

PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT NO. 007-02
YEARS ENDED SEPTEMBER 30, 2001 AND 2000

OFFICE OF THE POHNPEI STATE AUDITOR

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

**PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
YEARS ENDED SEPTEMBER 30, 2001 - 2000**

TABLE OF CONTENTS

	<u>Page No.</u>
I. Executive Summary	i-ii
II. Introduction	
Background	1-2
Audit Objectives, Scope and Methodology	2-3
Audit Conclusion	4
Summary of Findings and Recommendations	4-6
III. Schedule of Findings and Recommendations	7-29
IV. Auditee Response (Exhibit 1)	30

March 26, 2003

The Honorable Johnny P. David, Governor, State of Pohnpei
The Honorable Feliciano Perman, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Honorable Perden Samson, Chief Magistrate, Pingelap Municipal Government
The Honorable Councilmen, Pingelap Municipal Government

EXECUTIVE SUMMARY

We are pleased to submit the audit report of Pingelap Municipal Government for the years ended September 30, 2001 and 2000. The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit was also conducted pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law no. 1L-10-79, and such other laws promulgated thereafter.

The objectives of our audit were to determine whether:

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

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

This is the first audit performed on Pingelap Municipal Government by the Office of the Pohnpei State Auditor (OPSA).

We conclude based on our audit that the Municipality did not properly account and record its receipts and disbursements. Also, the Municipality did not comply with certain

laws and regulations; and that internal controls over financial reporting were not effectively and efficiently in place.

We have identified fifteen (15) internal and management control weaknesses. Three (3) of the findings indicated the Municipality's lack of proper accountability and recording of receipts and disbursements. The other twelve (12) findings relates to noncompliance with certain laws and regulations and lack of internal controls. These findings are described in detail in the Schedule of Findings and Recommendations on pages 7 to 29 of the report. In the Schedule of Findings and Recommendations section of the audit report, we have offered our recommendations to each of the findings; we believe once implemented could assist the Municipality in clearing the deficiencies cited in the audit report and hence, improve their operations.

As is customary, a draft of this report has been provided to and reviewed by the Municipality, whose responses are included in this report as Exhibit 1 (page 30).

As required by the provisions of Pohnpei State Law no. 5L-08-00, an amendment to the law that created the Office of the Pohnpei State Auditor (OPSA), the Municipality is required to submit a monthly report to the OPSA indicating its progress in clearing deficiencies cited in the audit report, which period shall not exceed six months.

We realize that the geographical distance of Pingelap Island to Pohnpei proper may make the Municipality's compliance with all the audit recommendations more difficult, particularly the timely deposit of collections, purchases of supplies, and the centralization of disbursements at the Treasurer's office. We however believe that the situation should not be use as an excuse but rather as a means to implement a much tougher control. A system therefore has to be established and implemented to ensure a strong fiscal accountability. This, after all is Pingelap Municipal Government's responsibility to its constituents.

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

Respectfully submitted,

Ursula S. Abalos
Acting Pohnpei State Auditor

PINGELAP MUNICIPAL GOVERNMENT

AUDIT REPORT

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

**PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
Years Ended September 30, 2000 and 2001**

Background

Pingelap Municipal Government (PMG / Municipality) is one of the eleven local governments comprising the Pohnpei State Government. It was established in June 26, 1985 when its first Constitutional Convention was held. Article 7 of the Pingelap Constitution (amended November 9, 1999) states the responsibilities of the Government of Pingelap as follows:

1. Resources, Environment and Development. The Government of Pingelap shall establish and faithfully execute comprehensive plans for the conservation of natural resources and the protection of the environment. The government of Pingelap shall also promote economy and shall establish and faithfully execute a development plan and legislation on the conservation of land and ocean resources.
2. Health and Education.
 - a) The Government of Pingelap shall provide health care services and educational services for the public. It shall establish and faithfully execute comprehensive plans for the continual improvement of health care services and educational standards and services for Pingelap.
 - b) The Government of Pingelap shall provide for the regulation of health care services.
 - c) The Law shall enforce compulsory education through a grade to be set by statute. Pingelap School by statute shall be free of fees.
3. History and Culture. The Government of Pingelap shall establish and faithfully execute comprehensive plans for the identification, preservation, and administration of places, artifacts, and information of historical and cultural importance of Pingelap.
4. Environment Impact Assessment. The Government of Pingelap shall conduct a research to assess any proposed project that will involve the natural resources of Pingelap.

