

SOKEHS MUNICIPAL GOVERNMENT

AUDIT REPORT NO. 014-02

YEARS ENDED SEPTEMBER 30, 2001, 2000, AND 1999

OFFICE OF THE POHNPEI STATE AUDITOR

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**SOKEHS MUNICIPAL GOVERNMENT
AUDIT REPORT
YEARS ENDED SEPTEMBER 30, 2001, 2000, AND 1999**

Table of Contents

	<u>Page No.</u>
Executive Summary	i – iv
Background	1 – 2
Audit Objectives	2
Scope and Methodology	2 – 3
Conclusion	3 - 4
Summary of Findings and Recommendations	4 – 5
Schedule of Findings and Recommendations	6 – 22
Appendix (Auditee Response)	23 - 28

February 18, 2003

The Honorable Johnny P. David, Governor
The Honorable Feliciano Perman, Speaker
The Honorable Members of the Pohnpei State Legislature
The Honorable Richard Susaia, Chief Magistrate, Sokehs Municipal Government
The Honorable Councilmen, Sokehs Municipal Government

EXECUTIVE SUMMARY

We respectfully submit the audit report of Sokehs Municipal Government (the Municipality) for the years ended September 30, 2001, 2000, and 1999. 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 (A) Cash receipts and disbursements of funds are properly accounted for, recorded, and authorized in accordance with all applicable laws and regulations; and, (B) Internal controls and compliance with applicable laws and regulations over financial reporting are effectively and efficiently in place.

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

As a result of our audit, we have identified (14) instances of non-compliance with the Sokehs Financial Management Regulations and weaknesses in the internal control over financial reporting in the areas covered by our examinations (e.g. cash receipts, disbursements (including special projects), payroll, travel, payables, and advances). These instances of noncompliance and weaknesses in internal control are described in detail along with our recommendations on pages 6 through 22 of our report as finding numbers 1 to 14. We believe that once our recommendations are implemented by Sokehs Municipal Government, the following could be improved:

- The accountability and responsibility over cash receipts and disbursements; and,
- The internal controls and compliance with laws and regulations over financial reporting.

We would like to highlight though finding numbers 1 to 6, 8 and 9, and 11 to 14. These findings are considered material weaknesses. In particular, we would like to emphasize the immediate resolution of finding number 3 as it may involves possible irregularities regarding the Municipality's collections.

Hence, we present the summary of our findings, which are referenced by the corresponding audit objective(s) as stated in the second paragraph of the Executive Summary.

1. Absence of complete financial recording [B].
2. Lack of proper and timely bank reconciliation [A, B].
3. Collections were subjected to unauthorized and non-reimbursed "borrowings" and late deposits [A, B].
4. Ineffective control and lack of management oversight over cash receipts [A, B]
5. Travels that were not budgeted [B].
6. Travel advances remained outstanding after a long period of time [B].
7. Travel advances paid in excess of authorized itinerary [B].
8. Travels that were not funds certified and not approved [B].
9. Payroll advances were granted and are still outstanding [B].
10. Deficiencies were noted in the payroll processing [B].
11. Disbursements were not properly monitored, reviewed and controlled [A, B].
12. Absence of fixed assets' accountability [B].
13. Lack of records and supporting documents for projects, and the fund is being used for other purposes [A, B].
14. Absence of subsidiary ledger, review and reconciliation of accounts payable [B].

For the above findings, we present the following summary of our recommendations:

1. Management should ensure that accounting transactions are recorded to the journals and posted to the general ledger properly and timely to facilitate the preparation of its financial statements.
2. Bank reconciliation should be performed timely so that management is informed of its current cash balance and also to aid in detection of errors and irregularities.
3. We recommend that all collections should be deposited timely and intact. Management should also initiate an investigation to determine the exact amount of undeposited collections and take necessary actions accordingly.
4. We recommend that management should ensure that cash receipts are maintained and accounted for properly.
5. We recommend that the Municipality should only spend based on budgets and only for intended purpose.

6. We recommend that management should strictly enforce the timely submission and liquidation of travel vouchers. Travelers who do not comply should reimburse the government for the total cost of travel.
7. We recommend that management observe and strictly follow the established per diem rate based on the itinerary in the approved TA.
8. We recommend that management must ensure that all applicable laws and regulations concerning travel are followed.
9. We recommend that management should stop the practice of granting payroll advances to its employees. We also recommend that all the outstanding advances be collected from the respective employees.
10. We recommend that Sokehs Municipal Government must establish and maintain effective control over payroll.
11. We recommend that all disbursements should be monitored, reviewed and controlled properly.
12. We recommend that management should ensure that fixed assets are accounted for properly.
13. We recommend that books of account be established and maintained for accounting of projects funds. Also, records and documents should be kept to support the disbursements of the funds. In addition, management should ensure that project funds are used only for legitimate projects and for its intended purposes.
14. We recommend that the Municipality establish and maintain proper control and accounting of Accounts Payable.

