

**KITTI MUNICIPAL GOVERNMENT
STATE OF POHNPEI**

**AUDIT REPORT
YEARS ENDED SEPTEMBER 30, 1999 AND 2000**

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**KITTI MUNICIPAL GOVERNMENT
STATE OF POHNPEI
YEARS ENDED SEPTEMBER 30, 1999 AND 2000**

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February 17, 2002

The Honorable Johnny David, Governor, State of Pohnpei
The Honorable Feliciano Perman, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Honorable McGarry Miguel, Luhkenmoanlap, Kitti Municipal Government
The Honorable Councilmen, Kitti Municipal Government

EXECUTIVE SUMMARY

We are pleased to submit the audit report of Kitti Municipal Government for the years ended September 30, 1999 and 2000. The audit was performed in accordance with auditing standards generally acceptable in the United States of America and the standards applicable to financial audits 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:

- a. Receipts and disbursements of funds are accounted for, recorded, and authorized in accordance with applicable laws and regulations;
- b. Compliance by the Municipality with applicable laws and regulations; and
- c. Internal controls 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 third audit performed on Kitti Municipal Government by the Office of the Pohnpei State Auditor (OPSA). However, this is the first audit report issued by OPSA. OPSA issued management letters for the prior audits.

The highlights of our report are as follows:

1. We have identified fifteen (15) management and internal control weaknesses, which we have described in detail on pages 5 through 27 of the report as finding numbers 1 to 15.
2. Five (5) of the findings indicated the Municipality's lack of accountability and proper controls over cash collections, which are described in the Schedule of Findings and Recommendations as finding numbers 2 to 6.
3. The Municipality has incomplete record of project files, including schedules of project expenditures. This was described in the Schedule of Findings and Recommendations as finding number 14. Photos were taken for some Kitti Municipality's completed projects, presented as Appendix 1 (page 29).

As is customary, a draft of this report has been provided to and reviewed by the Municipality, whose responses and corrective action plans to the findings are included in this report as Exhibit 1 (page 28). As required by 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), the Municipality is required to submit a monthly report to the OPSA indicating its progress in clearing deficiencies cited in the audit report, which period shall not exceed six months.

In the Schedule of Findings and Recommendations section of the audit report, we have 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.

Lastly, we would like to take this opportunity to express our sincerest gratitude to the Honorable Luhkenmoanlap and staffs of Kitti Municipal Government for their cooperation and assistance extended to us during the course of our audit.

Respectfully submitted,

Ursula S. Abalos
Acting Pohnpei State Auditor

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BACKGROUND

Organization

Kitti Municipal Government is one of the eleven local governments comprising the State of Pohnpei. The Municipality has three branches namely, the executive, legislative, and judiciary. The executive branch, which is headed by the Luhkenmoanlap, is composed of four departments namely: Office of the Luhkenmoanlap, Public Works Office, Public Safety Office and Treasury Office. Each department has its own department heads. The legislative branch is the law-making body of the Municipality and is composed of the Isokohnedi (councilmen), which is headed by the Speaker. The judiciary branch, on the other hand, is headed by the Chief Justice. The people of Kitti Municipality elect both the Luhkenmoanlap and the Isokohnedi, while the Chief Justice is appointed by the Luhkenmoanlap and is confirmed by three-fourths vote of the Isokohnedi.

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 the Pohnpei 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 among the eleven local governments shall be by population based on the local citizenship, as determined by the 1985 official census or any official census, thereafter.

In the annual budget appropriation act of Pohnpei State for fiscal years 1999 and 2000, Kitti Municipal Government received municipal aid for local government operations and local projects and programs in the amount of \$380,310 and \$364,464 respectively. In addition, the Municipality also derives revenues from municipal taxes and licenses.

OBJECTIVE, SCOPE AND METHODOLOGY

The objectives of the audit are:

1. To determine whether receipts and disbursements of funds are accounted for, recorded, and authorized in accordance with applicable laws and regulations;
2. To determine compliance by the Municipality with applicable laws and regulations;
and

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3. To determine whether the internal controls over financial reporting are effectively and efficiently in place.

