

POHNPEI STATE GOVERNMENT
FIFTH (5th) MICRONESIAN GAMES

AUDIT REPORT No. 003-03

FISCAL YEAR ENDED SEPTEMBER 30, 2002



OFFICE OF THE POHNPEI STATE AUDITOR

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**FIFTH (5th) MICRONESIAN GAMES
AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2002**

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**OFFICE OF THE POHNPEI STATE AUDITOR
POHNPEI STATE GOVERNMENT**

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July 1, 2004

The Honorable Johnny P. David, Governor, State of Pohnpei
The Honorable Nelson N. Pelep, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Honorable Jack E. Yakana, Lt. Governor, State of Pohnpei; and former Chairman,
Micronesian Games Organizing Committee (MGOC)

EXECUTIVE SUMMARY

We are pleased to submit the audit report of the Fifth (5th) Micronesian Games for the year ended September 30, 2002. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of the audit were to determine whether operation funds that were appropriated, donated, and collected for the Micronesian Games were properly accounted for, recorded, and expended for the sole purpose of hosting the 5th Micronesian Games, and whether the disbursements were made in compliance with the Financial Management Regulations of Pohnpei State.

The audit covered the appropriated and donated funds managed by the MGOC for operation of the 5th Micronesian Games and does not include the funds:

1. appropriated for the development and major renovation of sports and school facilities (which will be reviewed in another audit engagement); and
2. appropriated for Pohnpei athletes amounting to \$57,932 administered by the Office of Social Affairs.

For the donated funds, the audit was limited to the review of cash receipts, bank statements, and check vouchers that were received from the Games Administrator.

As a result of our audit, we conclude the following:

1. Internal control over financial reporting was not adequate to enable MGOC to properly account and record all funds that were appropriated, donated, and collected for the Micronesian Games. We also conclude that there were no clearly established policies and procedures necessary to properly manage the donated funds; and
2. The Pohnpei State Financial Management Regulations on travel, procurement and property accountability were not fully complied with.

The audit cited sixteen (16) internal and management control weaknesses described in detail in the Schedule of Findings and Recommendations on pages 8 to 38. We also offered recommendations to these findings, we believe once implemented, could improve the management of future Micronesian Games.

As is customary, a draft of this report has been provided to and reviewed by the former MGOC officials, whose response is included herewith as Exhibit I.

Lastly, we extend our sincere appreciation to the Honorable Lt. Governor, Mr. Spegal and other MGOC officials and members, for their cooperation and assistance during the course of our audit. Within a short period of time and with limited source of funds, the MGOC should be commended for their effort in completing their mission for the 5th Micronesian Games in Pohnpei.

Annes H. Leben
Pohnpei State Auditor

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INTRODUCTION

The Micronesian Games (the Games) which started in 1969, is composed of ten (10) Pacific island nations namely; the US Territory of Guam, the Commonwealth of Northern Mariana Islands, the Republic of Palau, the Republic of Marshall Islands, the Republic of Nauru, the Republic of Kiribati, and from the Federated States of Micronesia, the States of Yap, Chuuk, Kosrae, and Pohnpei.

From July 21, 2002 to August 1, 2002, the State of Pohnpei hosted the 5th Micronesian Games, which were attended by delegations from the member nations with the exception of the Republic of Nauru. The Games aim to foster unity among the islands through sports competitions.

The sports involve twelve (12) events, which are: athletics, baseball, basketball, Micronesia all-around, outrigger canoe racing, softball, spear fishing, swimming, tennis, volleyball, weightlifting, and wrestling.

In order to facilitate the planning, preparation and perform other activities of the Games as a host, the State of Pohnpei has created the Micronesian Games Organizing Committee (MGOC). The committee was also tasked to administer the appropriated and donated funds of the Games. The membership of the MGOC is as follows:

- | | | | |
|----|----------------------------------|----------------------|----------------------|
| 1. | Chairman | Lt. Gov. Jack Yakana | |
| 2. | Games Administrator | Robert Spegal | |
| 3. | Sports Director | Jim Tobin | |
| 4. | <u>Committees</u> | <u>Chairman</u> | <u>Vice Chairman</u> |
| | • Accreditation & Technology | Dr. Eliuel Pretrick | Robert Spegal |
| | • Accommodation & Transportation | Casiano Shoniber | Joseph Felix |
| | • Fundraising | Ringlen Ringlen | Magdalena Walter |
| | • Protocol | Marcelo Peterson | Joses Gallen |
| | • Media & Broadcast | Bermin Weilbacher | David Arthurs |
| | • Security | Rullens Phillip | Joe Roby |
| | • Venue & Maintenance | Peter Aron | Henry Tiongco |
| | • Medical | Simao Nanpei | Elizabeth Keller |
| | • Meals & Entertainment | Judy Perman | Jane Elymore |
| | • Program & Schedule | Bender Enicar | Kodaro Gallen |

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SOURCES OF FUNDS

The Pohnpei Legislature by virtue of Pohnpei State Law 5L-61-02, appropriated on April 8, 2002 the sum of \$500,000, which was allotted to the Chairman of the Micronesian Games Organizing Committee (MGOC) for hosting the Games. Likewise, the MGOC administered the funds amounting to \$280,000 received on July 2, 2002 from the National Government.

Below is the fund status of the appropriated funds and grants from the National Government identified per organization numbers 1049 and 4983:

<u>EXPENSES</u>	<u>BUDGET</u>	<u>ACTUAL @</u>	<u>ACTUAL SHORT(OVER)</u>
Overtime	\$ 72,000	\$156,432	\$(84,432)
Travel	30,000	19,696	10,304
Fixed assets	160,000	83,832	76,168
Consumables	435,000	462,292	(27,292)
Contractual	83,000	71,238	11,762
TOTAL	\$780,000	\$793,490	\$(13,490)

@ includes encumbrance

To supplement the funds needed to host the Games, funding solicitations from various individuals and organizations through donations or contributions, advertisements, and sponsorships; including fees for the food and accommodations of the athletes were collected. In addition, various fundraising activities such as food sales and raffle tickets were conducted to generate funds. The total collection from donations, fees, and fund raising is \$277,955. The balance of the fund as of February 28, 2003 is as follows:

<u>DONATIONS</u>	
RECEIPTS	\$ 277,955
EXPENSES	
Overtime	\$ -
Travel	26,450
Fixed assets	66,026
Consumables	77,935
Contractual	83,895
Others	9,667
	(263,973)
TOTAL	\$ 13,982

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In summary, the statement of revenues and expenses is as follows:

	<u>APPROPRIATIONS</u>	<u>DONATIONS</u>	<u>TOTAL</u>
RECEIPTS / REVENUES	\$ 780,000	\$ 277,955	\$1,057,955
EXPENSES	<u>(793,490)</u>	<u>(263,973)</u>	<u>(1,057,463)</u>
FUND BALANCE (SHORT)OVER	<u>\$ (13,490)</u>	<u>\$ 13,982</u>	<u>\$ 492</u>

ADMINISTRATION

The processing, recording and payment of transactions funded by appropriations were done by the Pohnpei State Department of Treasury and Administration.

