of 3,187 transactions, totaling \$439,042. For FY2025, we tested 1,023 out of 3,232 transactions, totaling \$750,997. Our review disclosed the following:

Fiscal Year 2024

-Unsupported Disbursements

- 103 instances totaling \$177,047 where disbursements were not supported by approved and certified purchase orders, price quotations, and/or proforma invoices, as required by the FMR. Notably, one disbursement (Check No. 50739) amounting to \$20,000 was issued for the purchase of a vehicle from an individual acting as a vendor. Within one month of purchase, the vehicle experienced a transmission failure, raising concerns regarding procurement due diligence and vendor legitimacy.

- One payment amounting to \$10,432 for services rendered was not supported by a job order, contrary to established control requirements.

Fiscal Year 2025

-Unsupported Disbursements

- 103 instances totaling \$154,693.47 where disbursements lacked approved and certified purchase orders, price quotations, and/or proforma invoices. For example:
 - Check No. 54370, a \$10,000 payment was made toward the purchase of a vehicle costing \$15,000. The approved budget allocation was only \$10,000, with the remaining \$5,000 reportedly paid personally by the Chief Magistrate through salary allotment. This arrangement raises concerns regarding adherence to approved budget limits and procurement protocols.
 - Similarly, a check, no, 56058 for \$4,950 issued based on Council of Mwoalen Wahu prepared billing invoice was not properly justified and supported by vendor's invoice rendering this transaction questionable.

-Deficiencies in Job Orders and Approvals

- Eight disbursements totaling \$29,659.50 either lacked supporting job orders, did not indicate job order numbers, or were not properly approved by the allottee and certified by the Treasurer, as required.

-Absence of Contract Agreements

- Ten disbursements totaling \$115,328.74, related to repairs, maintenance, or construction projects exceeding \$5,001, were not supported by formal contract agreements.

-Control Weakness Over Accounting

- A check (No. 54243) in the amount of \$50, issued as a meeting allowance to a Councilman for Section 4 of Sokehs and reported as lost, was subsequently presented for payment at a local store. Although a stop-payment order had been initiated, preventing the bank from honoring the check, SMG did not cancel the transaction in the system nor did it reissue a replacement check.

Cause: The identified deficiencies are due to weak enforcement of Financial Management Regulations (FMR) and inadequate oversight and monitoring of the disbursement process. Specifically:

- Management did not consistently enforce requirements for supporting documentation;
- There is inadequate review and approval control by the Chief Magistrate and the Treasurer;
- Procurement procedures were not consistently followed, including vendor verification, budget adherence, and contract execution for applicable transactions;

- Staff may lack adequate training or awareness of FMR requirements.

Effect: These control deficiencies and instances of non-compliance expose SMG to several issues, including:

- Increased risk of unauthorized, improper or fraudulent disbursements;
- Exposure to financial loss, as evidenced by questionable procurement transactions (e.g., vehicle purchase without adequate due diligence); and,
- Weak accountability and audit trail.

Recommendation: We recommend that the Chief Magistrate and Treasurer should:

1. **Enforce Documentation Requirements** by requiring that all disbursements be supported by complete and appropriate documentation prior to payment processing.
2. **Strengthen Review and Approval Controls** by ensuring that all transactions are reviewed, approved by the appropriate official, and certified for fund availability by the Treasurer before disbursement.
3. **Enhance Procurement Compliance** by implementing established control policies and procedures.
4. **Communicate Policies to Employees** through training and guidance.
5. **Implement Monitoring and Accountability Measures** by establishing ongoing supervisory oversight and monitoring.
6. **Demand reimbursement** from all questionable transactions.

Auditee Response: Please refer to the auditee response on pages 15-23 of this report.

Auditor Reply: The findings were presented to SMG management and staff during the exit conference and nothing was raised by management regarding the audit finding being “unclear”. Regardless, management admitted to deficient filing system in responding to the finding on missing supporting documents.

For the purchase of the \$15,000 vehicle: SMG should not allow any employee or official to make payments because of budget limit. SMG should only expend what is approved in the budget.