Our audit covered fiscal years 1999-2000 and was performed from May to December 2001.

Government Auditing Standards require that the Office of the Pohnpei State Auditor (OPSA) should have an external quality control review at least once every three- (3) years. OPSA is due for peer review this year. The last review was conducted in October 1998. Except for the timeliness of an external quality control review, the audit was conducted 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.

To accomplish the above-cited audit objectives, we performed the following audit procedures that are described in detail in the audit programs:

- We interviewed the municipality’s personnel.
- We examined documents supporting the transactions.
- We inspected the Municipality’s projects and compared with project specifications and budget requirements.
- We reviewed and verified the Municipality’s compliance with applicable laws and regulations.
- We reviewed and tested existing controls over financial reporting, and
- We compared the Municipality’s actual expenditures against budgeted amounts.

SCOPE LIMITATION

We did not perform audit procedures on the Municipality’s Time Certificate of Deposit (TCD) with a local financial institution because its existence was only represented to the auditors during the exit conference. The details of the TCD is as follows:

<u>Account name</u>	<u>Account number</u>	<u>Issue date</u>	<u>Deposit Amount</u>	<u>Term</u>	<u>Maturity Date</u>
Kitti Municipal Government	40000095	1/10/2001	\$78,010.61	91 days	4/11/2001

The statement of account for this particular TCD disclosed that no withdrawals were made by the Municipality during the period under audit.

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PRIOR AUDIT COVERAGE

This is the third audit of Kitti Municipal Government by the Office of the Pohnpei State Auditor (OPSA). However, this is the first audit report issued by OPSA. Management letters were issued for the prior audits.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

As a result of our audit, we present the following findings/weaknesses:

1. The Municipality did not maintain complete set of books of accounts.
2. The Municipality did not perform bank reconciliation of their bank accounts.
3. The Municipality has two existing inactive accounts.
4. Cash receipts were not properly issued, recorded and kept.
5. The Municipality did not completely account for cash collections from local revenues.
6. The Municipality did not completely account for cash from municipal court collections.
7. Incomplete supporting documents on cash disbursements.
8. Original copies of voided checks were missing.
9. Incomplete preparation of employment contracts.
10. Payroll files and forms were not properly maintained.
11. Meeting allowance payments were not supported by roster of attendance.
12. Dual compensation for some Isokohnedi councilmen.
13. The Municipality did not maintain fixed assets schedule.
14. The Municipality did not maintain project files and records of project expenditures.
15. Three (3) project funds received by the Municipality but none of the projects have started yet.

Based on the weaknesses noted, we recommend the following:

1. The Municipality should set up complete books of accounts and ensure that all transactions are recorded thereto.
2. Responsible personnel should perform periodic bank reconciliation in a timely manner.
3. The Municipality should close the inactive bank accounts and transfer the funds to the general account awaiting proper disposition of the fund.
4. The Municipality should establish and maintain proper controls over cash receipts.

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5. The Municipality should demand restitution of cash from responsible employees. Also, the Municipality should employ collection control procedures in the handling of cash.
6. The Municipality should ensure that all cash received from other collection points are turned over daily to the Treasury office. Also, the Municipality should demand restitution of cash from responsible employee.
7. The Municipality should ensure that all disbursements are properly supported, fund certified and approved by responsible officials.
8. The Municipality should file voided checks intact.

Recommendations, continued:

9. The Municipality should include all relevant information in their employment contracts and ensure that all parties sign thereto.
10. The Municipality should ensure that payroll files are maintained and payroll forms are properly accomplished and approved.
11. The Municipality should ensure that meeting allowances are supported by duly approved roster of attendance before processing payment.
12. The Municipality should pay allowances to councilmen who are also Pohnpei State Government (PSG) employees, only when they perform their duties as councilman after regular working hours or if they take a leave of absence from their work at PSG.
13. The Municipality should maintain a complete record of its fixed assets.
14. The Municipality should maintain complete record on projects.
15. The Municipality should immediately resolve all disputes and disagreements regarding projects not started.

