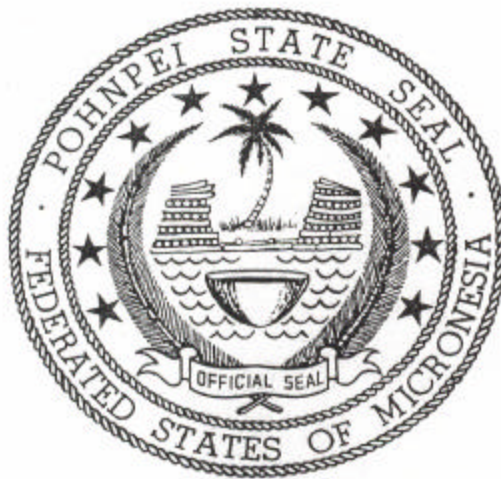


MWOAKILLOA MUNICIPAL GOVERNMENT

AUDIT REPORT NO. 017-02

YEARS ENDED SEPTEMBER 30, 2001 AND 2000



OFFICE OF THE POHNPEI STATE AUDITOR

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**MWOAKILLOA MUNICIPAL GOVERNMENT
AUDIT REPORT
YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

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March 09, 2004

The Honorable Johnny P. David, Governor
The Honorable Nelson N. Pelep, Speaker
The Honorable Members of the Pohnpei State Legislature
The Honorable Gallen Joel, Chief Magistrate of Mwoakilloa Municipal Government
The Honorable Councilmen, Mwoakilloa Municipal Government

EXECUTIVE SUMMARY

We respectfully submit the audit report of Mwoakilloa Municipal Government (the Municipality) for the years ended September 30, 2001 and 2000. The audit was conducted pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and other laws promulgated thereafter.

The objectives of our audit were to determine whether (1) Cash receipts and disbursements of funds are properly accounted for, recorded and authorized in accordance with applicable laws and regulations; and, (2) Internal controls and compliance over financial reporting are effectively and efficiently in place in the operation.

Our audit, as applicable, was conducted in accordance with the auditing standards generally accepted in the United States of America and the auditing standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

Based on our audit, we concluded that the Municipality lacks fundamental controls in the accounting for and recording of receipts and disbursements of funds as well as the controls and compliance over financial reporting. The management would require to exert extra effort to correct the deficiencies noted in the report. We believe that if the Treasurer and the other personnel were trained adequately to fulfill their assigned duties and responsibilities, the Municipality's operation would greatly improve.

As a result of our audit we have identified twelve (12) control deficiencies in the Municipality's operation summarized as follows:

1. Due to lack of knowledgeable staff, the Municipality did not prepare its financial statements for fiscal years ended September 30, 2000 and 2001.
2. The Municipality does not have written regulations or policies and procedures except for its budget acts.
3. The Municipality does not perform reconciliation of its bank accounts.

4. The Municipality's fixed assets were not accounted for in accordance with the generally accepted accounting principles due to lack of control policies and procedures.
5. The Municipality has inadequate control policies and related procedures over the administration of its personnel.
6. The Municipality has ineffective controls over cash receipts.
7. The Municipality has not established effective controls to ensure all disbursements are properly made.
8. The Municipality has not ensured that compatible duties are segregated.
9. Monitoring control is not adequate to ensure that amounts approved in the budgets are not over expended.
10. The Municipality did not adequately plan for all expected expenditures of the government.
11. The Municipality is compensating its Chief Representative who is also a full time employee of the Pohnpei State Government.
12. The Municipality's documentation and records for its projects are not adequate or complete.