Pingelap Municipal Government has three branches of government, namely, the executive, legislative, and judiciary. The executive power of the Government of Pingelap is vested in the Waien Pingelap (Chief Magistrate) who shall be elected by the qualified voters of the Municipality. He has the power, authority, and responsibility to run the Government of Pingelap. He also has the power to appoint officials to the executive branch, with advice and consent of the Councilmen, to assist him in running the Government of Pingelap. At present, there are five offices under the executive branch, namely: Public Works, Public Safety, Office of the Prosecutor, Office of the Defender, and Sanitation. Each office has its own Heads.

The legislative branch is the law-making body of the Government of Pingelap. Its power is vested in the Waien Sapw (Councilmen), which is headed by the Speaker. The island of Pingelap is consists of four sections. Two councilmen from each section represent the people of Pingelap.

**PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
Years Ended September 30, 2000 and 2001**

The judicial power of Pingelap is vested in the Pingelap Court, which shall consist of a Chief Justice, Associate Justice, and one (1) temporary Justice. The Waien Pingelap shall nominate the Justices, with the approval by affirmative vote of three-fourths of Waien Sapw.

Aside from the three branches of government, an independent Office of the Treasurer has been established pursuant to the new amendment of the Pingelap Constitution, which went into effect on November 9, 1999. The Treasurer is responsible for the collection of local revenues and the maintenance of the general and special fund of the Municipality. The Treasurer shall be elected in the same manner as the Waien Pingelap (Chief Magistrate), with a two (2)- year term.

Sources & Uses of Funds

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

The Municipality also receives revenue from local sources like business license fees, and court fees and fines. Section 9 of Article 11 of the Pingelap Constitution states that “local revenues collected in Pingelap proper shall be equally distributed among the four (4) sections of Pingelap, after 5% of local revenues is deposited into a Trust Fund that will be created”.

Budget

Pursuant to Pohnpei State Law Nos. 4L-127-99 and 5L-19-00 (or the Comprehensive Budget Acts for FY 2000 and 2001), the amounts of \$103,213 and \$99,520 have been appropriated from the General Fund of Pohnpei State to Pingelap Municipal Government for development projects and operations under revenue sharing for fiscal years 2000 and 2001. Aside from these, the Municipality has also been appropriated the total amount of \$106,730 to finance projects specified in the Public Laws.

Audit Objectives, Scope and Methodology

The objectives of the audit were to determine whether:

1. Municipal receipts and disbursements of funds were accounted for, recorded, and authorized in accordance with applicable laws and regulations;

**PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
Years Ended September 30, 2000 and 2001**

Audit Objectives, Scope and Methodology, continued:

2. Internal controls and compliance with applicable laws and regulations over financial reporting were effectively and efficiently in place.

The audit covered fiscal years 2001 and 2000.

We did not perform audit procedures on the Municipality's trust account being maintained at the local financial institution because its existence was only represented to the auditors after the exit conference. The Municipality opened the account in October 15, 2002, with an initial deposit of \$13,045.01. There was no deposit or withdrawal made to date.

To accomplish the above-cited objectives, we performed the following procedures. The details of such were written in the audit programs:

1. We conducted a site visit of the Municipality and assessed the records maintained by the Municipality.
2. During our site visit, we inspected and took pictures of the completed projects.
3. We reviewed the Municipality's compliance with applicable policies, laws and regulations.
4. We interviewed the Municipality's personnel to be able to understand and assess the Municipality's internal control.
5. We tested existing controls over receipt and disbursement of the Municipality's funds.
6. We conducted cash count of the Municipality's cash on hand as of March 15, 2002.
7. We examined check vouchers and supporting documents.
8. We performed bank reconciliation of the Municipality's bank account.
9. We confirmed the Municipality's bank account balance with financial institution.