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Schedule of Findings and Recommendations
Fiscal Years Ended September 30, 1999 and 2000

Books of accounts

1. Criteria:

Kitti Municipal Law no. 3I-173-97 or the Financial Management Act of 1996, states that there should be an accounting of the funds of Kitti Municipal Government. In addition, good governance and fiscal accountability dictate that financial records and complete set of balancing group of accounts be established.

Condition:

Kitti Municipal Government only maintains a check register and a logbook of receipt from local revenue and revenue sharing. The Municipality did not maintain a cash receipt journal, payroll register, subsidiary ledgers, and general ledger.

Cause:

The cause of the above condition is unknown.

Effect:

The Municipality's receipts and disbursements could not be completely accounted for. In addition, the Municipality was not able to prepare the government's financial statements.

Recommendation:

We recommend that Kitti Municipal Government should exert effort to set up and maintain its books of accounts to permit the preparation of its financial statements.

Auditee Response:

Please see Exhibit 1.

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Bank reconciliation

2. Criteria:

Sound internal control dictates that periodic bank reconciliation should be performed in a timely manner to serve as guard for the early detection of errors and irregularities. The reconciliation statement should be signed by the preparer, reviewed and approved by a responsible officer of the Municipality.

Condition:

Kitti Municipal Government did not perform bank reconciliation for the period under audit. The bank reconciliation prepared by the auditors for fiscal years 1999 and 2000 resulted to negative cash balances of \$6,788.71 as of September 30, 1999 and \$4,312.97 as of September 30, 2000.

Cause:

There was no general ledger to compare bank balances with.

Effect:

The effect of the above condition is a cash shortage of \$5,142.24 as of September 30, 2001 that remain undetected by the Municipality.

Recommendation:

We recommend that the Municipality ensure that monthly bank reconciliation is performed in a timely manner. The personnel who perform the reconciliation should sign the reconciliation schedule. Likewise, the Lukhenmoanlap or his designee should review and approve the reconciliation.

Auditee Response:

Please see Exhibit 1.

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Inactive bank accounts

3. Criteria:

All bank accounts opened should be utilized to benefit the Municipality.

Condition:

The Municipality has two existing accounts at the two financial institutions in Kolonia. These accounts are inactive and have balances of \$258.47 and \$371.05 as of September 30, 2000. One of the accounts is dormant and a fixed rate of \$7.50 annually is being charged against its balances. The other account is also being charged a monthly fee of \$5.00.

Cause:

The Treasurer was not aware of the existence of the dormant bank account. The other account was opened as a loan revolving fund account but the Municipality stopped using since it has stopped servicing loans.

Effect:

The above condition resulted to idle cash that may eventually get lost due to bank charges.

Recommendation:

We recommend that the Municipality should close and transfer the inactive accounts to the general bank account while waiting for proper disposition of the fund.

Auditee Response:

Please see Exhibit 1.

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Issuance of cash receipts

4. Criteria:

Cash receipts should be issued for all cash received. Hence, at all times, cash receipt should be properly recorded, and must be kept intact and secured in a safe place.

Condition:

Our review of the Municipality's cash receipts revealed the following:

Treasury receipts:

1. Eight (8) cash receipts were issued with no date of receipt and the description of payment. Also, there were two (2) cash receipts issued with differences between amount in words and figures.
2. There were thirty-six (36) cash receipts that were issued out of sequence.
3. There were twenty-one (21) voided receipts with no original copies.
4. Two (2) cash receipts were issued with notes that state, "not yet paid" or "not yet received".
5. Thirty-four (34) cash receipts from local revenues totaling \$655.50 were not recorded in the revenue logbook.
6. Twenty-one (21) cash receipts totaling \$978 were not receipted but recorded in the revenue logbook.
7. Six (6) instances wherein cash receipts were recorded differently in the logbook, e.g. different dates, different names of payor, and different amount.
8. Logbook from local revenue from October 1998 to June 1999 is missing.

