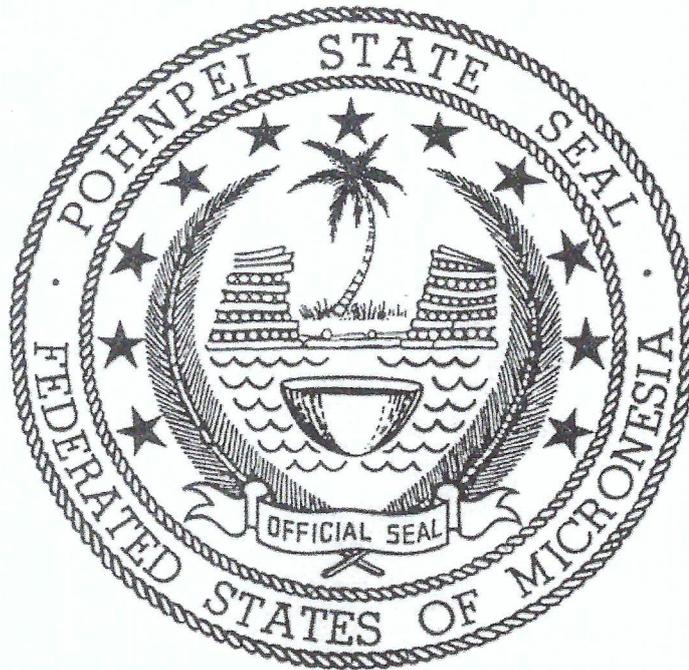


KITTI MUNICIPAL GOVERNMENT
Performance Audit of Cash Receipts and Cash
Disbursements
Fiscal Years 2019 and 2020

Office of the Public Auditor
State of Pohnpei



State Public Auditor
P. O. Box 370
Kolonia, Pohnpei State, FM 96941

Phone: (691) 320-2638
Hotline: (691) 320-8497 (24/7)
E-mail: opsa_psa@mail.fm
Website: www.opapni.fm

**KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT NO. 002-20
FISCAL YEARS 2019 and 2020**

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**OFFICE OF THE PUBLIC AUDITOR
P.O. BOX 370**

KOLONIA, POHNPEI STATE, FM 96941

Tel: (691) 320-2638/8497

WEBSITE: www.opapni.fm E-MAIL: opsa_psa@mail.fm

May 20, 2021

The Honorable Reed B. Oliver, Governor, State of Pohnpei
The Honorable Ausen T. Lambert, Speaker, 10th Pohnpei Legislature
Honorable Members of the 10th Pohnpei Legislature
The Honorable Tony Sarapio, Luhkenmoanlap, Kitti Municipal Government
Honorable Members of the Isokohnedi (Council), Kitti Municipal Government

EXECUTIVE SUMMARY – AUDIT REPORT NO. 002-20

We are pleased to transmit enclosed our POPA's Audit Report No. 002-20 concerning results of our audit of cash receipts and cash disbursements activities of the Kitti Municipal Government (KMG) for the Fiscal Years 2019 and 2020. The audit was conducted in accordance with the generally accepted government auditing standards (GAGAS) or the "Yellow BOOK" as applicable to performance audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was also performed pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and the PL No. 1L-10-79, as amended.

The objectives of our audit were to determine whether:

- (1) All cash and revenues raised and collected by the KMG during the audited period were properly receipted, recorded, accounted for and deposited intact and timely in the KMG account (s) at the designated bank; and,
- (2) The KMG expenditures and cash disbursements during the period audited were properly documented, approved, supported and accounted for in accordance with all applicable laws, policies and procedures relative thereof.

As part of our examination, we selected and tested certain cash receipts and cash disbursement transactions of the KMG for the period audited. We also applied other auditing techniques and procedures we deemed necessary to achieve our audit objectives and concluded that at the outset:

- (1) The KMG has made notable progress and improvement in its cash receipt and cash disbursement processes
- (2) There is, however, still need to re-visit, improve and strengthen implementation of the KMG cash receipt and cash disbursement policies and processes to ensure that management control over the KMG funds and related financial resources continue to function in accordance with relevant legal framework and procedures.

We have identified a number of internal control deficiencies concerning the KMG handling and management of its cash receipts and cash disbursements activities that require management attention and immediate action. Please refer to the Schedule of Findings and Recommendations shown on pages 6 to 9 of this report for detail.

As is customary, we met and discussed the draft report in greater detail with the management of the KMG in an Audit Exit Conference, and requested a formal written response from management on the report. Refer to the KMG Management Response shown as Appendix I on pages 11-12 of this report.

