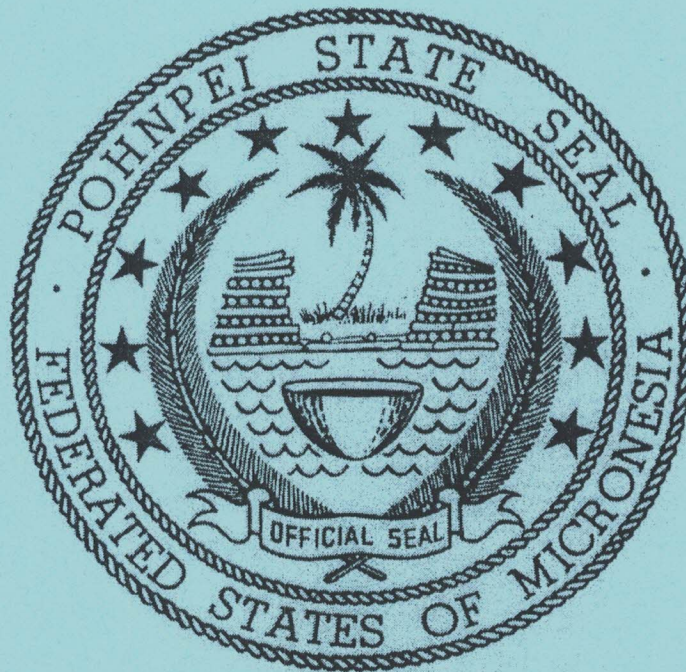


POHNPEI STATE GOVERNMENT
Performance Audit of Pingelap Municipal
Government
September 30, 2016

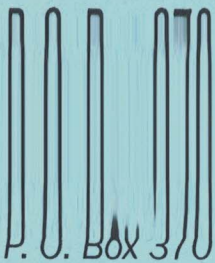
AUDIT REPORT NO. 001-17

*Office of the Public Auditor
State of Pohnpei*



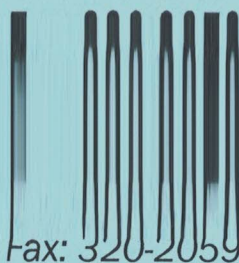
State Public Auditor

Phone: 320-2638



P. O. Box 370

Kolonia, Pohnpei, FM 96941

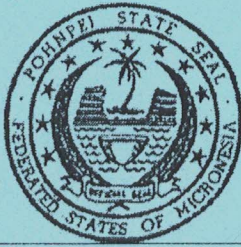


Fax: 320-2059

E-mail: opsa_psa@mail.fm

PINGELAP MUNICIPAL GOVERNMENT

FISCAL YEAR ENDED SEPTEMBER 30, 2016



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

P.O. Box 370
Kolonias, Pohnpei FM 96941
Tel: (691) 320-2638/5407 Fax: (691) 320-2059
E-mail: opsa_psa@mail.fm

September 28, 2017

The Honorable Marcelo K. Peterson, Governor
The Honorable Fernando Scaliem, Speaker of the 9th Pohnpei State Legislators
The Honorable Members of the 9th Pohnpei State Legislature
The Honorable Hiroshi I. Boaz, Mayor, Pingelap Municipal Government
The Honorable Yensohn Yens, Speaker, Pingelap Municipal Council
The Honorable Members of Pingelap Municipal Council

EXECUTIVE SUMMARY

We respectfully submit the audit report of the Pingelap Municipal Government (PMG) for fiscal year ended September 30, 2016. The performance audit was conducted pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law No. 1L-10-79, as amended. The audit was also conducted, as applicable, in accordance with the 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 objectives of our audit are: (1) To assess the control activities over Pingelap Municipal Government's cash receipts, cash disbursements, and the performance of the bank reconciliation; and (2) To review the status of prior audit recommendations.

Based on the audit objectives, we identified two (2) internal control weaknesses which are described fully in the Schedule of Findings and Recommendations on pages 4 and 5.

Presented below is a brief summary of the internal control weaknesses identified along with our recommendations which we believe, if properly implemented, will help improve the PMG's operations.

Summary of Findings

1. *Inadequate Control Activities Due to Untrained Personnel; and*
2. *Unresolved prior year findings.*

Summary of Recommendations

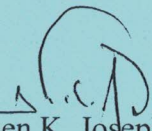
1. *We recommend that PMG seek appropriate training program to enhance the employee skills and performance in the proper recording, summarizing, and reporting of the Municipality's financial transactions.; and*
2. *We recommend management to develop and implement appropriate corrective measures to resolve prior years audit findings.*

A copy of the draft report was provided to the Auditee for their review. On May 23, 2017 an exit conference was held between the auditee and the auditors to further discuss the draft report. The Mayor was then given two (2) weeks to respond to the audit findings, which response should include the Municipality's corrective action plan in rectifying the weaknesses cited in the report. Additionally, the response to the draft report becomes part of the report and is presented as Appendix I on page 8 & 9 of this report.

An addendum to the enabling act that created the Office of the Public Auditor (OPA), SL No.05-08-00, requires that Pingelap Municipal Government should submit to the Office of the Public Auditor (OPA) a monthly report indicating its progress in the resolution of the findings cited in the audit report. The resolution of the findings shall not exceed six (6) months.