Court receipts:

1. There were eight (8) cash receipts that were issued out of sequence.
2. The original copies of the three (3) voided receipts were missing.
3. Ten (10) cash receipts were missing.

Cause:

The Municipality lacked proper control in the handling of cash receipts.

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Issuance of cash receipts, continued

Effect:

The above condition loosens control on cash collections and may expose cash to theft, loss, or misuse.

Recommendation:

We recommend that Kitti Municipal Government should establish and maintain proper controls in the handling of cash receipts by ensuring that:

1. All receipts are issued for all cash received and must be issued in sequence;
2. All cash receipts are recorded daily in the cash receipts journal or register;
3. All cash receipts, whether issued or not, are securely kept intact; and
4. Original copies of voided cash receipts are kept intact and filed among the cash receipts file.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee's Response dated February 6, 2002:

The Municipality should also conduct its own investigation in order to pinpoint responsibility and demand restitution of cash from responsible employees.

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Accountability of cash from local revenue

5. Criteria:

Cash received daily should be accounted for and deposited in a financial institution in a timely manner.

Condition:

The Municipality's other source of funds is from local revenues, e.g. collection of business license fees. From the cash receipts booklet issued by the Municipality, we calculated the amount of collections from local revenues as follows:

	<u>Collections</u>
FY 1999	\$ 7,537.57
FY 2000	10,386.50
FY 2001	7,022.50
Total	<u>\$ 24,946.57</u>

We then traced the collections to the deposits made by the Municipality. We noted that while collections from local revenues were received almost daily, deposits to the bank were made only once to five times a month. Also, we noted six months during the three fiscal years that there were no deposits made by the Municipality for local revenues. We also calculated total deposits from local revenue collections as follows:

	<u>Deposits</u>
FY 1999	\$ 5,617.47
FY 2000	10,358.50
FY 2001	4,698.91
Total	<u>\$ 20,674.88</u>

By comparing total collections with total deposits, we computed the amount of \$4,271.69 as undeposited collections from local revenues as of September 30, 2001.

Cause:

The Municipality lacked proper accountability and control over cash collections. Also, cash was kept idle and undeposited for some time.

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Accountability of cash from local revenue, continued

Effect:

The above condition resulted to undeposited collections from local revenue of \$4,271.69 as of September 30, 2001.

Recommendation:

We recommend that Kitti Municipal Government immediately demand restitution of cash from responsible employees. We also recommend that the Municipality should employ the following collection control procedures:

- Designate different employees to handle cash related functions, namely:
 1. receipt of cash and cash receipts issuance,
 2. daily recording of cash receipts in a cash receipts journal or register, and
 3. deposits of daily collections to the bank account.
 4. perform bank reconciliation of cash account
- Ensure that the local revenue collector, if any, remits collections from business license fees to the Treasury office daily. A daily collection report and duplicate copies of cash receipts issued should support the remittance of collections to the Treasury office.
- Ensure that collections are deposited to the Municipality's bank account in a timely manner.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee's Response dated February 6, 2002:

Again, we are of the opinion that the Municipality should conduct its own investigation in order to pinpoint responsibility and demand restitution of cash from responsible employees.

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Court receipts

6. Criteria:

Cash receipts from other collection points should be accounted for and remitted timely to the Treasury office for proper recording and deposit to the financial institutions.

