

**KOLONIA TOWN GOVERNMENT  
STATE OF POHNPEI**

**AUDIT REPORT  
For Fiscal Year 2000**

**OFFICE OF POHNPEI STATE AUDITOR**

**URSULA S. ABALOS  
Acting Pohnpei State Auditor  
P. O. Box 370  
Kolonias, Pohnpei State  
Federated States of Micronesia**

February 15, 2002

The Honorable Johnny P. David, Governor, State of Pohnpei  
The Honorable Feliciano Perman, Speaker, Pohnpei State Legislature  
The Honorable Members of the Pohnpei State Legislature  
The Honorable Members of Kolonia Town Government Council  
The Honorable Marcelo K. Peterson, Mayor, Kolonia Town Government

## **EXECUTIVE SUMMARY**

We are pleased to submit our audit report of Kolonia Town Government for fiscal year ended September 30, 2000. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial related audit 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 paragraph 2 of the Pohnpei State Constitution and upon request by the Kolonia Town Council.

The objectives of our audit were to determine whether:

1. Receipt and disbursement of funds are properly recorded, accounted for and authorized in accordance with applicable laws and regulations; and
2. Adequate controls are in place to safeguard resources against loss, waste, and misuse.

As a result of our audit, we identified twenty (20) internal and management control weaknesses described in detail in the Schedule of Findings and Recommendations on pages 6 through 35.

The highlights of the report are as follows:

- No financial statements prepared in accordance with generally accepted accounting principles (GAAP) were generated due to incomplete financial records.
- Cash receipts amounting to \$5,215 were not deposited. Cash received were deposited after seven (7) to forty-five (45) days.
- The non-performance of bank reconciliation resulted to issuance of checks without funds and overdrawn cash balances.
- The absence of account reconciliation led to unaccounted collection of court fines and discrepancies on recorded and deposited business license fees.
- Disbursements were not properly and completely supported by invoices, purchase orders and or receiving reports. For instance, \$4,424 worth of police gadgets and uniforms were purchased off island and paid in advance. No supporting receiving reports and invoices were attached to the accounts payable voucher.
- The lack of controls on check issuance led to four (4) checks cashed without the Treasurer's signature and forty-three (43) checks issued with erasures not initialed by the Treasurer.

- The cost of living allowance of \$20,000 divided among the employees was added to the base pay resulting to discrepancy in pay per fiscal year 2000 Budget Act.
- Kolonia Town paid 74% to 78% of the total biweekly health insurance premiums that led to budget overrun of \$5,700. Disparity on employees' individual contribution that ranged from 15% to 40% was also noted.
- An additional \$5,660 was expended due to budget overrun on meeting allowances and payment of allowances to committee non-members.
- Kolonia Town allowed salary advances of up to five (5) times within one biweekly pay period. In addition, advances amounting to \$856 of three (3) employees remain unpaid.
- Payroll overrun amounting to \$24,903 was incurred in fiscal year 2000. Subsequent test in fiscal year 2001 showed that payroll budget increased by more than \$73,700. In contrast, revenue collection increased by \$4,700 only.
- Eight (8) councilmen that received allowances for regular sessions, official expense and committee meetings were also compensated as full-time government employees of the National Government and Pohnpei State.

A draft of this report has been provided to and reviewed by Kolonia Town Government whose response and corrective action plans to the findings is presented as Appendix I of this report.

In closing, we wish to express our appreciation to the officials and staffs of Kolonia Town Government for the cooperation and assistance extended to us during the course of our audit.

Respectfully submitted,

Ms. Ursula S. Abalos  
Acting Pohnpei State Auditor

**KOLONIA TOWN GOVERNMENT  
Year Ended September 30, 2000**

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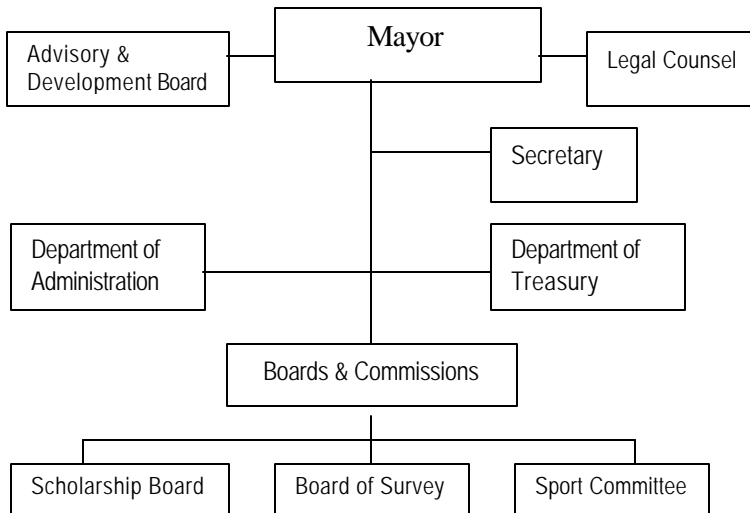
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**BACKGROUND**

Organization

Kolonia Town Government (KTG) is one of eleven (11) local governments, which comprises Pohnpei State Government. The Mayor, Speaker, and the Presiding Justice head the three branches of Government namely the Executive, Legislative and Judiciary respectively.

The following is an overview of the Executive Branch:



Front views of Kolonia Town Hall

Sources of Funds

Funding comes from the local revenues generated from imposed taxes, fines, penalties, licenses, fees and other government services. In addition, each year the Municipality receives a sum by virtue of the “Local Government Revenue Sharing Act of 1989” which provides financial assistance to the eleven local governments of Pohnpei State for operations and development projects identified in the local plans.

For fiscal year 2000, Pohnpei State Legislature appropriated from the general and special funds the amount of \$222,980 and \$166,198 respectively. In addition, an allotment of \$220,272 from the National Government for Capital Improvement Projects in fiscal year 1999 was expended during the year.

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Administration of Funds

The Kolonia Town Treasury acts as the depository of all funds of Kolonia Town Government that shall be withdrawn only in accordance with appropriations made by ordinance.

