

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**

**AUDIT REPORT NO. 020-02**

**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**



**OFFICE OF THE POHNPEI STATE AUDITOR**

**ANNES LEBEN  
Pohnpei State Auditor  
P.O. Box 370  
Kolonia, Pohnpei  
Federated States of Micronesia**

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
AUDIT REPORT  
YEARS ENDED SEPTEMBER 30, 2002 - 2001**

**TABLE OF CONTENTS**

	<u>Page No.</u>
I. Executive Summary	i-ii
II. Introduction	
Background	1-2
Audit Objectives, Scope and Methodology	2-3
Audit Conclusion	3
Summary of Findings and Recommendations	3-5
III. Schedule of Findings and Recommendations	6-18
IV. Auditee Response (Exhibit 1)	19

January 12, 2004

The Honorable Johnny P. David, Governor, State of Pohnpei  
The Honorable Nelson N. Pelep, Speaker, Pohnpei State Legislature  
The Honorable Members of the Pohnpei State Legislature  
The Honorable Andrew Lucky, Chief Magistrate, Kapingamarangi Municipal  
Government  
The Honorable Councilmen, Kapingamarangi Municipal Government

## **EXECUTIVE SUMMARY**

We are pleased to submit the audit report of Kapingamarangi Municipal Government for the years ended September 30, 2002 and 2001. The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit was also conducted pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law no. 1L-10-79, and such other laws promulgated thereafter.

The objectives of our audit were to determine whether:

1. Receipts and disbursements of funds are accounted for, recorded, and authorized in accordance with applicable laws and regulations;
2. Internal controls and compliance with applicable laws and regulations over financial reporting are effectively and efficiently in place.

Also, as part of our audit, we conducted a review of management controls to determine whether there is reasonable assurance that management's objectives will be achieved efficiently and effectively.

This is the second non-financial audit performed on Kapingamarangi Municipal Government by the Office of the Pohnpei State Auditor (OPSA).

We conclude based on our audit that the Municipality needs substantial improvement in its authorization, accounting, and recording of financial transactions. We also conclude that the Municipality's compliance with applicable laws and regulations and its internal control over financial reporting are not effectively and efficiently in place to permit the preparation of its financial statements in accordance with generally accepted accounting principles. In line with this, we have also identified eleven (11) internal and management control weaknesses. These audit findings are described in detail in the Schedule of Findings and Recommendations on pages 6 through 18 of the report. We have also offered our recommendations to each of the findings; we believe once implemented could assist the Municipality in clearing the deficiencies cited in the audit report and hence, improve their operations.

As is customary, a draft of this report has been provided to and reviewed by the Municipality, whose response is included in this report as Exhibit 1 (page 19). The Municipality's response to the audit report, particularly the audit findings is general in nature. We would like to inform the Municipality of the provisions of Pohnpei State Law no. 5L-08-00, an amendment to the law that created the Office of the Pohnpei State Auditor (OPSA), which requires the Municipality to submit a monthly report to the OPSA indicating its progress in clearing the deficiencies cited in the audit report, which period shall not exceed six months.

Lastly, we would like to thank the Honorable Chief Magistrate and staffs of Kapingamarangi Municipal Government for their cooperation and assistance extended to us during the course of our audit, especially during our auditors' visit to the island.

Respectfully submitted,

Annes Leben  
Pohnpei State Auditor

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**

---

**AUDIT REPORT**

---

**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**  
**AUDIT REPORT**  
**Years Ended September 30, 2002 and 2001**

## Background

Kapingamarangi Municipal Government (the Municipality) is one of the eleven local governments comprising the Pohnpei State Government. The Municipality has three branches of government, namely, the executive, legislative, and judiciary.

The executive power of the Municipality is vested in the Chief Magistrate, who is tasked with the following duties:

1. Enforcing ordinances and the Kapingamarangi constitution.
2. Responsible for municipal properties, land and other important properties.
3. Receive government officials and conduct affairs for other governments.
4. Sign or veto bills from the Municipal Government.
5. Appoint the representative with the consent of the Municipal Council.
6. Appoint an official to be in-charge of his duties while he is off-island on an official tour; with the approval of the Municipal Council.
7. Appoint other officials, subject to approval by the Council.
8. Other duties, as provided by ordinance.

The legislative power of the Municipality is vested in the Council of Kapingamarangi Municipal Government. An election section shall have at least one representative to the Council. The Council has been delegated with the power to establish tax and license fees. The Speaker heads the Council and is selected by the Council.