Condition:

Our review of the Municipality court's collections revealed the following:

1. There were six (6) instances where court receipts were remitted to the Treasury office 12 to 46 days after receipt of cash.
2. By tracing the court receipts to the Treasury office's receipts, we calculated the amount of \$1,434.44, which remained unremitted as of September 30, 2000. On the other hand, we also calculated the amount of \$1,625 Treasury receipts without the corresponding court receipts.
3. Court receipt no. 3108 for \$20 was remitted to the Treasury office for only \$10, per Treasury office receipt no. 6758.
4. Court receipt nos. 3122 and 3124 for \$20 each were remitted to the Treasury office as evidenced by Treasury office receipt nos. 4201 and 3200. However, the two Treasury receipts were not among the cash receipts maintained and recorded by Treasury office.
5. During our review of subsequent period, we calculated the amount of \$538.50, which remained unremitted as of September 30, 2001, while the amount of \$278.50 Treasury receipts were without the corresponding court receipts.

Cause:

The Municipality court lacked proper controls of cash receipts.

Effect:

The effect of the above condition is a net cash shortage from court collections of \$69.44 as of September 30, 2001.

Recommendation:

We recommend that cash receipts from other collection points should be turned over daily to the Treasury office, supported by a daily collection report and

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Court receipts, continued

duplicate copies of cash receipts. We also recommend that the Municipality collect and demand restitution of cash from the responsible personnel.

Auditee Response:

Please see Exhibit 1.

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Proper recording and supporting documentation

7. Criteria:

All disbursement of funds should be supported by adequate and valid documents, which are but should not be limited to: original invoices, receipts, purchase orders, miscellaneous requests, travel authorizations, and job orders. In addition, before the disbursement is paid, it should be fund certified and approved by responsible official. Likewise, the municipality should ensure that all disbursements are properly recorded.

Condition:

Our review of six hundred sixty-four (664) cash disbursements revealed the following:

- One hundred eighty-two (182) items were paid without the corresponding purchase orders.
- Fifty-four (54) check vouchers were neither signed by the preparer, nor fund certified, and approved.
- Nineteen (19) check vouchers were paid without invoices.
- Three (3) check vouchers were supported by duplicate copies of invoices, and yet paid.
- Thirty-seven (37) instances where disbursements were not posted to the check register.

In addition, we also noted the following:

- In fiscal year 2000, seven (7) disbursements were charged to representation expenses but were not supported by invoices. These checks were made payable to two (2) officials of the Municipality.
- Travel expenses totaling \$5,761 in fiscal year 1999 and \$2,764.36 in fiscal year 2000 were not supported by travel authorizations (TA). The budgeted amount, less airfare was paid outright to the official traveling.
- Check nos. 3373, 3480, 3893 and 4564 totaling \$13,160 were issued to various vendors for payment of vehicles purchased. There were no purchase orders (PO) to support these disbursements, and were only supported by invoices.

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Supporting documentation, continued

Cause:

The responsible employee/officer did not review the completeness of the supporting documents prior to disbursement of funds.

Effect:

The above condition resulted to payment of unsupported or unauthorized transactions, and may have also resulted to overspending of budgeted amounts.

Recommendation:

We recommend that Kitti Municipal Government should ensure that all supporting documents covering disbursements are verified, checked and approved prior to payment. Also, disbursements should be fund certified by the Treasurer or his designee, approved by the Luhkenmoanlap, and should be properly recorded.

Auditee Response:

Please see Exhibit 1.

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Voided checks

8. Criteria:

For control purposes, voided checks should be perforated, kept and filed intact.

Condition:

We found that forty-five (45) checks noted as “void” in the municipality’s check register were missing.

Cause:

The responsible personnel were not aware of the importance of filing the voided checks with the original copies intact.

Effect:

The above condition may result to the cashing of the original checks.

Recommendation:

We recommend that Kitti Municipal Government should file their voided checks intact and perform bank reconciliation to detect intentional cashing of the voided checks.

Auditee Response:

Please see Exhibit 1.

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Employment contracts

9. Criteria:

The employment contract binds the employee and the employer with the terms and conditions of the contract. Hence, the employment contract should contain all the important information concerning the hiring such as commencement date, expiration date, amount of contract, and employee's duties and responsibilities. Furthermore, it should be signed and approved by responsible employee and officer to make it legal and binding.