The donated funds, which come from fundraising receipts, donations, advertisements, and sponsorships, were deposited in a separate checking account under the name of Micronesian Games Organizing Committee. The account required two (2) check signatories out of four (4) authorized officials. These officials are: the Chairman of the MGOC, the former Director of Treasury and Administration, the Chairman of the Fundraising Committee, and the Games Administrator.

The Sports Director who is the concurrent head of the FSM National Olympic Committee (NOC) liaised for the technical delegates from various international sports federations who officiated during the Games. Also, he assisted in the purchase of sports equipment and supplies.

Except for the Games Administrator who was hired for the Games, the Chairman of the MGOC appointed the members of various committees, most of whom are government employees who worked on voluntary basis.

The functions of the Games Administrator are as follows:

- 1) Ensures the efficient management of the 5th Micronesian Games Organizing Committee and effective use of financial and personnel resources;
- 2) Implements the policy decisions of the Organizing Committee;
- 3) Acts as a channel for official communication between Organizing Committee, Micronesian Games Council, participating nations and states and general public;
- 4) Liaises and negotiates with appropriate organizations, including government entities and agencies, with a view to assisting the Organizing Committee in obtaining financial and technical support of the games;
- 5) Assist the subcommittees (logistics, protocol, sport security, technology, fundraising, venue and others) in meeting goals and objectives within budget guidelines;

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- 6) Keeps records and minutes of Organizing Committee meetings;
- 7) Shall provide all the expert technical advice and skills which are normally required for the services for which it is engaged; and
- 8) Such other duties and responsibilities that the Organizing Committee may assign.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether operation funds that were appropriated, donated, and collected for the Micronesian Games were properly accounted for, recorded, and expended for the sole purpose of hosting the Fifth (5th) Micronesian Games, and whether the disbursements were made in compliance with the Financial Management Regulations of Pohnpei State.

Our audit covers fiscal year ended September 30, 2002 and was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that are considered necessary under the circumstances.

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

1. Interviewed the Games officials;
2. Inspected the sports equipment, tools and supplies bought for the Games;
3. Examined contract, check vouchers, vendors' invoices, travel advance liquidations and documents supporting the disbursements;
4. Confirmed the bank balance for the donated fund;
5. Confirmed the donations of various individuals and organizations;
6. Reviewed the budget and its amendments;
7. Reviewed the minutes of meetings; and
8. Reviewed regulations and other documents related to Micro Games.

SCOPE LIMITATION

The audit covers the appropriated and donated funds managed by the MGOC for operation of the 5th Micronesian Games.

Our review does not include the funds:

3. appropriated for the development and major renovation of sports and school facilities (which will be reviewed in another audit engagement); and
4. appropriated for Pohnpei athletes amounting to \$57,932 administered by the Office of Social Affairs.

For the donated funds, the audit was limited to the review of cash receipts, bank statements, and check vouchers that were received from the Games Administrator.

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PRIOR AUDIT COVERAGE

This is the first audit of the Micronesian Games (with Pohnpei State as a host) by the Office of Pohnpei State Auditor.

AUDIT ENGAGEMENT

The audit is conducted pursuant to Article 11, Section 8 paragraph 2 of the Pohnpei State Constitution and Pohnpei State Law No. 1L-10-79. This audit was also performed upon requests of the Speaker of the 5th Pohnpei Legislature.

CONCLUSION

As a result of our audit, we conclude the following:

3. Internal control over financial reporting was not adequate to enable MGOC to properly account and record all funds that were appropriated, donated, and collected for the Micronesian Games. We also conclude that there were no clearly established policies and procedures necessary to properly manage the donated funds; and
4. The Pohnpei State Financial Management Regulations on travel, procurement and property accountability were not fully complied with.

The audit cited sixteen (16) internal and management control weaknesses with our corresponding recommendations described in detail in the Schedule of Findings and Recommendations on pages 8 to 38.

Summary of Findings:

1. The MGOC did not record all property and equipment purchased for the Games. The assets were mostly untagged and not turned over to Pohnpei State after the Games. The items were found held by Game Officials and at various departments and locations.
2. Receiving reports for off island purchases were not filed at the State Supply or filed two months after the Games. In addition, the reports were not supported with complete documents that authenticate actual receipt of items.
3. The MGOC did not comply with the Financial Management Regulations on competitive bidding and thus incurred \$7,367 more in its purchase of mattresses and pillows.
4. The MGOC neither followed the Financial Management Regulations in its procurement of goods and services paid from donated funds nor were contracts made to support payment of professional services.

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Summary of Findings, continued:

5. Donated funds worth \$4,738 were used for travel unrelated to Micro Games. Travels were made without the required documentation and travel advances were not cleared after the trips.
6. A budget overrun of \$84,432 was incurred for overtime. Moreover, undetermined amounts of overtime are still being claimed.
7. Unpaid accounts of various delegations for their athletes' food and accommodation amounting to \$83,820 remain uncollected.
8. The MGOC did not define the extent of business participation allowed to Game officials.
9. Cash received were not receipted and some collections were not deposited in the legitimate account promptly.
10. The fundraising lottery resulted to a loss of \$2,613 and unaccounted tickets worth \$7,219. Among the winners are members of the Micronesian Games Organizing Committee who did not return tickets or remit sales.
11. Documents to support prepayments of equipment and supplies amounting to \$28,413 disclosed that the items were not all received. In addition, a penalty of \$2,929 was paid for more than a month delay in the removal of mattresses and pillows from the dock.
12. Disbursements were not properly supported with original invoices, receipts, purchase orders, billings, vouchers, payment forms, and other applicable documents.
13. Duplicate payment of \$1,100 was made to an off island vendor.
14. Extensions for employment of the Games Administrator were not made in writing. Also, the payments for extensions resulted to an overpayment of \$440.
15. The Micronesian Games Organizing Committee Checking Account, which was opened, as depository of all donations was not closed after the Games. The account is still active with a balance of \$13,982.
16. Six checks issued from the Micronesian Games Organizing Committee account were made payable to cash.