The judiciary branch, on the other hand, is composed of the Presiding Judge and one Associate Judge. Qualifications of Municipal Judges, their appointments, term of office, and compensation shall be as provided by State Law.

## **Sources and Uses of Funds**

The “Local Government Revenue Sharing Act of 1989” provides financial assistance to the Local Governments of Pohnpei. In the act, at least 30% of all taxes received by Pohnpei State Government from sources within Pohnpei shall be appropriated among the eleven local governments for operations and development projects identified in the local plans. Allocations of such tax revenues shall be by population based on the local citizenship, as determined by the 1985 official census or any official census thereafter. The restriction on the use of the funds from revenue sharing is mandated by State laws, specifically Budget acts and/or amendments.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**  
**AUDIT REPORT**  
**Years Ended September 30, 2002 and 2001**

**Sources and Uses of Funds, continued:**

Pursuant to Pohnpei State Law Nos. 5L-19-00 and 5L-49-01 (or the Comprehensive Budget Acts for fiscal years 2001 and 2002), the amounts of \$58,048 and \$59,678 have been appropriated from the General Fund of Pohnpei State to Kapingamarangi Municipal Government for development projects and operations under revenue sharing for fiscal years 2001 and 2002. Aside from these, Pohnpei State also appropriated the total amount of \$245,671 in fiscal years 2001-2002 for the Municipality's special projects as specified in the Public Laws.

The Municipality also receives money from local sources like license fees. Money from taxes and license fees shall be used for municipal projects, as provided by the Council.

### Budget

The Chief Magistrate shall prepare the budget for municipal projects, compensation, municipal government operation and others, and present it to the Council for review. The budget shall be reviewed by the Council and enacted by the approval of the Chief Magistrate. The budget may be amended by municipal ordinance.

### Audit Objectives, Scope and Methodology

The objectives of the audit were to determine whether:

1. Municipal receipts and disbursements of funds are accounted for, recorded, and authorized in accordance with applicable laws and regulations;
2. Compliance with applicable laws and regulations and internal controls over financial reporting are effectively and efficiently in place.

The audit covered fiscal years 2001 and 2002 and was performed from May to October 2003.

To accomplish the above-cited objectives, we employed the following audit procedures:

1. We conducted a site visit of the Municipality and assessed the records maintained by the Municipality.
2. During our site visit, we inspected and took pictures of the completed and on-going projects.
3. We reviewed the Municipality's compliance with applicable policies, laws and regulations.

4. We interviewed the Municipality's personnel to be able to understand and assess the Municipality's internal control.
5. We tested existing controls over receipt and disbursement of the Municipality's funds.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
AUDIT REPORT  
Years Ended September 30, 2002 and 2001**

**Audit Objectives, Scope and Methodology, continued:**

6. We conducted cash count of the Municipality's cash on hand on July 4, 2002.
7. We examined 100% of check vouchers and supporting documents.
8. We performed bank reconciliation of the Municipality's bank account.

**Audit Engagement**

The Office of the Pohnpei State Auditor conducted the audit in accordance with auditing standards generally accepted in the United States of America, and the *Government Auditing Standards* issued by the Comptroller General of the United States. The audit was also conducted pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and PSL No. 1L-10-79.

**Prior Audit Coverage**

This is the second audit performed by the Office of the Pohnpei State Auditor on Kapingamarangi Municipal Government. The first audit was performed for fiscal years 1989 and 1990, and was also not a financial audit.

**Audit Conclusion**

As a result of our audit, we conclude that the Municipality needs substantial improvement in its authorization, accounting, and recording of financial transactions. We also conclude that the Municipality's compliance with applicable laws and regulations and its internal control over financial reporting are not effectively and efficiently in place to permit the preparation of its financial statements in accordance with generally accepted accounting principles.

A summary of the internal and management control weaknesses is found below. The detailed outline of the findings and audit recommendations are found in the Schedule of Findings and Recommendations, on pages 6 through 18 of our report.

**Summary of Findings:**

1. The Municipality did not set up an accounting system applicable to governmental entity that would permit the preparation of its financial statements.