The Mayor is empowered to appoint a treasurer whose duties, responsibilities and term of office shall be established by ordinance.

Kolonia's Council Bill no. 005-88 also known as the "Finance Organization and Management Act of 1988" define the duties and responsibilities of the Treasurer under Section 3, which are:

1. The Treasurer shall prepare and review plans for the improvement and management of revenues, supervise the collection of all revenues, prepare and issue reports and fiscal information and generally perform all such services relative to Treasury as may be required.
2. The Treasurer shall be the general accountant of all funds of the Town Treasury. He shall record and certify every receipt and disbursement of money paid to, by or through the Treasury.
3. The Town Treasurer shall keep a complete set of books and shall record all daily business transactions in detail therein. He shall keep ledger of all assets and liabilities, and of all income and expenditure of all funds. The Town Treasurer shall employ accepted accounting principles regarding all transactions.
4. The Treasurer shall prepare written report of activities and revenues for the current fiscal year and shall submit to the Town Council.

The ordinance also states that the books and records of the Town Treasury shall be available for inspection and audit by the Public or State Auditor, FSM Auditor, the Mayor and Town Council.

Relative to the above-mentioned ordinance, the Financial Management Regulations of Kolonia Town was approved by the Mayor and became effective on June 5, 2000.

**OBJECTIVES, SCOPE AND METHODOLOGY**

The objectives of the audit were:

1. To determine whether receipt and disbursement of funds are properly recorded, accounted for and authorized in accordance with applicable laws and regulations; and
2. To determine whether adequate controls are in place to safeguard resources against loss, waste, and misuse.

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The engagement covered fiscal year 2000. The audit was conducted from May 30, 2001 to August 20, 2001.

Our audit scope was limited because of the absence of general ledger and subsidiary ledgers and certain supporting schedules were either missing or incomplete.

Government Auditing Standards require that the Office of 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 and the scope limitation as cited above, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

- Interviewed officers and staffs of the Executive and Judiciary branches;
- Conducted inspection of vehicles from the Department of Public Safety;
- Obtained an understanding of control procedures on receipt and disbursement;
- Examined the cash receipt and expenditure reports and supporting documents;
- Confirmed the advances of employees and remittance to third party;
- Performed bank reconciliation;
- Reviewed the Budget Act and its amendments, Ordinances and other regulations; and
- Performed analytical review of budget on payroll.

**PRIOR AUDIT COVERAGE**

This is the second financial related audit conducted by the Office of Pohnpei State Auditor since the first audit in 1997.

**FINDINGS AND RECOMMENDATIONS**

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

1. Kolonia Town did not maintain general and subsidiary ledgers.
2. Non-segregation of pecuniary functions resulted to unrestricted access to cash.
3. Cash receipts amounting to \$5,215 were not deposited. In addition, receipts amounting to \$9,333 were not recorded in the cash receipt journal but deposited in the bank.

**KOLONIA TOWN GOVERNMENT  
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Findings and weaknesses, continued

4. Absence of bank reconciliation resulted to checks being issued without funds. Subsequent reconciliation showed that cash balance was overdrawn six (6) times in fiscal year 2000.
5. Absence of reconciliation led to unaccounted revenues per comparison of provisional receipts issued to payor and the official receipt issued by Kolonia Town.
6. Disbursements were not properly supported by invoices, purchase orders and/or receiving reports.
7. Lax controls on disbursements resulted to \$18,870 unrecorded expenditure. In addition, checks were issued with erasures.
8. Deficient petty cash controls resulted to shortages.
9. Travel advance of \$2,219 was not liquidated by the traveler.
10. The addition of cost of living allowance to base pay resulted to discrepancy in pay per fiscal year 2000 Budget Act.
11. Overrun in health insurance premiums arose because of disparity of employer-employee contribution.
12. Additional \$5,660 was expended due to payment of meeting allowances that is more than the budget and payment to committee non-members.
13. Kolonia Town allowed salary advances that resulted to unpaid advances in the amount of \$856 by three (3) employees.
14. Unsupported overtime payments amounting to \$5,925 were noted for three (3) pay periods.
15. Payroll overrun amounting to \$24,903 was incurred during the year.
16. Documents supporting payroll were not properly accomplished, reviewed and approved prior to payment.
17. Eight (8) councilmen that received allowances for regular sessions, official expense and committee meetings were also compensated as full-time government employees of the National Government and Pohnpei State.
18. A councilman acted as legal representative of Kolonia Town Government Speaker and received \$200 for the service.
19. Funds received for capital projects were not properly recorded and accounted for.
20. Findings reflected in fiscal 1997 audit remain unresolved. The same conditions still exist during the audit.

Based on the weaknesses noted, we recommend the following:

1. We recommend that KTG ensure that complete financial records are maintained, printed, kept intact and properly secured.
2. We recommend KTG to ensure a proper segregation of pecuniary functions.

**KOLONIA TOWN GOVERNMENT  
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Recommendations, continued

3. We recommend KTG to ensure that controls on cash are established and strictly complied with. In addition, restitution should be made for undeposited monies and strict penalties to responsible employees should be imposed as deterrence against further loss of cash.
4. We recommend KTG to perform bank reconciliation monthly and timely.
5. We recommend KTG to perform periodic account reconciliation.
6. We recommend Kolonia Town to properly support all disbursements with underlying documents.
7. We recommend the Treasury Department to establish and implement appropriate reviews and controls on issuance of checks.
8. We recommend KTG to comply with procedures on petty cash disbursements.
9. We recommend that the Department of Treasury enforce the Financial Management Regulations on travel.
10. We recommend KTG to ensure a proper review and approval of payroll prior to payment.
11. We recommend that KTG follow the FSM Health Insurance plan.
12. We recommend KTG to ensure that payment of allowances are within the budget and that supporting documents are properly reviewed.
13. We recommend KTG to cease paying payroll advances. In addition, salary advances of the three (3) employees should be collected immediately.
14. We recommend KTG to ensure that work hours are monitored and only legitimate and actual hours earned are paid. In addition, overtime payments should be properly supported, justified, approved and budgeted.
15. We recommend that KTG ensure that budgets are carefully planned. In addition, we recommend that each department should have an itemized budget provision for overtime, night differential and employee benefits.
16. We recommend that the three branches of Kolonia Town Government ensure that payroll is properly reviewed and supporting documents are duly accomplished and approved prior to payment.
17. We recommend Kolonia Town Government work closely with Pohnpei State Government to settle the issue of dual compensation.
18. We recommend Kolonia Town Council to adhere to its policy of nonpayment of salaries for official services of councilman.
19. We recommend Kolonia Town to comply with grantor agencies' requirements for capital projects.
20. We recommend KTG to immediately implement corrective actions to resolve prior year audit findings.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 1 Incomplete Financial Records**

Criteria: Financial records and the complete set-balancing group of accounts should be established. In addition, hard copies of the report should be printed and kept intact within the five-year retention period.