The Pohnpei State Law No. 5L-08-00, requires auditee to prepare and submit monthly reports to the State Auditor indicating its progress in clearing the deficiencies cited in the audit report. The law further requires that all audit findings should be satisfactorily resolved timely but not later than six months from the issuance of the audit report.

We appreciate very much and extend our sincere and warm KALAHNGAN to the Kitti Municipal Government's management, support staff members, and others for the assistance extended to our audit team during the course of this engagement. Please contact our POPA for assistance, if needed.

With warm regards, we are.

Sincerely,


Ihlen K. Joseph
State Auditor
Pohnpei

KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT
FISCAL YEARS 2019 and 2020

Introduction

This audit was requested by the Legislative Branch of the Kitti Municipal Government (KMG). A preliminary audit survey conducted by the Pohnpei Office of the Public Auditor (POPA) disclosed two major issues concerning the KMG's cash receipts and cash disbursements activities. First, the survey found that for fiscal years 2019 and 2020, the KMG received and controlled over \$1.3 million, which is about 30% more than the average fund it usually receives biennial. Second, the most recent audit and investigation of the KMG financial and program activities was conducted in 2014. The audit identified and reported significant internal control issues, including loss of public funds. For the reasons cited above, the Public Auditor authorized this audit of KMG. This report presents the results of our audit work.

Background

The KMG is one of the 11-eleven municipal or local governments of Pohnpei State. Modeled after the primary government, the KMG is composed of three branches, including.

1. **Executive Branch**– The branch is headed by the Luhkenmoanlap and is responsible for ensuring that the day-to-day operations of the government is effectively and efficiently managed based on the approved operational budget and in compliance with applicable laws and established work policies and procedures. The branch is composed of the: 1) Office of Luhkenmoanlap, 2) Division of Treasury and Administrative Services, 3) Division of Security and Public Safety, 4) Division of Legal Affairs, and 5) the Division of Public Works and Social Services.
2. **Legislative Branch**– Also known as “**Isokohnedi**” or Council, the branch is composed of twelve (12) councilmen, including the Speaker. The branch enacts municipal laws for all programs and activities, including the fiscal affairs of the KMG.
3. **Judiciary Branch**– The Judiciary Branch is the highest court of law of the Kitti Municipality. The branch is headed by a Chief Justice and is responsible for conducting hearings on court cases, interpreting laws and rendering judgments based on the laws.

The Luhkenmoanlap and Isokohnedi members are elected by popular votes of their constituents every four years. The Chief Justice is appointed by the Luhkenmoanlap with the advice and consent of the Isokohnedi and serve for a term of 6 years.

**KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT
FISCAL YEARS 2019 AND 2020**

Source and Use of KMG Funds

Revenues

The “*Local Government Revenue Sharing Act of 1989*” requires that not less than **30%** of all taxes collected by the Pohnpei State Government (PSG) from sources within the State of Pohnpei to be allocated among the 11-eleven local governments based on population. The KMG, like all other local governments, receives its share on a quarterly allocation and payment from the Department of Treasury and Administration (DoT&A), Pohnpei Government.

In addition, the KMG generates revenues from locally imposed taxes, licenses, court fines, penalties and other service fees. The KMG, from time to time, also receives financial aid to support its operations, projects, or program activities from the FSM National Government, Pohnpei State, and from the donor community within and outside of Pohnpei. The Table I below provides a summary of the KMG revenues and sources received during the two fiscal years audited.

Table I: KMG Revenue and Source – FY-2019 and 2020

Revenue Source	FY-2019	FY-2020	Total
30% Revenue Sharing	\$456,962.50	\$438,684.00	\$895,646.50
Unrecorded collection of 2019 Revenue Sharing.		348,128.29	348,128.29
		37,948.98	37,948.98
State reimbursement	10,644.25	9,434.25	20,078.50
Locally imposed taxes/fees	15,947.15	17,516.17	33,463.32
FSM grants/contribution	25,770.00		25,770.00
Other grants	5,687.50	5,687.50	11,375.00
Total	\$515,011.40	\$857,399.19	\$1,372,410.59

Source: DoT&A and KMG Financial and Accounting Records.

Expenditures

The KMG expended \$531,715 in the fiscal year 2020 for its operations and related programs and projects. Personnel costs accounted for 54% or \$285,617 of the total expenditure. For fiscal year 2019, KMG was not able to provide us with a schedule or summary of its expenditure accounts.

**KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT
FISCAL YEARS 2019 AND 2020**

However, the KMG's disbursement (check) register reflects that it expended \$429,311 for the year, of which 58% or \$249,414, was for personnel expenses.