A draft of the report has been provided to and reviewed by Sokehs Municipal Government. Their response is included with this report as Appendix A on pages 24 to 28. As appropriate, OPSA has provided replies to the auditee's response.

Concerning the general comments of the Chief Magistrate on the bottom of page 27 of the Auditee Response, we are addressing them as follows:

1. On the part of the Municipality, although training was not conducted the corresponding accounting manual drafted by OPSA was provided. To our recollection, the draft of the accounting manual was given to all the municipalities and was discussed initially in the now inactive Local Treasurers Association. At any rate, OPSA is taking the initiative to request USDA Graduate School to conduct training that will assist local governments meet its fiscal accountabilities. Another possibility that OPSA is working on is the mandatory training/orientation of the Chiefs and Treasurers in the areas of Finance, Budgets, Infrastructure and Audit. The orientation has to be made before they assume their respective position.
2. The Chief Magistrate's comment is well noted. However, the auditors assigned in this assignment conducted tests of documents at the Municipality's premises. It is quite normal however for an audit supervisor as in the case of the

Municipality not to perform fieldwork but devote his/her time in supervising the audit, which include reviewing the work performed by the auditors.

3. For this item, OPSA performs audit based on audit plan. Although urgent audit requests are received from time to time; OPSA to the maximum follows the audit plan for the year. Under no circumstances that we accept audit assignment at the expense of another audit engagement. Although, as stated in our engagement letter, when financial information provided to us are not complete and not accurate, delay in the completion of the audit would result. In the case of Sokehs Municipal Government, and as mentioned in the finding section of the report, auditors spent considerable time on the general account bank reconciliation. We did the reconciliation to establish the status of the unaccounted cash collections.

As discussed during the entrance conference, the general objective of our audit is to offer assistance to Sokehs Municipal Government in identifying problem area(s) in its operation should there be any, so that corrective actions could be instituted. We hope this audit will serve its intended purpose.

In closing, we would like to thank the Chief Magistrate and his staffs for their assistance extended to us during the course of our audit.

Respectfully submitted,

Ursula S. Abalos
Acting Pohnpei State Auditor

SOKEHS MUNICIPAL GOVERNMENT

AUDIT REPORT

YEARS ENDED SEPTEMBER 30, 2001, 2000, AND 1999

**Sokehs Municipal Government
Audit Report
September 2001, 2000, and 1999**

BACKGROUND

Sokehs Municipal Government (the Municipality) is one of the eleven local governments of the Pohnpei State. Modeled like the primary government, the Municipality is governed by three branches: the executive, legislative and the judiciary. Through the election process, the people of Sokehs select their leaders and governing bodies to oversee and manage the Municipality.

The executive branch, which is headed by the Chief Magistrate, has the fiduciary responsibility to ensure that the day-to-day operation of the Municipality is administered effectively and efficiently based on the budget approved by the council and all applicable laws and regulations. The branch is consists of the following divisions:

- Administrative
- Project
- Youth and Social Affairs
- Treasury
- Police

The legislative branch, which is headed by the Speaker, is the law-making body of Sokehs Municipal Government. The branch establishes local laws through ordinances for all types of activities as well as fiscal issues facing the Municipality. Legislative branch is composed of seven members referred to as councilmen. The judiciary branch on the other hand, is headed by a Chief Justice who is appointed by the Chief Magistrate and confirmed by the councilmen. This branch is the court of law for the Municipality, and thereby interprets and judge issues, actions or other matters based on the law and may impose fines and penalties, as appropriate.

Sokehs Municipal Government is characterized by its accountability to its constituents, the people of Sokehs. The total population of the Municipality as reported in the FSM 2000 Census is 5,625.

By virtue of the “Local Government Revenue Sharing Act of 1989” the Pohnpei State provides financial assistance to the local governments. In the act, at least 30% of all taxes received by the Pohnpei Government from sources within Pohnpei shall be appropriated among the eleven local governments for operations and development projects identified in the local plans. Accordingly, the Pohnpei State Comprehensive Budget Act for fiscal years 1999, 2000 and 2001 appropriated from the general fund of Pohnpei State the amounts of \$358,890, 343,943, and 331,643 respectively for Sokehs Municipal Government’s operations and local projects and programs.

**Sokehs Municipal Government
Audit Report
September 2001, 2000, and 1999**

Sokehs Municipal Government also collects revenues from locally imposed taxes and licenses. Unless otherwise specified by its law, all income, revenues and other receipts received by the Sokehs Municipal Government shall be deposited by the Treasurer into an account established with financial institution under the name of “Sokehs Municipal Government.”