Condition: KTG does not maintain general ledger and subsidiary ledgers. It only has cash receipt journal and expenditure report. The expenditure report however, is incomplete and showed discrepancies on recorded amounts, check number and account classification.

Cause: According to KTG Treasurer, fiscal year 2000 data were stored in previous computer that broke down and efforts to retrieve the data was not successful.

Effect: No fiscal year 2000 financial statements prepared in accordance with generally accepted accounting principles (GAAP) was generated.

Recommendation: We recommend that KTG ensure that complete financial records are maintained and documents are printed, kept properly and made available to authorized users.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

To clarify KTG response, the auditors would like to refer to Exhibits I and II respectively, of the report. While it is true that the Office of Pohnpei State Auditor (OPSA) issued on February 7, 2000 a letter acknowledging the receipt of KTG's financial statements, the subject "commendation" was not directed to the financial statements being presented but for the plan of action that KTG is seriously considering at that time as far as financial reporting is concerned as evident on Exhibit II.

Please understand that the auditors could not render any opinion on the financial statements that were not subjected to audit procedures that would include tests of account balances and examination of documentary evidence.

We also would like to add that the financial statements are the responsibility of the management of Kolonia Town Government.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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**Finding No. 1 Incomplete Financial Records, continued**

This engagement was originally planned as a financial audit. However, after the preliminary survey, the auditors found out that not all documents required for a financial audit were available. Thus, OPSA immediately communicated to KTG a modification of the audit engagement. Please refer to Exhibit III.

KOLONIA TOWN GOVERNMENT  
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**Finding No. 2 Segregation of Duties**

Criteria: Sound internal control requires a proper segregation of pecuniary functions.

Condition: Our audit disclosed that KTG lacks appropriate controls related to the following duties.

Job Description	Functions
Finance Officer	Prepares receipts of collections, makes deposit slips, deposits monies, and inputs cash receipts to KTG report.
Account Clerk	Receives collections, prepares receipts, keeps undeposited monies, makes deposit slips, deposits monies, and prepares billings.
Associate Justice Chief clerk of court Assistant clerk	Receives payment and issues receipts for court fees.

Cause: There is limited number of staffs.

Effect: Possible intentional and unintentional errors might arise due to the above condition.

Recommendation: We recommend that KTG ensures that pecuniary functions are properly segregated in such a way that no one would be in complete control of the function.

Auditee Response: Please refer to Appendix I.

Auditor’s Reply to Auditee’s Response Dated February 5, 2002:

The finding was based on an interview conducted with and acknowledged by the Treasurer (please refer to Exhibit IV), and cash receipts issued by KTG. In addition, in the absence of the staff-in-charge, receiving and depositing “cash” should not be an automatic function of “whoever is present.” Cash handling should be limited and restricted to authorized personnel only.

**KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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**Finding No. 3 Undeposited Cash Receipts**

Criteria: All monies received by the Municipal Government should be supported by cash receipts and deposited intact. In addition, cash receipts should be prenumbered, issued in numerical sequence, properly recorded, and kept.

Condition: Our review of Kolonia Town’s cash receipts and deposits during the year revealed the following:

1. Sixty-two (62) cash receipts with an aggregate amount of \$5,214.53 were not deposited;
2. Twenty-one (21) cash receipts amounting to \$9,333.07 were not recorded but deposited to the bank;
3. Forty-six (46) cash receipts were issued twice with the same date and transaction;
4. Nine (9) cash receipts were missing or unlocated;
5. Forty-six (46) cash receipts were issued out of numerical sequence;
6. The amounts of two (2) duplicate copies of cash receipt were changed;
7. Eight (8) instances of bank deposits unsupported by cash receipts; and
8. One hundred sixty-six (166) cash receipts were deposited after seven (7) to forty-five (45) days. Please see summary below:

# of Receipts	Elapsed days*	Amount
1	45	\$100.00
1	41	290.00
1	40	82.00
1	26	68.00
1	25	15.00
1	24	38.00
3	20	50.00
4	19	288.00
3	18	108.00
1	15	48.00
1	14	57.00
18	13	3,157.06
9	12	1,453.94
9	11	672.00
10	10	934.00
8	9	541.52
40	8	2,782.21
54	7	7,892.54

\* date of cash receipt compared to date of deposit

Cause: KTG failed to establish the control procedures on cash.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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**Finding No. 3 Undeposited Cash Receipts, continued**

Effect: The above-cited conditions resulted to the loss of \$5,215 and could result to further loss of cash without being detected.

Recommendation: We recommend that KTG ensure that control procedures on cash are established and strictly complied with. In addition, Kolonia Town should enforce the restitution of cash and impose strict penalties to responsible employee as deterrence against further loss of cash.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

While KTG investigator claimed \$1,729.40 was deposited, the auditors were not furnished with documents to show the deposit. The reconciliation with the investigator revealed that only three (3) taxpayers checks with a total of \$578.62 was found to be validated by the bank but not credited to KTG account.

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**Finding No. 4 Absence of Bank Reconciliation**

Criteria: A functioning system of internal control requires that cash accounts be reconciled with the bank statements monthly by an individual, who is independent of handling cash or writing checks. In addition, a responsible official should review the bank reconciliation.