Table II below presents the KMG's expenditures for the Fiscal Year 2020, with operation costs at 48% of the total budget.

Table II:

Expense Category	FY-2020
Personnel	\$285,617.47
All Others	9,963.61
Allowance	79,240.00
Programs & Projects	95,979.11
Consumables	49,085.66
Contractual Services	8,573.03
Fixed Assets	3,255.87
Total	\$531,714.75

Source: KMG financial and Accounting Records.

Administration and Management of KMG Public Funds

The KMG's Financial Management Act (FMA) of 1996 provides general requirements over the administration and management of the government funds. The FMA also established the Municipal Office of Treasury and Administration within the Executive Branch and defined its functions. The Office is headed by a Treasurer whose responsibilities, among others, include:

1. Recording and accounting of all funds.
2. Maintaining books and recordings for all revenues and expenditures.
3. Preparation of financial reports of the Municipality.

Audit Objectives

The objectives of the audit were to determine whether:

1. Cash and revenues were duly receipted, recorded, accounted for, and timely deposited at the KMG accounts at the designated bank.

**KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT
FISCAL YEARS 2019 AND 2020**

2. Expenditures were properly documented, approved, supported, and accounted for in accordance with applicable laws and processes.

Scope

Our engagement looked at the handling of funds received and disbursed during the fiscal years 2019 and 2020. It involved assessing whether suitable internal control environment and related control activities were in place to ensure compliance with applicable laws, policies and related work procedures; and also, provide reasonable assurance that KMG's cash receipts and disbursements are safeguarded from irregularities. As part of this audit, we followed-up and evaluated the status of prior years' audit findings to determine whether management has taken appropriate corrective measures to fully resolve the prior year audit findings. We conducted our audit from January to March 2021.

The audit was performed in accordance with the generally accepted government auditing standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Methodology

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed applicable laws and regulations, policies and procedures;
- Interviewed relevant personnel and other individuals, as appropriate;
- Observed, documented and assessed control activities;
- Examined pertinent documents and records;
- Analyzed/compared amounts, data, information, etc.;
- Sampled and tested selected transactions; and,
- Performed other procedures that were necessary to achieve our audit objectives

**KITTI MUNICIPAL GOVERNMENT
AUDIT REPORT
FISCAL YEARS 2019 AND 2020**

Prior Audit Coverage

The most recent audit of Kitti Municipal Government performed by the POPA covered Fiscal Years 2012 and 2013. The current audit followed up and evaluated the status of the findings and recommendations reported whether they have been resolved. At the outset, the review revealed that although progress have been made, KMG still need to take further actions to fully resolve the prior year audit findings. The status of the outstanding findings will be referenced and discussed in the Schedule of Findings and Recommendations on pages 6 to 9 of this report.

Kitti Municipal Government is also covered under the Annual Single Audit of the primary government. We have reviewed the Single Audit Report of Pohnpei State Government for the fiscal year 2019 and found no issues/matter that may affect our report.

Conclusion

Based on our audit, we conclude that the KMG, in the fiscal years 2019 and 2020, has made ample progress in the receipting, recording, and depositing of its cash/revenue collections in its account at the designated bank. Similarly, we noted also that most of the expenditures were approved, documented, supported, and accounted for in accordance with the KMG's FMR. In spite of the worthy move forward, the KMG operation, in our view, is still exposed and vulnerable to irregularities, including abuse, misuse, theft and fraud.

We have observed opportunities and have included in our recommendations for the government to further 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 discussed in detail on pages 6 to 9 of this report. We consider the findings significant and would like to urge the KMG management to identify and implement corrective measures to resolve the audit findings within the requirements of our legal framework, which is at the earliest time possible but no later than six (6) months from the issuance date of this report. We believe that timely implementation of corrective measures identified for the resolution of the findings could and would improve the KMG's control management of its cash receipts, cash disbursements, and accountability obligations.

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2019 AND 2020**

Finding No. 1: Cash and Revenue Collection Deficiencies

Criteria:

Internal control environment over cash and revenues received should be sufficient to ensure that collections are properly receipted, recorded and deposited intact and timely to the bank.