OBJECTIVES OF THE AUDIT

The objectives of the audit are to determine whether:

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

SCOPE AND METHODOLOGY

Due to the limited financial records of Sokehs Municipal Government, our audit was performed as follows:

For fiscal year 1999, the audit covers review of all cash receipts and disbursements, to meet the first audit objective. In relation thereof, a 100% tests of all individually significant items (cash receipts and disbursements with an amount of \$1,159 and up) were performed, and sampling was used for the remaining items.

For fiscal years 2000 and 2001, a review of cash receipts, disbursements, payroll, travel, payables and advances were performed in accordance with the detail audit programs in order to achieve our second audit objective. In connection with the review, random and/or judgmental sampling was employed in selecting samples. Review of receivables, accrued liabilities, and fixed assets were not performed due to the absence of records.

Analytical procedures, planning materiality and audit risks were considered in determining the nature and extent of the audit work.

Hence, based on the foregoing, we employed the following procedures and methods to accomplish our audit objectives and plans.

We reviewed the Financial Management Regulations, budgets and other pertinent laws and policies of Sokehs Municipal Government to determine compliance.

**Sokehs Municipal Government
Audit Report**

September 2001, 2000, and 1999

We examined and inspected the supporting documents of cash receipts, disbursements, payroll, travel, payables, and advances to assess and evaluate the effectiveness of controls.

We confirmed from third parties the account balances provided by the Municipality.

We performed bank reconciliation of the Municipality's General Operation bank account for the three fiscal years covered by the audit. We however, were not able to perform the bank reconciliation for the Special Project Fund bank account due to the absence of complete documents; and,

We interviewed certain employees to obtain understanding of the internal controls in place and also the operation of the Municipality.

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

Our audit work was performed from February to September 2002.

PRIOR AUDIT COVERAGE

OPSA's last audit of Sokehs Municipal Government was a financial statement audit covering fiscal years 1994 and 1995, wherein an unqualified opinion was issued in favor of the Municipality's financial statements. OPSA cited five (5) non-compliance and eight (8) internal control findings for the same period. At that time, the Municipality has on board a CPA accountant who resigned in 1996.

CONCLUSION

As a result of our audit, we have reported fourteen (14) findings, which are summarized below and further described in detail in the Schedule of Findings and Recommendations on pages 6 through 22. After the initial review of cash receipts for the three fiscal years, we issued a management letter dated July 9, 2002 to the Chief Magistrate regarding the \$28,491.17 collections not yet deposited to the Municipality's General Operation bank account. The bank reconciliation prepared and completed subsequent to the issuance of management letter however showed some of these collections were deposited into the Municipality's Special Project bank account leaving the final amount of \$13,075.27 unaccounted for. The collections were not deposited into the Municipality's General Operation bank account.

**Sokehs Municipal Government
Audit Report
September 2001, 2000, and 1999**

Thus, based on our audit, we conclude that not all the Municipality's cash receipts were properly accounted for and recorded and not all disbursements of funds were made in accordance with the law, regulations, and proper accounting practice. We further conclude that the Municipality's compliance with applicable laws and regulations and its internal control over financial reporting are not effectively and efficiently in place to permit the preparation of its financial statements in accordance with the generally accepted accounting principles applicable to governmental unit.

Summary of Findings

1. Absence of complete financial recording.
2. Lack of proper and timely bank reconciliation.
3. Collections were subjected to unauthorized and non-reimbursed "borrowings" and late deposits.
4. Ineffective control and lack of management oversight over cash receipts.
5. Travels that were not budgeted.
6. Travel advances remained outstanding after a long period of time.
7. Travel advances paid in excess of authorized itinerary.
8. Travels that were not funds certified and not approved.
9. Payroll advances were granted and are still outstanding.
10. Deficiencies were noted in the payroll processing.
11. Disbursements were not properly monitored, reviewed and controlled.
12. Absence of fixed assets' accountability.
13. Lack of records and supporting documents for projects, and the fund is being used for other purposes.
14. Absence of subsidiary ledger, review and reconciliation of accounts payable.

With the above findings, we present the summary of our recommendations.

Summary of Recommendations

1. Management should ensure that accounting transactions are recorded to the journals and posted to the general ledger properly and timely to facilitate the preparation of its financial statements.
2. Bank reconciliation should be performed timely so that management is informed of its current cash balance and also aid in the detection of errors or irregularities.
3. We recommend that all collections should be deposited timely and intact. Management should also initiate an investigation to determine the exact amount of undeposited collections and take necessary actions accordingly.
4. We recommend that management should ensure that cash receipts are maintained and accounted for properly.