Condition: For fiscal year 2000, the Treasury department did not perform bank reconciliation. The auditor performed the bank reconciliation instead. During the reconciliation, unopened envelopes that contain the bank statements and cancelled checks were noted.

Cause: The Treasurer attributed the condition due to shortage of staff.

Effect: Due to KTG's non-performance of bank reconciliation and incomplete records, the Treasury department has issued checks without funds. The bank reconciliation performed by the auditor showed that six (6) times during the year, the municipality's cash balances was overdrawn.

Recommendation: We recommend the Division of Treasury to perform bank reconciliation monthly and immediately upon receipt of bank statements.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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**Finding No. 5 Unreconciled surtax, court fines, business license fees**

Criteria: An effective system of internal control requires that reconciliation of account be performed on a periodic basis.

Condition: Our review of revenues during the year revealed the following:

1. Court Fines

- The generic receipts issued from June 15, 2000 up to September 30, 2000 were not accounted during the audit. Further interview disclosed that an employee of the Court admitted personal use of approximately more than \$800 collection of court fines. An out of court settlement was reached allowing the employee to continue working so that he could pay off his accountability. Further verification revealed however, that the subject employee continues to collect and handle cash collections of the Court.
- Out of forty-four (44) receipts torn from the generic cash receipt book, thirty-four (34) receipts were traced to the docket book.
- Revenues amounting to \$643 were unaccounted per comparison of the recorded official receipt and generic receipt issued to payor.
- The official receipts were unsupported by a copy of generic receipts.

2. Business License Fees

- The logbook showed a shortage of \$1,450 upon comparison to the recorded cash receipts.
- Out of 104 samples from 401 businesses recorded in the logbook, our test showed the following:
  - ❖ Two (2) instances of permits issued without corresponding payment of business license fees.
  - ❖ Three (3) instances of fees collected which are less than the rate per ordinance.
  - ❖ An instance of fees collected that is more than the rate per ordinance.

3. Surtax

- A difference of \$6,318 was noted per official receipt and generic receipt due to:
  - ❖ Three (3) instances of official receipt unsupported by generic receipts.
  - ❖ Four (4) receipts not recorded in the cash receipt report.
  - ❖ Nine (9) instances where total of generic receipts are different from the official receipts.
  - ❖ An instance of revenue posted twice in the cash receipt report.
  - ❖ An instance of business license recorded as surtax.
  - ❖ Three (3) instances of surtax recorded as business license.

KOLONIA TOWN GOVERNMENT  
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**Finding No. 5 Unreconciled surtax, continued**

Cause: No reconciliation was done by the Department of Treasury.

Effect: The effect of the above condition is a possible misstatement of recorded revenues. In addition, possible intentional and unintentional errors might be committed and remain undetected.

Recommendation: We recommend that KTG perform periodic account reconciliation for the timely detection of errors and irregularities. We further recommend that the collection and handling of court fees and fines be immediately assigned to another employee.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

2. Business License

# 2 The rates for business license fees were based on Kolonia Town's ordinance. The logbook showed that licenses #RS034 and #RS069 were issued but no corresponding receipts for alleged payment were recorded in the cash receipt report. No deposits were also found pertaining to alleged collections.

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**Finding No. 6 Unsupported Disbursements**

Criteria: Disbursements should be properly supported by underlying documentation such as vendor's invoice, purchase order, accounts payable voucher and receiving report. In addition, it should be properly reviewed and approved prior to payment.

Condition: Our review of sixty-six (66) individually significant disbursements revealed the following:

<u># of instances</u>	<u>Description</u>
33	The accounts payable voucher or invoice is not supported by a purchase order and receiving report.
30	Error in computation of charges or amount paid cannot be determined due to lack of invoice and related documents.
36	No approval of APV or cancellation of invoice to prevent duplicate payment.
24	Incomplete or no proper account distribution.
3	Checks not recorded in cash disbursement journal.

In addition, the following were noted:

1. \$4,423.78 worth of police gadgets and uniforms was paid in advance. No corresponding receiving reports and invoices were attached to the APV.
2. One vehicle was purchased off-island with an advance of \$10,000. A bill of sale attached to the copy of check showed an amount of \$8,100. A shipping cost was also incurred for \$1,138. Therefore, an amount of \$762 was not supported. In addition, the purchase exceeded the budget by \$762.
3. Materials worth \$1,655 were paid to another store owned by the same vendor.
4. Kolonia Town paid a penalty of \$792.63 for late filing of the quarterly social security tax.
5. Discrepancies were noted on paid billing and supporting timesheets on labor costs for capital projects.

Cause: The above condition resulted due to lack of control procedures on disbursements.

Effect: The effect of the above-cited condition is possible overpayment or duplicate payment of expenditures.

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**Finding No. 6 Unsupported Disbursements, continued**

Recommendation: We recommend that KTG properly support all disbursements with complete underlying documentation prior to payment.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

We believe the auditee's response did not address the specific findings; hence it will remain in the report until fully resolved by corrective actions.

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**Finding No. 7 Lack of Controls on Checks Issued**

Criteria: Control procedures on disbursements require that checks should be issued in numerical sequence, properly recorded, and any erasures must be approved by the authorized signatory.

Condition: Our audit of cash disbursements during the year disclosed the following:

1. Kolonia Town's expenditure report was understated by \$18,870.75 due to unrecorded disbursements.
2. Additional review showed the following:

<u># of instances</u>	<u>Description</u>
24	Check amount different from recorded amount.
25	Checks issued were out of numerical sequence.
4	Cancelled checks without Treasurer's signature.
43	Checks issued with erasures uninitialed by Treasurer.
5	Missing checks from files.
1	Check recorded in wrong period.
3	Checks recorded in the report were actually voided.

Cause: The absence of appropriate reviews and controls on disbursements created the condition.

Effect: The risk of undetected errors and irregularities is heightened as a result of the above condition.

Recommendation: We recommend KTG to establish and implement controls on issuance of checks.

Auditee Response: Please refer to Appendix I.

