

**KOLONIA TOWN GOVERNMENT  
PERFORMANCE AUDIT  
CASH RECEIPTS AND CASH DISBURSEMENT SYSTEM  
FISCAL YEARS 2012 AND 2013**

**AUDIT REPORT NO. 003-15**



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

State Public Auditor  
P.O. Box 370  
Kolonias, Pohnpei  
Federated States of Micronesia

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# POHNPEI STATE GOVERNMENT OFFICE OF THE PUBLIC AUDITOR

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September 24, 2015

The Honorable Marcelo Peterson, Acting Governor, State of Pohnpei  
The Honorable Fernando Scaliem, Speaker, Pohnpei State Legislature  
The Honorable Members of the Pohnpei State Legislature  
The Honorable Members of Kolonia Town Government Council  
The Honorable Casiano Shoniber, Mayor, Kolonia Town Government

## EXECUTIVE SUMMARY

We are pleased to submit the Performance Audit Report on the Cash Receipts and Cash Disbursement System of Kolonia Town Government (KTG) for the fiscal years 2012 and 2013. The audit was conducted in accordance with the generally accepted government auditing standards applicable to performance audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit was also performed pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution.

The objectives of our audit were to determine whether:

1. KTG revenues were properly receipted, recorded and accounted for and deposited intact timely at the bank; and
2. KTG expenditures were properly documented, authorized, disbursed, accounted for and reported in accordance with applicable laws.

The scope of our audit covered the fiscal years 2012 and 2013. Our audit testing was performed based on available documents and information obtained from KTG's management. We performed such test of records, transactions and other auditing procedures that we considered necessary to achieve our audit objectives.

As a result of our audit, we conclude that:

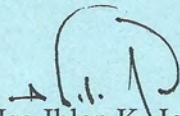
1. KTG had inefficiencies in managing the revenues particularly the record keeping and reporting such as:

We also informed management that as required by Pohnpei State Law No. 5L-08-00, the auditees should submit a monthly report to OPA indicating the corrective measures already taken or will be shortly implemented to clear the deficiencies cited in the audit report until all findings are satisfactorily resolved, which period shall not exceed six months.

In closing, we would like to extend our sincere appreciation to KTG's management and staffs for their support and assistance extended to us during the course of our audit.

With warm regards, I am.

Sincerely,



Iso Ihlen K. Joseph  
State Public Auditor

**Kolonia Town Government**  
**Performance Audit on the Cash Receipts and Cash Disbursement System**  
**Fiscal Years 2012 and 2013**

**INTRODUCTION**

Performance audit of local governments in the State of Pohnpei is part of the Office of the Public Auditor's Five Year (2013-2017) Strategic Management and Operation Plan (SMOP). We conducted an audit of the Kolonia Town Government (KTG) cash receipt and cash disbursement activities for the fiscal years 2012 and 2013.

**AUDIT OBJECTIVES**

The objectives of the audit were:

1. To determine whether KTG revenues were properly receipted, recorded and accounted for and deposited intact timely at the bank; and
2. To determine whether KTG expenditures were properly documented, authorized, disbursed, accounted for and reported in accordance with applicable laws.

**SCOPE AND METHODOLOGY**

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America, applicable to performance audits contained in the Government Auditing Standards issued by the Comptroller General of the United States.

An audit conducted in accordance with generally accepted government auditing standards is designed to obtain reasonable, rather than absolute assurance that KTG's Cash Receipts and Cash Disbursement System is effectively managed.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions.

Our audit covered fiscal years 2012 and 2013 and we performed the following audit methodologies:

1. Reviewed KTG laws, regulations and working policies and procedures relating to cash receipts and cash disbursements;
2. Examined cash receipts and cash disbursement transactions during the audit period; and
3. Assessed the status of prior years' audit findings to determine whether corrective measures have been taken to resolve them.

A detailed list of our audit procedures is included in the report as Appendix I.