**Sokehs Municipal Government
Audit Report
September 2001, 2000, and 1999**

5. We recommend that the Municipality should only spend based on budgets and only for intended purpose.
6. We recommend that management should strictly enforce the timely submission and liquidation of travel vouchers. Travelers who do not comply should reimburse the government for the total cost of travel.
7. We recommend that management observe and strictly follow the established per diem rate based on the itinerary in the approved TA.
8. We recommend that management must ensure that all applicable laws and regulations concerning travel are followed.
9. We recommend that management should stop the practice of granting payroll advances to its employees. We also recommend that all the outstanding advances be collected from the respective employees.
10. We recommend that Sokehs Municipal Government must establish and maintain effective control over payroll.
11. We recommend that all disbursements should be monitored, reviewed and controlled properly.
12. We recommend that management should ensure that fixed assets are accounted for properly.
13. We recommend that books of account be established and maintained for accounting of projects funds. Also, records and documents should be kept to support the disbursements of the funds. In addition, management should ensure that project funds are used only for legitimate projects and for its intended purposes.
14. We recommend that the Municipality establish and maintain proper control and accounting of Accounts Payable.

**Sokehs Municipal Government
Schedule of Findings and Recommendations
Years Ended September 30, 2001, 2000 and 1999**

Finding No. 1 Absence of Complete Financial Records

Criteria: Financial reporting should include all relevant and reliable financial information that is useful for management's major decision making. Therefore, internal control must be in place to ensure the maintenance, integrity and completeness of the accounting records.

Condition: Sokehs Municipal Government did not continue the maintenance of its general ledger. Furthermore, the Municipality did not prepare subsidiary ledgers that are necessary in keeping track of the individual customers and vendors' account balances.

Cause: The former accountant resigned and the Municipality does not have knowledgeable personnel to prepare the necessary financial reports.

Effect: The Municipality was unable to prepare its financial statements for the fiscal years ended September 30, 1999, 2000 and 2001. Thus, a financial statements audit could not be performed.

Recommendation: The Municipality should establish and maintain a suitable accounting system that would comply with the requirements of the generally accepted accounting principles (GAAP) reporting model applicable to local governments. To accomplish this, we recommend that the Municipality should reassess carefully its Treasury operation, and if necessary, appoint or hire a staff that is competent and qualified to perform treasury responsibilities. Further, an up-to-date policies and procedures manual should be established, maintained, and followed as the Municipality's official fiscal policy handbook. The manual can be an excellent training tool for staffs and new employees to ensure continuity in operation even in case of permanent or temporary vacancy.

Auditee Response: Please refer to Appendix A.

Auditor Reply to Auditee Response received on February 13, 2003: The Office of the Pohnpei State Auditor (OPSA) maintains its finding that Sokehs Municipal Government does not have complete financial records to permit the preparation of its financial statements.

Finding Status: Not resolved.

Finding No. 2 Lack of Proper Bank Reconciliation

Criteria: Bank reconciliation should be performed properly and timely to reflect the true and updated balance of the cash account. In addition, bank reconciliation is prepared to detect any errors or irregularities involving cash.

Condition: Our audit revealed that the Municipality was not performing reconciliation of its General Operation bank account properly and timely. For instance, the bank reconciliation did not show the total receipts, but only portion of the receipts that were deposited. Even the footings for the outstanding checks were not correct. Also, the bank reconciliation statements were not signed by the employee who prepared them and evidently they were not reviewed by appropriate officer. Moreover, bank reconciliation after June 2001 was not continued.

In the absence of the proper bank reconciliation, the auditors performed such for the three fiscal years under audit and discovered that a total amount of \$13,075.27 representing collections were not deposited into the Municipality's General Operation bank account.

Cause: Either the management failed to recognize the importance of proper and timely bank reconciliation, or the bank reconciliation may have been intentionally ignored to cover up for the missing funds.

Effect: As a result, loss involving the Municipality's collections aggregating to \$13,075.27 was not discovered and prevented timely. In addition, charges for insufficient funds and overdraft totaling \$1,125 were incurred for fiscal years 2000 and 2001. Furthermore, the Municipality's cash balance is not up-to-date for the year ended September 30, 2001, and thereafter.

Recommendation: We recommend that management must ensure that proper and timely bank reconciliation is performed. Differences identified during the process should be investigated and resolved immediately.

Auditee Response: Please refer to Appendix A.

Finding Status: Considered resolved if the Municipality submit to OPSA an evidence of its proper and timely bank reconciliation.

Finding No. 3 Discrepancies in Collections

Criteria: Sound internal control on cash requires that all collections should be properly receipted and deposited timely and intact.