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**Finding No. 8 Petty Cash Shortages**

Criteria: Petty cash disbursements should be properly authorized, and supported by invoices, duly accomplished petty cash vouchers (PCV) and disbursed with control number.

Condition: Our detailed testing of seven petty cash replenishments revealed that all petty cash vouchers were neither prenumbered nor have control number. Additional review disclosed the following:

<u># of instances</u>	<u>Description</u>
3	Check reimbursements are more than invoice totals; total shortage is \$210.53
1	Unsupported fuel authorization of \$70.
2	Petty cash vouchers amounting to \$15.05 unsupported by invoice.
3	Vendor invoices unsupported by petty cash vouchers.
4	Voucher amount was changed without initial by official.
11	Petty cash voucher has no signature of requestor.
13	Petty cash voucher was not fund certified.
5	Vendor invoices were not cancelled or stamped 'Paid' to avoid reuse.
1	Replenishment has no supporting account payable voucher.
2	Purpose or explanation for disbursement was not specified.
14	Petty cash voucher has no approval by Mayor.
10	Expenditure classification or distribution was not specified.
4	Check amount does not agree with recorded expenditure.

Cause: The absence of a sufficient level of control consciousness within the Department of Treasury resulted to the above-cited conditions.

Effect: The effect of the above condition is a loss of \$211 and it could further result to future losses.

Recommendation: We recommend that the Division of Treasury comply with the procedural controls on petty cash disbursements.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
 FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 9 Travel Vouchers Not Filed**

Criteria: The Financial Management Regulation of Kolonia states “Any person traveling pursuant to a valid Travel Authorization shall no later than ten (10) days after the completion of the trip, submit a completed Travel Voucher, along with the documentations.”

Condition: Our review of individually significant expenditures revealed an instance wherein KTG issued a travel authorization (TA) for the election chairman to go to Guam and CNMI. The TA does not have control number and the travel period was not specified. Furthermore, the TA showed the following:

<u>Description</u>	<u>Amount</u>
Car rental (7 days)	\$350
Communication	200
Per diem	
➤ Election chairman (7 days)	875
➤ Members (2 in Guam, 2 in CNMI)	1,000
Boarding Pass (Departure Fee)	40
Other incidental expense	100
Total	\$2,565

In connection with the trip, a travel advance of \$2,219 was given to the election chairman. However, the election chairman did not file travel voucher and receipts after the trip. In addition, the Mayor did not sign the accounts payable voucher supporting the check. Erasures in amount per check and travel authorization were not initialed by the responsible employee of KTG to authenticate the validity of the documents.

Further confirmation of the travel advance revealed that two (2) election board members based in Guam and CNMI were paid \$600 each, however, no receipts were issued for the transactions.

Cause: The Treasury department did not impose the timely submission of travel vouchers.

Effect: The effect of the above condition is noncompliance with KTG Financial Management Regulations and a possible overpayment of expenditures.

Recommendation: We recommend that the Department of Treasury enforce the Financial Management Regulations on travel.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 10 Overpayment of Cost of Living Allowance**

Criteria: Section 5-5 of Kolonia Town's Comprehensive Budget for FY 2000 appropriated the sum of \$20,000 for the personnel's cost of living allowance (COLA), provided that it shall be divided equally among the employees with the exception of all elected and appointed officials.

Condition: Detailed testing of COLA revealed that although the sum was divided equally among the thirty-eight (38) employees of KTG with the exceptions of elected and appointed officials, COLA was directly added to the base pay of the individual employees.

In addition, a calculation of the total COLA given to employees for the year showed an overrun in the budget amounting to \$1,008.

Cause: The above condition was due to error on the proper application of COLA.

Effect: The addition of COLA to the regular hourly rates increases the base pay and benefits of the employees that are not budgeted.

Recommendation: We recommend KTG to ensure that a proper review and approval of payroll be made prior to payment.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

Based on documents, it appears that COLA is a one-time benefit that should not form part of the base pay of employees because the salary rates for employees were set by the fiscal year 2000 Budget Act. If the intention however is otherwise, then there is a conflict between the Budget Act and the application of COLA within the same public law.

**KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2000**

**Finding No. 11 Overrun in Health Insurance Premiums**

Criteria: The FSM Health Insurance premium should be paid based on the financial capability of the employer to pay. In addition, expenditures should be kept within the budget.

Condition: Detailed testing of employees' payroll deductions of insurance premiums disclosed the following:

1. For fiscal year 2000, health insurance premiums paid by KTG resulted to an estimated budget overrun of more than \$5,700.
2. KTG absorbed 74% to 78% of the biweekly health insurance premiums of the employees. This is in contrast with Pohnpei State Government, which assumes only a 52% share of health insurance premiums.
3. Employees' individual contribution is not uniform, which vary from 15% to 40%.
4. Kolonia Town paid 100% premiums of three (3) employees, which amounted to \$45.

The following is a schedule of employer and employee contribution for one pay period:

Job Description	Employee share		KTG share		Total
	Amount	%	Amount	%	
Chief, PW	\$ 6.00	20	\$ 24.00	80	\$ 30.00
Foreman	11.00	31	24.00	69	35.00
Custodial worker	6.00	20	24.00	80	30.00
Garbage collector	6.00	20	24.00	80	30.00
Trades helper	6.00	20	24.00	80	30.00
Mayor	18.00	21	67.00	79	85.00
Treasurer	9.00	23	31.00	78	40.00
Finance officer	6.00	20	24.00	80	30.00
Account clerk	3.00	15	17.00	85	20.00
Chief of Police	6.00	20	24.00	80	30.00
Police clerk	6.00	20	24.00	80	30.00
Deputy, PS	11.00	31	24.00	69	35.00
Lieutenant	9.00	23	31.00	78	40.00
Sergeant	9.00	23	31.00	78	40.00
PO3	8.50	26	24.00	74	32.50
PO1	6.00	20	24.00	80	30.00
Legislative aide	15.00	20	60.00	80	75.00
Legislative aide	3.00	15	17.00	85	20.00
Sergeant at arms	6.00	20	24.00	80	30.00
Associate justice	6.00	20	24.00	80	30.00
Clerk of court	26.00	40	39.00	60	65.00
Asst court clerk	6.00	20	24.00	80	30.00
Bailiff	3.00	15	17.00	85	20.00
Yardman	-	-	10.00	100	10.00
Revenue officer	-	-	25.00	100	25.00
Prosecutor	-	-	10.00	100	10.00
Total	\$191.50		\$691.00		\$882.50
Percentage to total	22		78		100

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No.11 Overrun in Health Insurance Premiums, continued**

**Effect on FY 2000**

\$22,702* multiplied by 78%	\$17,708
Per budget	(12,000)
Overrun	<u>\$ (5,708)</u>

\* Total remittance paid confirmed from third party

Cause: KTG did not follow the FSM Health Insurance table of employer and employee contribution.