With the cited deficiencies, we also have provided our recommendations, we believe if implemented the Municipality's operation could improve. The summary of the recommendations is as follows:

1. The Municipality should prioritized the training of its Treasurer on proper accounting and financial reporting to enable her to prepare the financial statements in accordance with the generally accepted accounting principles applicable to local governments.
2. The Chief Magistrate should ensure that pertinent manuals of policies and procedures are established to provide guidance to the Municipality's employees in the performance of their assigned duties and responsibilities.
3. The Municipality should train its Treasurer on how to perform bank reconciliation so that she can assume this responsibility.
4. The Municipality should ensure that control policies and procedures are established for accounting of fixed assets in accordance with the generally accepted accounting principles (GAAP).
5. The Municipality should ensure that personnel policies and procedures are established and are used in the administration of its personnel.
6. The Municipality should be cognizant of its responsibility and train its employees on effective controls relating to receipting and recording of cash collections.
7. The Municipality should establish policies and procedures relating to cash disbursements and train its employees to fulfill the duties and responsibilities.
8. The Municipality should ensure that no one employee is solely responsible for collecting, disbursing, recording and has custody of funds.
9. The Municipality should adequately monitor its budget to ensure that expenditures are kept within the approved amounts.
10. The Municipality should exercise good planning of its budget so that approved amounts are sufficient to cover expected or unforeseen expenditures.

11. The Municipality should not allow dual compensation.
12. The Municipality should maintain adequate records of its projects to justify and support disbursements of funds.

As is customary, a copy of the draft report was submitted and discussed with the management of Mwoakilloa Municipal Government during the exit conference held on July 8, 2003. At that time we also requested for the Municipality's response to the audit findings to be included as part of the final report. However, despite our numerous follow-ups we were not able to receive the Auditee response.

The recent change of the Municipality's administration prompted OPSA to meet and discussed the draft audit report with the newly elected Chief Magistrate on January 26, 2004. As a result of that meeting, the Municipality prepared and submitted its response to the draft audit report, which is presented in Appendix A, pages 20 to 24 of this report.

In closing, we would like to thank the former Chief Magistrate and his staffs for their assistance extended to us during the course of our audit. We also would like to thank the new Chief Magistrate for making immediate response to the findings, which is indicative of Mwoakilloa Municipal Government's first step toward the improvement of its operation.

Respectfully submitted,

Annes Leben
Pohnpei State Auditor

MWOAKILLOA MUNICIPAL GOVERNMENT

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YEARS ENDED SEPTEMBER 30, 2001 AND 2000

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INTRODUCTION

The Office of the Pohnpei State Auditor (OPSA) was engaged to perform an audit of Mwoakilloa Municipal Government (the Municipality) for the years ended September 30, 2000 and 2001. The planning, which began in mid March of 2002 revealed that the Municipality did not prepare its financial statements to permit a financial statements audit. Aside from the absence of the financial statements, our preliminary review also revealed that the Municipality lacks complete and adequate financial records. For example:

- Cash Receipts Journals to document collections from the local revenues do not include the corresponding receipt numbers. Appropriations, as well as project revenues received from the State are not receipted or recorded.
- Cash Disbursements Journals to record expenditures of respective branches including payrolls also do not include corresponding check numbers. Further, checks and invoices are filed separately.
- Schedule or listing of fixed assets was not prepared. The auditors prepared one however, documentation on the acquisition costs and date are not available.
- Personnel files were not prepared for the employees of the Municipality.

Our audit therefore was limited in scope due to the result of the preliminary survey. Hence, this report completes our audit of the Mwoakilloa Municipal Government.

BACKGROUND

Mwoakilloa Municipal Government is one of the eleven local governments comprising the Pohnpei State Government. The Municipality has three branches of government, namely, the executive, legislative, and judiciary. The executive branch, which is headed by the Chief Magistrate, is composed of five divisions, specifically: Office of the Chief Magistrate, Treasury Office, Public Safety Office, Public Defender Office and Public Work Office. The executive branch is responsible to ensure that the day-to-day operation of the government is run effectively and efficiently based on the approved operation budget and in compliance with all other applicable laws and regulations.

The legislative branch, which is headed by the Speaker, is the law-making body of the Municipality and is composed of the councilmen. Through this branch local laws are enacted for all types of activities to include fiscal issues facing the Municipality. On the other hand, the Chief Justice heads the judiciary branch. As court of law for the

Municipality, the judiciary branch interprets and judge issues, actions or other matters based on the law.

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Through the election process the people of Mwoakilloa select the Chief Magistrate and the Councilmen. On the contrary, the Chief Justice is appointed by the Chief Magistrate and confirmed by the council.