Condition: During our audit, we discovered that the Municipality’s collections were not deposited timely and intact. Significant time was spent to perform bank reconciliation. The comparison of receipts and deposits disclosed the following discrepancies and delays in deposits:

- The total collection for fiscal years 1999, 2000 and 2001 was \$1,331,644.90, but only \$1,318,569.63 was deposited. This means that a total amount of \$13,075.27 was collected during the three-year period but not deposited to the Municipality’s General Operation bank account.
- Collections totaling \$66,856.02 were deposited but not properly recorded.
- Receipts totaling \$72,158.48 were deposited before they were receipted; and,
- Late deposits, ranging from three (3) days to more than two years after receipt, as follows:

# of Items (Receipts)	Total Amount	No. of Days Late
2	20.00	750
169	3,815.85	92 to 412
98	1,974.28	62 to 83
368	9,937.79	5 to 60
78	87,923.03	3 to 4

Cause: The above condition occurred because management did not ensure that adequate control for safeguarding the Municipality’s assets are in place and functioning effectively to protect the Municipality’s collections. Unauthorized “borrowings” of collections may have occurred in the Treasury Division but was not discovered and prevented timely due to the absence of proper bank reconciliation.

Effect: A total of \$13,075.27 from collections is not deposited in the Municipality’s General Operation bank account. A possibility that more funds might be “borrowed” if the above condition is not resolved timely.

Recommendation: We recommend that the Chief Magistrate should direct the Treasurer to establish and maintain control related policies and procedures regarding its assets, particularly on proper handling of cash collections to ensure safeguarding of and timely deposit of all collections.

Finding No. 3 Discrepancies in Collections, Continued

For instance, to ensure that temporary “borrowing” from the collections would be stopped, the Chief Magistrate should instruct the Treasurer to deposit all collections daily. Further, the Chief Magistrate should immediately initiate an investigation to determine exactly what happened to the missing operation funds and should take appropriate action accordingly.

Auditee Response: Please refer to Appendix A.

Auditor Reply to Auditee Response received on February 13, 2003: The auditors on the other hand noted that majority of the general fund undeposited collections are actually collections received after the former Treasurer left the Municipality. Our finding therefore remains and we urge the Chief Magistrate to implement our recommendation fully and communicate to OPSA the corrective measures that his office will take to fully resolve the finding to ensure that such deficiency will not happen again.

Finding Status: Not resolved.

Finding No. 4 Cash Receipts

Criteria: An effective control on collections should be in place to ensure that all receipts are accounted for, properly recorded and deposited.

Condition: In our tests of cash receipts, we found the following instances:

- Twenty-eight (28) receipts were missing from the files.
- Couple of times cash receipts recorded in the journal were marked “void” yet the actual receipts were not.
- Three cash receipts were not posted to the cash receipts journal.
- Two receipts with the same number.
- Amounts of two cash receipts were different from the amounts recorded in the cash receipts journal.

Cause: Lack of management oversight led to the inadequacy of control over cash receipts.

Effect: There is no assurance that all the Municipality’s cash receipts are properly accounted for, recorded and deposited intact.

Recommendation: We recommend that the Chief Magistrate should be cognizant of the problem and should immediately act to resolve it. He should be actively involve in the review of personnel’s work and should establish a policy that would require a routine monitoring of employee’s performance. A good example would be requiring submission of a daily cash report so that he is informed of the cash situation of the Municipality.

Auditee Response: Please refer to Appendix A.

Finding Status: Not resolved. Corrective action plan has to be specific and implemented to resolve the finding.

Finding No. 5 Unbudgeted Travels

Criteria: Government budgets have the force of law and once approved cannot be overspent without the express consent of the governing body. This is expressed in the Sokehs Municipal Government's Financial Management Regulations, Part 1, Section 1.9, which specifically states that, "Expenditures shall not be allowed to exceed the amount of budgets."

Condition: The Municipality spent a total of \$27,618.78 for travels in fiscal year 2000, yet the amount approved in the budget was only \$11,514. Again, in fiscal year 2001, the total amount spent on travel was \$12,662.36, compared to \$4,075 approved in the budget. There are no records showing amendments or reprogramming of the budgets.

Cause: This condition occurred because the Treasurer of the Municipality did not ensure that expenditures are spent within the budgeted amounts.

Effect: As a result, the Municipality over spent its travel budgets by \$16,104.78 and \$ 8,587.36 in fiscal years 2000 and 2001 respectively.

Recommendation: Budgets are not merely financial plans, but a legal spending mandate established by the councilmen, and therefore, we recommend that unless new funds are appropriated or the budget is amended, the management of Sokehs Municipal Government should only spend the amount initially budgeted, and only for its intended purpose. However, if reprogramming of the budget is needed, it should be duly documented and approved by the head of the branch making the request. We further recommend that the Chief Magistrate direct the Treasurer to report monthly to him the balances of all the accounts to ensure that the expenditures do not exceed its budget/fund.