Audit Engagement

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

Prior Audit Coverage

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

PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
Years Ended September 30, 2000 and 2001

Audit Conclusion

As a result of our audit, we conclude that the Municipality did not properly account and record all of its receipts and disbursements. We also conclude that the Municipality did not comply with certain laws and regulations; and that internal controls over financial reporting were not effectively and efficiently in place.

We have identified fifteen (15) internal and management control weaknesses, which are detailed in the Schedule of Findings and Recommendations, on pages 7 through 29 of our report.

Summarized below are our audit findings:

Objective no. 1:

1. The Municipality does not have adequate records to support a complete accounting system.
2. The Municipality overspent its budget for fiscal years 2001 and 2000. Also, the Municipality's recording of its *budget against actual expense ledger* was not properly made.
3. The Municipality did not account for its fixed assets.

Objective no. 2:

4. The Municipality opened a trust fund account in fiscal year 2003; approximately four (4) years after the Constitutional amendment that requires its establishment.
5. Check voucher files from June 2001 to September 2001 were missing. Several disbursements lacked proper supporting documentation.
6. For the payroll samples tested, the Municipality withheld only a 3% tax on employees' salaries.
7. The Municipality does not have existing Financial Management Regulations (FMR).
8. The Municipality's cash receipts booklet with serial nos. 3401 to 3600 is missing. Also, cash receipts were not issued for the funds received from Pohnpei State and FSM appropriations.
9. Cash count revealed shortage of cash. There was also discrepancy between court collections and remittance to Treasury office.
10. Some checks were found payable to cash.
11. Checks were issued out of sequence. In addition, some of these checks were not recorded in the check register.
12. The Municipality did not maintain complete documentation of payroll files and records, e.g. personnel action forms, payroll register, duly approved timesheets, approved leave application forms.
13. In fiscal year 2000, there were four (4) employees that were paid twice in one pay period.

PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
Years Ended September 30, 2000 and 2001

Audit Conclusion, continued:

14. The Municipality did not properly identify the disbursements for the specific projects, nor was it able to provide a schedule of project revenues and expenses. In addition, the Municipality did not maintain files for each project that will contain documents such as budget appropriation, contracts, inspection reports, progress reports, project payments, and etc.
15. The Municipality's personnel did not perform bank reconciliation of its bank account. The bank reconciliation per audit resulted to a negative cash balance of \$937.16. Instances of bank overdrafts and charges on returned checks were also noted during the bank reconciliation.

Our recommendations to each of the findings are as follows:

Objective no. 1:

1. The Chief Magistrate should seek the help of a professional in the setting up of its books that is applicable to local government accounting system, and ensure that such professional would provide adequate training to his staffs.
2. The Office of the Treasurer should ensure that the disbursement of funds be strictly made within the budgetary limits. In the meantime that the office does not have a complete set of books, it may continue with the maintenance of the *Budget against Actual ledger*. However, the responsible employee should see to it that the recordings of disbursements are timely and correct.
3. The Municipality should develop guidelines on fixed assets. The written guidelines should include procedures on asset purchase, recording, monitoring, movement or transfer, and its disposal.

Objective no. 2:

4. The Municipality should comply with all the provisions of its Constitution.
5. The Municipality should prepare and adopt its own Financial Management Regulations, otherwise, it should comply with Pohnpei State's FMR.
6. The Municipality should comply with FSM law on taxation and withhold the correct taxes from its employees' salaries.
7. The Municipality should work for the establishment and adoption of its FMR.
8. The Office of the Treasurer should issue cash receipts every time cash is received, and ensure that all cash receipts whether issued or not are kept intact and secured.
9. The Municipality should implement control measures detailed in the Schedule of Findings and Recommendations.