Annually, the Mwoakilloa Municipal Government receives financial assistance from the Pohnpei State through the “Local Government Revenue Sharing Act of 1989”. The act dictates that at least 30% of all taxes received by Pohnpei State Government from sources within Pohnpei are appropriated among the eleven local governments for operations and development projects identified in the respective local plans. Allocations of such tax revenues are by population based on the local citizenship, as determined by the 1985 official census or any census thereafter. As such, the Municipality received \$45,558 and \$43,928 in fiscal years 2000 and 2001 respectively for its operations. In addition, the Municipality collects revenues from locally imposed taxes, fines, licenses, penalties, fees and other government services.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether:

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

The audit covered fiscal years ended September 30, 2000 and 2001 and included review of receipts and disbursements of funds, and controls and compliance over financial reporting.

As a matter of OPSA’s policy, we performed our audit, as applicable, in accordance with the 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 were considered necessary under the circumstances, as follows:

1. We interviewed certain personnel of the Municipality to obtain knowledge of control activities in place and compliance with applicable laws and regulations.

2. We conducted preliminary survey of the Municipality's records to determine completeness and availability of accounting records in order to plan and determine the nature, timing and extent of auditing procedures to be performed.
3. We examined and performed tests of records and supporting documents for cash receipts and disbursements, as appropriate. All samples were selected based on auditor's judgment.

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4. We conducted observation and inspection of projects and properties of the Municipality.
5. We performed bank reconciliation for one of the Municipality's cash accounts with the bank; and,
6. We compared the Municipality's budgets to actual expenditures to determine compliance with the budget act.

Our audit began in mid March 2002 and completed in March 2003.

PRIOR AUDIT COVERAGE

This is the first audit of Mwoakilloa Municipal Government conducted by the Office of the Pohnpei State Auditor.

CONCLUSION

As a result of our audit, we conclude that the Municipality lacks some fundamental controls in the accounting for and recording of receipts and disbursements of funds as well as the controls and compliance over financial reporting. The management would require to exert extra effort to correct the deficiencies noted in the audit report. We believe that if the Treasurer and the other personnel are trained adequately to fulfill their assigned duties and responsibilities, the Municipality's operation would greatly improve.

Based on the audit we have identified twelve (12) control deficiencies in the Municipality's operation, which are summarized below. We also have provided our recommendation to the deficiencies found and if implemented could improve the Municipality's operation. The deficiencies are further presented in detail on pages 6 to 19 in the Schedule of Findings and Recommendations of our report.

Summary of Findings

1. The Municipality, due to lack of knowledgeable staff, did not prepare its financial statements for fiscal years ended September 30, 2000 and 2001.
2. Except for the budget acts, the Municipality does not have any other written regulations and policies and procedures for its operation. Duties are performed based on past practices.
3. Bank reconciliation has not been performed for the three bank accounts of Mwoakilloa Municipal Government.

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4. The Municipality lacks control policies and procedures for its fixed assets. Consequently, its fixed assets were not being accounted for in accordance with the generally accepted accounting principles.
5. The Municipality has inadequate control policies and related procedures over the administration of its personnel. Consequently, personnel files were not prepared and maintained.
6. The Municipality has ineffective controls over cash receipts and employees have not been trained to assume the responsibility. This led to collections not properly received and recorded.
7. The Municipality has not established effective controls to ensure that all disbursements are properly made. Disbursements were not properly approved, supported and recorded.
8. The Municipality has not ensured that compatible duties are segregated. The Treasurer therefore assumes most of the financial responsibilities to include receiving and disbursing funds, recording, has custody of assets and signing of the checks.
9. Monitoring control used by the Municipality is not adequate to ensure expenditures are within the approved amounts, thus, over run of budget were noted for the fiscal years ended September 30, 2000 and 2001.
10. The Municipality did not plan adequately for all expected expenditures of the government. Therefore fixed asset, which was not budgeted, was purchased without documentation to justify or support the expenditure. Amount budgeted for employee benefit was not sufficient to cover the annual contribution of employer.
11. The Municipality is compensating its Chief Representative who is a full time employee of the Pohnpei State Government.
12. The Municipality's documentation and records for its projects are not adequate or complete.