We extend our sincere appreciation to the management of the Pingelap Municipal Government and support staff members for their assistance during the course of our audit.

Sincerely,


Ihlen K. Joseph
State Public Auditor

PINGELAP MUNICIPAL GOVERNMENT AUDIT
For the Fiscal Year Ended September 30, 2016

Audit Report No. 001-17

INTRODUCTION

We were requested by the new Mayor of the Pingelap Municipality to conduct a review of the Pingelap Municipal Government (PMG) cash position as of 30 September 2016. Because of the urgent nature of the request, the State Auditor approved the engagement. Additionally, the PMG is scheduled in the OPA's 2017 Annual Business Plan for an audit follow-up review. This report completes the engagement and presents the result of our review.

BACKGROUND

The Pingelap Municipal Government (PMG) is one of eleven local governments operating in Pohnpei State. Modeled after the primary government, the PMG is composed of three branches: a) the executive branch, b) the legislative branch and c) the judiciary branch. The Executive Branch is headed by a Mayor elected by the people of Pingelap. The Branch is responsible for the day-to-day operations, including the financial affairs of the Pingelap Municipal Government.

SOURCES OF REVENUES

The PMG receives its operation and program funds from the following sources: a) revenues generated by locally imposed fees, fines, and others and b) Local Government Revenue Sharing Act of 1989, which requires that at least 30% of all tax revenues collected in Pohnpei be allocated to the local governments based on population. For the Fiscal Year 2016, the total budgetary revenues available for the PMG amounted to \$124,232.

The PMG laws require that unless otherwise specified by law, the Treasurer shall deposit all income, revenues and other receipts collected into an account established with a financial institution under the name "Pingelap Municipal Government".

AUDIT OBJECTIVES

Primary objectives of the audit were to:

1. Assess the internal control activities of the PMG cash receipts, cash disbursements and bank reconciliation performances to determine the actual cash position of the PMG for period ending September 30, 2016.
2. Review status of prior audit findings and recommendations.

SCOPE AND METHODOLOGY

Based on the requirement of the PMG request, we conducted the audit in the manner described below:

1. Reviewed and verified the availability of Cash Receipt and Cash Disbursement Journal;
2. Reviewed the PMG collection of revenues and disbursement activities for FY-2016;
3. Reviewed the PMG Bank Reconciliation activities for the audited period;
4. Conducted interviews with relevant PMG officials; and,
5. Performed other procedures necessary to achieve the audit objectives

Our audit covered period October 01, 2015 to September 30, 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT COVERAGE

We were engaged to audit the PMG financial and accounting activities for the period October 01, 2012 to March 31, 2014. Due to the lack of financial and accounting records, we declared PMG “**un-auditable**” and issued a Management Letter to that effect.

CONCLUSION

PMG has made some progress and improvement in the management of its financial records. Our auditors are now able to trace and verify financial transactions presented in the combined journal of deposits and cash disbursement.

We noted however, that there is still room for improvement in the cash receipt and cash disbursement activities. For example all monies received must be receipted, deposited, recorded and accounted for properly. Also, receipts and related supporting records and documents must be reviewed, updated as appropriate and reconciled regularly to facilitate management oversight and decision making. Moreover, related records and documents accumulated must be organized and maintained intact for a period not less than the law requires.

Similarly, issuance of checks must be supported by documentary evidence to properly justify disbursements of funds. In addition, all disbursements must be duly recorded and related vouchers and supporting documents must be reviewed, updated appropriately, reconciled regularly and maintained properly as the law or management policy requires.

Journals or schedules created from the cash receipts and cash disbursements activities along with supporting documents and records must be reconciled with the PMG cash account at the bank.

Regular bank reconciliation is required to apprise management of the true bank position of the Municipality and also is used as a tool in preventing or detecting error(s) and/or irregularities timely.

Summary of Findings

Based on our review, we found that:

1. The PMG cash position was approximately \$12,943 at September 30, 2016. Management was not sure of the amount due to unreliable financial reporting, because of un-updated records and balances and lack of review and reconciliation of the Municipal books with the bank records.
2. The PMG has not fully corrected the internal control weaknesses identified and reported in our Management Letter issued on June 29, 2015 specific to the following:
 - a) Timely bank reconciliation; and,
 - b) Timely update of its cash receipt and cash disbursement journals.

Refer to the Schedule of Findings and Recommendations shown on pages 4-6 of this report for details.

PINGELAP MUNICIPAL GOVERNMENT AUDIT
Schedule of Findings and Recommendations
For Fiscal Year Ended September 30, 2016

Audit Report No. 001-17

Finding No. 01: Inadequate Control Activities Due to Untrained Personnel and Lack of Review

Criteria

The accounting control activities of any government should be suitably designed to enable proper receiving, recording, summarizing, and reporting of all cash transactions of the government.