**PINGELAP MUNICIPAL GOVERNMENT
AUDIT REPORT
Years Ended September 30, 2000 and 2001**

Audit Conclusion, continued:

10. Pingelap Municipal Government should cease from issuing checks payable to cash. The Mayor's Representative should canvass the supplies needed ahead of time so that checks would only be issued to vendors and suppliers.
11. The Municipality should issue the checks in sequence and centralize the issuance of checks at the Office of the Treasurer in Pingelap. Said office should also ensure that all checks issued are identified and recorded properly.
12. The Municipality should have a personnel policy in effect that will regulate personnel matters. The policy should include issues such as: hiring, work hours, salary payment, overtime, leave, termination, resignation, etc.
13. The Office of the Treasurer should monitor the payroll payments by recording all salary payments in a payroll journal. We also recommend that the payment of salary should be centralized at the Treasurer's office in Pingelap.
14. The Public Works Office of the Municipality should take charge of implementing all municipal projects and perform the functions enumerated in the Schedule of Findings and Recommendations.
15. The Municipality should reconcile its bank account monthly. The reconciliation statement should be signed by the preparer and approved by a responsible officer of the Municipality.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Accounting system and records

1. Criteria:

A government accounting system must make it possible to present the financial position and results of financial operations of the funds and account groups of the governmental unit, in conformity with generally accepted accounting principles. Therefore, a complete self-balancing group of accounts should be established.

Condition:

The Municipality does not have general ledger and subsidiary ledger. The only book of account it maintained is a check register. Entries to this register, however, were not properly recorded. Examples are as follows:

1. In fiscal year 2001, we found a total of 154 checks totaling \$59,743.06 that were not recorded in the check register; while in fiscal year 2000, 32 checks amounting to \$9,255.47 were also not recorded.
2. Several checks' amounts were not recorded in the register although the check numbers, dates, and payees were.
3. There were 33 instances where the recorded amounts or dates were found different from the details of the actual checks.
4. 16 checks, which total \$1,937.70, were found recorded in a separate check register.
5. 28 checks were missing in fiscal year 2001 and 2 checks were found missing in fiscal year 2000. These checks were not recorded and were not cashed from the bank either.

Cause:

The Municipality does not have qualified Accounting or Finance personnel.

Effect:

The Municipality was not able to prepare its financial statements.

Recommendation:

We recommend that the Chief Magistrate should seek the help of a professional in the setting up of the Municipality's books that is applicable to local governments accounting system. He should also ensure that such professional would provide adequate training to his staffs.

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

Accounting system and records, continued:

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Budget overrun

2. Criteria:

An annual budget should be adopted by every governmental unit. All disbursement of funds must be made within the approved budget.

Condition:

The Municipality prepared an annual budget. In order to monitor its expenditures, the Municipality maintains a *Budget against Actual Expense* ledger. However, we noted that not all expenditures were recorded in the said ledger. In fiscal year 2001, the ledger was incomplete because the last recorded transactions for most of the expense categories were for the month of March 2001. Also, we noted instances of disbursements recorded under the wrong expense category, e.g. purchase of pig was recorded under Fixed Assets.

A comparison of the Municipality's budget against the expenditures per audit disclosed that in fiscal year 2001, the Municipality overspent its budget by \$35,468.84, while in fiscal year 2000, it overspent its budget by \$17,505.78.

Cause:

The causes of the above condition are; the lack of knowledge of the Municipality's employees' to properly record the disbursements, decentralized issuance of checks and the discontinuance of recording the transactions in the *budget against actual expense* ledger.

Effect:

The above condition resulted to budget overrun. In addition, unauthorized expenditures might have been paid from the above condition. Also, the above condition may result to loss of funding for legitimate projects and expenditures.

Recommendation:

We recommend that the Office of the Treasurer should ensure that the disbursement of funds be strictly made within the budgetary limits. In the meantime that the office does not have a complete set of books, it may continue with the maintenance of the

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Budget overrun, continued:

Recommendation, continued:

Budget against Actual Expense ledger. However, the responsible employee should see to it that the recordings of disbursements are timely and correct.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Fixed assets

3. Criteria:

Generally accepted accounting principles (GAAP) require that fixed assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost.

Condition:

The Municipality did not account for its fixed assets and neither maintains its schedule.

Cause:

The Municipality does not have an existing policy on fixed assets.

Effect:

Fixed assets are susceptible to loss and theft if not properly accounted and monitored.