Summary of Recommendations

1. We recommend that the Municipality should prioritize the training and orienting of its Treasurer on proper accounting and financial reporting to enable her to prepare the Municipality's financial statements in accordance with the generally accepted accounting principles applicable to local governments.
2. We recommend that the Chief Magistrate should ensure that pertinent manuals of policies and procedures are established to provide guidance to the Municipality's employees in performing their assigned duties and responsibilities.
3. We recommend that the Municipality should train its Treasurer on how to perform bank reconciliation so that she can assume this responsibility.

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4. We recommend that the Municipality should account for its fixed assets in accordance with the generally accepted accounting principles (GAAP). The capitalization policy should be established for properly identifying capital assets and a schedule or a list of those assets should be prepared and updated periodically.
5. We recommend that good internal controls must always be exercised to ensure that policies and procedures are adequate in the administration of its personnel. The Municipality should create and maintain personnel files of its employees.
6. We recommend that the Municipality should be cognizant of its responsibility and train its employees on effective controls relating to cash collections and receipts and the recording of such.
7. We recommend that the Municipality should establish policies and procedures relating to cash disbursements and train its employees to fulfill the duties and responsibilities.
8. We recommend that the Municipality should exercise good internal control and ensure that no one employee is solely responsible for collecting, disbursing, recording and has custody of funds.
9. We recommend that the Municipality should adequately monitor its budget to ensure that expenditures are kept within the approved amounts.
10. We recommend that the Municipality should exercise good planning of its budget so that approved amounts are sufficient to cover expected or unforeseen expenditures.
11. We recommend that the Municipality should not allow dual compensation.
12. We recommend that the Municipality should maintain adequate records of its projects to justify and support disbursements of funds.

MWOAKILLOA MUNICIPAL GOVERNMENT

**Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000**

Finding No. 1 Financial Reports

Criteria: As custodians of funds and other assets, the Heads of the governments, must be held accountable for the proper use and disposition of such resources entrusted to them. Therefore, financial reports showing the government's spending and collections must be prepared so that its performance and accountability can be assessed.

Condition: The Municipality did not prepare its financial statements for fiscal years ended September 30, 2000 and 2001. In addition, the accounting records it maintained are not accurate and complete to permit the compilation of such statements.

Cause: The cause of the above condition is the lack of qualified Finance personnel to perform accounting function and financial reporting of the government.

Effect: As a result, financial statement audit could not be performed. In addition, the Municipality's fiscal accountability is not clear to its citizens.

Recommendation: We recommend that the Municipality should exert all effort to provide training for its Treasurer and other Finance staffs on proper accounting and financial reporting applicable to local governments. We further recommend that selection of future key Finance employees should be based on qualifications.

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Finding No. 2. Written Policies and Procedures

Criteria: Written manual of policies and procedures should be established to provide guidance to employees on their daily functions and to serve as reference for the continuous training and orientation of current and new personnel.

Condition: Except for the Budget Acts, the Municipality does not have written manual of policies and procedures for its operation. The Municipality also lacks Financial Management Regulations to govern the administration of its funds and other assets.

Cause: The absence of the manuals is due to lack of management initiative to establish or seek assistance in establishing such.

Effect: The situation resulted to the employees performing their duties based on past practices, which in this case, are not adequate to ensure complete financial records and reports.

Recommendation: Thus, we recommend that the Chief Magistrate should focus on establishing the pertinent manuals of policies and procedures to provide guidance to the Municipality's employees in performing their assigned duties and responsibilities. As a start, the Pohnpei State Financial Management Regulation could be used until the Municipality's own regulation is established. Similarly, the accounting manual drafted by the Office of the Pohnpei State Auditor for the local governments, although it needs to be updated, can be utilized by the Municipality as a guide for the accounting of its daily transactions.

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Finding No. 3 Bank Reconciliation

Criteria: Sound internal control on cash requires that bank reconciliation should be performed properly and timely. Bank reconciliation is a tool used by management in preventing or detecting potential errors or irregularities and is also a process to reflect the correct cash balance of the Municipality.

Condition: The Municipality has not performed reconciliation on any of its three bank accounts. To get the cash balance, the Treasurer would call the Chief Representative in Kolonia, Pohnpei who in turn will inquire from the bank. The cash balances per bank, are then relayed to the Treasurer.