**Kolonia Town Government**  
**Performance Audit on the Cash Receipts and Cash Disbursement System**  
**Fiscal Years 2012 and 2013**

**BACKGROUND**

Kolonia Town Government is one of the 11 local governments in the State of Pohnpei. The Mayor, Speaker, and the Presiding Judge head the three branches of the KTG, namely the Executive, Legislative and Judiciary respectively. The detail of KTG Structure is included in the report as Appendix II.

**Sources of Revenues**

The following are the sources of revenues that support the KTG operations, programs and projects.

1. The "Local Revenue Sharing Act of 1989" requires that not less than 30% of all taxes collected by the Pohnpei State Government from sources within Pohnpei shall be allocated to and distributed among the eleven (11) local governments based on population. KTG received its share of the State's collected taxes in quarterly increments from the Department of Treasury and Administration, Pohnpei State Government.
2. KTG generates revenues from its own locally imposed taxes, license, fees, court fines, penalties, and other service fees.
3. KTG also receives financial support from other sources for projects and programs at certain times.

**Revenues**

Table I below shows the actual revenues collected by funding source during the period reviewed:

**Table I**  
**KTG Revenue Sources**

<b>Revenue Sources</b>	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2013</b>	<b>Total</b>
Revenue Sharing	\$375,746.16	\$335,740.73	\$711,486.89
Local Revenue	49,108.44	42,597.67	91,706.11
All Others	248,488.00	268,388.00	516,876.00
<b>Total Revenues</b>	<b>\$673,342.60</b>	<b>\$646,726.40</b>	<b>\$1,320,069.00</b>

Source: KTG Accounting Records, Collection Reports, Bank Statements and Budget Ordinances

**Kolonia Town Government**  
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**Schedule of Findings and Recommendations**  
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**Finding No. 1 Inefficient revenue record keeping and reporting**

**Criteria:**

Kolonia Town Government (KTG) Operating Policies and Procedures on revenue collections require that upon receipt of collection, a corresponding Cash Receipt should be issued to each customer. The daily collection should also be posted to a Cash Receipt Journal Book.

Monthly summary of collections and deposits shall also be prepared for proper accounting and reporting of revenues received.

**Condition:**

During our test of the collections, we found the following inefficiencies:

1. The test of the collections in the amount of \$29,097 from October to November 2012 showed postings in the Cash Receipt Journals but without corresponding breakdown or detail of collections for those months.
2. Review of the monthly collection details for June to August 2013 showed that the Collections were posted in the Cash Receipt Journal for different months. Management acknowledged that there was a computer posting error made.

Month of Collection - per Cash Receipts	Month Posting Made – per Cash Receipt Journals	Remarks – Recording Difference
June 2013	April 2013	2 months difference
July 2013	October 2012	9 months difference
August 2013	March 2013	5 months difference

3. Three instances of direct deposits which were not properly identified and documented.

<u>Date</u>	<u>Amount</u>
March 21, 2012	\$9,648
July 3, 2012	\$27,500
July 5, 2013	\$1,224.76

**Kolonia Town Government**  
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**Finding No. 2 Inadequate documentation to support disbursements**

**Criteria:**

KTG's Financial Management Regulations requires that cash disbursements should be adequately supported with documentation. Examples of documents include: original invoices, purchase orders, price quotations and other documents justifying the validity of the expenses.

In addition, disbursements procedures and practices should be carried out with utmost consideration for the economical and efficient use of KTG funds.

**Condition:**

Our review of the disbursements revealed that some disbursements lacked documentation to support the expenditures. The following were the findings noted:

- Disbursements paid on invoices issued by employees totaling \$7,229.76 and not by vendors;
- Not properly documenting price comparisons on purchases/reimbursements;  
and
- Posting error made in double recording check disbursement in the Cash Disbursement Journal.

**Cause:**

We noted that there was laxity in the processing of disbursement transactions. There was absence of checklist of required documents and diligent review of documents prior to processing of payment.