2. Collections received from Pohnpei State appropriations were not receipted and not recorded. Collections from local revenues, although receipted and recorded, were not deposited to the Municipality's bank account in Kolonia.
3. Cash on hand were used as advances to employees and also used to pay for some expenditures of the Municipality.
4. The Municipality did not perform bank reconciliation of its bank account/s.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**

**AUDIT REPORT**

**Years Ended September 30, 2002 and 2001**

**Audit Conclusion, continued:**

5. 58% of the Municipality's disbursements were not supported by appropriate documents such as purchase orders or miscellaneous request forms, official receipts, vendors' invoices, timesheets or payroll summary sheets, and travel authorizations. All disbursements did not also show prior approval by responsible officers before payment.
6. The Municipality issued some checks payable to "cash".
7. In two (2) occasions, all of the Municipality's employees were given two (2) and three (3) months payroll advances.
8. The Municipality did not maintain a record of fixed assets nor did it conduct periodic inventory of its fixed assets.
9. The Municipality exceeded its budget for "Consumable Goods" in both fiscal years.
10. The Municipality did not provide the auditors with a schedule of project revenue and expenditure. Furthermore, some of the checks that were identified for projects were not supported.
11. In the subsequent period, the Chief Magistrate appears to be in complete control of the authorization, receipt, disbursement, and recording of transactions.

**Summary of Recommendations:**

1. The Chief Magistrate should exert effort to establish an accounting system in the Municipality that is applicable to local governments and ensure that its personnel are trained on the proper recording of transactions.
2. The Chief Magistrate should ensure that all collections are receipted, recorded and deposited to the bank intact and as timely as possible.
3. The Chief Magistrate should ensure that the Treasurer keeps the cash on hand in a secure place and should not be used as advances to employees. Likewise, the Chief Magistrate should authorize a petty cash fund that will be used by the Treasurer to pay for minor expenditures for the daily operations of the Municipality. Cash on hand in excess of the petty cash fund should be deposited to the bank intact and as promptly as possible.
4. The Chief Magistrate should designate a responsible person to reconcile its bank account monthly in order to ensure the Municipality's correct cash balance and also detect possible errors and irregularities.

5. The Chief Magistrate and Treasurer should ensure that all disbursements are supported, verified, and approved prior to payment. We also recommend that the Chief Magistrate should instigate the preparation and adoption of its Financial Management Regulations (FMR) that will serve as guide to its employees in the disbursement of funds.
6. The Chief Magistrate should direct the Treasurer or designee to issue checks only to legitimate vendors/suppliers.
7. The Chief Magistrate should ensure that payroll advances are prohibited, except maybe for emergency situations.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**  
**AUDIT REPORT**  
**Years Ended September 30, 2002 and 2001**

**Audit Conclusion, continued:**

8. The Chief Magistrate should develop guidelines and controls on fixed assets that would include procedures on proper authorization and recording, custody and safeguarding of assets, purchase and disposal, movement or transfer, and periodic physical inventory of assets. The Treasurer or designee should also maintain a schedule of fixed assets.
9. We recommend that the Municipality should operate within its approved budget and ensure that all anticipated expenditures are fully considered in the budget before submitting them to the Council for approval. It should also maintain a schedule of budget against actual expenditures to monitor the expenditures.
10. The Chief Magistrate should direct the Treasurer to account for project and program funds separately from operations. The Chief Magistrate should also direct the Public Works Office to take charge of administering and monitoring all municipal projects and ensure that all project payments are based on project completed as certified by the project inspector.
11. The Chief Magistrate should delegate responsibilities to his staffs in such a way that no person is in complete control of cash-related functions.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Lack of accounting system and financial records**

1. Criteria: A government accounting system must make it possible to present the financial position and results of financial operations of the funds and account groups of the governmental unit, in conformity with generally accepted accounting principles. Therefore, a complete self-balancing group of accounts should be established, which should include but not limited to: general ledger, subsidiary ledgers, cash receipts journal, cash disbursements journal, payroll journal, encumbrance journal, and general journal.

Condition: The Municipality did not set up an accounting system applicable to governmental entity that would permit the preparation of financial statements. In fiscal years 2001-2002, the Treasurer only maintains a revenue ledger that records cash receipts from local revenues. In the subsequent period, the Chief Magistrate began to maintain a cash disbursement ledger, however, the recording was not up to date. The last record in the ledger is dated March 17, 2003. We also noted that two (2) checks were not recorded in the ledger, but were cashed from the bank. Another check was incorrectly recorded in the cash disbursement ledger.

Cause: The Municipality did not have qualified staff to perform the functions.

Effect: The Municipality does not know its financial position and results of operations.

