



# POHNPEI STATE GOVERNMENT OFFICE OF THE PUBLIC AUDITOR

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## Cash Count Inspection Report

The Pohnpei Office of the Public Auditor (POPA) conducted cash count inspections of various state government departments, agencies and offices, including the Department of Treasury and Administration (DOTA). The inspection is one of POPA's activities to enhance internal control systems, reduce risk of irregularities, and promote accountability in the government. The inspection was performed in accordance with the Quality Standards for Inspection and Evaluation developed by the Council of the Inspectors' General on Integrity and Efficiency (CIGIE) and pursuant to the provisions of Article 11, Section 8 (2) of the Pohnpei State Constitution and the State Law No. 1L-10-79, as amended.

### Objectives

The objectives of the inspection were to: (1) determine if funds<sup>1</sup> and daily cash receipts existed and accounted for at the time of our surprise cash count; (2) observe whether effective control activities were in place (and/or has improved from previous audit/inspection/investigation) to ensure funds are reasonably safeguarded from potential irregularities, including abuse, misuse and/or loss; and, (3) provide recommendations, as appropriate, to strengthen/improve internal controls over funds and cash receipts.

### Scope and Methodology

Our inspection included simultaneous surprise cash counts of funds on hand at 10:00 in the morning of January 25, 2021 for the following collection points:

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<sup>1</sup> Includes petty cash, change funds and daily cash collections (including cash equivalents)

- Pohnpei Supreme Court (PSC)
- Division of Dental, Department of Health & Social Services (DHSS)
- Outpatient Cashier, DHSS
- Ice Plant in Kolonia, Office of Fisheries and Aquaculture (OFA)
- Ice Plant in Madolenihmw, OFA
- Division of Agriculture, Department of Resources and Development (R&D)
- Department of Treasury and Administration (DOTA)
- Pohnpei Public Broadcasting Corporation (PPBC)

The inspection started on January 20 – February 8, 2021, and included observation and verification of cash on hand, inquiries of responsible personnel, review and analysis of documents, and followed up on audit/inspection or investigative findings from the previous years. We also conducted follow up on the collection facilities for the current review where discrepancies were noted.

### Conclusion

Based on our inspection, we conducted surprised cash counts of eight (8) collection points and found four (4) without exceptions (cash collections tallied with receipts), two (2) with shortages (cash receipt total is more than the total cash on hand), and the other two (2) facilities with overages (cash collections counted was more than the total receipts). Refer to Table 1 below for the summary of the counts.

Table I

Collection Point	Total Receipt	Cash* Counted	(Shortage) Overage
1. Pohnpei Supreme Court	10.00	10.00	-
2. DHSS Div of Dental	\$ 333.00	\$ 333.00	-
DHSS Outpatient Cashier	1,054.95	1,054.95	-
3. OFA's Ice Plant in Kolonia	117.00	117.00	-
OFA's Ice Plant in Madolenihmw	31.00	32.25	1.25
4. R&D's Div of Agriculture	115.00	218.96	103.96
5. Dept of Treasury and Admin	9,813.80	9,793.47	(20.33)
6. PPBC	1,016.00	751.78	(264.22)
Total (balance)	<b>12,490.75</b>	<b>12,311.41</b>	<b>(179.34)</b>

\*Includes cash and cash equivalents

We also found that control activities were more effective in certain collection facilities, where management oversight, proper review and monitoring were in place. In other collection points internal controls just need to be enhanced, whereas at others management oversight, proper and regular review and monitoring need to be implemented to provide reasonable assurance that cash collections are safeguarded from potential irregularities. Our findings based on our inspection are discussed in detail on pages 3 to 6. We also have provided our recommendations, as appropriate, that if implemented could improve and/or strengthen the accountability and the handling of funds and cash receipts.

## **FINDINGS:**

1.6 of the Financial Management Regulations (FMR) requires that “all funds received by 3:00 p. m. by any state agency shall be deposited by 4:30 p. m. on the same day at the Division of Public Finance. All Funds received after 3:00 p. m. shall be deposited no later than the next business day.” Management is responsible to ensure that the requirements of FMR are complied with. Failure to do so increases the opportunity for errors, abuse, misuse and theft to occur.

