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January 23, 2017

Honorable Baldesar Sardis
Speaker, Sokehs Municipal Council
Sokehs Municipal Government
Sokehs, Pohnpei State, FM 96941

Re: Management Report No. 001-2017 (Sokehs Municipal Government Unannounced Cash Count)

Maing Speaker Sardis:

Responding to yours of 16 January 2017, the Office of the Public Auditor (OPA), Pohnpei State, conducted an unannounced count of the Sokehs Municipal Government's (SMG) daily cash¹ collections on January 19, 2017. As with all audits and other reviews that we perform, this cash count is part of OPA's responsibility to protect and reduce the risk for fraud and abuse of public resources. It also is performed to promote accountability, transparency and good management of government operations. In addition, the Sokehs Municipal Government is scheduled in the OPA's Annual Business Plan for audit follow-up this year. Hence, the cash count became the initial part of the scheduled audit follow-up review.

Accordingly, the 4-member audit team performed count of all un-deposited collections still on hand at the time of review and examined related cash receipts, documents and records. This was necessary to determine if proper controls were in place and working effectively to safeguard the SMG funds from loss, abuse or mismanagement. As a result, the audit team found the following:

Surprise Cash Count

1. Missing Collections

Cash collections totaling \$851.14 were found missing from the money bag with the custodian. Based on the auditors' inquiry, it was revealed that the missing funds were "borrowed" by the Treasury employees and were meant to be paid back. This

¹ This also includes cash equivalents, such as checks received from businesses and other clients of the Sokehs Government.

"unauthorized borrowing" has been the practice of the Sokehs Municipal Government employees and has been a going concern of the SMG prior years' audits. *The Financial Management laws prohibit borrowing from public funds.*

Additionally, the monies borrowed were not properly recorded making it difficult to identify the borrowers and the total amounts borrowed. The count also disclosed that cash collected from businesses and clients of the SMG were the source for the borrowings.

Review of Cash Related Records

2. Late Deposits of Collections

At the time of our cash count, it was disclosed that all cash collected in December and January, except those received from the State Government and the missing funds, were still "on hand" in a money bag kept inside a vault located in a cabinet all cannot lock properly. *The SMG Financial Management law requires daily bank deposit of all funds collected.*

3. No Segregation of Compatible Duties

The Revenue Officer collects payments from customers, maintains custody of the funds collected, makes deposits, and is responsible for recording the transactions in the books. We found that other Treasury employees can receive payments from customers whenever the Revenue Officer is not available. We could not, however, find any written or documented procedures for the custody, maintenance and accounting of funds collected by others.

4. No Supervisory Review

There is absolutely no supervisory review being performed of the work done by subordinates. For example, the Revenue Officer is new (1 year employment with SMG) and yet no one is reviewing her work. Closer management oversight over the financial activities of the SMG must be considered.

5. Related Accounting Books not Updated including Bank Reconciliation

The audit team also found that the cash receipts transactions incurred after the latest bank deposit made on December 02, 2016, have not been recorded yet in the Cash Receipts Journal. The team also found that bank reconciliation is only updated to June 2016, nearly 7 months back, partly due to the recent upgrade of the SMG accounting software.

Similar deficiencies were cited in the last audit of Sakehs Municipal Government conducted and issued by the Office of the Public Auditor. As a consequence, it is our opinion that the risk of irregularities happening again involving the SMG cash and related resources is still very high and will continue until management takes appropriate action to implement the audit recommendations and related best practices measures contained in our SMG audit reports issued in January 2015.

Based on the results of the surprise cash count review and general observation of SMG operation, we conclude that the Sokehs Municipal Government has not taken action or implemented suitable and effective control measures to improve the management of its collections, financial and related resource activities. Additionally, periodic review, monitoring and proper oversight are still lacking in the Municipality's operations. We offer the following recommendations:

1. The Chief Magistrate to take immediate action to implement suitable control measures in the SMG operations to safeguard collections and related resources of the SMG from irregular activities, including fraud, waste, abuse, and mismanagement;
2. SMG management to implement proper oversight measures to ensure and prevent un-intentional or intentional errors or wrong doings. This will also improve operations and timely detection of errors or shortfall in the SMG financial activities;
3. The Chief Magistrate to take immediate action to enforce the "non-borrowing" policy from SMG public funds.
4. The Chief Magistrate to monitor and ensure that SMG revenue collections are deposited at the bank timely as required by laws. A weekly deposit summary activity report should be prepared and submitted for the management's review and reference by responsible employee (s);
5. A written segregation of duties specific to handling of SMG monies should be developed and implemented to ensure independent checks and review of SMG financial activities and reporting;
6. The Management take appropriate action and direct responsible employees to update the accounting and financial records to reflect the current financial position of the SMG; and,
7. Management to require appropriate periodic supervisory review of employees' work and performance.

At the outset, we believe that the SMG financial and program operations would improve if management takes proper action to implement the recommendations referenced above.

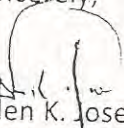
As a result and because of the irregular financial activities discovered during the unannounced cash count, I have instructed the audit team to expand their review of the SMG financial and related activities covering the fiscal years 2015 and 2016. The Compliance Investigation Division (CID) will take the lead on this engagement. We appreciate the SMG support and cooperation on this expanded engagement.

The OPA enabling laws require that the State Auditor inform the Pohnpei Attorney General and other public officials of any allegation of wrong doing involving the use of public funds and related resources. I am transmitting certified copies of this management report to those officials as shown below.

Thank you and please do not hesitate to contact us at the Office of the Public Auditor for any clarification, if required.

With friendly greetings and warm regards, I am.

Sincerely,


Thlen K. Joseph
State Auditor
Pohnpei

xc: Chief Magistrate, SM
Governor, PNI
Speaker, PSL
Attorney General, Pohnpei
*Current File, OPA**