Auditee Response: Please refer to Appendix A.

Auditor Reply to Auditee Response received on February 13, 2003: In fiscal year 2000, the Executive Branch overspent its travel budget by \$17,658.62 and the Judiciary Branch by \$1,102.16. The Legislative Branch on the other hand, did not use its entire travel budget and had remaining balance of \$2,656. In fiscal year 2001 however, only the Judiciary branch had a budget for travel of \$4,075. But it incurred travel costs of \$5,186 for the same year exceeding its budget by \$1,111. Although the Executive Branch did not have any budget for travels in fiscal year 2001, it incurred travel cost of \$7,476.36 nonetheless.

**Sokehs Municipal Government
Schedule of Findings and Recommendations
Years Ended September 30, 2001, 2000 and 1999**

Auditor Replies to Auditee Response received by OPSA on February 13, 2003,
Continued:

OPSA did not receive any supporting documents from the Municipality to support its claim for the reprogramming. A reprogram should be properly documented and authorized even if it is allowed in the budget act.

Finding Status: Not resolved until corrective measures are addressed and implemented by the Municipality to ensure that travel expenditures or other expenditures are kept within the approved budget.

Finding No. 6 Travel Advances Still Outstanding

Criteria: The Financial Management Regulations (FMR) of Sokehs Municipal Government, particularly Part 5, Section 5.4 requires that “travel vouchers shall be prepared, approved and submitted to the office of the Treasury no later than ten (10) working days after the trip is completed”. The regulation also requires that the travel vouchers submitted should be supported by the following documents:

1. The original travel authorization as approved;
2. A copy of the airplane or ship ticket;
3. A copy of the car rental agreement;
4. Receipts or other documentary proof that the expense was incurred and paid.

Condition: Our review of travel revealed that eighteen (18) travels were made in the fiscal years ended September 30, 2000 and 2001. Further review disclosed that all travel advances issued for the eighteen (18) travels are still outstanding as of the date of the report, in the total amount of \$28,634.

Cause: The Municipality disregarded its FMR and the responsible personnel did not make follow ups for the travel vouchers submission.

Effect: The condition is a clear violation of Sokehs Municipal Government’s Financial Management Regulations.

Recommendation: We recommend that the Municipality must observe and ensure strict adherence to its FMR. As the regulations require, all travel vouchers should be turned in by the travelers within 10 working days after the trips are completed, and if not followed, the travelers should reimburse the government for the total cost of travels.

Auditee Response: Please refer to Appendix A.

Finding Status: Not resolved until the Municipality adequately take corrective measures regarding the outstanding advances.

Finding No. 7 Excess Perdiem

Criteria: The Sokehs Municipal Government's travel policy requires the Municipality to use the State's established per diem rate for its employees or officials traveling. Thus, the total per diem for a given travel based on FSM or State's policy is equal to per diem rate per day times the number of days involved in the travel as approved in the Travel Authorization form.

Condition: We found during our review of travels that some of the per diem advanced to the travelers exceeded the State's established per diem amount by \$2,513 based on the itinerary stated in the TA. The details are as follows:

TA No.	Itinerary	No. of Days	Per diem Rate	Total Per diem per Audit	Advanced to Traveler	Amount Over
00-06	CNMI/Guam	6	156.00	936.00	1,092.00	156.00
00-03	Yap	4	119.00	476.00	1,071.00	595.00
00-04	Yap	4	119.00	476.00	1,071.00	595.00
00-05	Yap	4	119.00	476.00	1,071.00	595.00
00-06	CNMI/Guam	9	156.00	1,404.00	1,560.00	156.00
00-10	Guam/Hon	8	156.00	1,248.00	1,404.00	156.00
01-01	Pal/Guam/Ch	4/2/2	140/156/119	1,250.00	1,617.00	367.00
01-02	Palau/Guam	4/2	140/156	872.00	1,377.00	505.00
01-03	Guam		156.00	1,092.00	1,320.00	228.00
						2,513.00

Cause: The travel policy was not strictly followed.

Effect: The condition resulted to over payment of per diem.

Recommendation: We recommend that Sokehs Municipal Government should strictly follow its travel policy, particularly on the calculation of per diem.

Auditee Response: Please refer to Appendix A.

Finding Status: Resolved, if the correct calculation of per diem is made by the Municipality. It should be noted however that the excess per diem was due to error in counting the number of days of travel and not because premium or other fees are added to the total per diem as the Municipality claims.

Finding No. 8 Travel Authorizations

Criteria: The Sokehs Municipal Government's travel policy as required in Part 5 of its Financial Management Regulations states that all Municipal government's travels must be requested and authorized on the Travel Authorization (TA) form. The TA must be approved by the Chief Magistrate or his designee and must be certified for availability of fund.