As for the \$20,000 vehicle: SMG did not respond however, the matter was referred to POPA Compliance Investigative Division for investigation.

Finding number 4: Control Weakness in the Payroll Process

Criteria: Payroll must be processed in accordance with SMG FMR 1.60 to 1.62, requiring verifiable time and attendance documentation, proper authorization, and strict limits on payroll advances.

Condition: Our review of payrolls for fiscal years 2024 and 2025 revealed deficiencies, for example:

- In FY 2025, the Former Assistant Treasurer received early releases of her payrolls amounting to \$870 that were not authorized by the Treasurer. Also, in another instance her hours reported in the timesheet was only for 44 hours but she was paid 80 hours. Further, in another case, she charged the Division of Police account to cover her payroll early release.
- An employee’s reported hours in the timesheet were 72 hours, but he was paid for the full 80 hours.
- In FY 2025, we noted 31 instances where leaves were not approved but payments were received.
- SMG did not deduct 10% income tax for the portion of annual income over \$11,000. We also noted that SMG 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 \$15,438.
- We also found that in FY 2025, 4 employees (Teacher’s Aides) did not receive the COLA (\$100 per pay period) despite the fact that the same employees were receiving this benefit in fiscal year 2024. This maybe a non-compliance with the SMG COLA law.
- All timesheets are not supported by verifiable time and attendance record or time cards.
- We noted that SMG allows early release of employees’ payrolls that is not in compliance with the FMR. The summary of the 13 employees in FY 2024 and 9 in fiscal year 2025 who availed the “early release” of paychecks is shown in the table below:

Scope	Employees	Total early release	Total Amount of Unearned	Total Amount not paid
FY 24	13	\$ 9,596	\$ 941	\$ 1,080
FY 25	9	8,870	637	1,358
	Total	\$ 18,466	\$ 1,578	\$ 2,438

We also noted an early release of an employee payroll of \$150 printed on **August 03, 2024** which was on a **Saturday**.

- Actual salaries and wages exceeded the budget by \$4,299 for personnel.

Scope	Department/Division	Budgeted payroll	Actual payroll	(Over)/Under Budget
FY 24	Two individuals under Public Safety	\$ 10,858	\$ 11,424	(\$ 566)
FY 25	Eight individuals under Office of Chief Magistrate, Administrative, Public Works, Office of Chief Justice, and Public Safety	89,363	93,096	(3,733)
	Total	\$100,221	\$104,520	(\$ 4,299)

In addition, forty-five (45) employees received 27 payrolls for fiscal year 2025. However, management could not provide the schedule of payrolls confirming that fiscal year 2025 contained 27 pay periods.

Cause: The weakness stem from inadequate management oversight and monitoring of payrolls, and lack of segregation of duties.

Effect: As a result, SMG exceeded its approved personnel budget for ten employees; and, exposed itself to income tax liabilities, opportunities for fraud and mismanagement.

Recommendation: We recommend that the Chief Magistrate and Treasurer should:

1. **Strengthen Payroll Processing Controls** by requiring complete documentation, thorough review and approval of the master timesheet prior to disbursement.
2. **Reject or withhold payroll processing** for transactions that do not fully comply with established requirements.
3. **Require all employees to pay back SMG** for amount still owed due to early release of payrolls.
4. **Implement Reliable Timekeeping Systems** across the government.
5. **Enforce Segregation of Duties** by separating responsibilities for payroll preparation, approval, and disbursement to reduce the risk of errors and fraud.
6. **Ensure Compliance with FSM Income Tax Laws** by understanding and implementing appropriate withholding of income taxes, including COLA where applicable, and coordinate with FSM Finance to remit all outstanding tax liabilities.
7. **Standardize Leave** require that all leave be properly documented and approved prior to payment.
8. **Strengthen Budgetary Controls.** Monitor payroll expenditures against approved budgets on a regular basis and resolve any variances promptly.
9. **Ensure Consistent Application of Compensation Policies.** Review and enforce uniform application of benefits such as COLA to ensure compliance with applicable laws.