Summary of Recommendations:

1. We recommend the Director of Treasury and Administration to ensure that the assets bought for Micro Games are recovered, tagged, recorded in the Pohnpei State's fixed asset master file, and transferred to Pohnpei Sports Administrator's custody for safekeeping.
2. We recommend the Director of Treasury and Administration to centralize the receipt of goods to State Supply and ensure the following:
 - a. Monitor all prepayments and follow up all outstanding prepayments from the requesting departments and offices.
 - b. Receiving reports with attached shipping documents are issued immediately.
 - c. Property and equipment are tagged before releasing to departments and offices.

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Summary of Recommendations, continued:

3. We recommend that administrators of future Games ensure that goods and services are acquired at the lowest reasonable costs.
4. We recommend that administrators of future Games ensure that proper documents be processed in the procurement of goods and services. Also, we recommend that for professional services, contracts that define the compensation, scope of works, and responsibilities of contractors should be made to support payment of professional services.
5. We recommend the Director of Treasury and Administration to ensure that the travelers submit valid documents supporting their travels, follow up the travel advances and demand reimbursement of travel expenses not related to Micro Games.
6. We recommend that administrators of future Games ensure that overtime payments are properly budgeted and supporting documents be reviewed prior to payment.
7. We recommend the Director of Treasury and Administration to enforce the collection of outstanding accounts.
8. We recommend that administrators of future Games refrain from participating from endeavors that conflict with their official functions and personal interests.
9. We recommend that administrators of future Games ensure that all cash received for the Games are receipted and promptly deposited in the bank account of the Games.
10. We recommend that administrators of future Games ensure that fundraising lotteries are properly accounted for and conducted in accordance with well-defined rules and regulations.
11. We recommend the Director of Treasury and Administration to ensure that prepayments to vendors are closely monitored and collect from the vendors the cost of undelivered supplies and equipment.
12. We recommend that administrators of future Games ensure that disbursement procedures are established and followed to ensure effective controls.
13. We recommend the Director of Treasury and Administration to collect \$1,100 from the vendor.
14. We recommend that future contract extensions be made in writing. We also recommend the Director of Treasury and Administration to collect \$440 from the Games Administrator.
15. We recommend the Chairman of the MGOC to close the account and remit the balance of the account to the Director of Treasury and Administration.
16. We recommend that administrators of future Games refrain from issuing checks payable to cash.

**Fifth (5th) Micronesian Games
Schedule of Findings and Recommendations
Year Ended September 30, 2002**

Finding No. 02-01 Fixed Assets Accountability

Criteria:

Sound internal controls dictate that property and equipment should be properly accounted for, tagged, kept by a designated official, and safeguarded against loss and damage.

Condition:

The MGOC did not maintain record of property and equipment bought for the Games and neither kept custody of the majority of the items. Based on our review, we prepared a list of property and equipment bought for the Micro Games and we have requested the Pohnpei State Supply Office to conduct the physical counts of the items. We observed the inspection and the tagging of property made by the State Finance as follows:

A. Property, Equipment, and Supplies valued @ \$250 and up

	Fund	Description	Cost	Location*
1	1049	Digital trunking, antenna	\$30,088	Mountain
2	1049	15 handheld transceivers	\$13,050	Dept of Public Safety
3	1049	3 Desktop computers, 3 b/u batteries, 1 digital camera, 2 printers, 2 scanners, 2 photo laminator, videocam w/ receiver	\$10,605	Game officials
4	1049	5 mobile radio	\$3,750	Dept of Public Safety
5	1049	10 mobile radios, 5 transceivers 2 water dispensers	\$6,165	PICS buses, Education
6	1049	1 cast cutter, 7 stretchers, 7 ultraloc boards	\$5,900	Unknown
7	1049	17 wooden benches	\$4,380	3 sport venues
8	1049	6 tents, 2 alinco handheld transceivers, 1 water fountain, 2 Patton electric floor fans	\$5,070	Unknown
9	1049	1 workstation, 1 office chair, 1 leather chair, 2 steel desks	\$1,680	Dept of Public Safety
10	1049	1 Minolta color printer, 2 storage cabinets/lockers	\$2,349	FSM NOC
11	Donated	Hurdles, wrestling mat, high jump, volleyball set	\$44,103	Accounted were the hurdles and high jump
12	Donated	Volleyball flooring	\$10,602	Unknown
13	Donated	Barbell	\$4,915	Game official
14	Donated	2 Laptop computers	\$2,700	Game officials
15	Donated	20' container	\$1,500	Fitness center
16	Donated	3 stoves, 1 water heater	\$1,850	PICS

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Finding No. 02-01 Fixed Assets Accountability, continued

B. Property and Supplies costing below \$250 each

	Fund	Description	Cost	Location*
1	1049	1,500 mattresses, 1,600 pillows	\$33,590	160, PICS dormitory
2	1049 4983	300 plastic chairs, 2 folding tables 6 beverage coolers @ 6 gallons, 2 weed eaters	\$4,814	FSM NOC, PSA
3	1049	9 wooden dividers	\$2,059	PICS
4	1049	10 VHF handheld transceiver	\$1,950	Education, PICS
5	1049 4983	14 standing fans @\$43.75 30 stand fans	\$1,179	Unknown
6	1049 4983	1 Kenwood mobile transceiver w/ antenna, 1 game clock	\$585	Game officials
7	Donated	2 cellular phones w/ sim cards	\$356	Game officials

*per inspection and interview with Game Officials

We noted that except for the digital trunking equipment, all equipment, tools, and supplies used for the games were not turned over to Pohnpei State but held by Game Officials or left at various departments and locations. In addition, we observed the following:

Item # A3, A5, A6, A19, B4, and B7.

Most of the assets in the list were not tagged upon receipt. For instance, only 2 out of 43 handheld and mobile radios purchased were tagged. The rest were tagged during our inspection. Also, sports equipment bought from the donated funds were not tagged.

Item # A19. The wrestling mat costing \$8,820 is yet to be delivered by the vendor when the auditors conducted inventory.

Item # A23. Stored in the container were only seventeen out of seventy (70) bags of grass seeds bought for \$4,500 three months prior to the Games. Per our interview with the Games Administrator, he stated that the seeds were not planted because the athletes need to practice in the field.