Condition:

During our audit, we observed that essential control activities over the KMG's cash receipts were not applied consistently and correctly. We found:

- The KMG cash receipts for fiscal years 2020 and 2019 totaled \$1,373,270.90. Of this total, \$34,209 was generated and received from locally imposed taxes and fees for services. Our review disclosed that about \$22,725 or 66% of the locally generated revenues collected was subjected to late bank deposits ranging from 8 days to 3 months. In addition, we found instances of revenue checks received from the State totaling \$3,138 that were also deposited to the bank after 15 days.
- Monthly bank reconciliation was not performed. The KMG kept track of its running book balance (bank account balance) by summarizing monthly disbursements and deposits (and not the total cash receipts). This practice, however, does not keep track of the receipts not v deposited.
- All collections but \$25 were eventually deposited to the bank for the two years audited. Other matters noted, include: a) a deposit of \$37,948.98 was not properly documented, b) \$386,077.27 was not recorded appropriately, c) receipts dated after deposit dates, and d) receipts issued out of sequence.

The above deficiencies in the control activities over cash receipts are similar to the significant issues cited in the prior audit of KMG for the Fiscal Years 2012 and 2013.

Cause:

The KMG lacks documented control policies and procedures for the handling and processing of its cash receipts. In addition, supervisory and oversight review is inadequate and in effective to ensure that practiced control activities and procedures are applied consistently and correctly. In our view the employees are aware of this and deliberately taking advantage of management lapse of oversight.

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2019 AND 2020**

Finding No. 1: Cash and Revenue Collection Deficiencies - Continued

Effect:

As a result, the Municipality's cash collections were subjected to abuse and misuse unbeknownst to Lukenmoanlap. The condition exposes KMG to other potential wrongdoing including fraud if not resolved appropriately. Moreover, the condition continues to prevent KMG from resolving prior year audit findings.

Status of Prior Year Audit Finding: Not resolved.

Recommendation:

We recommend that Lukenmoanlap should take immediate action to strengthen the management oversight and internal control system over cash receipts and collections to improve operation and reduce the risks of wrongdoing and unintentional errors. Actions should include but not limited to the following:

- Establish appropriate policies and procedures to define responsibilities and guide employees in the performance of their duties;
- Require daily reconciliation of cash receipts;
- Require monthly bank reconciliation of the Municipality's bank account;
- Implement regular and appropriate review process;
- Conduct training of personnel to enable them to carry out their duties effectively; and,
- Close periodic monitoring and supervision by management to ensure operating controls are consistently applied and working.
- Prepare and implement an action plan to track and resolve prior year audit findings on cash receipts to ensure appropriate resolution and prevent re-occurrence.

Auditee Response and Corrective Action Plan:

Please refer to Appendix 1 on Pages 11 - 12 of this report for the auditee response

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2019 AND 2020**

Finding No 2: Disbursements Accounting and Recording Deficiencies

Criteria:

The KMG Financial Management Act (FMA) of 1996 requires that disbursements should be properly supported by vendor's invoice, billing, receipt, requisition forms, purchase orders, receiving reports, and other applicable documents. In addition, the disbursements should be properly reviewed and approved by the allottee and fund certified by the Treasurer prior to payment.

Condition:

Our review of one thousand four hundred eighty-six (1,486) disbursements (including payroll) for fiscal years 2019 and 2020 revealed that one hundred sixty (160) or 11% of the disbursements reviewed were not properly maintained, supported by vouchers, receipts or other supporting documents as follows:

1. Eight (8) disbursement transactions totaling \$1,039.23 could not be located on file and were not reviewed;
2. Forty-five (45) disbursements amounting to \$7,297.49 were only supported with purchase requisitions.
3. There is indication that purchase of fuel is not properly controlled. For example, we found twenty-five (25) disbursements for fuel amounting \$9,590.30 that were issued without proper approval, e.g., authorized fuel slip signed by the allottee.
4. Nineteen (19) disbursements amounting to \$8,166.84 were made with no clear justification as to the purpose of the purchases.
5. Forty-five (45) instances where bi-weekly timesheets were not attached to payrolls and/or timesheets were not signed by the person who prepared the time sheets.
6. Ten (10) instances where applications for leave were not signed by approving officer.
7. Eight (8) instances where there was no evidence supporting employees' consecutive absences from work.

We also noted that the KMG's scheduled payroll dates were not duly followed. For example, of the fifty-two (52) paydays in the 2-years period audited, there were early releases of payrolls for certain employee(s) in forty-five (45) of the paydays.

Moreover, we question \$1,016.51 for food and sakau and payments to certain individuals in the total amount of \$768.61. The transactions lacked adequate documentation or explanation to support and justify the disbursements.

**KITTI MUNICIPAL GOVERNMENT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FISCAL YEARS 2019 AND 2020**

Finding No 2. Disbursement Accounting and Recording Deficiencies, Continued

The above deficiencies in the control activities over cash disbursements are similar to the significant issues cited in the prior audit of KMG for the Fiscal Years 2012 and 2013.