**Pohnpei Supreme Court** – Our inspection found that the collection control activities were effectively in place and collections were properly accounted for and deposited timely to DOTA.

Status: Weaknesses and deficiencies of internal controls cited in the previous reviews are resolved.

**Division of Dental and Outpatient Cashier, DHSS** – Control activities were in place however on January 25, 2021, the day of our cash count, we observed that the Division of Dental’s cash collections for January 20, 2021 were not yet remitted to DOTA. We learned that the Division is required to remit its cash collections daily to the Outpatient Cashier for deposit to DOTA. The Custodian explained that the Outpatient Cashiers would not accept the remittance if there was only one cashier working, because it would delay the line for patients making payments.

The situation resulted in non-compliance with the State policy. The deposit should have been made the day after receipt. Nonetheless, we observed that the daily collections not deposited to DOTA were locked in a cash box and turned over to the Nurse Supervisor for safekeeping. We examined the contents and found the collections and receipts intact. Still, undeposited collections pose the risk for potential irregularities and warrant consideration. Hence, **we recommend** that DHSS management review the matter, and take appropriate action that would ensure compliance with State policies.

Status: Our follow up on January 28, 2021 revealed that collections that were on hand during our surprise cash counts have been deposited intact to DOTA.

**Ice Plants in Kolonia and Madolenihmw, OFA** – There are control activities in place at both Ice Plants collection facilities, however there is still room for improvement. The Ice Plant in Kolonia is manned by only one employee, where accountability can be compromised. For example, the auditors observed potential risks at this facility such as, cash collections may be received and not receipted or ice/water given out for free or exchanged for personal gain, etc.

On the other hand, at the Madolenihmw Ice Plant there are two employees responsible for the sales of ice. Still, the surprise cash count disclosed a cash sale of \$1.25 not receipted. For Madolenihmw facility, cash collections are picked up every Friday by personnel from the main office in Kolonia. The auditors learned that the collections

were not deposited right away to DOTA, but kept at the Kolonia office for a long period of time. To verify, the auditors obtained ice sales report from DOTA for January 2021 and confirmed that the cash collections from Madolenihmw Ice Plant were deposited to DOTA ten (10) days to over four (4) months late. We noted breaking/skipping off of receipt numbers in the ice sales report. We also learned that OFA drops off its collections at DOTA and obtains corresponding cash receipts days later.

There is obvious lack of work review to ensure that all funds and cash receipts are properly accounted and timely remitted to DOTA. Management was not properly and regularly reviewing the collection reports thus unaware that several receipt numbers were skipped (not reflected in the collection report), and that collections were subjected to late deposits. In addition, DOTA did not alarm OFA management concerning late deposits of collections or bring to their attention remittances showing break off of receipt numbers. Late deposit of collections to DOTA is contrary to the FMR's requirement and increase the vulnerability of collections to irregularities.

**We recommend** OFA management should review and assess its collection facilities for likely risks and where needed, implement mitigating measures to provide reasonable assurance that its cash collections are safeguarded from potential irregularities. We also recommend that management should check personnel's work, implement proper monitoring and review of collection and related reports to be aware of its operation and personnel performances, including any abnormalities that may exist so that appropriate action can be taken timely. We also recommend that State Finance should bring to the attention of responsible management any discrepancies and/or non-compliances discovered.

Status: Our follow up on February 8, 2021 revealed that collections made after our surprised cash counts were deposited to DOTA timely. However, the existed conditions observed during our visit still pose greater risk of irregularities for OFA's cash collections. We urge OFA to implement better control activities, including management oversight, regular review and monitoring to ensure requirements of FMR are complied with and that collections are safeguarded from any and all irregularities.

**Division of Agriculture, R&D** – The Division of Agriculture has internal controls in place that could be enhanced more to effectively ensure proper accountability of its funds. We observed that the Division of Agriculture receipts and deposits on the same day to DOTA the cash collections it receives from 8 a.m. to 12 p. m. Receipts for cash sales made in the afternoon are post dated and the proceeds are deposited the next day with the cash sales for that morning.