Auditee Response: Please refer to the auditee response on pages 15-23 of this report.

Auditor Reply: The SMG did not follow the principle of early release of payroll and allowed SMG employee(s) to receive payments including unearned hours. SMG should duly follow the requirements of its FMR regarding payroll. (See also our reply under Finding No. 2).

For not paying the COLA to certain employees, SMG is not complying with Section 3 of SC11-09-25, which applies to all employees of the three branches of the government, including employees on contract.

Sokehs Municipal Government

Auditee Response (Appendix I)

Fiscal Years 2024 and 2025



SOKEHS MUNICIPAL GOVERNMENT

Sokehs Municipality
STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA 96941

Office of the Chief Magistrate

P.O. Box 2247
Tel: 691-320-3616
E-mail: sokehsgovt@gmail.com

May 7, 2026



Honorable Erick Paul
Public Auditor
Pohnpei State Government
Kolonias Pohnpei, FM 96941

Dear Public Auditor,

Thank you for sharing the recent audit findings regarding the financial controls and compliance processes. We appreciate the thorough review and the opportunity to strengthen our internal control moving forward.

We have carefully reviewed each four findings and have taken corrective actions accordingly along with the recommendations provided by your office. We are committed to maintaining compliance and continuous improvement.

Sincerely,

Stanley Ernest
Chief Magistrate
Sokehs Municipal Government

XC: Speaker-SMG
Chief Justice-SMG

Sokehs Municipal Government
Management Responses to the Audit Findings
Fiscal Year 2024 and 2025

Finding Number 1: Significance Delays and Other Deficiencies in Collections:

The significance delays of SMG Collections to deposit the funds in the Bank and other deficiencies in Collections. To trace back to the effective dates of the Memorandum of Understanding (MOA) which was on August 19, 2004 and the Financial Management Regulations (FMR) on September 06, 2019 consecutively, SMG Officer-in-charge was practically following the practice of depositing the SMG Collections on every Fridays. It was due to the small collections received in a day time which took up almost an hour to stand in line in the bank just to deposit \$30 or less than \$100 dollars. As I recalled, two auditors made an impromptu visit to SMG Treasury, ten days after the Tax and Revenue Officer left for Guam to join the Pohnpei Volleyball Team and they counted the cash receipts and the cash disbursements. As indicated in the Finding No. 1, that the Treasurer and the Assistant Treasurer indicated that "deposits were delayed pending the return of the Revenue Collector from off-island travel. The Collections were in the SMG Safe that only the Revenue Officer and the Treasurer know the Pass Code to it. The Treasurer did not deposit the collections due to the fact that she wanted the Revenue Officer and her to count the collections together to make sure that the collections he collected were intact plus the collections received after he left to Guam. The Revenue Officer came back from Guam, he went to the Auditor's Office and recounted the collections and then strengthen out the collections discrepancies. and After impromptu visit by the auditors, the Treasurer ensured that the collections are deposited on a daily basis, no matter of how much collections received. The Treasurer ensures that the recommendations are implemented and fully complied with the rules, laws, MOA and the Financial Management Regulations. (FMR will be modified or amended).

Deficiencies in Collections:

Collections from the Court were deposited in the Treasury base on what were collected from fines and forfeitures, traffic violations, etc. except the civil cases. Court Order: Payment will be made directly to the 3rd Party. Reason: It is not SMG Fund.

Finding No. 2-Multiple Payments to Officials and Employees

Payments to Employees-

Often times on special occasions, several activities happened when external officials (President's and his cabinet's visit, China and Japan officials' visits, etc.) to SMG and employees had to provide coconuts, sakaw, food, mwarmwars, gifts or other local items provided for these special occasions. Many vendors did not accept SMG to charge at theirs stores, shops, restaurants, etc. except with the cash and many vendors did not carry the needs supplies or items for the special SMG guests. Also, events happened on Sokehs Special Days (i.e. Constitution Day, Rebellion Day, Sokehs Leadership Conference and other activities). Committees-in-charge of these activities assigned employees to provide these items to accommodate the needs of these special days. Some payments were paid directly to the vendors while others were paid as reimbursements to the employees for food or items provided.