Cause:

The above condition is caused by lack of control policies and procedures in place to guide employees in the disbursements and related accounting process.

Effect:

The condition could lead to abuse and/or unauthorized spending or payments.

Status of Prior Year Audit Finding: Not resolved.

Recommendation:

We recommend that the Luhkenmoanlap should establish and implement appropriate control policies and procedures to guide the KMG's disbursements processes to ensure applicable laws and acceptable disbursement practices are observed. The policies and procedures should include action plans to track and appropriately resolve prior year outstanding audit findings on cash disbursements. Moreover, appropriate supervisory and oversight reviews should be instituted in the KMG to ensure all disbursements are legitimate and that the goals and objectives of the government are fulfilled.

Auditee Response and Corrective Acton Plan:

Please refer to Appendix 1 on pages 11 - 12 of this report for the auditee response.

KITTI MUNICIPAL GOVERNMENT

APPENDIX I – AUDITEE RESPONSE

FISCAL YEARS 2019 AND 2020



Tony Sarapio

Oahpis en Luhkenmoanlap

Kitti Municipal Government

Kitti, Pohnpei FM 96941

Tel: (691) 320-5038 Fax: (691) 320-2071

Rec'd
5/14/2021
W

May 14, 2021

Honorable Isonahnken Uh, (Ihlen Joseph)
Public Auditor
Pohnpei State Government
Kolonias Pohnpei FSM 96941

copy
5/17/21

Ihioang maing Isohko:

Ai tungoal waunekin koamwi e poatopoot, pwehki ansoau oh kahroapoa ah I moan tioangki mahs ai tungoal sakaradahn kaping oh wahu pahn kupwuroan Oanihlap, doaula wia ai tungoal sakaradahn wahu pahn kupwuroamwi oh sapwenlimoamwi kan nan Ohpis en Pohnpei State Public Auditor.

Maing Isonahnken, ai tungoal kaping me lap pwehki kupwuroamwi kupwuroan kawehid me sansal rehn sapwenlimoamwi tohn doadoahk kan me sikesikoa kawehidehr kiht nan Government en wein Kitti.

E sansal me ai tungoal Ohpis koariapak en Audit ah wiawihioang oh sohtoa peikasal I tungoaleniki ahpw kaping me lap. Koadoaudoau mwirin mwohmwohla, pwe e konoahngoatoa sen kapwaida koahkoahlik, (recommendations) kan me sapwenlimoamwi Ohpis kawehid nan Audit koaieu.

Rahnwet nin duen exit conference me se poatohier pahn kupwur oh ihr koatin kawehid, I poatohwoan kamehleh oh kapingki. E sansal me mioa koaihrda oh e pahn kak mwahusang dahme sansalehr.

I kamehlele me re koatin iang kamehlele me I poatohwoan nantihioang woan kak oh iei wasa me I poatohwoan lel ioa me sansalehr. I moan poalioan Audit en iangioa kamehlele me wasa seu itar akan nan Audit, sohtoa poahsoan pohn widing oh mwoarkau ahpw soakoahioak oh sawehweh. I moan toahn ai tungoal mwehi en pil kak doaula pwe e uhdahn pahn mwahusang dahme sansalehr.

Isohkoa, sapwenlim tohn doadoahk koaros ai tungoal kaping ntingdier oh pooatohdioang pahn kupwur .

Kalahngan oh kaselehlio


Tony Sarapio
Luhkenmoanlap en Wein Kitti



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 370
Kolonia, Pohnpei State, FM 96941
Phone: (691) 320-2638
Hotline: (691) 320-8497 – (24/7)
E-Mail: opsa_psa@mail.fm
[Website: www.opapni.fm](http://www.opapni.fm)

MEHN KAPEHSEH KESEMPWAL

Pwukoa en tetehek, apwapwalih oh doadoahki mwohni oh dipwisou en kopwermment en wein Pohnpei sapwelimatail karos (tohn doadoahk en kopwermment, Ohpis en Public Auditor oh aramas karos en Pohnpei). Komw kak repwohtki omwi iren kapwunod kan me pid sou itar en apwalih mwohni, dipwsou de awahn doadoahk en kopwermment en Pohnpei ni ahnsou karos ong ni:

Ohpis en Public Auditor
P.O. Box 370
Kolonia, Pohnpei State, FM 96941
Phone: (691) 320-2638
Hotline: (691) 320-8497 – (24/7)
E-Mail: opsa_psa@mail.fm
[Website: www.opapni.fm](http://www.opapni.fm)