Condition:

Upon our review of five (5) employment contracts, we noted that four (4) did not indicate the amount of the contract. Three (3) of these contracts were also not approved. Four employees were already receiving their pay prior to signing their employment contracts.

Cause:

The Municipality appears to have failed to recognize the importance and legality of employment contracts.

Effect:

The above condition could result to future problems in the enforcement of the contract's terms and conditions.

Recommendation:

We recommend that Kitti Municipal Government should make sure that all relevant information in the employment contracts are stated in writing before all the parties sign. Also, the contract should be first signed to be enforceable.

Auditee Response:

Please see Exhibit 1.

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Payroll files and forms

10. Criteria:

Payroll files must be kept intact and payroll forms e.g. time sheets, leave application forms, and payroll deduction authorization must be properly accomplished and approved to support payment of salaries.

Condition:

During our review of six (6) pay periods each for fiscal years 1999 and 2000 we noted the following:

- There were no personnel action forms on file for all employees.
- Timesheets were not prepared by all departments/offices. Payroll payments were only supported by a summary timesheet containing total work hours for the pay period.
- There were five (5) instances where absences were paid without duly approved leave application forms.
- Allotments are being deducted and remitted to the payee without the employee filing a salary deduction authorization form.

Cause:

The Municipality appears to have failed to enforce proper documents when paying salaries.

Effect:

The above condition raises doubt as to the legitimacy of employment and payroll payments.

Recommendation:

We recommend that Kitti Municipal Government should ensure the following:

- Personnel action forms are maintained for every employee.
- All departments/offices submit timesheets to support salary payments.
- Approved leave application forms support all absences from work.

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- All other salary deductions are supported by payroll deduction authorizations.

Payroll files and forms, continued

Auditee Response:

Please see Exhibit 1.

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Meeting allowance

11. Criteria:

Payment of meeting allowance should be supported by roster of attendance showing evidence of meeting held.

Condition:

All check payments for meeting allowances were not supported by roster of attendance. We also noted that the meeting allowance for one regular session is being paid in full at the start of each regular session.

Cause:

The Finance division did not require the submission of roster of attendance of council meeting prior to payment of meeting allowance.

Effect:

The above condition might result to overpayment of meeting allowances and have resulted to regular meeting allowance paid in advance.

Recommendation:

We recommend that Kitti Municipal Government should ensure that payment of meeting allowance be supported by roster of attendance prepared by the Legislative clerk and approved by the Speaker or his designee.

Auditee Response:

Please see Exhibit 1.

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Dual compensation for some councilmen

12. Criteria:

In the absence of written personnel system regulations, Kitti Municipal Government follows the Pohnpei State Public Service System Regulations, which prohibit dual responsibilities with compensation.

Condition:

There are six (6) Isokohnedi councilmen that are also Pohnpei State government employees. Shown below is the total amount of allowances received by each councilman from Kitti Municipal Government for fiscal years 1999 and 2000.

	<u>FY 1999</u>	<u>FY 2000</u>
Councilman 1	\$ 3,575	\$ 3,275
Councilman 2	4,875	3,750
Councilman 3	2,725	2,900
Councilman 4	3,100	3,625
Councilman 5	2,650	2,675
Councilman 6	0	2,200
Total	<u>\$ 16,925</u>	<u>\$ 18,425</u>

Cause:

The Municipality allowed the payment of the above allowances without giving consideration to dual compensation.

Effect:

There is a possibility of dual compensation for the above-mentioned State employees.

Recommendation:

We recommend that Kitti Municipal Government should ensure that allowances are paid to Councilmen (who are at the same time employees of Pohnpei State Government) only when they perform their duties as Councilman after regular working hours or if they take a leave of absence from their work at PSG.

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Dual compensation for some councilmen, continued:

Auditee Response:

Please see Exhibit 1.

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Fixed assets schedule

13. Criteria:

Sound internal control requires that all movement and transfer of fixed assets must be properly accounted for.