Our cash count revealed there is \$103.96 cash more than total receipts. The Custodian (new employee) explained that the \$3.96 is accumulation of loose coins and also remaining change for customer, whereas, the \$100 is a partial payment for piglets purchased by a customer. The sale was not receipted because the payment is not complete. The Chief of Agriculture confirmed the partial payment and told the auditors that when the customer brings the remaining portion, cash receipt is issued and the

money will be deposited to the State Treasury. The auditors advised the Chief of Agriculture and his staff that all cash sales should be receipted and the proceeds should be deposited to the State Treasury timely.

**We recommend** management should provide appropriate on the job training to all new employees to ensure they understand their duties and responsibilities as well as the requirements of laws, regulations, and policies and procedures. We also reiterate that all collections should be properly receipted, recorded and deposited timely to DOTA as required by the FMR. Management should also review the collection reports regularly to ensure that discrepancies are found and corrected timely and also to be updated of the Division's collection performance and status.

Status: Our follow up on January 27, 2021 revealed that the \$100 was receipted and deposited to State Treasury the day after our cash count. Another follow up made on February 3, 2021 showed that the customer has paid the remaining balance for the piglets and that the money was deposited the same day.

**Department of Treasury and Administration (DOTA)** – We found no discrepancies in the cash receipts and collections, and also the change fund maintained by DOTA. However, the petty cash fund was short by \$20.33. We observed that one employee is assigned to the Treasury collection/cashier though if the employee needs to step out, a supervisor would stand in for the employee. The situation could lead to misdeed if proper mitigating measures are not put in place.

We also learned that DOTA was aware of government agencies and offices not timely remitting the daily collections. However, there were no follow ups made to compel the respective custodians to remit the collections.

We recommend that DOTA should strengthen its oversight responsibility over the Treasury funds to ensure they are adequately safeguarded against all potential misdeeds. Mitigating controls, review and monitoring should be implemented as appropriate to lessen the opportunity for errors and/or other irregularities.

Status: Our follow up on January 29, 2021 revealed that petty cash was over by \$1.67. Though the overage amount is insignificant, the controls are not effectively in place. The findings remain, and we urge management to implement improved mitigation measures to ensure safeguard of funds.

**Pohnpei Public Broadcasting Corporation (PPBC)** – Our inspection revealed certain good practices that PPBC has implemented after our last review. It uses a safe vault for its cash collections and that it maintains a journal for all the collections. However, we also found control weaknesses in the handling of its collections due to the absence of proper oversight, regular review and monitoring by management. Per our cash count on January 25, 2021, PPBC's cash receipts total \$1,016 whereas cash on hand was \$715.10 reflecting a shortage of \$300.90. On our inquiry, the Custodian provided paid invoices of about \$36 for small office purchases, leaving \$264 still unaccounted for. We

observed the current conditions are similar to the previous audit findings, for example, late deposits, missing collections and internal control system that needs improvement. We observed that the collections were received in November and December 2020 but were still in the custody of PPBC during our visit. Failure of PPBC to make timely deposit exposed the collections to potential abuse, misuse and theft.

**We recommend** that management should implement proper oversight, monitoring and regular review of its cash collection handling and reporting to ensure FMR requirements are complied with and that collections are reasonably safeguarded from any irregularities. Management should immediately take appropriate action to resolve the issues of late deposits and the funds unaccounted for. We also recommend that management should not use the collections for office expenses. All collections should be deposited to the Pohnpei Treasury as required by the FMR.

Status: The Custodian could not provide any other invoices/receipts or explanation to justify the missing funds of \$264 during our follow up on January 29, 2021 and the week after our cash count. Hence, our findings remain and we urge management to take appropriate action to implement our recommendations to fully resolve the current findings including the audit findings from the previous audit.

Thank you and please do not hesitate to contact the Office of the Public Auditor for clarification, if required.

With warm regards, I am.

Sincerely,

*For me*

Iso Ihlen K. Joseph  
State Public Auditor

Xc: Governor, Pohnpei State  
Speaker, Pohnpei State Legislature  
Attorney General, Pohnpei State  
Chief Justice, Pohnpei Supreme Court  
Director, Department of Health and Social Services  
Administrator, Office of Fisheries and Aquaculture  
Director, Resources and Development  
Commissioner, Pohnpei Public Broadcasting Corporation