Cause: The responsible personnel lack the knowledge of doing the bank reconciliation. That being the case, the Municipality did not make an effort to train its personnel on such.

Effect: As a result, the Municipality is not aware of its true cash balance and there is no reasonable assurance that its cash in bank balances are error free.

Recommendation: We recommend that the Municipality should ensure that bank reconciliation is performed timely. In doing so, the Municipality should prioritize the training of its personnel in performing reconciliation of not only on cash account but also on all the accounts.

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Finding No. 4 Fixed Assets

Criteria: Generally accepted accounting principles (GAAP) require that capital assets should be recorded at cost, and if that cost is not determinable, then at estimated cost. Also, sufficient control policies and procedures must be in place to ensure that capital assets are properly documented, maintained, and accounted for in the general fixed assets account group in accordance with GAAP.

Condition: The Municipality lacks control over the administration of its fixed assets. For instance, it does not have a capitalization policy to provide for monetary threshold in capitalizing assets. It also does not maintain a schedule or list of its properties. The auditors observed the physical inventory of fixed assets performed by the Municipality during the auditors visit to the island. During the count, a list of the existing fixed assets was made, however it is not complete due to the absence of documents to support the costs and dates of the assets' acquisition.

Cause: This is due to lack of oversight by the Municipality's leaders to ensure that pertinent policies and related controls are established for the administration of the Municipality's capital assets in accordance with the generally accepted accounting principles.

Effect: As a result, there is no reasonable assurance that the Municipality's capital assets were and are all being properly accounted for.

Recommendation: We recommend therefore, that the Municipality should account for its fixed assets in accordance with the generally accepted accounting principles (GAAP). That is, the Municipality should establish control policies and procedures for properly identifying and accounting for its capital assets. The Chief Magistrate should also ensure that a schedule or a list of its fixed assets is prepared that contain all relevant information such as description, class, useful life, acquisition date and the original costs of the assets. Once the schedule is set up, it should be maintained and updated periodically.

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Finding No. 5 Personnel Files

Criteria: There must be adequate control policies and procedures in place to ensure that all data, records and pertinent information regarding the employees are prepared and maintained in the personnel files.

Condition: The Municipality lacks control policies and procedures for the administration of its employees. For example, personnel files were not created and maintained to keep all the important records, personnel actions, and other documents pertaining to its employees.

The Municipality has its own recruitment practice. It does not follow the normal recruitment process, wherein hiring is based on qualifications of applicants. Rather, the Head of each branch appoints its own employees with the consent and approval of the council. Appointment is made based on a sign-up list for position vacancies.

Cause: The Municipality has not ensured that control policies and procedures regarding its personnel are adequate.

Effect: Future personnel conflict like Social Security claims and Income tax refunds might be difficult to settle because of the absence of the employment history records of the current and former employees of the government.

Recommendation: We recommend that regardless of the Municipality's size, good internal controls must still be followed in the administration of its personnel. That is, the Municipality should create and keep files of all its employees. Such files should contain all the important personnel records such as personnel actions, contracts and other relevant information regarding its employees.

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Finding No. 6 Cash Receipts

Criteria: Accounting of cash receipts should be sufficient to ensure that all collections are properly receipted, recorded and deposited timely and intact.

Condition: We found that the Municipality does not have an effective control over cash receipts. Specifically, we have noted the following:

- The collections (appropriation) it receives quarterly from Pohnpei State are not receipted and not recorded in its books.
- Due to the distance of the Municipality from the Pohnpei proper, local collections are not deposited timely. For all the deposits made however, not all deposit slips are kept; thus not recorded.
- The cash receipts for local revenues were issued out of sequence and most receipts are unaccounted for.
- The cash receipts journal does not reflect the receipt numbers of the corresponding collections.
- Cash receipts for collections received in October to December 1999 could not be located.

Cause: The responsible personnel have limited knowledge on proper controls over cash receipts. The Municipality on the other hand, has not exerted effort to train its personnel.

Effect: As a result, there is no reasonable assurance that the Municipality's collections were and are all being accounted for properly.