Condition:

The Municipality provided a schedule of fixed assets to the auditors that contain only the new acquisitions for the period under audit.

Cause:

The Municipality did not maintain a complete listing of fixed assets.

Effect:

Assets that are not monitored become susceptible to theft or loss. Also, the auditors were not able to check the physical existence of the fixed assets due to the absence of the listing.

Recommendation:

We recommend that Kitti Municipal Government should maintain a list of fixed assets containing information such as acquisition date, item description, cost, property no., estimated assets life, and depreciation. A periodic inventory of the fixed assets should also be conducted by responsible personnel.

Auditee Response:

Please see Exhibit 1.

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Project files and records

14. Criteria:

The Municipality received funding for various municipal projects. In order to monitor the completion of the projects, the Municipality should maintain files containing relevant information on all the projects. These relevant documents include but not limited to the following: budget for project, duly signed contract, project plan or design, inspection reports, and schedule of project expenses.

Condition:

During our review of projects, we found that the Municipality did not maintain files for all projects awarded to them. More so, they have no record or schedule of project expenditures.

Cause:

The Municipality was not aware of the importance of maintaining project files.

Effect:

Because of the above condition, the auditors could not verify the legitimacy of project expenditures. Also, the above condition could have resulted to overrun in the budget for projects.

Recommendation:

We recommend that the Municipality's Public Works office should perform the following functions relative to project monitoring:

1. Maintain individual project file that will contain information as: copy of the grant award or budget allocation, duly signed contract, documentation on award for bidding, project plan or design, inspection report, schedule of payment, etc.
2. Conduct inspection of projects as necessary, and document findings in inspection/progress reports.
3. Certify the payment of the contract based on project completion.

KITTI MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Fiscal Years Ended September 30, 1999 and 2000

Project files and records, continued:

Auditee Response:

Please see Exhibit 1.

KITTI MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Fiscal Years Ended September 30, 1999 and 2000

Projects not yet started

15. Criteria:

Municipal projects whose funds were already received should immediately be started and completed.

Condition:

Our review of municipal projects disclosed the following:

1. As of November 1999, Kitti Municipal Government has received \$4,550 from Pohnpei State for the purchase of boat and motor for the Enpein Sponge Cultivation project. However, up to this time, the boat and motor have not been purchased.
2. Pohnpei State already disbursed to the Municipality the mobilization fund representing 10% of total project cost for these two projects, but said projects have not started to date, viz:

<u>Project</u>	<u>Mobilization amount</u>	<u>Date received</u>
Oloapoal road construction	\$ 700	May 1999
Enipein basketball court	500	May 1999

Cause:

According to the Municipality's project coordinator, the above condition happened because of these reasons:

1. The budget for the purchase of boat and motor is not enough.
2. There was a disagreement on where the Oloapoal road construction will run.
3. The owner of the land refused to permit construction of the basketball court in his property.

Effect:

The above condition resulted in the total amount of \$5,750 already received by the Municipality for projects not yet started. The possibility of the Municipality using up the money for other purposes may become apparent.

KITTI MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Fiscal Years Ended September 30, 1999 and 2000

Projects not yet started, continued

Recommendation:

We recommend that the Municipality immediately resolve all disputes and disagreements of the projects. If problems will not be resolved, we suggest that the Municipality return the funds back to its grantor. We also recommend that Kitti Municipal Government should not draw down the fund if problems exist in the implementation of project.

Auditee Response:

Please see Exhibit 1.

KITTI MUNICIPAL GOVERNMENT
STATE OF POHNPEI

AUDITEE RESPONSE (EXHIBIT 1)

YEARS ENDED SEPTEMBER 30, 1999 AND 2000

KITTI MUNICIPAL GOVERNMENT
STATE OF POHNPEI

PICTURES OF MUNICIPAL PROJECTS (APPENDIX 1)

YEARS ENDED SEPTEMBER 30, 1999 AND 2000