Recommendation:

We recommend that the Municipality should develop guidelines on the accounting of fixed assets in accordance with GAAP. The written guidelines should include procedures on asset purchase, recording, monitoring, movement or transfer, and its disposal.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Trust fund

4. Criteria:

The new amendment of the Pingelap Constitution, which took effect on November 9, 1999 states that: "A trust fund will be created out of the 10% of revenue sharing from the Pohnpei State Government, to help improve the needs of the citizens of Pingelap and its future generation. The trust fund cannot be withdrawn within ten (10) years after the account has been created". Subsequent deposits should come from 5% of annual local revenues.

Condition:

The Municipality opened a trust fund account in October 15, 2002 with an initial deposit of \$13,045.01. The account was opened approximately four (4) years after the effectivity of the Constitutional amendment, which requires its establishment.

No deposits to the trust account have been made out of 5% of local revenues.

Cause:

The Municipality did not comply with the provision of its new Constitution.

Effect:

5% of annual local revenues that should have been deposited to the trust account may have been used for other purpose/s.

Recommendation:

We recommend that the Municipality should comply with all the provisions of its Constitution.

Auditee Response:

Please see Exhibit 1.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Trust fund, continued:

Auditor's Reply to Auditee Response dated March 26, 2003:

The issue here is the timing of opening the Municipality's trust account, which resulted to its noncompliance to its Constitution. In addition, the deposit was made in fiscal year 2003 and we could only conclude that the Municipality used its current appropriation to open this account.

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

Disbursement of funds

5. Criteria:

In the absence of its own Financial Management Regulations (FMR), Pingelap Municipal Government should follow that of Pohnpei State's. Pohnpei State's FMR require that all disbursement of funds be supported by adequate and valid documents, which are but should not be limited to: original invoices, receipts, purchase orders, miscellaneous request, travel authorizations, contracts, and job orders. The Municipality should also keep these disbursement files based on retention period of five years.

Condition:

Check voucher files from June 2001 to September 2001 were missing. Our review of the remaining check voucher files disclosed that several disbursements lacked proper supporting documentation, viz:

<u>No. of instances</u>	<u>Transaction</u>	<u>Amount of Checks</u>	<u>Missing Supporting Document(s)</u>
34	Travel	\$ 7,760.00	Travel authorization and/or trip report
20	Consumable Goods	2,968.55	Miscellaneous request form
12	Contractual Serv.	6,850.00	Contracts
2	Fixed Assets	1,772.00	PO and invoice
12	POL	824.50	Invoice

In addition, we noted the following significant disbursements without any supporting documents and/or files were missing. These corresponding checks were all cleared from the bank.

<u>Date</u>	<u>Check no.</u>	<u>Amount</u>	<u>Remarks</u>
12-27-99	none	\$ 2,500.00	Not recorded in check register & cancelled check missing
9-20-00	None	1,028.45	Not recorded in check register & cancelled check missing
9-21-00	101	1,359.57	Not recorded in check register & cancelled check missing
10-30-00	7008	4,154.77	Issued to Chief Magistrate; Not recorded in check register; Cleared on 3/12/01
10-30-00	7014	4,154.77	Issued to Chief Magistrate; Cancelled check missing; Cleared on 11/9/00
1-25-01	7210	4,221.88	Issued to Chief Magistrate; Cleared on 2/1/01
3-27-01	7063	2,019.68	Issued to Chief Magistrate; Not recorded in check register; Cleared on 3/27/01
7-31-01	6575	1,943.02	Issued to Chief Magistrate; Not recorded in check register; Cleared on 8/1/01

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

Disbursement of funds, continued:

Condition, continued:

<u>Date</u>	<u>Check no.</u>	<u>Amount</u>	<u>Remarks</u>
8-1-01	6577	2,264.75	Not recorded in check register; Cleared on 8/1/01
8-2-01	104	9,540.59	Issued to Chief Magistrate; Not recorded in check register; Cleared on 8/2/01

We also found two (2) checks issued for travel expenses, equivalent to the cost of airfare (roundtrip) and per diem. Supporting documents for the checks disclosed that the travelers went to Pohnpei by plane and traveled back to Pingelap by ship. The difference in the fare was not returned by the travelers nor collected by the Municipality.

Cause:

The Municipality does not have its own Financial Management Regulations, and key accounting personnel were not given training and orientation on the requirements of Pohnpei State's FMR before assuming their positions.

Effect:

The above condition has resulted to payment of unsupported and possibly unauthorized transactions amounting to \$53,362.53.