Condition: Our review of the Municipality's eighteen travels made in the fiscal years 2000 and 2001, disclosed that six (6) Travel Authorizations were not fund certified. Furthermore, five (5) of these six Travel Authorizations did not show approval of the Chief Magistrate. Two of the TA's have the same number. The travels are as follows:

TA NO	Itinerary	Approval	Fund Certification	Total Cost
00-03	pni/guam/yap/pni	None	None	1,993.72
00-04	pni/guam/yap/pni	None	None	1,813.72
00-05	pni/guam/yap/pni	None	None	2,308.72
00-06	pni/guam/cnmi/pni	None	None	2,457.00
00-06	pni/saipan/pni	None	None	2,310.00*
00-11	pni/china/pni	Yes	None	2,021.00+
	Total			12,904.16

*exclude airfare

+perdiem only

Cause: The Chief Magistrate did not ensure that the requirements of the Municipality's FMR on travel were complied with.

Effect: As a result, there is no reasonable assurance that all travels were authorized.

Recommendation: We recommend that the Chief Magistrate must ensure that all applicable laws and regulations on travel should be strictly followed.

Auditee Response: Please refer to Appendix A.

Finding Status: Considered resolved if action plan is followed through.

Finding No. 9 Payroll Advances

Criteria: The Sokehs Municipal Government's Financial Management Regulations Part 4, Section 4.3 strictly prohibits the granting of payroll advances.

Condition: Despite the regulation, the Municipality granted about \$24,684 of payroll advances to its employees for the fiscal years 2000 and 2001. This finding was cited in the 1994 and 1995 audit of the Municipality.

Cause: The Municipality did not follow its own policy on payroll advances and failed to fully resolve OPSA's prior audit finding.

Effect: A total of \$11,949.77 of the payroll advanced for the fiscal years 2000 and 2001 remained outstanding and the cash tied up with the advances were not put to better use.

Recommendation: We recommend that the Chief Magistrate should immediately stop the practice of granting payroll advances to his employees. We further recommend that the Municipality collect the outstanding payroll advance through payroll allotments.

Auditee Response: Please refer to Appendix A.

Finding Status: Not resolved until OPSA receive documents to support the Municipality's claim.

Finding No. 10 Payroll

Criteria: Since a large percentage of the Municipality's expenditures are attributable to payroll; an effective control should be in place to ensure that payroll processing is in order.

Condition: Our review of payroll for twenty-six employees revealed that there is no personnel file for one employee, but he/she is getting paid. Another employee has personnel action on file but it was not signed. Further review revealed the following weaknesses in the payroll process, such as:

Timesheets were not signed by the preparer and the approving officer;
No authorization for deductions on employees' files;
Approved leave forms were not attached to the timesheet;
Rate recorded in the payroll summary is different from the amount approved in the personnel action; and,
Some employees did not have timesheets but were paid.

Cause: The condition occurred because the control over payroll is inadequate.

Effect: As a result, there is no reasonable assurance that all employees' payrolls were properly processed and authorized.

Recommendation: We recommend that the Sokehs Municipal Government must establish and maintain adequate control over payroll. For instance, a well-written policy on payroll would be an excellent guide for the employees to perform their functions accordingly.

Auditee Response: Please refer to Appendix A.

Auditor Reply to Auditee Response received on February 13, 2003: For control purposes and to document review process, the Payroll Summary should be signed by the preparer and approved by the Chief Magistrate or his designee. The authorization for deduction should be included in the employees' personnel files instead of being filed separately. Moreover, authorized leave forms should be attached to and filed with the timesheet.

Finding Status: Not resolved.

Finding No. 11 Inadequate Monitoring and Reviews of Disbursements

Criteria: Effective control should be in place to ensure that all disbursements are in compliance with all applicable laws, regulations, policies, management authorization and common practice.

Condition: Our tests of 559 disbursements disclosed the following control weaknesses:

- 124 or 22% of the disbursements were made without properly authorized purchase orders;
- 38 or 7% of the payments were made without the original invoices;
- 97 or 17% of the check vouchers were missing;
- 295 or 53% of the disbursements were made without fund certifications;
- 2 of the disbursements were made but no proof of receipt of goods/services;
- 88 or 16% of the check vouchers contain insufficient information for verification of amounts;
- 310 or 55% of the disbursements were not properly authorized;
- 101 or 18% of the disbursements were not properly supported; and
- 23 instances where amount of checks are different from the invoice amounts.

Cause: The Treasurer failed to implement the proper control policies and procedures on disbursements and ensure that it continues to function effectively.

Effect: As a result, there is no assurance that all expenditures of the Municipality were legitimate and authorized transactions.