Condition

Our review disclosed that the PMG maintains its inflows and outflows of cash in a combine journal. The journal however, does not provide monthly summaries of the transactions recorded. We also noted that the Municipality does not issue receipts for some of its collections, carry out adequate review of its financial records, nor does it performs reconciliation of its cash related activities and records with the bank. A detailed review of available cash receipts (for December 2015 to March 2016, June 2016 and July 2016) shows that \$305 of the cash collections was not deposited and the Treasurer could not provide any explanation.

Also, during our review of disbursements we found that in April 2016, a check number 9038 was erroneously processed through the bank twice incurring an unnecessary service charge of \$25. Due to insufficient funds in the Municipality's checking account the bank did not pay out again the amount of the check. The Municipality did not detect the error. The loss to the Municipality could have been much more if there was sufficient fund in its checking account.

Cause

The Treasurer has not been trained properly to perform the accounting and other financial related functions of the PMG Treasury, specific to receiving and recording collections, performing bank reconciliation, reviewing and updating cash receipts and disbursements journal and preparing appropriate financial reports. Also, there is a lack of oversight review to ensure correctness and appropriateness of the records.

Effect

As a result, the leadership did not know the PMG cash position at the fiscal year ended on 30th September 2016. Also, without proper review and reconciliation of its financial records, the Municipality's collections and cash account are vulnerable to undetected errors, loss due to theft, even fraud and/or abuse.

Finding No. 01: Inadequate Control Activities Due to Untrained Personnel and Lack of Review, Continued

Recommendation

We recommend PMG management to:

1. Provide relevant PMG personnel appropriate training program to enhance their skills and knowledge in the proper receiving, recording, summarizing, and reporting of the PMG financial activities.
2. Require issuance of cash receipts for all collections received, regardless of the source and amount.
3. Require regular review and reconciliation of the Municipality's records and accounts to ensure error(s) and other irregularities are prevented or detected timely.
4. Ensure update of records and preparation of appropriate schedules and reports to facilitate management oversight and decision making process.
5. Require and ensure records and all supporting documents are organized and maintained intact to provide audit trails and comply with applicable records retention law.

Auditee Response:

Please refer to **auditee response** included as Appendix A on pages 8 and 9 of this report.

Finding No. 02: Status of Prior Year Audit Findings and Recommendations

Criteria

Prior audit findings and recommendations should be resolved in a timely manner to improve PMG operations.

Condition

Our review revealed that the PMG has not taken corrective measures to fully resolve the findings and recommendations identified and reported in our Management Letter dated June 29, 2015, For example: cash receipt journal is still not being created to record all cash collections nor do they have a cash disbursement journal for the recording of cash payments.

Cause

The new administration is still waiting for the approval from the council on the budget submission for the salary of assistance to the Treasurer.

Effect

This could lead to responsible management officials to repeat prior mistakes thus resulting to PMG experiencing ineffectiveness of operation similar to prior year.

Recommendation

We offer the following recommendation:

1. Responsible PMG management officials to actively seek ways and assistance to resolve prior audit findings identified and reported in our Management Letter of June 2015.

Auditee Response:

Please refer to **auditee response** included as Appendix A on pages 8 and 9 of this report.

PINGELAP MUNICIPAL GOVERNMENT

APPENDIX A
AUDITEE RESPONSE

YEAR ENDED SEPTEMBER 30, 2016

Rec'd 6/08/17

**Management Response to Audit Findings
FY 2015-2016 Audit (May 2017)**

002-17-1. Finding:

During the audit, Pingelap Municipal Government (PMG) was found had no adequate control activities due to untrained personnel.

Recommendation:

PMG Management to:

1. Provide relevant PMG personnel appropriate training program to enhance their skills and performance in the proper recording, summarizing, and reporting of the PMG financial activities.
2. Require issuance of cash receipt for all collection received, regardless of the source and amounts.

Management Response:

1. Due to our limited funds to support personnel on any appropriate training, PGM has recently coordinated with the State Finance Department to assist in allowing one or two PMG staff (s) assign to State Budget Division to do hands-on training to learn on how to do proper recordings, summarizing, logging and other related duties on PMG own expense.

Finance Director has suggested that we (Pingelap Municipal Government) should provide a copy of our approved Financial Management Regulation to the Treasury Office to be used thru out the duration of this hands-on training.

2. A System has established requiring any and all PMG financial activity (s) must be documented accordingly. PMG Treasurer Office will responsible to closely monitor every financial transaction and required to submit a monthly report of every transaction took place to the Office of the Mayor. Filing of all cash receipt requires organizing, and to ensure they are not duplicated, and storage must be easily access when needed.

002-17-2. Finding:

Status of Prior Year Audit Findings and Recommendation:

Recommendation:

Recommendation Offered:

1. Responsible PMG Management official to actively seek ways and assistance to resolve prior audit findings identified and reported in to Pohnpei Stat Public Auditor's Office as of 2017.

Continuation...

Management Response:

The PMG Treasurer Office will work with Pohnpei State Public Auditor's Office overtime to ensure that required recommendations are all met in a satisfactory level.

I would be very happy to answer to any unclear statement I made should your office have any question.

I personally salute your office and so grateful that I have an opportunity to be guided accordingly by your respective office.

Respectfully,



Hiroshi Boaz
Mayor
Pingelap Municipal Government