Item # B1. The mattresses and pillows purchased for the Games were missing except for the 160 pieces of mattresses that are currently being used at PICS High School Dormitory. Also, an undetermined number of mattresses were sold for \$300.

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Finding No. 02-01 Fixed Assets Accountability, continued

Cause:

The above condition resulted because the Supply Office did not centralize the receipt of the goods and did not tag the items that were purchased. For donated fund, the MGOC did not establish procedures and controls for purchase of fixed assets.

Effect:

There is no assurance that all property and equipment purchased really exists. Furthermore, some of the goods purchased could have been put to better use after the Games. For example, the mattresses, pillows, and electric fans could have been donated to Pohnpei State Hospital instead.

Recommendation:

We recommend the MGOC and the Director of Treasury and Administration to ensure that the assets purchased for Micro Games are recovered and tagged, recorded in the Pohnpei State's fixed asset master file, and transferred to Pohnpei Sports Administrator's custody for safekeeping.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

We understand that the Micro Games is a "one-time" event in Pohnpei, thus making the issue of whether internal control is entirely appropriate or not. However, because the Micro Games involves the use of government funds, the adequacy of internal controls and the accountability on the fixed assets should be maintained.

In addition, pursuant to the Pohnpei State Financial Management Regulations, the Property Management Office should be responsible in ensuring that the State's properties, whether acquired or donated, are properly utilized and maintained; and/or disposed accordingly.

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Finding No. 02-02 Receiving Reports

Criteria:

Receiving reports of prepaid purchases from off-island vendors should be filed at the State Supply promptly and with complete documents e.g. airway bills, customs clearance forms and other shipping documents to substantiate the receipts of the goods.

Condition:

Most equipment and supplies from off-island suppliers were prepaid months prior to the Games. However, the receiving reports corresponding to the prepayments were not filed or filed two months after the Games as follows:

Fund	PO#	Date of Check	Ck#	Date of RR*	Amount
Donated		4/18/02	97	None filed	\$4,915
Donated		5/17/02	1002	None filed	44,103
Donated		6/26-7/22/02	1015	None filed	10,602
Donated		5/0802	1001	None filed	2,250
1049	P20133	5/09/02	145309	10/02/02	9,436
1049	P20136	5/09/02	145310	None filed	7,294
1049	P20140/47	5/30/02	145944	10/08/02	5,050
1049	P20149	5/10/02	145947	10/02/02	8,506
1049	P20151	6/04/02	146010	09/09/02	46,888
		9/10/02	149532		
1049	P20164	7/02/02	146844	10/08/02	4,464
1049	P20171	7/16/02	147499	09/25/02	21,985
1049	P20176	7/11/02	147105	10/02/02	33,590

*Receiving Report

Further, the reports were not supported by packing slips, airway bills, invoices, and other shipping documents that authenticate the actual receipt of the items.

Cause:

The receipts of the goods were not centralized and the MGOC did not require the Games officials to file to the State Supply the receiving reports immediately upon their receipts of equipment and supplies.

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Finding No. 02-02 Receiving Reports, continued

Effect:

There is no full assurance that all prepaid equipment and supplies were received or arrived timely for the Games.

Recommendation:

We recommend the Director of Treasury and Administration to centralize the receipts of goods to State Supply especially from off island suppliers. In addition, the State Supply should ensure that the receiving reports for the goods received are issued, and filed with complete documents. In doing so, the State Supply should monitor all prepayments by regular review of the purchase orders and by calling the attention of the departments and offices whose prepayments remain outstanding. The process could also ensure that fixed assets are tagged as received.

We further recommend that the MGOC Chairman require all Games officials to file to the State Supply the receiving reports of all equipment and supplies purchased for the Games.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

Efforts to locate the missing receiving reports should be undertaken to complete the records. These reports are vital documents that would assure that all purchased equipment and supplies were actually received by the State.

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Finding No. 02-03 Procurement

Criteria:

Goods and services should be acquired at the lowest reasonable costs.

Condition:

The MGOC requested price quotations from three (3) on island vendors to purchase 1,600 sets of mattresses and pillows. The prices are as follows:

<u>Vendor</u>	<u>Price Quotation</u>
1	\$36,640
2	\$31,200
3	\$52,800

Despite the above prices, our audit revealed that 1,500 mattresses and 1,600 pillows were purchased instead from an off island vendor (OIV) for \$33,590. Further, our review showed the following:

1. The OIV was the same source of vendor # 2, which was authorized by the OIV to be its agent.
2. MGOC ordered the items that were shipped by the OIV seventy (70) days prior to the certification of purchase requisition.
3. Handling charge of \$3,522 that includes penalty (demurrage) was also paid.
4. Competitive bidding was not waived in this procurement.

There was no indication that the specification of the mattresses and pillows ordered from the OIV was different from that of the on island vendors.

Cause:

The cause of the above condition is due to the lack of foresight in procurement.

Effect:

The above condition resulted to noncompliance with Pohnpei State's Financial Management Regulations on competitive bidding. In addition, the off-island purchase costs \$7,367 more as compared to the lowest price quotation that was received from on-island vendor (Vendor no. 2).

**Fifth (5th) Micronesian Games
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Finding No. 02-03 Procurement, continued

Recommendation:

We recommend that administrators of future Games ensure that goods and services are acquired at the lowest reasonable costs.

Auditee Response:

Please refer to Exhibit I.

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Finding No. 02-04 Supporting Documents in Procurements

Criteria:

The procurement of goods and services should follow the Financial Management Regulations. Any deviations from such should be well documented and justified.

Condition:

The required competitive bidding was waived in the procurement of property, goods, and services for the Games. However, our audit of disbursements from the donated funds showed the absence of documents to support payments for the following:

Vendor	Amount	Description	Finding
A	\$54,705	Sports equipment	Not all equipment was delivered.
B	\$24,000	Junk boat removal	Fees, scope and contractor's responsibilities are not defined
C	\$14,930	Janitorial Services	Fees and scope are not defined
D	\$12,000	TV airtime coverage	Fees and scope are not defined

Further, our review also revealed the payment of \$7,500 to a contractor as a change order for capital improvement project. The disbursement stemmed from an earlier request for payment from the State Finance that was denied. The work was performed prior to the approval of the change order.

Cause:

The Games Administrator processed the payments to the contractors without proper documentations.