As shown in the table provided under this Finding No. 2, regarding the Bullet No. 4, it was stated that amounts paid to employees are mostly for "Early Release" of payrolls. Early Release of payrolls does not incur an employee's outstanding amount to the Government. The Early Release is for hourly earned by the employee and that is the employee's money or amount already earned by the services performed. If the employee resigns or terminates from the government, he or she does not owe the government any penny because the hours were already earned, whereas, an advance that stated in the FMR which also allowable to the employees, it is a vise versa of the early release. The employee has to pay back to the government because the hours were not earned yet. The Early Release Payment is not stated in the Laws or Regulations whether is allowed or not allowed but it is silent which means " YES or NO" (Common Sense) base on the management's judgement and approval.

Payment to Officials:

Since the Findings were in general and not clearly stated or checks numbers were not stated for management to identify to explain or address for resolutions of our deficiencies and inaccuracies. Management needs to be aware of all on one and one basis (if not in the audit findings but one separate sheet or attachments for corrective actions.

In addition, your summary of the officials in the table under this Finding No. 2, where it indicated that Speaker's FY 2024 & FY 2025 amounts and Check No. issued (11) but did reflect the checks numbers (for easy reference). The same as the 2 Councilmen mentioned in the same table (Check No. issued is 1 for the 2 Councilmen). Your sub-totals for the two amounts the Speaker and the 2 Councilmen did not match. $1,802.00 + 700 = \$1,902.00?$ or $2,502.00?$ or $1,802.00 + 100.00 = 1,902.00?$ The Councilmen's allowance is \$50.00 each so which one is correct?

Representation Expenses are allowed to be incurred in the course of official public relations or functions, entertainments, activities, or constituent services necessary to advance for the purpose and goals of the Sokehs Government. (Per FMR and related official documents).

Under this Finding No. 2, SMG Treasury will not allow or will stop payments to officials or employees.

Finding No. 3-Significant Control Deficiencies in the Disbursements Process

Bullet No. 1 under Finding No. 3. 103 instances totaling \$177,047, where disbursements were not supported by approved and certified purchase orders, price quotations, and/or proforma invoices, as required by the FMR. Most of these deficiencies and disbursements were not clear or not specifically identified of which procurement or disbursement SMG should address or response to. Most of these instances were lumped together or in general. Many supporting documents from FY 24 and FY 25 were not filed accordingly. Some were not attached to the procurement requests and were found in a box underneath the former Assistant Treasurer's desk. Missing supporting documents are attached to these responses for your information and considerations. I admit that this is one of our failures and weaknesses with the filing system.

The deficiencies in the Job Orders and approval stemmed from lack of knowledge on the processing of the Job Orders. This template was never used in the past until present. The Treasurer sent out the form and advised the divisions and departments to seek assistance from her when deemed necessary.

Some of the contracts for the projects, constructions and maintenance came in after the fact that those mentioned already started without certifications or not following the procedures and the procurement requirements. Treasurer will adhere and ensure that we at the SMG comply with the requirements of the FMR, and the Procurement requirements by providing all the supporting documents for the maintenance and constructions contracts, job orders, purchase orders and all documents pertaining to the cash disbursements.

Unsupported Disbursement:

Check No. 54370 for \$10,000-Purchased of a vehicle cost \$15,000. The individual is allotting \$100.00 for the extra \$5,000 from his own salary after the Council refused to pay the extra amount.

Appropriation of \$10,000 for Mwoalen Wahu

Funds spent on meeting allowances for the Council of Mwoalen Wahu, activities, and other expenses.

Check No. 56058 for \$4,950-Council of Mwoalen Wahu-Supporting document attached from the Council Wahu Secretary.