Effect: An overstatement of expenditure of \$5,700 or more was incurred.

Recommendation: We recommend that KTG follow the FSM Health Insurance premium payment plan.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

The overrun occurred because KTG did not follow the FSM Health Insurance Plan.

KOLONIA TOWN GOVERNMENT  
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
 FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 12 Meeting Allowances Paid in Excess of Budget**

Criteria: Compensation for meeting allowances should be strictly monitored and paid within the appropriated budget.

Condition: Our review of meeting allowances paid during the year revealed the following:

1. The original budget of \$15,000 for committee meeting allowances was amended to \$30,000. In spite of the amendment, an overrun of \$1,540 was incurred.
2. Five (5) councilmen were paid total allowances of \$4,120 for attending various committee meetings of which they are non-members.
3. The Finance Committee members were paid total allowances of \$14,975, which is equivalent to 47% of the total committees allowances paid amounting to \$31,540.

In addition, although there was no restriction on the number of meetings held, the certificates of attendance showed that the Finance Committee discussed the budget and its amendment 9 times for fiscal year 2000 and each bill was deliberated from 3 to 23 days. Please refer to the schedules below:

<u>Bills Discussed</u>	<u>Title / Agenda</u>	<u>#</u>	<u>Allowance Paid</u>
101-98	Comprehensive bidding	6	\$850
061-97	Financial management	7	1,050
119-99	Budget	6	825
121-99 & 122-99 & 123-99	Budget	8	1,125
126-99	Budget	7	1,225
3-2000	Budget	3	450
4-2000	Budget	4	250
5-2000	Budget	6	750
	Attorney's fee	5	700
2-2000	Budget	7	175
14-2000	Budget	23	3,075
2-2000, 8-2000 & 014-2000	Budget	8	1,025
16-2000	Officer's salary	7	750
18-2000		4	100
22-2000	Budget 2001	18	2,625
	Total		<u>\$14,975</u>

# number of days paid per certificates of attendance

KOLONIA TOWN GOVERNMENT  
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
 FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 12 Meeting Allowances Paid in Excess of Budget, continued**

<u>Committees</u>	<u>Allowance Paid</u>	<u>%</u>
1 Finance	\$14,975	47
2 Judiciary & Government Operation	4,725	15
3 Social & Cultural Affairs	3,250	10
4 Land & Property	3,040	10
5 Resource & Development	2,350	7
6 Health & Education	600	2
7 Special	2,600	8
Total	\$31,540	100
Per budget	30,000	
Overrun	\$( 1,540)	

Cause: No restriction was set on attendance and budget for each committee.

Effect: Kolonia Town expended an additional \$5,660 due to budget overrun and allowances paid to committee non-members.

Recommendation: We recommend KTG to ensure that payment for allowances are within the budget. In addition, supporting documents for meeting allowances should be properly reviewed.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

The audit revealed paid committee allowances in excess of \$30,000 budget. The supporting certificates of attendance would attest to the finding.

**KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2000**

**Finding No. 13 Payment of Salary Advances**

Criteria: The Financial Management Regulations of Kolonia Town Government and the fiscal year 2000 Budget Act Section 1-11 strictly prohibits the granting of salary advances to employees.

Condition: Our audit disclosed that Kolonia Town Government allowed payroll advances to employees. Detailed test of payroll of four (4) employees for nine (9) consecutive pay periods revealed the following:

1. Salary advances of up to five (5) times were paid to an employee in one pay period;
2. Salary advances of three (3) employees amounting to \$856.33 remained unpaid;

The salary advances paid to the above-named employees are summarized below:

Pay Period	@	Treasurer		Finance Officer			Account Clerk		Clerk of Court	
		Ck #	Amount*	Ck #	Amount*		Ck #	Amount*	Ck #	Amount*
18	1	20509	\$128.59	20506	\$100.16		20505	\$95.41		
	2	20515	85.00							
19	1	20591	42.86	20594	100.16		20595	95.41	20596	\$155.47
	2	20593	42.86							
	3	20615	48.16							
20	1	20679	128.59	20677	100.16		20676	95.41		
	2	20681	42.86							
21	1	20740	84.76	20741	123.80					
	2	20774	42.38							
	3	20798	42.38							
22	1	20858	42.38	20881	123.80		20882	94.34	20884	153.72
	2	20883	169.52							
	3	20897	42.38	20898	49.51	X	20899	37.74	X	
	4	20905	42.38							
23	1	20973	127.14	20981	123.80		20982	94.34	20983	115.29
	2	20980	84.76							
	3	20988	42.38							
	4	20994	42.38							
24	1	21076	84.76	21078	49.51		21102	94.34	21109	122.97
	2	21091	84.76							
	3	21104	42.38	21103	99.04		21116	56.60		
	4	21113	84.76							
	5	21115	42.38							
25	1	21169	84.76	21190	123.80	X	21170	37.74	21211	61.49
	2	21189	127.14							
	3	21246	84.76							
26	1	21334	127.14	21350	99.04		21339	56.60	21351	122.98
X UNPAID ADVANCE		\$550.94		\$173.31			\$132.08			

@ number of salary advance within one pay period

\* net of taxes

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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**Finding No. 13 Payment of Salary Advances, continued**

In addition to the salary advances, our test also disclosed the following:

- Three (3) instances of allotments deducted from payroll were reimbursed to the employee; and
- An allotment of \$ 25 was paid twice to the allottee for the same pay period.