Recommendation:

We recommend that the Municipality should prepare and adopt its own Financial Management Regulations, which will serve as guide to its employees in the disbursement of funds. Otherwise, the Municipality should comply with Pohnpei State's FMR and ensure that all supporting documents covering disbursements are verified, checked, and approved prior to payment. These documents should be filed together and kept by the Office of the Treasurer in a secure place.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Withholding tax

6. Criteria:

Pursuant to Section 121 of Title 54 of the Code of the Federated States of Micronesia, a tax of 6% on the first \$11,000 and 10% on the amount over the first \$11,000, shall be assessed and collected on all wages and salaries received by every employee.

Condition:

We performed tests of payroll for two (2) pay periods each in fiscal years 2001 and 2000. During our review, we noted that the Municipality withheld only a 3% tax in fiscal year 2000.

Cause:

The Municipality did not comply with FSM law on taxation.

Effect:

The effect of the above condition is overpayment of employees' salaries by \$134.31 for the two pay periods in fiscal year 2000. It is also possible that the Municipality remitted taxes equivalent to 6% of employees' salaries to FSM Revenue Division, thereby incurring additional expense.

Recommendation:

We recommend strict compliance by the Municipality to FSM law on taxation. The Office of the Treasurer should withhold the necessary taxes from its employees' salaries.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Absence of Financial Management Regulations

7. Criteria:

Financial policies and procedures should be written to serve as guide in the accounting and management of all public funds and properties obtained, received, or entrusted to the care of Pingelap Municipal Government. A well written financial regulations will also increase efficiency and control over the administration and expenditure of public funds.

Condition:

The Municipality does not have existing Financial Management Regulations (FMR)

Cause:

The Municipality did not realize the advantages of having its own financial policy.

Effect:

No written regulations exist that could provide clear direction and guidance to all employees in the performance of their respective functions.

Recommendation:

We recommend that the Municipality should work for the establishment and adoption of its FMR.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Cash receipts

8. Criteria:

Cash receipts should be issued for all cash received. At all times, they should be properly issued, kept intact, and secure in a safe place.

Condition:

During our preliminary audit survey and site visit in the island of Pingelap, we noted the existence of generic cash receipt booklet with serial nos. from 3401 to 3600, used by PMG to document receipt of cash from local revenues. However and in spite of repeated requests with the Municipality, the booklet was not furnished to the auditors during the course of the audit. Furthermore, we also noted that cash receipts were not issued for the funds received from Pohnpei State and FSM appropriations.

Cause:

The Municipality's personnel are not aware of the importance of cash receipt maintenance. The Municipality might have intentionally ignored to send the cash receipts booklet to the auditors or have lost them.

Effect:

The auditors were not able to determine the total cash received corresponding to cash receipts nos. 3401 to 3600.

Recommendation:

We recommend that the Office of the Treasurer issue cash receipts every time cash is received, including FSM & Pohnpei State appropriations. The office should also ensure that all cash receipts whether issued or not are kept intact and secured.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Local revenues

9. Criteria:

Cash collections from local revenues should be receipted, accounted for, properly recorded, and timely deposited to the Municipality's account.

Condition:

Treasury:

During the preliminary survey, we conducted a cash count of the Municipality's cash on hand that is kept in a safe box and we have noted that the amount is \$471.76. The cash represents collections from local revenues. The Account Clerk informed the auditors that the cash were collections from November 2001 to February 2002. She also identified the cash receipts corresponding to the collections. By comparing the amount of cash on hand and the cash receipts issued, it revealed a cash shortage of \$41.12.

Court fines:

The Municipality provided us with a folder containing information concerning its collection from court fees and fines, which totaled \$288.50. The folder also contains a sheet of paper that showed remittance of the court collections to the Treasury office. The remittance was evidenced by the signature of the Treasury office personnel who received the money. However, the record showed that the total court remittance is \$371.50 from October 1999 to May 2000. The discrepancy in amount was \$ 83.

Copra commission:

On October 19, 2000, a buyer issued a check to the Chief Magistrate for \$292.95 representing commission for 651 copra bags sold by Pingelap. This check was not deposited to the Municipality's bank account. Per inquiry with the Chief Representative, we were informed that only the copra agent keeps the commission. The Chief Magistrate is not an agent.