Effect:

There is no assurance that the MGOC derived the maximum benefits from the above procurements. In addition, the above condition lends MGOC vulnerable against potential adverse effects in case of conflicts.

Recommendation:

We recommend that administrators of future Games should ensure that proper documents are processed in the procurement of goods and services. Also, we recommend that for professional services, contracts should be written to define the compensation, scope of works and responsibilities of contractors.

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Finding No. 02-04 Supporting Documents in Procurements, continued

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

The differences in the information have resulted from the lack of written documentation on the procurement of goods and services. Thus, we maintain our finding and recommendation.

**Fifth (5th) Micronesian Games
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Finding No. 02-05 Travel

Criteria:

Travel should be authorized and budgeted. Also, travel expenses should be properly supported with receipts, copy of plane tickets, and related travel vouchers. Vouchers should also be submitted timely to clear advances immediately after the completion of the trip.

Condition:

Travel expenses paid out of donated funds disclosed the following:

- Three (3) trips were conducted by the Chairman of the MGOC. The details of which are as follows:

Trip	Ck#	Amount	Payee	Description
1	1003	\$2,109.40	Travel Agent	Airfare to San Francisco
	1004	\$1,882.00	Chairman	San Francisco travel advance
2	1108	\$2,000.00	Chairman	Palau trip representation
	* 148188	\$1,606.00	Chairman	Palau travel advance
	* 149263	\$1,309.36	Travel Agent	Airfare to Palau
3	1122	\$2,392.15	Travel Agent	Airfare to Minneapolis
	1123	\$2,346.00	Chairman	Minneapolis travel advance

* paid from appropriated fund / org # 1049

Trip # 1 – Travel was not supported with Travel Authorization, travel vouchers, and plane ticket.

Trip # 2 – Travel voucher was not submitted and the advance was still outstanding.

Trip # 3 – The purpose of the trip is to attend the annual TNC meeting and global leadership summit, which appeared unrelated to Micro Games. Although the trip is not budgeted, funds were borrowed from donated funds and the travel advance, which includes ground transportation, conference fee, per diem, premium, and departure fee, was paid at 100%. To date, the advance is still outstanding.

Furthermore, in another travel related disbursements and per subsequent interview with the Sports Director, we were informed that technical delegates' tickets were paid by each sport international federation. Our review however, showed the following:

- Check no. 096 amounting to \$5,487.50 was paid to Baseball Confederation Oceania for airline tickets of three (3) Australian softball umpires. However, an earlier correspondence between the Sports Director and an Australian softball sports official revealed that the cost of "flights" is covered by the International Softball Federation.

**Fifth (5th) Micronesian Games
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Finding No. 02-05 Travel, continued

- Check no. 1034 for \$7,448 was paid to the airline company. The only supporting document for the payment was a copy of electronic correspondence between the Games Administrator and air shipping official which discussed payment for tickets and invoice no. 6559. According to the Games Administrator, payment would be advanced from fundraising funds prior to processing similar claims from the appropriated fund. No receipt from the airline, traveler's itineraries or photocopy of plane tickets, and invoice no. 6559 were attached to the check stub to support the payment. The check was not reimbursed.

Cause:

The MGOC allowed the payments without the required documentation and in disregard of the travel regulations.

Effect:

There is no assurance that the travel expenses were all Micro Games related. Also, the above condition resulted to noncompliance with the Pohnpei State Financial Management Regulations.

Recommendation:

We recommend the Director of Treasury and Administration and the MGOC to strictly implement the travel regulations, which should include demands from traveler to submit valid documents to support the travel; follow up of the outstanding advances and demand reimbursement of travel expenses not related to Micro Games.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

The MGOC travelers concerned should strictly comply with the travel regulations by submitting the required travel documents and liquidate the travel claims.

**Fifth (5th) Micronesian Games
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Finding No. 02-06 Overtime

Criteria:

Overtime pay should be properly budgeted. In addition, overtime compensation must be reasonable and justified. Moreover, supporting documents such as work schedules and assignments should be reviewed prior to payment.

Condition:

The budget prepared by the MGOC for overtime pay was only for the Security Committee however; our audit showed that overtime paid was as follows:

<u>Department</u>	<u>Paid</u>	<u>Budget</u>	<u>Overrun</u>
Public Safety	\$82,536	\$72,000	\$10,536
Education	39,526	-	39,526
Health Services	11,730	-	11,730
Other	22,640	-	22,640
<u>Total</u>	<u>\$156,432</u>	<u>\$72,000</u>	<u>\$84,432</u>

Our review also disclosed the following:

1. A contractor was paid \$600 for picking up trash at the Athletes Village, albeit overtime paid to the Committee assigned for similar task at the same venue amounted to \$4,671.
2. Three (3) instances of overtime overpayment; \$618 to a volunteer of the Committee on Accommodation and \$313 to two (2) volunteers of the Committee on Cutting Grass and Picking up Trash.
3. The timesheets submitted to the Department of Treasury and Administration were not supported with the daily schedules of assignment of the ninety-seven (97) public safety personnel and one hundred eighty (180) security volunteers who are not compensated.
4. Payments of maximum of twelve (12) hours overtime on weekdays and sixteen (16) hours overtime on weekends in addition to the employee's regular eight (8) hours work were allowed. This means that employees worked 16-20 hours a day.

The table below shows nine (9) examples of Public Safety Personnel who were paid overtime for working 16-20 hours a day for three (3) consecutive weeks.

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Finding No. 02-06 Overtime, continued