Cause: An outright disregard with the existing KTG regulation on salary advances.

Effect: The above condition resulted to non-compliance with KTG's Financial Management Regulation. It also resulted to unpaid salary advances amounting to \$856.

Recommendation: We recommend that KTG cease paying payroll advance to its employees. We further recommend that the corresponding salary advances of the three (3) employees be paid at once.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

Please note that this is a repeat finding from prior year audit. We do not consider the finding as a minor unintentional error. The record showed salary advances every payroll from pay period numbers 18 through 26.

KOLONIA TOWN GOVERNMENT  
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FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 14 Unsupported Overtime**

Criteria: Overtime should be paid based on legitimate hours worked in excess of 80 hours biweekly. In addition, it should be supported by a written application form with proper justification and must be approved by the appropriate officer.

Condition: Our review of payroll for three (3) pay periods revealed the following:

1. Fifty-nine (59) instances of employees whose overtime hours were paid without overtime request form.
2. An instance of overtime paid in excess of the approved number of hours amounting to \$15.60.
3. Overtime paid were eight (8) hours more than the timesheet.
4. Unsupported overtime with total amount of \$5,925.47 were paid to employees working under the following departments:

<i>Branch / Department</i>	<u>Pay Period 21</u>	<u>Pay Period 8</u>	<u>Pay Period 7</u>
Division of Administration	\$401.43	\$474.45	\$985.50
Treasury	223.09	270.57	435.54
Legislature	864.55	458.38	76.68
Judiciary	503.63	-	-
Public Works	196.04	289.81	-
Community Development	73.60	192.58	-
Prosecution	-	479.62	-
Total	<u>\$2,262.34</u>	<u>\$2,165.41</u>	<u>\$1,497.72</u>

Cause: The Comprehensive Budget Act of KTG for fiscal year 2000 did not include payment for overtime compensation. However, department heads approved overtime for their employees.

Effect: The effect of the above condition is a possible misstatement of payroll.

Recommendation: We recommend that KTG ensure that work hours are monitored and that only legitimate and actual hours are paid. In addition, overtime payments should be properly supported, justified, approved and budgeted.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
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**Finding No. 14 Unsupported Overtime, continued**

Auditor's Reply to Auditee's Response dated February 5, 2002:

The legitimacy of actual hours worked may be compromised due to lack of proper documentation. The Auditee's response is yet to be completely resolved through corrective action/s hence the finding will remain in the report.

KOLONIA TOWN GOVERNMENT  
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
 FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 15 Payroll Overrun**

Criteria: A budget should be carefully planned based on both expected and historical expenditures.

Condition: Our review of payroll budget revealed the following:

1. An overrun in payroll budget of \$24,903 was incurred for fiscal year 2000. This includes employee benefits that amounted to \$17,090.

<u>FY 2000</u>	<u>Amount</u>	<u>Per Cent</u>
Budget	\$330,195	100%
Actual	355,098	** 108%
Overrun	<u>\$(24,903)</u>	<u>-8%</u>

\*\* per social security and income tax schedule

2. Subsequent tests of payroll revealed that for fiscal year 2001, the budget for salaries was **increased by more than \$73,700** or 22%. On the other hand, revenue collection increased by \$4,700 only.
3. Further analysis showed that social security tax (per base pay) for FY 2001 is estimated at \$21,175, which is 64% of the budget provision of \$33,323. Therefore, the remaining balance of \$12,148 would be insufficient to cover overtime, night differential and holiday pay for the whole year. See schedule below:

<u>Budget</u>	<u>Per Department</u>		<u>Per Base Pay</u>		<u>Provision for SS, OT, ND</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
FY 2001	\$403,896	100%	\$370,573	92%	\$33,323	8%
FY 2000	<u>330,195</u>	100%	300,794	91%	29,401	9%
Increase	<u>\$73,701</u>					
Per Cent	<u>22%</u>					

Cause: The lack of prudent planning and foresight in formulating the budget lead to the above condition.

Effect: The effect of the above condition is misstatement of personnel compensation and benefits.

KOLONIA TOWN GOVERNMENT  
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**Finding No. 15 Payroll Overrun, continued**

Recommendation: We recommend KTG to ensure that budgets are carefully planned. In addition, we suggest that an itemized budget provision for overtime, night differential and employee benefits for each department be made for proper accountability.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 16 Deficiencies in Payroll Processing**

Criteria: Payroll documents such as timesheets, timecards, overtime requests, schedules of tour duty and leave applications should be properly accomplished, reviewed and approved.

Condition: Our review of payroll for three pay periods showed the following:

1. Employees neither maintain time cards nor log the daily time in and time out except from the Prosecution Division. Consequently, the time and attendance sheet reflects 8 hours everyday for all employees except during absences.
2. An instance of unapproved time and attendance sheet wherein three employees were paid a total of 91 hours of overtime aside from the regular 80 hours and 16 hours of holiday pay for each.
3. Allotment checks issued per pay period total from nine (9) to fourteen (14) checks.
4. An instance whereby administrative leave paid was 2 days more than the other departments.
5. Three (3) instances of paid holiday were more than the hours in the timesheet.
6. An instance of paid employee not included in the timesheet.
7. Thirty-two (32) employees were paid salary advances. This includes 24 instances of advances paid during the Christmas holidays.
8. Ten (10) instances of employee's timesheet hours reflect work hours instead of absences as evidenced by leave applications.
9. Fifteen (15) employees were paid more than the number of hours recorded in the timesheet.
10. Twenty-five (25) instances wherein the hours in the time and attendance sheet were changed without approval or initials of responsible officer.
11. An instance wherein the social security and income taxes of a department head was not deducted from his pay.
12. An employee was paid additional ten (10) hours without justification.

Cause: An apparent absence of proper controls on payroll.

Effect: The above condition resulted to numerous deficiencies in payroll processing.

Recommendation: We recommend that KTG ensure that payrolls are properly reviewed and that supporting documents are duly accomplished, and approved prior to payment. In addition, documents should be kept properly to support payments.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
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**Finding No. 17 Double Compensation**

Criteria: Government employees should be free from double compensation arising out of dual responsibilities.