Recommendation: We recommend that the Chief Magistrate should exert effort to establish an accounting system in the Municipality that is applicable to local governments. In doing so, the Chief Magistrate should seek professional assistance in setting up its accounting system as well as train its personnel on the proper recording of transactions.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Inadequate control over cash or check collections**

2. Criteria: Sound internal control requires that collections should be properly received, recorded, and deposited to the bank intact as timely as possible.

Condition: The Municipality did not issue cash receipts for collections received from Pohnpei State appropriations and neither records them in a cash receipts journal. Cash receipts were issued for collections from local revenues and recorded in a revenue ledger; however, local revenue collections were not being deposited to the Municipality's bank account. It is kept at the Municipality's office in Kapingamarangi Island to be used for municipal projects, as provided by the Council.

Cause: The location of the Municipality to the financial institution may have caused the non-deposit of local revenue collections but should not be used as an excuse to avoid depositing the collection to the bank.

Effect: Undeposited local revenue collections are exposed to risk of loss due to theft or misuse.

Recommendation: We recommend that the Chief Magistrate should ensure that all collections are receipted, recorded and deposited to the bank intact and as timely as possible. Cash received from other collection points should be timely remitted to the Treasury office together with duplicate copies of cash receipts. The Treasury office should deposit the total collections to the Municipality's account as promptly as possible.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Cash on hand**

3. Criteria: At all times, cash on hand should be kept in a secure place and should not be used without proper authorization.

Condition: The cash count conducted by our auditors on July 4, 2002 revealed cash borrowings by the Municipality's employees. The Treasurer recorded the borrowings and the corresponding payments in the revenue ledger maintained by the Municipality for local revenue.

Cash on hand were also used to pay for some expenditures of the Municipality. The payments however, were not supported.

Cause: The above condition happened because the Municipality disregarded the importance of depositing cash collections to the bank.

- Effect: The above condition has resulted to a cash shortage of \$11.70 as of July 4, 2002.

Recommendation: We recommend that the Chief Magistrate should ensure that the Treasurer should keep the cash on hand in a secure place and should not be used as advances to employees. We also recommend that the Chief Magistrate should authorize a petty cash fund that will be used by the Treasurer to pay for minor expenditures for the daily operations of the Municipality. Expenditures paid from the petty cash fund should be supported by duly approved petty cash vouchers and vendor receipts or invoices. Cash on hand in excess of the amount of petty cash fund should be deposited intact to the bank and as promptly as possible.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Lack of bank reconciliation**

4. Criteria: Bank reconciliation should be performed in a periodic basis to ensure the correctness of both bank and book records and also detect intentional or unintentional errors.

Condition: The Municipality did not perform bank reconciliation of its account. Instead, the auditors performed bank reconciliation for the Municipality's checking account from February 2001 to July 2002. The auditors were not able to perform bank reconciliation for the months of October 2000 to January 2001 and from August 2002 to September 2002 due to the absence of the bank statements. The total cash receipts were based on the total deposits to the bank as per bank statements.

Cause: The Municipality may have lacked competent personnel that can perform bank reconciliation. Also, there is no general ledger that will become the basis of the cash balance per books.

Effect: The Municipality did not know its correct cash position and could have exposed itself to overdrafts and fees for returned checks.

Recommendation: We recommend that the Chief Magistrate should designate a responsible person to reconcile its bank account monthly in order to ensure the Municipality's correct cash balance and also detect possible errors and irregularities. The bank reconciliation statement should be signed by the preparer and approved by a responsible officer of the Municipality.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Unsupported disbursements**

5. Criteria: Sound internal control requires that all disbursements are authorized, properly supported, and recorded timely. The Municipality should also keep the disbursement files based on a retention period of five years.

Condition: We reviewed 250 (100%) of the Municipality's disbursement vouchers. We noted that 146 or 58% of the disbursements were not supported. The missing documents include: purchase orders or miscellaneous request forms, receipts or invoices, timesheets or payroll summary sheets, and travel authorizations. We also noted that the Municipality did not use accounts payable vouchers (APV) in its disbursements. The APV will show approval of payment by responsible officers.

Cause: There is an absence of proper control policies and procedures on disbursements.

Effect: The above condition has resulted to payment of unsupported and possibly unauthorized transactions.