**Effect:**

This resulted to cash disbursements that were not properly documented. KTG could have availed of the best price and economize if price comparisons on purchases were made.



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**Finding No. 3 Unresolved Prior Years' Finding**

**Criteria:**

Pursuant to Pohnpei State Law No. 5L-08-00, KTG is required to submit to the Auditor a report on the progress in clearing the deficiencies cited in the audit report until such time that all the deficiencies have been cleared, which period shall not exceed six months.

**Condition:**

Below is a status report on cash disbursements as one of the financial related audit findings for the fiscal year 2000.

<b>Audit Findings &amp; Recommendations</b>	<b>Action taken by management</b>	<b>Remarks</b>
<p>1. Unsupported disbursements  Disbursements should be properly supported with documents such as invoices, purchase order, accounts payable voucher and receiving report.</p>	<p>Management tried to comply with the documentation on some of the disbursements. However, there were still disbursements that lacked needed documents.</p>	<p>Supervisors should carefully review the transactions to ensure that supporting documents are filed with the disbursements.</p>

**Cause:**

Management has not taken appropriate action to resolve this prior year audit finding.

**Effect:**

The non-resolution of prior year audit finding will continue to hinder the effective maintenance of the KTG's internal control in respect to cash disbursements of its funds.

**Recommendations:**

Management should ensure that this prior year finding is resolved.

**Auditee Response:**

Please refer to Exhibit I.

## Appendix II

### KOLONIA TOWN GOVERNMENT PERFORMANCE AUDIT ON THE CASH RECEIPTS AND CASH DISBURSEMENTS SYSTEM FISCAL YEARS 2012 & 2013

#### KTG Structure

The Kolonia Town Government (KTG) is one of the eleven (11) local governments operating in the State of Pohnpei. The KTG is comprised of three branches and these include:

The Executive Branch – Headed by an elected Mayor. This branch includes the Mayor and forty support staff members. The Branch is responsible in ensuring that the day to day operations of the government are effectively and efficiently managed within the approved operations budget and in compliance with all applicable laws and regulations.

The Legislative Branch – This branch is composed of the Speaker, 14 councilmen and 4 support staff members. The branch enacts laws/ordinances for all public projects, programs and operations, including the entire fiscal affairs of the KTG.

The Judiciary Branch – This branch includes the Chief Justice, 1 Associate Judge, and 4 support staff members. The branch conducts hearing on court cases, interpret laws, and issues judgements based on KTG laws.



Exhibit I  
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[koloniatown@mail.fm](mailto:koloniatown@mail.fm)

*Office of the Treasury*

September 23, 2015

His Excellency Iso Nahnken Ihlen Joseph  
Pohnpei State Public Auditor

Re: Respond to Audit Performance and Recommendations

Iheng,

Kaselehlie maing Isohko, this letter is made to transmit our sincere and utmost appreciation towards your respective office and staffs for the past couple of months of auditing of Kolonia Town Government for fiscal years 2012 and 2013. It has been troublesome at first glance receiving your audit report pertaining to the fiscal years mentioned, yet on behalf of the People of Kolonia Town, I thank your respective office and staffs for the superb job you have done for the Government of Kolonia Town. I trust that it is of the essence to address this issue and report to that as of typing this letter, we are now & have been implementing all guidelines pursuant to Financial Management Regulations & as recommended in your findings.

Now pertaining to the findings in your audit report,

**Finding 1. inefficient revenue record keeping.**

"as per our meet and discussion, it has been complied by this administration to have all that is needed to for record keeping."

**Finding 2. Require annual financial statements of KTG were available.**

"likewise, we resolved in our discussion that the Annual financial report will be made available to you & It has been done, we send Annual Financial statements for Fy12 & Fy13 complied with applicable laws and regulations."

Rec'd  
9/24/15  
aak  
JA  
Joseph  
f