Per Timesheet of Public Safety Personnel											
	Date		1	2	3	4	5	6	7	8	9
1	7/15/2002	Mon	12	9	12	12	12	8	8	8	8
2	7/16/2002	Tue	12	12	9	11	12	12	12	12	8
3	7/17/2002	Wed	12	8	12	12	8	8	8	8	12
4	7/18/2002	Thu	12	11	12	11	8	9	12	9	8
5	7/19/2002	Fri	12	8	8	12	12	8	8	8	8
6	7/20/2002	Sat	16	16	9	16	16	16	9	16	16
7	7/21/2002	Sun	8	16	16	16	8	16	16	16	12
8	7/22/2002	Mon	8	8	12	12	8	9	8	9	8
9	7/23/2002	Tue	12	12	12	11	12	10	12	12	8
10	7/24/2002	Wed	10	9	9	12	12	9	9	9	12
11	7/25/2002	Thu	10	12	10	11	8	12	11	12	8
12	7/26/2002	Fri	12	12	9	12	8	12	12	12	8
13	7/27/2002	Sat	8	16	16	16	16	16	16	16	12
14	7/28/2002	Sun	8	16	16	16	16	16	16	16	16
15	7/29/2002	Mon	12	9	12	11	12	11	11	11	12
16	7/30/2002	Tue	8	12	9	12	8	12	9	12	8
17	7/31/2002	Wed	8	8	9	12	12	12	12	12	12
18	8/01/2002	Thu	12	10	9	11	12	8	11	8	8
19	8/02/2002	Fri	12	9	11	12	8	12	12	12	8
20	8/03/2002	Sat	8	16	16	16	8	16	16	16	16
21	8/04/2002	Sun	8	16	16	16	14	8	9	8	14
22	8/05/2002	Mon	12	9	12	12	12	12	12	12	12
Total OT Hours			232	254	256	282	242	255	235	254	234
Overtime Paid			\$3,422	\$2,064	\$1,777	\$1,457	\$1,325	\$1,317	\$1,286	\$968	\$892

Cause:

The MGOC allowed the payment of overtime even though an agreement was made that the employees would be working as volunteers.

Effect:

The effect of the above condition resulted to budget overrun of \$84,432 for overtime. Also, a subsequent interview with the MGOC officials disclosed that there are outstanding claims for overtime. In addition, allowing employees to work for twenty (20) hours a day pose health hazards and diminishes the efficiency of employees' performance.

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Finding No. 02-06 Overtime, continued

Recommendation:

We recommend that administrators of future Games ensure that overtime payments are properly budgeted and supported prior to payment. In addition, work should be assigned in such a way that no employee would be required to work more than twenty (20) hours a day.

Auditee Response:

Please refer to Exhibit I.

**Fifth (5th) Micronesian Games
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Finding No. 02-07 Accounts Receivables

Criteria:

Proper controls should be in place to ensure prompt collection of receivables.

Condition:

The MGOC billed each athlete \$20 a day for food and accommodation at the Athletes' Village. With the exception of one delegation, the billings were not supported with listing of athletes who resided at the Athletes' Village. The Customer Balance Detail of participating delegations showed in part outstanding accounts as follows:

<u>Delegation</u>	<u>Billing</u>	<u>Collections</u>	<u>Balance</u>
A	\$32,259	\$ -	\$32,259
B	\$33,291	\$ -	\$33,291
C	\$40,160	\$35,570	\$4,590
D	\$43,680	\$30,000	\$13,680
		Total	<u>\$83,820</u>

These amounts were not taken up as revenues of the MGOC.

Cause:

Per our interview with the MGOC Chairman, delegations A and B claimed that their athletes' food and accommodation were integrated in the funds received by the MGOC from the National Government. For delegations C and D, the MGOC allowed them to use the Athletes' Village without the corresponding payments.

Effect:

The effect of the above condition resulted to delinquent accounts of \$83,820, the collection of which is doubtful.

Recommendation:

We recommend that the Director of Treasury and Administration enforce the collection of outstanding accounts.

**Fifth (5th) Micronesian Games
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Finding No. 02-07 Accounts Receivables, continued

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

The MGOC Chairman informed us during the exit conference that they are following up on these receivables. We maintain our recommendation to pursue the collection of these outstanding accounts.

**Fifth (5th) Micronesian Games
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Finding No. 02-08 Related Party Transactions

Criteria:

Game officials should be free from endeavors that conflict with their official functions and personal interests.

Condition:

Our review of the donated funds disclosed the following:

1. The Games Administrator is a business associate of the janitorial company that was paid \$14,930 for providing trash collection and related services to various sports venues during the games. The payment though, was not supported by a contract between MGOC and the janitorial company to determine the scope and cost of the services.
2. Off-island remittances amounting to \$51,290 for athletes' accommodation were made to the Human Resource Organization (HRO) account. Afterwards, the remittances were deposited by the Games Administrator in the MGOC account. The HRO is a related party to the Games Administrator.
3. The HRO was also reimbursed for \$4,745 from the donated funds for administrative support, which includes salaries of clerical staffs, airfare of the skydiver, office supplies, and utilities.

Furthermore, our audit showed that the lottery tickets of the MGOC were printed by the business owned by a fundraising official. Subsequently, the business purchased 1,000 tickets and won in the lottery twice.

Cause:

The causes of the above are due to:

1. The MGOC did not conduct competitive bidding in the procurement of goods and services.
2. Absence of rules and regulations for the Games that defines the extent of allowable business participation of officials to Game activities.

Effect:

The effect of the above condition resulted to diminished appearance of independence of Game Officials.

**Fifth (5th) Micronesian Games
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Finding No. 02-08 Related Party Transactions, continued

Recommendation:

We recommend that administrators of future Games refrain from participating from endeavors and activities that conflict with their official functions and personal interests.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

On the contrary, the MGOC officials should also be concerned about the appearance of independence in order to remove public's perception that objectivity was compromised.

**Fifth (5th) Micronesian Games
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Finding No. 02-09 Cash Receipts

Criteria:

Cash received should be receipted and deposited in the legitimate account promptly.

Condition:

Our review of cash receipts disclosed the following:

1. Monies received and collected such as donations, contributions, advertisements, sponsorships, and fundraising for the Games were deposited to the Micronesian Games Organizing Committee (MGOC) checking account. The MGOC however, did not issue cash receipts to the payors. Instead, copies of the deposit slips and payors checks were made to substantiate the amount deposited in the bank.
2. We noted six (6) instances of off island receipts remitted to the account of a non-profit corporation account being managed by the Game Administrator. The receipts were subsequently deposited to the MGOC account.
3. Our test to determine timeliness of deposits through comparison of the date of checks against the date of deposits per bank statement, showed delays in the deposits. For example:

Check No.	Date of Check*	Date of Deposit	Elapsed Days	Amount
65051	3/06/02	3/26/02	20	\$ 300
17927	4/15/02	5/03/02	18	3,936
18151	6/07/02	6/19/02	12	20,000
18113	5/27/02	6/19/02	23	500
0653	6/07/02	6/19/02	12	500
33956	6/25/02	7/11/02	16	10,000
1188	7/02/02	7/24/02	22	300
19418	10/02/02	11/12/02	41	600

*Drawn from local bank

Cause:

According to the Games Administrator, the MGOC did not maintain receipts for all the collection. Also, the remittances were made to the account of the Game Official due to lack of MGOC's bank branch from the remitters' site.