Cause:

There is obviously lack of controls in the receipt, recording, remittance, and accounting of cash collections of local revenues.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Local revenues, continued:

Effect:

Collections from local revenues are exposed to risk of loss due to theft or misuse.

Recommendation:

We recommend the following control measures in the handling of cash collections of local revenues:

1. The Office of the Treasurer and the Municipal Court should always issue cash receipts for all cash received. The receipts should be issued sequentially and must contain all the necessary information such as date of receipt, payor, and description of payment, amount, and signature. Duplicate copies of the receipts should be kept and filed properly.
2. The Municipal Court should ensure that all collections from court fees and fines are timely remitted to the Office of the Treasurer. The total amount per Court records should total the amount remitted to the Treasury office.
3. The Treasurer should keep cash in a safe box and ensure that he is the only one who keeps the key or knows the lock combination. He should also refrain from using cash on hand as change fund or petty cash.
4. The Office of the Treasurer should ensure that all collections are deposited in a separate bank account in Kolonia as often as possible. Duplicate copies of the deposit slips should be kept and filed along with the duplicate copies of cash receipts.
5. Pursuant to the new amendment of the Pingelap Constitution, the Office of the Treasurer should determine the total collections from local revenues for the year and distribute the same to the four sections of Pingelap after 5% of local revenues is deposited into the trust account.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

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

Checks payable to cash

10. Criteria:

As a control procedure, checks should not be issued to cash.

Condition:

Some checks were found payable to cash. Two notable examples are as follows:

<u>Date</u>	<u>Chk no.</u>	<u>Particulars</u>	<u>Amount</u>	<u>Remarks</u>
2/29/00	5378	Purchase of Fixed Asset(s)	\$ 1,672	Voucher & supporting documents missing
8/25/00	5931	Payment of PMG fuel, coral for fill materials, & labor	1,330	No supporting documents

Cause:

Because of the distance of the Municipality to Pohnpei proper, the site of the commercial center, there is a possibility that the vendors may have experienced some delay in payments and thus, preferred cash payments.

Effect:

The above condition exposed the Municipality to risk of loss in handling cash.

Recommendation:

We recommend that Pingelap Municipal Government should cease from issuing checks payable to cash. The Chief Representative should canvass the supplies needed ahead of time so that checks would only be issued to vendors and suppliers.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Checks issued out of sequence

11. Criteria:

As a control procedure, checks should be issued in sequential manner.

Condition:

During our review of cash disbursements, we noted 152 instances where checks were issued out of sequence. In addition, we also found that some of these checks were not recorded in the check register.

Cause:

The condition happened because the Chief Magistrate's representative has also been issuing checks in Kolonia.

Effect:

The above condition resulted to incomplete recording of checks issued in the check register. Also, it impaired the actual cash balance of the Municipality, which further resulted to overdrafts and bank charges.

Recommendation:

We recommend that the Municipality should issue the checks in sequence and centralize the issuance of checks at the Office of the Treasurer in Pingelap. Said office should also ensure that all checks issued are recorded properly in the cash disbursement journal or check register.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Payroll files and records

12. Criteria:

A personnel action form or a service/work contract should support the employment by the Municipality of an individual. Payroll timesheets and leave application forms must be accomplished and approved to support the payment of salaries. These documents should be kept intact and secured.

Condition:

The Municipality did not maintain personnel action forms for all its employees. The auditors were informed that the heads of each branch of government hires his own staff. In our review of payroll documentation to support the payment of salaries for four (4) pay periods, we found the following:

- The employees worked forty (40) hours bi-weekly.
- Timesheets were missing as follows:

<u>Branch</u>	<u>No. of Pay period</u>
Executive	2
Legislative	1
Judiciary	4
Treasury office	2

- In two (2) pay periods, the Administrative Officer prepared and approved the timesheets of the Executive Branch.
- An employee's absence from work for one (1) day was not supported by duly approved leave application form.

Cause:

The absence of a personnel policy that would require the Municipality to maintain complete documentation of payroll files and records is the cause of the above condition.