Recommendation: Because cash is very susceptible to fraud and irregularities, the Municipality should make sure that effective controls over cash are in place. These controls should include that only qualified employees are hired to perform the function. In order to facilitate the process, the Municipality should properly train its employees on collections, receipting, depositing and the recording of cash.

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Finding No. 7 Disbursements

Criteria: Sound internal control requires that adequate policies and procedures must be in place to ensure that all disbursements are properly made, e.g., approved, supported, and recorded.

Condition: The Municipality did not ensure that disbursements of funds were properly made and documented. For example, our review of disbursements; three hundred twenty seven (327) for fiscal year 2000; and, seven hundred twelve (712) for fiscal year 2001 revealed the following deficiencies:

- All the disbursements were made without duly approved purchase orders or requisition forms.
- Most of the disbursements were made without proper supporting documents such as invoices, receipts, and etc.
- Blank checks were used without assigned numbers: Forty-nine (49) in fiscal year 2000 and sixty- one (61) in fiscal year 2001.
- There were eight (8) checks issued to cash in fiscal year 2000 and six (6) for fiscal year 2001. Expenses could not be determined due to the absence of adequate supporting documents.
- There were frequent instances in both fiscal years under audit that checks were issued out of sequence. Furthermore, in fiscal year 2000 thirty-nine (39) check numbers were used twice; and, two (2) were used three times. In fiscal year 2001,

we noted thirty-six (36) instances of similar situation, thirty-three (33) check numbers were used twice and three (3) were used three times.

- Disbursements amounting to \$11,800.32 for fiscal year 2000, and \$10,227.99 in fiscal year 2001 were not taken up in the books.
- There were thirty-two (32) instances where the amounts recorded in the cash disbursements journal are different from the check amounts; two (2) in fiscal year 2000 and thirty (30) in fiscal year 2001.
- The Municipality's disbursements journals for fiscal years 2000 and 2001 do not specify the corresponding number of checks or invoices.
- Copies of checks for both fiscal years are filed separately from related invoices or other supporting documents. Tracing the invoices against the related checks was a very time consuming process.
- All disbursements and related supporting documents for October to December 1999 were missing.
- There were instances that the original voided checks were detached from the check stubs and the copies.
- We found unused checks that were not properly kept and one blank check is already signed.

MWOAKILLOA MUNICIPAL GOVERNMENT Schedule of Findings and Recommendations

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Finding No. 7 Disbursements, Continued

Cause: The Municipality does not have established policies and procedures relating to proper handling of disbursements. The condition further worsens due to the absence of qualified personnel to perform the functions.

Effect: As a result, there is no reasonable assurance that all disbursements were and are being properly accounted for.

Recommendation: We recommend that the Municipality should establish policies and procedures relating to proper handling of disbursements. Once these policies are established, it could be used as guide and training tools for the Municipality's employees in fulfilling their assigned duties.

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Finding No. 8 Segregation of Duties

Criteria: Good internal control dictates that compatible duties must be segregated to prevent potential abuse of authority, which could tempt an employee to commit and conceal fraud and irregularities.

Condition: The Municipality assigned compatible duties to one employee. For instance, the Treasurer receives, keeps, and records collections as well as signs the Municipality's checks.

Cause: The Municipality may not be aware that this practice is contradictory to good internal control.

Effect: The condition may and could lead to intentional wrong doings.

Recommendation: The Municipality should assign compatible duties in such a way that no employee would be in complete control of the fiduciary functions. We further recommend that works perform by the employees should be reviewed and approved by

the Chief Magistrate; not just to “rubber-stamp” but to assume responsibility for the works performed by his subordinates.

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Finding No. 9 Budget Monitoring

Criteria: Budget monitoring should be effective to ensure that expenditures are kept within the approved amounts. Fund certification process must be required for all government spending and the fund status report should be done monthly.

Condition: To monitor its budget, the Municipality maintains ledgers of actual expenditures vs. budget for its three branches. The first entry in the ledger is the amount approved in the budget for each respective branch. Monthly totals of the cash disbursements journals for the branches are posted to the ledgers and subtracted from the fund (budget) balances. Our review revealed however that the Municipality’s monitoring practice is not effective to ensure that the running balances are accurate or that the expenditures are kept within the limits. For example, we found that disbursements totaling \$11,800.32 for fiscal year 2000 was not recorded in the cash disbursements journals. Again, in fiscal year 2001 a total of \$10,227.99 of disbursements were also not taken up in the books. The unrecorded disbursements therefore were not included in the

totals posted to the ledgers. The omissions distorted the fund balances of the Municipality's budgets.