Recommendation: We recommend that the Chief Magistrate and the Treasurer should ensure that all disbursements are supported, verified, and approved prior to payment. The Chief Magistrate should also instigate the preparation and adoption of its own Financial Management Regulations (FMR) The FMR will serve as guide to its employees in the disbursement of funds. Furthermore, the disbursement vouchers and supporting documents should be filed together and kept by the Treasury office in a secure place for a retention period of five years.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Check payable to Cash**

6. Criteria: For internal control purposes, checks should not be issued to “cash”.

Condition: Our review of cash disbursements disclosed that the following checks were made payable to cash:

<u>Date</u>	<u>Check no.</u>	<u>Particulars</u>	<u>Amount</u>
3-29-02	3021	No particulars	\$ 195.00
6-25-02	3080	KMG Primary and general election	685.00
8-9-02	3087	Electrical supplies for Porakiet office	24.53
8-19-02	3090	Fuel for pick-up	20.00
8-19-02	3092	Stipend for 20 personnel-KMG election	725.00
8-19-02	3093	Contract no. C10260	4,301.39

Except for check numbers 3087 and 3090, the abovementioned checks were not supported.

Cause: The Municipality allowed the issuance of checks payable to cash.

Effect: Checks payable to “cash” may be cashed easily by unauthorized payee.

Recommendation: We recommend that the Chief Magistrate should direct the Treasurer or designee to issue checks only to legitimate vendors/suppliers.

Auditee Response: Please see Exhibit 1.

Auditor’s Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Payroll advances**

7. Criteria: In the absence of policy, the Municipality should follow the Pohnpei State's Public Service System Regulations (PSSR) that prohibits payroll advances.

Condition: In our review of payroll, we noted that in two occasions, all the employees were given two (2) and three (3) months payroll advances. The payroll advances totaled \$11,954.12. Most of these advances were issued to the former Chief Representative.

Cause: The former Chief Magistrate allowed the payroll advances.

Effect: There is no assurance that the employees who received the payroll advances would be completely present for work in the succeeding months.

Recommendation: We recommend that the Chief Magistrate should ensure that payroll advances are prohibited, except maybe for emergency situations. In addition, when payroll or advances are paid to the Chief Representative in lump sum payment, the corresponding distribution or payment to the employees of the cash should be supported with timesheet and the list of the employees who receive the payroll or advances. The list should indicate the names, signatures and social security numbers of the employees.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Lack of fixed assets record and control**

8. Criteria: Generally accepted accounting principles (GAAP) require that fixed assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost. Likewise, adequate controls should exist to safeguard the assets against loss or misuse.

Condition: The Municipality did not maintain a record of fixed assets nor does it have procedures on the accountability and monitoring of such. No documents were also provided to show physical count of the Municipality's fixed assets at least once a year.

Cause: The Municipality does not have an existing policy on fixed assets and maybe not aware of the importance of accounting such assets.

Effect: Fixed assets become susceptible to loss, theft, and misuse if not properly accounted and monitored.

Recommendation: We recommend that the Chief Magistrate should develop guidelines and controls on fixed assets. The written guidelines should include procedures on proper authorization and recording, custody and safeguarding of assets, purchase and disposal, movement or transfer, and periodic physical inventory of assets. We also recommend that the Treasurer or designee should maintain a schedule of fixed assets containing information such as acquisition date, item description, acquisition cost, property number, asset location, and estimated useful life of the asset.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Budget overrun - Consumable Goods**

9. Criteria: All disbursement of funds must be made within the approved budget. In addition, adequate control procedures should be in place in order to monitor the expenses.

Condition: The Municipality exceeded its “Consumable Goods” budget for fiscal years 2001 and 2002:

	Budget		Actual		Variance	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
a) Office Supplies			2,955	4,268		
b) POL			1,467	1,255		
Printing & Reproduction			11	127		
Rent			204			
c) Repairs & Maintenance			1,726	1,010		
Shipping & Handling			673	172		
Total	5,000	6,437	7,036	6,832	(2,036)	(395)

We noted the following in our review of the expenses:

- a) The fiscal year 2002 expenditures include purchase of materials for: the Municipality’s Porakiet office, Peace Corps volunteer’s house, and Project contractor’s house.
- b) Consist mostly of purchase of drums of gasoline and fuel for a red pick-up truck. We were informed that the Municipality used the gasoline for its generator that is located in the Municipal office in Kapingamarangi; and in picking up passengers when the ship could not go inside the lagoon during low tide. The truck, on the other hand, is owned by the Municipality and used by the former Chief Representative in Kolonia and also used by the former Chief Magistrate when he is on the island.
- c) In fiscal year 2001, \$1,261 was used to pay for parts, tune-up, and repair for the red pick-up truck, while in fiscal year 2002, \$467 was used to pay for parts and maintenance works.