Effect:

The legitimacy of payroll payments may have been compromised due to the lack of documentation of employment and time and attendance.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Payroll files and records, continued:

Recommendation:

We recommend that the Municipality should have a personnel policy in effect that will regulate personnel matters. The policy should include issues such as: hiring, work hours, salary payment, overtime, leave, termination, resignation, etc. This policy is very important most especially in resolving future labor conflicts.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

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

Double payment of salary

13. Criteria:

Payroll should be paid based on legitimate hours that employees actually worked.

Condition:

In fiscal year 2000 there were four (4) employees that were paid twice in one pay period, the details are as follows:

<u>Employee</u>	<u>PP no.</u>	<u>Overpaid Amount</u>
Chief Justice	5	\$ 106.95
Chief Sanitarian	1	66.00
Chief Sanitarian	17	66.00
Sanitarian	3	66.00
Clerk of Court	11	76.00
Total		\$ 380.05

Cause:

The Treasury office did not properly monitor the payroll payments. The Chief Representative also admitted that he sometimes releases employees' checks when they are on official business in Pohnpei.

Effect:

Overpayment of salaries amounting to \$380.05 resulted from the above condition.

Recommendation:

We recommend that the Office of the Treasurer should monitor the payroll payments by recording all salary payments in a payroll journal with details as follows: pay period no., pay period ending, name of employee, gross pay, deductions, net pay, and check no. We also recommend that the payment of salary should be centralized at the Treasurer's office in Pingelap. Furthermore, all double payments should be paid back by the subject employees.

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

Double payment of salary, continued:

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Project files and records

14. Criteria:

The Municipality is a recipient of funds for projects coming from the FSM National and Pohnpei State governments. Therefore, it should be able to account and monitor the project funds properly.

Condition:

During fiscal years 2001 and 2000, the Pohnpei State Office of Transportation and Infrastructure (OT&I) awarded three (3) contracts to Pingelap Municipal Government as contractor for the construction of three (3) projects appropriated to the Municipality. The total budget for the projects was \$32,000. Our review of the disbursements of project funds revealed that the Municipality did not properly identify in the check voucher(s) the intended projects. It did not also provide a schedule of project revenues and expenses. In addition, the Municipality did not maintain files for each project that will contain information such as budget appropriation, contracts, inspection reports, progress reports, project payments, etc.

Cause:

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

Effect:

The above condition may result in project funds being expended for other than the intended purposes.

Recommendation:

We recommend that the Public Works Office of the Municipality should take charge of implementing all municipal projects, and perform the following functions such as:

1. Maintain individual project file containing documents such as, bidding process, contract, scope of work to be performed, inspection report, progress report, project payment, and etc.
2. If needed, conduct inspection of all projects and document findings in inspection reports.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Project files and records, continued:

Recommendation, continued:

3. Certify the payment to the contractor based on project completion.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT
Schedule of Findings and Recommendations
Years Ended September 30, 2001 and 2000

Bank reconciliation

15. Criteria:

Good internal control requires that bank reconciliation should be prepared for all accounts maintained by the Municipality.

Condition:

The Municipality's personnel did not perform bank reconciliation of its account. Instead, the auditors performed the bank reconciliation using the deposits per bank statements as the total cash receipts. The bank reconciliation per audit resulted to a negative cash balance of \$937.16 as of September 30, 2001. During the bank reconciliation for the two fiscal years, we also noted twenty (20) instances of overdrafts on the account. The Municipality was also charged a total amount of \$400 for returned checks.

Cause:

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

Effect:

The Municipality does not know its correct cash position; exposed itself to overdrafts; and incurred additional bank charges.

Recommendation:

We recommend that the Municipality should reconcile its bank account monthly in order to detect possible errors and irregularities. The reconciliation statement should be signed by the preparer and approved by a responsible officer of the Municipality.

Auditee Response:

Please see Exhibit 1.

Auditor's Reply to Auditee Response dated March 26, 2003:

No specific response to address this finding.

PINGELAP MUNICIPAL GOVERNMENT

AUDITEE RESPONSE (EXHIBIT 1)

YEARS ENDED SEPTEMBER 30, 2001 AND 2000