Cause: The Municipality did not require the submission of monthly fund status report that will force the employee to perform his work properly.

Effect: As a result, the Municipality over runs its budget as follows:

<u>Executive Branch</u>	<i>FY 2000</i>	<i>FY 2001</i>
Contingency	474.45	238.98
Consumable goods	82.12	0.00
Travel	125.00	430.00
Municipal Holidays	0.00	359.06
Sub-total	681.57	1,028.04
<u>Legislative Branch</u>		
Travel	0.00	130.00
Consumable goods	0.00	406.74
Contingency	0.00	36.53
Sub-total	0.00	573.27
<u>Judiciary Branch</u>		
Travel	0.00	130.00
Contingency	0.00	800.00
Sub-total	0.00	930.00
Total	681.57	2,531.31

**MWOAKILLOA MUNICIPAL GOVERNMENT
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Finding No. 9 Budget Monitoring, Continued

Recommendation: We recommend that the Municipality should require fund certification of all expenditures and that the corresponding fund status report must be prepared and submitted monthly. The reporting requirement with sanction for non-compliance will prompt the employee to perform his job accurately.

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Finding No. 10 Budget Planning

Criteria: Adequate planning should be exercised to ensure that all anticipated expenditures are budgeted. If amendment or reprogramming of the budget is necessary, it must be supported with written justification and must be duly approved.

Condition: We found in our review that the Municipality purchased a “fixed asset”, (specifics is not known) which was not budgeted. There were no documents to show that an amendment or reprogramming of the budget was made to authorize such purchase. In addition, the amounts budgeted for the personnel benefit e.g., social security taxes, exceeded the budget by \$1,663.75 in fiscal year 2000 and \$1,230.50 in fiscal year 2001.

Cause: The Municipality did not adequately plan for all anticipated expenditures.

Effect: As a result, it incurred expenditures, which were not properly authorized.

Recommendation: We recommend that the Municipality should prepare its budget reasonably to ensure that all anticipated expenditures are considered.

Finding No. 11 Dual Compensation

Criteria: The local government should perform actions that are in line with the established policies and procedures of the primary government.

Condition: The Municipality employs one of its citizens residing in Pohnpei proper as a Chief Representative. As such, the appointee receives monthly compensation of \$105.25 from the Municipality. The Chief Representative of the Municipality however, is also employed by the Pohnpei State Government as a full time employee. The situation is tantamount to dual responsibilities with double compensation.

Cause: The Municipality lacks any policies or regulations regarding dual compensation.

Effect: The above condition resulted to payment of dual compensation, which contradicts with the Pohnpei State Personnel System Regulations.

Recommendation: We recommend that the Municipality should perform actions that will not contradict with the established policies and procedures of the primary government. In doing so, the Municipality should ensure that any policies and procedures it established would be in agreement with that of the primary government.

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Finding No. 12 Projects

Criteria: As recipient of public funds for its development projects, the Municipality must properly use and account for the project funds.

Condition: The Municipality did not properly account for the project funds it received for the fiscal years 2000 and 2001. For instance, the only records that it maintained to support the expenditures of the projects are the schedule of payments to the laborers and incomplete vendor invoices which were not filed with the corresponding checks. On the other hand, the Municipality did not prepare schedules detailing the use of the project funds, nor did it maintain supporting records such as, inspection reports, progress reports or summary of payments, etc.

Cause: The Municipality is not aware that it needs to account for and maintain the records relating to the projects. Conversely, its personnel are not trained to assume the responsibilities concerning development projects.

Effect: There is no reasonable assurance that the project funds were and are being spent properly.

Recommendation: We recommend that the Municipality should be more cognizant of its accountability as recipient of public funds and should properly account for its use. Moreover, the Municipality should train its Treasurer or other responsible personnel on proper accounting of project funds. This should include proper maintenance of project files with all related documents and records.