Condition: Our review of Council allowances revealed that out of the thirteen (13) Council members, **seven** (7) councilmen are employees of Pohnpei State Government and **one** (1) councilman is employed by the National Government.

Per Budget for fiscal year 2000, each councilman is entitled allowances as follows:

1. Regular Session      \$2,000 per annum
2. Official Expense      \$100 monthly
3. Committee              \$25 per meeting

Details of councilmen committee membership and corresponding allowances paid are as follows:

	<u>Councilman</u>	<u>Employed at</u>	<u>#</u>	<u>Committee Allowance*</u>
1	A	Pohnpei State Legislature	3	\$2,950
2	B	Pohnpei State Supreme Court	4	1,050
3	C	Pohnpei State, Dept of Treasury	2	1,800
4	D	Pohnpei State, Dept of Public Safety	3	675
5	E	Pohnpei State, Dept of Education (elected in FY 2001)		
6	F	Pohnpei State, Office of Transportation & Infrastructure	2	2,150
7	G	Pohnpei State Port Authority	4	800
8	H	FSM Public Defenders Office	6	2,550

# number of membership out of seven (7) committees  
\* paid in FY 2000

Cause: There is no clear-cut policy on government employees running for local government office.

Effect: The effect of this condition is dual compensation for seven (7) councilmen, which amounted to \$31,075 in fiscal year 2000. One councilman was elected in fiscal year 2001.

Recommendation: We recommend that Kolonia Town Government work closely with Pohnpei State Government to settle the issue of dual compensation.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
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**Finding No. 18 Conflict of Interest**

Criteria: Section 5 of KTG Council Bill No. 122-99 states “Members of the Kolonia Town Council shall not be paid regular salaries for their official services but shall be entitled to receive allowances as prescribed.”

Condition: Kolonia Town Government paid a councilman \$200 for representing the Speaker of Kolonia Town in a case.

The legal issue stems out of a constitutional provision, which states, “An ordinance increasing the allowances may not apply to the Council that enacted it”.

Cause: The Speaker entered into a contract with the councilman to represent him in all court proceedings.

Effect: The above condition resulted to apparent conflict of interest. In addition, this practice could be a precedent for other municipalities.

Recommendation: We recommend Kolonia Town to refrain from agreement that would be in conflict with its laws and ordinances.

Auditee Response: Please refer to Appendix I.

KOLONIA TOWN GOVERNMENT  
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FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 19 Unaccounted Capital Projects**

Criteria: All government funds should be properly accounted for and reliable accounting records should be maintained to support proper use of funds.

Condition: Our review of capital projects revealed the following:

1. Funds from the National Government for eight (8) road construction projects valued at \$220,272 were expended during the year. Further review disclosed the following:
  - Receipts amounting to \$30,067 were not recorded in the cash receipt ledger but deposited.
  - The recorded expenditure of two (2) projects exceeded the appropriation by \$3,184.
2. Funds appropriated by Pohnpei State Government amounting to \$166,198 were not properly accounted for. No record was found which details the receipt and disbursement of funds related to various projects.

Cause: The finance officer did not perform her assigned duties.

Effect: The effect of this condition is noncompliance to the requirements of grantor agencies.

Recommendation: We recommend that KTG properly record and account for all government funds.

Auditee Response: Please refer to Appendix I.

Auditor's Reply to Auditee's Response dated February 5, 2002:

Funds received in a subrecipient capacity should comply with the requirements of grantor agencies. In conjunction with this, for National Government projects, the allotment advice would state that allotted funds shall be managed, administered and accounted for in accordance with the Financial Management Act of 1979 as amended; and allottee of funds assumes full responsibility over funds allotted. The same requirement applies for State funded projects too.

Granting however that KTG is a contractor, prudent management action dictates that maintenance of complete record be made for collection purposes.

KOLONIA TOWN GOVERNMENT  
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FISCAL YEAR ENDED SEPTEMBER 30, 2000

**Finding No. 20 Prior Period Findings**

Criteria: The law that creates the Office of Pohnpei State Auditor was amended by Pohnpei State Law No. 5L-08-00. This states that “ Upon receipt of the report, the office being audited shall respond to said report in writing, to the Auditor, and each of the officials listed in Subsection (1), by indicating the action(s) immediately taken to correct such deficiencies cited as well as stated action(s) to be taken on deficiencies not immediately resolved. Thereafter, the office shall file a monthly report with the Auditor indicating its progress in clearing deficiencies until such time as it can report that all deficiencies have been cleared, which period shall not exceed six months.”

Condition: To date, out of seventeen (17) findings cited during the 1997 audit, fifteen (15) remain unresolved. To wit:

<u>Unresolved</u>	<u>Finding No and Description</u>
1	1 Separation of Functions
2	2 Timely Deposits
3	3 Undeposited Collections
4	4 Undated Cash Receipts
5	5 Bank Reconciliation
6	6 Payroll Files and Forms
7	7 Payroll Advances
8	8 Overtime Pay
9	9 Administrative Leave
10	10 Dual Compensation
11	11 General Ledger
12	12 Missing Receipts, Ledgers and Reports
13	13 Documents Written in Pohnpeian
14	15 Competitive Bidding
15	16 Fixed Assets

Cause: KTG failed to follow up and correct the previously identified deficiencies.

Effect: The unresolved issues continue to hinder KTG’s effectiveness and compliance with regulations. Further, the above condition raises doubt as to management’s ability to resolve the deficiencies.

Recommendation: We recommend KTG to implement corrective actions to resolve the weaknesses cited in the audit and adhere to the requirement of S.L. No. 5L-08-00, which requires monthly reporting to the Office of Pohnpei State Auditor.

Auditee Response: Please refer to Appendix I.

**Finding No. 20 Prior Period Findings, continued**

Auditor's Reply to Auditee's Response dated February 5, 2002:

The audit revealed that the same conditions from prior year still exist, and until fully resolved by management through corrective action/s, the finding remains in the report.

3