**Fifth (5th) Micronesian Games
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Finding No. 02-09 Cash Receipts, continued

Effect:

There is no assurance that all receipts were collected or properly accounted for.

Recommendation:

We recommend that administrators of future Games ensure that all cash received for the Games are receipted and promptly deposited in the bank account of the Games.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

Cash receipts are issued to assert that cash and other cash equivalents like checks are actually received. A "canceled check" is not an evidence of cash received but only an evidence of cash deposit. Neither are the listing of sponsors and donors, and thank you letters sufficient documentation for cash received. Without the cash receipts, the completeness of the cash received for the Micro Games could be questioned.

**Fifth (5th) Micronesian Games
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Finding No. 02-10 Lottery Tickets

Criteria:

Lotteries for fundraising should be conducted following a set of written rules and regulations. In addition, lotteries should be properly accounted for.

Condition:

To generate more revenues for the Games, the fundraising committee authorized the printing of \$10,000 lottery tickets. The tickets were distributed to each of ten (10) individuals and members of various committees. Our audit revealed the following:

1. The Chairman of the MGOC and three (3) committee members did not turn over unsold tickets or remit ticket sales if any.
2. A comparison of ticket sales remitted to the MGOC amounting to \$2,781 against lottery receipts of \$3,030 showed a discrepancy of \$249.

Further interview with the Fundraising Official revealed that there are tickets distributed to individuals that were not surrendered after the Games and the rest of the tickets (non-winning and undistributed) are not counted after the raffle.

Cause:

The lottery was not properly accounted for by the fundraising committee. All the tickets were thrown after the Games without adequate accounting. According to the Vice Chairman of the Fundraising Committee, all the tickets were thrown away after the Games. Also, the absence of lottery rules and regulations obscured the legitimacy of the winnings of the Game officials.

Effect:

The above condition resulted to \$7,219 worth of unaccounted tickets and loss of \$2,613 as follows:

Description	Amount
Number & value of tickets printed (10,000@\$1)	\$10,000
Less: Cash received from sale of tickets	(2,781)
Unaccounted tickets	\$(7,219)

**Fifth (5th) Micronesian Games
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Finding No. 02-10 Lottery Tickets, continued

Effect:

Description	Amount
Cost of printing tickets	\$ 344
Add(deduct):	
Total cash prizes paid	5,050
Ticket sales	(2,781)
Loss on lottery	\$ 2,613

Recommendation:

We recommend that administrators of future Games ensure that fundraising by lotteries are conducted in accordance with well-defined rules and regulations and should be properly accounted for.

In addition, we recommend that the Department of Treasury and Administration demand accounting of lottery tickets from the Fundraising Committee. The report should include distribution and remittances received from officials and non-officials who were given the lottery tickets.

Auditee Response:

Please refer to Exhibit I.

**Fifth (5th) Micronesian Games
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Finding No. 02-11 Advances to Suppliers

Criteria:

Payment of advances to suppliers should be closely monitored to ensure the timely receipts of goods and services.

In addition, all off-island purchases should be immediately retrieved from the point of entry upon arrival.

Condition:

On May 17, 2002, MGOC check no. 1002 which was funded from donations amounting to \$44,103 was issued to a vendor as advance payment for sports equipment. Details of the photocopied proforma invoice used to support the payment showed the following:

Description	Amount
Hurdle Competition	\$13,200
Starting block	1,590
Wrestling matting	8,820
High Jump	
Landing cushion	5,782
Volleyball set	6,891
Freight	7,820
Total	\$44,103

Subsequent physical inspection of the above items disclosed that MGOC did not receive on time for the Games the wrestling mat that costs \$8,820.

On the other hand, handling charge of \$3,522 that includes penalty of \$2,929 was paid to a shipping company for thirty-three (33) days delay in removing six (6) containers of pillows and mattresses from the dock

Furthermore, per check#147499, the amount of \$21,985 was paid out of appropriated funds as prepayment to a vendor for medical equipment and supplies. However, based on the receiving report kept by State Supply, only supplies valued at \$2,392 were received.

Cause:

The MGOC neither monitored the receipt of the items nor filed receiving reports.

**Fifth (5th) Micronesian Games
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Finding No. 02-11 Advances to Suppliers, continued

Effect:

The above condition resulted to equipment and supplies not delivered in time for the Games valued at more than \$28,413 and loss of funds amounting to \$2,929.

Recommendation:

We recommend the Director of Treasury and Administration to ensure that prepayments to vendors are closely monitored. We also recommend that the Director of Treasury and Administration and the MGOC to collect from the vendor the cost of undelivered equipment and supplies including its shipping cost.

Auditee Response:

Please refer to Exhibit I.

**Fifth (5th) Micronesian Games
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Finding No. 02-12 Disbursements

Criteria:

Disbursements should be properly supported with original invoices, receipts, purchase orders, billings, vouchers, payment forms, and other applicable documents.

Condition:

Our audit of cash disbursements from donated funds showed that 54% (86 out of 159) disbursements were not supported by purchase orders, receiving reports, and/or payment vouchers. The nature of these transactions is not properly explained and the disbursements were without account distribution, authorization, fund certification, and vendors' receipt of payments.

Our tests further disclosed the following:

1. Twenty-four (24) instances of disbursements with no invoices, receipts, or billings. For example:
 - Protocol and kitchen supplies bought from a store valued at \$1,000;
 - Communication costs amounting to \$3,909;
 - Car rentals amounting to \$4,396; and
 - Sports officials' accommodation of \$4,318.
2. Two (2) instances of photocopied invoices supporting the payments.
3. Three (3) instances of reimbursements for petty cash expenses not supported by vouchers.
4. Four (4) instances of payments in excess of supporting invoices.
5. Two (2) instances of disbursements for fuel with no supporting authorizations.

In addition, we noted from the above disbursements that a technical delegate was reimbursed US\$665 for ten (10) weightlifting shoes and ten (10) sports tape. The photocopied invoice that supported the payment showed that the items were purchased in Australia. The reimbursement was not calculated in the prevailing exchange rate for US and Australian dollars.

On the other hand, a significant disbursement from appropriated fund amounting to \$5,965 was paid to a Game Official for purchases charged to his credit card. Among the purchases however, are an undetermined number of t-shirts worth \$3,254 bought from off island. The payment was not supported by an invoice or packing slip but a statement from the issuer of credit card that only showed the date, the vendor, and the amount of charges.