Recommendation: We recommend that the Chief Magistrate direct the Treasurer to establish and implement proper control related policies and procedures over disbursements and ensure that all expenditures are disbursed in accordance with all applicable laws and regulations.

Auditee Response: Please refer to Appendix A.

Finding Status: Will be resolved upon full implementation of the OPSA's recommendation. It should be noted that the weaknesses found are mostly for the current period.

Finding No. 12 Fixed Assets Accountability

Criteria: The Sokehs Financial Management Regulations Part 8, Section 8.2 requires that the Administrative Officer be responsible for the control and accountability of government property.

Condition: The Municipality does not maintain a listing or a schedule of its property. No evidence was also presented to show that assets are physically counted at least once a year.

Cause: Lack of management oversight to ensure that the Administrative Officer performs his responsibility.

Effect: There is no assurance that all assets of the Municipality are properly accounted for and safeguarded against loss or abuse.

Recommendation: We recommend that management should direct the Administrative Officer to perform his mandated responsibility of ensuring that the Municipality's fixed assets are accounted for properly in accordance with the requirements of the Financial Management Regulations.

Auditee Response: Please refer to Appendix A.

Finding Status: Not resolved until OPSA receive from the Municipality its corrective action plan and how it is going to be implemented.

Finding No. 13 Projects and Programs

Criteria: The Sokehs Financial Management Regulations Part 2, Section 2.2b specifies that Special Revenue Funds be established to account for proceeds from specific revenues sources designated by law and restricted to expenditures for specified purposes.

Condition: Sokehs Municipal Government established a separate bank account for the Special Project. The account was not disclosed to the auditors at the beginning of the audit. An examination of the Special Projects' documentation revealed that accounting and control over the fund were not adequate. For example, there was no disbursement journal or a check register maintained to document all checks issued from the account. Bank reconciliation was not performed and the filing of the check vouchers and its supporting documents were not organized. In order to review the details of the projects, we compiled all the loosely unfastened check vouchers received from the Municipality and determined that there were two hundred forty four (244) checks issued from the account. Our review revealed the following:

171 or 70% of the disbursements were executed without the signatures of the approving officer;

137 or 56% of the disbursements were not supported. Out of the 137 unsupported disbursements, we could not ascertain whether 113 disbursements are projects/programs related;

5 did not contain sufficient documents to justify the amount disbursed; and

34 or 14% appeared to be not related to the approved projects/programs such as fund transfers to the General fund, payroll advances, contributions, Councilmen allowances, and funerals.

65 or 27% of the checks disbursed were missing from files and were not subjected to detail testing.

Cause: Lack of management oversight caused the above condition.

Effect: The condition resulted to and could result to more project funds being used for other purposes.

Finding No. 13 Projects and Programs, continued

Recommendation. We recommend that management should be more cognizant of its responsibility and provide for a functioning accounting system that should ensure that the corresponding books of account are maintained for the projects and any other funds of the Municipality. Documents should also be kept to support all expenditures. In addition, we recommend that management should ensure that project funds are used only for legitimate projects and for its intended purposes.

Auditee Response: Please refer to Appendix A.

Finding Status: Not resolved until OPSA's recommendation or different appropriate corrective action plan is implemented by the Municipality.

Finding No. 14 Accounts Payable

Criteria: Related control policies and procedures should be in place and functioning effectively to ensure proper accounting and maintenance of payables.

Condition: The Municipality's schedule of Accounts Payable show a total balance of \$55,870.48 owed to various vendors as of September 30, 2001. However, our confirmation of the individual balances only resulted to \$45,271.48. Some vendors provided us with documents to support the amount confirmed. We could not reconcile the \$10,599 difference because the Municipality does not maintain subsidiary ledgers and supporting documents such as unpaid invoices, receipts, and etc. Our review of subsequent payments yields \$5,032.72 more of unpaid invoices to other vendors for the fiscal year ended September 30, 2001.

Cause: The condition is caused by the inadequacy of the Municipality's accounting records.

Effect: As a result, there is no assurance that the accounts payable balance of the Municipality is fairly stated.

Recommendation: We recommend that the Chief Magistrate direct the Treasurer to establish and maintain adequate records for proper accounting of payables. The Chief Magistrate should also ensure that a complete review and reconciliation of all accounts are performed and that balances are supported by appropriate subsidiary ledgers, invoices, receipts, and etc. The review and reconciliation of the accounts should continue to ensure the fairness of their balances.

Auditee Response: Please refer to Appendix A.

Finding Status: The finding stands until the Municipality either implement OPSA's recommendation or initiates other appropriate corrective action plan and state how to implement it.

SOKEHS MUNICIPAL GOVERNMENT

APPENDIX A
AUDITEE RESPONSE

YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999