Cause: The Municipality did not maintain record of budget against actual expenditures to properly monitor its expenditures.

Effect: The above condition resulted in an overrun in “consumable goods” budget by \$2,431.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Budget overrun - Consumable Goods, continued:**

Recommendation: We recommend that the Municipality should operate within its approved budget. The Chief Magistrate should ensure that all anticipated expenditures are fully considered in the budget before submitting them to the Council for approval. In addition, the Treasurer or designee should also maintain a schedule of budget against actual expenditures to monitor the expenditures.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Projects**

10. **Criteria:** The Municipality is a recipient of project funds funded by the FSM National and Pohnpei State governments. Therefore, to properly administer and monitor the project funds, the Municipality should have an accounting and control system in place for projects.

**Condition:**

**Project revenue:** *Funds received for projects were deposited to the Municipality's checking account where the operation funds are also deposited. The Municipality did not maintain record of all collections received for special projects.*

**Project expenses:** *The Municipality did not provide the auditors with a schedule of project expenditures nor project files that would contain information such as budget appropriation, contracts, inspection reports, progress payments, etc. Instead, the auditors obtained the information from the Pohnpei State Office of Transportation and Infrastructure (OT&I). We found out that during the two-year period, OT&I awarded two (2) contracts to the Municipality. One contract was awarded in the amount of \$90,000 for the renovation of classroom building and another contract for \$82,871 was for the installation of solar stills in the island. The Municipality sub-contracted the second contract to an independent contractor (foreigner). We reviewed the disbursements made by the Municipality for projects and we noted the following:*

- a. Check numbers 3044 and 3093 were issued to the former Chief Representative and to Cash for \$1,000 and \$4,301.39 respectively, as payment for labor. However, supporting documents to these checks were not provided by the Municipality.
- b. OT&I disbursed \$3,150 to the Municipality for payment of gravel and sand after receiving invoice number 1856 dated January 21, 2002 from the Municipality. Per the Municipality's disbursement files however, we noted that two (2) checks were issued that total \$3,150. One is check number 2396 which was issued to the former Chief Representative on December 18, 2001 in the amount of \$2,955; and the other one is check number 3021 which was issued to Cash on March 29, 2002 for \$195 with description as follows: "left over money for contractor". Supporting documents for checks numbers 2396 and 3021 were not provided by the Municipality.

Cause: There is an absence of proper accounting of project funds.

KAPINGAMARANGI MUNICIPAL GOVERNMENT

STATE OF POHNPEI

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Projects, continued:**

Effect: The above condition resulted to difficulty in matching project disbursements against project revenues. Also, project funds may be expended for other purposes.

Recommendation: We recommend that the Chief Magistrate should direct the Treasurer to account project and program funds separately from operation. In addition, the Chief Magistrate should also instruct the Public Works Office to take charge of administering and monitoring all municipal projects, and perform the following functions:

1. Maintain individual project file containing documents such as budget, bidding process, contract, scope of work to be performed, inspection report, progress payment, etc.
2. If needed, conduct inspection of projects and document the inspection in writing.
3. Certify or recommend payment to contractor or workers based on project completion.
4. Submit original copies of purchase orders, requisitions, receipts, invoices and other documents relating to projects, to the Treasurer or designee to support disbursement of checks.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT  
STATE OF POHNPEI**

**Schedule of Findings and Recommendations  
For the years ended September 30, 2002 and 2001**

**Segregation of duties**

11. Criteria: Sound internal control requires that there should be segregation of duties between employees who authorize and record transactions, and those who keep custody of the assets.

Condition: In the subsequent period, the Chief Magistrate receives revenue sharing and projects collections, and deposits such to the bank; he also signs and issues checks, and records the transactions in the cash disbursement ledger.

Cause: The Chief Magistrate holds office in Kolonia Town while the Treasurer is in Kapingamarangi. Also, the Municipality does not have a Chief Representative at present.

Effect: There is absence of check and balance from the above condition.

Recommendation: We recommend that the Chief Magistrate should delegate responsibilities to his staffs in such a way that no person shall be in complete control of cash-related functions.

Auditee Response: Please see Exhibit 1.

Auditor's Reply to Auditee Response dated December 3, 2003: No specific response to address the finding.

**KAPINGAMARANGI MUNICIPAL GOVERNMENT**

---

**AUDITEE RESPONSE (EXHIBIT 1)**

---

**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**