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Finding No. 02-12 Disbursements, continued

Cause:

The absence of checking and controls for disbursements led to the above condition.

Effect:

The above condition resulted to payment of expenses that might not be valid.

Recommendation:

We recommend that administrators of future Games ensure that procedures on disbursement are written and laid out to ensure its effective controls.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

The supporting documents for the disbursements should not only be sufficient for the MGOC officials and members but to all other officials who are concerned about transparency. The documentation is also a requirement of the Pohnpei State Financial Management Regulations.

**Fifth (5th) Micronesian Games
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Finding No. 02-13 Double Payment

Criteria:

Adequate controls require that purchases are monitored to prevent duplicate or improper payments.

Condition:

Our audit revealed that an off island vendor was paid \$1,100 twice for the cost of freight of water bottles distributed to the athletes. Details of payments are as follows:

Fund/ Account	Reference	Check No.
1049/8310	P20178	147111
Donated	Inv# 102580	1152

Cause:

The above condition is due to the lack of disbursement controls instituted for the Games.

Effect:

The above condition resulted to an overpayment of \$1,100 to the vendor.

Recommendation:

We recommend the Director of Treasury and Administration to collect \$1,100 from the vendor.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

The Department of Treasury and Administration should devote sometime to follow up with the vendor concerned on the request to provide separate invoices. If the vendor could not provide the separate invoices even after repeated requests, then they should take action on this and pursue the collection of the double payment.

**Fifth (5th) Micronesian Games
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Finding No. 02-14 Written Contracts

Criteria:

Contract services should be made in writing.

Condition:

The position of Games Administrator was budgeted from the donated funds for \$22,000 with no specified date of hiring. Our audit of donated funds showed that per contract with the MGOC that was effective January 2, 2002 through August 3, 2002, the Games Administrator was compensated \$1,100 bi-weekly.

Our review revealed that the total payments made to him amounted to \$20,900 as follows:

1. \$18,260 as compensation from January 4, 2002 to August 30, 2002;
2. \$2,200 for work performed after his contract ended.
3. Overpayment (please refer to schedule below) as follows:

Salary, per contract plus extensions	\$20,460
Total Payments	<u>(20,900)</u>
Payment short (over)	<u>\$ (440)</u>

Ck Date	Ck#	Amount	Per Contract		Extensions per check memo	
			Bi Weekly Period	Pay	Pay Period	Pay
3/07/02	91	\$2,200	1/4/02 – 1/17/02; 1/18/02 – 1/31/02	\$1,100 1,100		
3/15/02	92	\$2,200	2/01/02 – 2/14/02; 2/15/02 – 2/28/02	\$1,100 1,100		
4/02/02	94	\$2,200	3/01/02 – 3/14/02; 3/15/02 – 3/28/02	\$1,100 1,100		
4/29/02	99	\$2,200	3/29/02 – 4/18/02; 4/19/02 – 5/02/02	\$1,100 1,100		
6/06/02	1005	\$2,200	5/03/02 – 5/16/02; 5/17/02 – 5/30/02	\$1,100 1,100		
6/21/02	1012	\$2,200	5/31/02 – 6/13/02; 6/14/02 – 6/27/02	\$1,100 1,100		
7/17/02	1038	\$2,200	6/28/02 – 7/11/02; 7/12/02 – 7/25/02	\$1,100 1,100		
8/15/02	1115	\$2,200	7/26/02 – 8/08/02; 8/09/02 – 8/22/02	\$1,100 1,100		
9/20/02	1133	\$2,200	8/23/02 – 8/30/02	660	9/02/02 – 9/06/02 9/16/02 – 9/20/02	\$ 550 550
11/07/02	1146	\$1,100			Oct – Nov	\$1,100
Total		\$20,900		\$18,260		\$2,200

**Fifth (5th) Micronesian Games
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Finding No. 02-14 Written Contracts, continued

Cause:

According to the Games Administrator, the Chairman of the Games extended his services beyond the contract period. However, no addendum to the contract was made by the MGOC to support the extension.

Effect:

There is inadequate assurance that the contract extensions were legitimate and approved by the MGOC. In addition, the above condition resulted to overpayment of \$440.

Recommendation:

We recommend that future contract extensions be made in writing. We also recommend the Director of Treasury and Administration to collect \$440 from the Games Administrator.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

We maintain our recommendation that the contract extension should be made in writing in order to remove doubt on the legitimacy of the contract extension payments to the Games Administrator.

**Fifth (5th) Micronesian Games
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Finding No. 02-15 Donated Fund

Criteria:

Bank accounts opened for the Games should be closed upon its conclusion and any leftover amounts should be turned over to the Department of Treasury and Administration.

Condition:

To date, the MGOCC checking account, which was opened as depository account of all donations, is still open.

As of February 28, 2003, the account has a balance of \$14,981.70 inclusive of outstanding check no. 1093 amounting to \$1,000. According to the Games Administrator, the check has been sent off island to the Micronesian Games Council for payment of membership dues.

Cause:

The Games Administrator stated in an interview that all checks have been used up.

Effect:

The above condition might result to unauthorized use of funds.

Recommendation:

We recommend that the MGOCC Chairman submit the financial report of the donated fund, close the checking account and remit the amount to the Director of Treasury and Administration.

Auditee Response:

Please refer to Exhibit I.

**Fifth (5th) Micronesian Games
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Finding No. 02-16 Checks Payable to Cash

Criteria:

Proper accounting controls require that checks should be payable to specific individuals and vendors.

Condition:

Our audit of cash disbursements revealed six (6) instances of checks issued from the donated fund, were made payable to "Cash." Written on the check memos are as follows:

	Ck#	Amount	Description
1	1044	\$500	Petty cash
2	1053	\$500	Petty cash
3	1065	\$4,860	Assistance to team delegation
4	1096	\$300	Expenses of cook hired for the Games
5	1110	\$455	Speaker's per diem to Palau
6	1117	\$155	Expenses of Olympic swimmer

Cause:

The MGOC allowed the payments.

Effect:

Inadequate assurance exists that the recipients of the checks were legitimate or that the payments were valid.

Recommendation:

We recommend that administrators of future Games cease from issuing checks payable to cash.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated June 9, 2004:

The risk of issuing checks to "cash" is high, hence, we maintain our finding and recommendation.

FIFTH (5th) MICRONESIAN GAMES

**EXHIBIT I
AUDITEE RESPONSE**

YEAR ENDED SEPTEMBER 30, 2002