Finding Number No. 4-Control Weakness in the Payroll Process

Bullet No. 1- SMG Treasurer did not authorize nor approved the Assistant Treasurer Early Release requests. I confirmed these findings under bullet 1, the Treasurer and the Treasury staff will implement and strengthen Payroll Processing Controls by complying with the requirements of the payroll processing. Under the Recommendations of these findings No.3. (No. 1 and No. 2, The Treasury will Reject or withhold payroll processing for transactions that do not fully comply with the established requirements.

No. 3 of these Recommendations. **Require all employees to pay back SMG for amount still owed due to early release of payrolls.** For the Early Release payment, it is not for an outstanding amount incurred by the employees to the SMG. The Early Release is for the hours earned or owed to the employees by the government. Therefore, not all employees are required to pay back to SMG, unless there are some that were not cleared or identified to the management as requested to OPA to specify but there were no identifications or clear specifications provided to SMG Management. Advance Payroll is what stated in the MOA and the FMR that can be made to an employee only for funeral purposes and medical treatments for immediate family and not to exceed 80% of employee's normal pay in a pay period. It is also stated that any amount advanced will be repaid in the next fortnightly pay-run resulting in a zero amount owing against the advance and normal payment will resume the following pay day. Whereas, the Early Release is only releasing the amount that is already earned (80% hours earned) by the employee in that particular pay period). There is no requirement to pay back for the Early Release amount since the hours and the amount were already earned by the employee.

Bullet No. 4. SMG did not deduct 10% income tax for the portion of annual income over \$11,000. SMG will seek an assistance of an expert IT to implement or install in the system to deduct the 10% income tax for the portion of annual income over \$11,000. The FSM Customs & Tax never brought an attention to SMG in the past and until present.

Cost-of-Living Allowance-COLA is not a salary it is separated from the employee's basic salary (standard pay for works performed and agreed upon), while COLA is an additional allowance which supplement

the basic pay to help employees manage daily living cost. And if the National Congress passed a law why no awareness across the board on the law? I believe, there should be an awareness to the nation-wide and I contacted a reliable person at FSM Congress PIO and she contacted the Congress Staff Attorney and he responded that Congress did not pass a law, but it was a talk-talk during Jose's Gallen's tenure. If there is such law, the SMG will implement it.

COLA for the Teacher Aides-The teacher aides are not regular employees of the SMG. They are Education employees, however when the JEMCO passed a resolution of all teachers are required to be certified and have degrees. Only degree teachers were and are allowed to funded under the Sector and SEG grants. Lewetik and Pakein teachers were non-certified or non-degree teachers, therefore, PDOE stopped funding them and were supposed to be closed down. SMG took the burden to fund them to keep the schools running. The teacher aides services are rendered to Pohnpei State Education. In FY 2024, SMG accommodated them with the FY 2024 \$80.00 COLA and in FY 2025, the Council decided to defund them. The COLA is not a fixed salary. If the Council wants to take away from the regular employees due some reasons, they can do. Therefore, it is up to the Council and when the budget was not approved, we cannot include them in the COLA. It is shown in the amendment budget that they were not budgeted. Please see attached budget. The SCR No. 03-2025 was prepared and dated February 7, 2025 and the Law or Ordinance was signed and approved on February 14, 2025 which is a valid Report to explain or described what will be approved or disapproved in the Budget. The Bill introduced on separate date from date passed on the first reading and another date on the second reading before it becomes law on or before the 30th day of the bill, or becomes law with the Chief's signature. The dates and signatures cannot be on the same date but it depends or as one of auditors cited in her explanations to the SMG staffs.

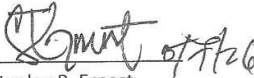
Bullet No. 8, Actual Salaries and wages exceeded the Personnel Budget. It shows that there was no Payroll Schedule established from the past until present at the SMG. The Treasurer will implement the Payroll Schedule to change the schedule used in the past. (October-September) instead of the Calendar Year. (January to December). The management will ensure not to overrun the budget anymore.

SMG will adhere and implement the internal control to be in place and to fully comply with the requirements of the FMR, monitoring and implement reliable timekeeping systems across the government, enforce the segregation of duties, and ensure compliance with the FSM Income Tax Laws.

All in all, the Audit Findings and the Recommendations, the SMG Management, especially the Treasurer will address them and enforce for compliance to the FMR, MOA, Rules and Laws of the SMG.

Kalahngan oh ni wahu,

Prepared by:  5/7/24
Angelita M. Lambert
SMG Treasurer

Concurred by:  5/7/26
Stanley R. Ernest
Chief Magistrate, SMG



Office of the Speaker

SOKEHS MUNICIPAL COUNCIL

SOKEHS MUNICIPALITY

P.O. BOX 697

SOKEHS, POHNPEI FM 96941

Phone: (691) 320-2178 Fax: (691) 320-2153

May 5, 2026

The Honorable Erick Paul
Pohnpei State Public Auditor
Pohnpei State Government
Kolonia Pohnpei FM 96941

Dear: Public Auditor Erick Paul

Re: Response to Audit Findings

I am writing to express my appreciation for the thorough work and dedication of your team in conducting the recent audit of our office. We have reviewed the findings and are pleased to inform you that we accept the audit results and have already begun taking steps to address the issues identified.

The 11th Council acknowledges the importance of adhering to the Financial Management Regulations (FMR) and is committed to implementing the recommended improvements. Specifically, we will address the following findings:

- **Delays in Deposits (FMR 1.9):** We will ensure that all monies received are deposited in the bank the same day.
- **Multiple Payments to Officials and Employees (FMR 1.14):** We will designate authorized staff to process payments, ensuring compliance with FMR and audit recommendations.
- **Significant deficiencies in the Disbursement Process:** We will strengthen our processes to ensure supporting documents are in place for all

disbursements, including the \$177,047 cited, and ensure that payments are made in accordance with budget approvals and FMR.

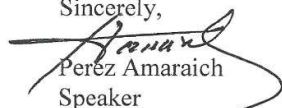
- **Control weaknesses in the payroll processes:** We will address issues related to early release payments, timesheet inaccuracies, and unpaid taxes, including the \$15,438 in unpaid COLA taxes.

We will strive to implement these improvements during this fiscal year and appreciate the guidance provided by your office.

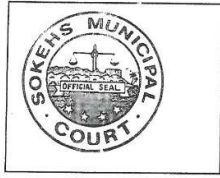
Please convey our gratitude to your team for the time and effort they invested in reviewing our office's operations. Your expertise and professionalism have been invaluable in helping us identify areas for improvement.

Thank you again for your hard work and support.

Sincerely,



Peréz Amaraich
Speaker
Sokehs Municipal Council



NAN MWOALEN KOPWUNG
EN WEIN SOKEHS
PALIEN TEPIN KOPWUNG

To: Public Auditors Office
Pohnpei-FM 96941

To Whom it may concern,

This letter is to state that, upon review, there appears to be no existing rule, policy, regulation, or written procedure expressly authorizing or prohibiting the Sokehs Municipal Court from collecting and disbursing funds related to small claims collections on behalf of the respective parties. At this time, no specific provision has been identified that grants the Court authority to act as a collection or disbursement agent in small claims matters, nor has any provision been identified that expressly restricts or forbids such action.

These collections are not considered general revenue of the State but are instead held in trust or processed in accordance with specific court orders directing their disposition, including direct remittance to plaintiffs, victims, or designated recipients as mandated by the Court.

Accordingly, such funds are not always subject to the standard remittance procedures applicable to government revenue collections handled by the Executive branch through the Treasury. The Court's role in these instances is ministerial and custodial in nature, ensuring that payments ordered by the Court are properly collected and disbursed in compliance with judicial directives.

It is respectfully noted that these practices are grounded in the inherent authority of the Judiciary to enforce its orders and administer justice, including the handling and disposition of funds as expressly directed in court judgments and orders.

This letter is provided solely for informational purposes and should not be interpreted as a legal opinion or judicial determination.

Respectfully,

Merliisa Elesha
Chief Justice
Sokehs Municipal Court



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:

Office of the Public Auditor
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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