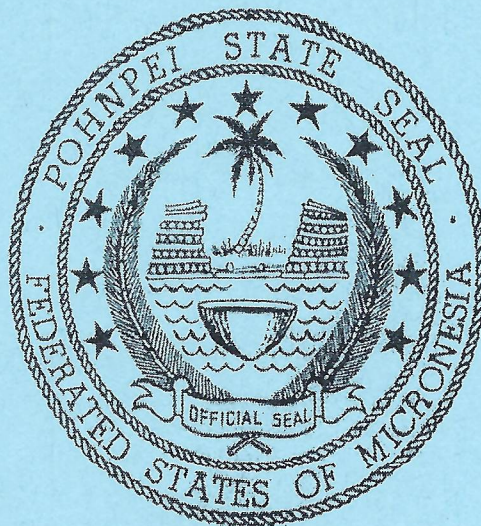


# **NETT DISTRICT GOVERNMENT**

## **PERFORMANCE AUDIT ON CASH RECEIPTS AND CASH DISBURSEMENTS**

**FISCAL YEARS 2019 AND 2020**

**AUDIT REPORT NO. 001-22**



**POHNPEI OFFICE OF THE PUBLIC AUDITOR**

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February 3, 2022

The Honorable Reed Oliver, Governor, State of Pohnpei  
The Honorable Marvin Yamaguchi, Speaker, Pohnpei State Legislature  
Honorable Members of the Pohnpei State Legislature  
Honorable Daniel Edgar, District Administrator, Nett District Government  
Honorable Members, Nett District Legislature

**EXECUTIVE SUMMARY**

We are pleased to submit the audit report on cash receipts and cash disbursement activities of Nett District Government covering Fiscal Years 2019 and 2020. This 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 performed in accordance with generally accepted government auditing standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of our audit were to determine whether:

1. Cash received are properly receipted, recorded, accounted for and timely deposited intact at the Nett Government's designated bank account(s) in accordance with local laws and regulations, strategies and/or plans.
2. Cash disbursements are properly approved, recorded, accounted for and supported in accordance with applicable laws, regulations, and plans to support accountability and transparency.

To achieve the audit objectives, we performed the following:

- Reviewed applicable laws, regulations, established policies, procedures and practices;
- Observed operation and interviewed relevant personnel;
- Analyzed, compared and tested records, data and documents;
- Confirmed amounts and balances from third party, as necessary; and,
- Performed other procedures as necessary to achieve the audit objectives.

Due to the unavailability of records and source documents, our audit procedures were limited, thus, our judgements and conclusions were also made based on estimations and assumptions.

for the following:

- An employee received two paychecks in payroll period number 11 of fiscal year 2019, totaling \$770. Another employee received two paychecks in payroll period number 1 of fiscal year 2020, with combined total of \$636; and,
- Calculation of income taxes for certain salaries was incorrect.

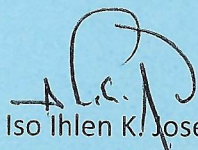
Based on the result of our audit, we conclude that the Nett District Government needs to institute a set of internal controls over cash receipts and cash disbursements to ensure they are properly accounted for, maintained and safeguarded against loss. Poor internal controls provide opportunity for fraud, abuse and/or misuse of funds and assets, and employee or workplace corruption. Therefore, NDG cannot afford to wait in taking necessary steps to assess and institute robust and improved internal controls to safeguard its funds and lower the risk of irregularities from happening.

As is customary, we have discussed the draft audit report with management of NDG and have requested for their response to our findings and recommendations. The response is included as part of this report on page 14, as Exhibit I.

We also have informed NDG management of the requirement of Pohnpei State Law No. 5L-08-00, as amended. The law requires the auditee to submit monthly report to the Pohnpei Office of the Public Auditor indicating corrective measures/plan already taken or will be shortly implemented to resolve the deficiencies cited in the audit report until all findings are satisfactorily resolved, which period shall not exceed one year.

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

Sincerely,



Iso Ihlen K. Joseph  
State Public Auditor

NETT DISTRICT GOVERNMENT  
AUDIT REPORT  
FISCAL YEARS 2019 AND 2020

**Introduction**

We have performed an audit of cash receipts and cash disbursements' activities of the Nett District Government for the Fiscal Years 2019 and 2020. This engagement was started based on audit priorities and plans of the Pohnpei Office of the Public Auditor to promote accountability, transparency and good governance not only in the primary government but also in the local governments as well. This report presents the results of our audit.

**Background**

Nett District Government (NDG) is one of the 11-eleven local governments of Pohnpei State. Similar to the other local governments, Nett District Government is composed of three branches as follows:

1. Executive – This branch is responsible to ensure that the day-to-day operations of the government are effectively and efficiently managed based on approved budget and in compliance with applicable laws and regulations. The Executive Branch is composed of the Office of the District Administrator, the Department of Treasury and Finance, Public Safety and Security, Department of Resources Management and Development, and Public Works.
2. Legislative –The branch enacts laws for all activities of NDG, including its fiscal affairs. It is composed of the Office of the Speaker and a nine-member Legislature.
3. Judiciary – The Judiciary Branch is the District's highest court of law headed by a Chief Justice. The branch major responsibilities are to conduct hearings on court cases, interpret laws and issues judgments based on the laws.

The District Administrator heads the Executive branch and the nine-member Legislature is represented by a Speaker, all of whom are elected by the people of Nett District to a four year term. The Chief Justice who heads the Judiciary branch on the other hand is appointed by the District Administrator with the advice and consent of Nett Legislature.

The Nett District Government operates similar to Pohnpei State Government but in a much smaller scale.

NETT DISTRICT GOVERNMENT  
AUDIT REPORT  
FISCAL YEARS 2019 AND 2020

**Uses of Funds**

The Nett District Government expended a combined total of \$1,464,533 for its operations and developmental projects/programs approved for the fiscal years 2019 and 2020. In fiscal year 2020, the District's operational expense was increased by \$19,697 and its projects/programs by \$64,518.

The District's operational expense averaged around 67% and the projects/programs at 33% of its total expense for the two years period. Personnel cost was the highest expense for the District at \$630,120 or 43% of the total government expense. The summary of the District expenditures are shown below in Table II.

Table II  
Expense By Category

Expense Category	FY-2019	FY-2020	Total
Personnel	312,597	317,523	630,120
Contractual services	65,653	65,652	131,305
All others	99,662	114,434	214,096
<b>Total Operational Expense</b>	<b>477,912</b>	<b>497,609</b>	<b>975,521</b>
Projects and Programs	212,247	276,765	489,012
<b>Total NDG Expense</b>	<b>690,159</b>	<b>774,374</b>	<b>1,464,533</b>

Source: NDG CDJ and Budgets for the Fiscal Years 2019 and 2020.

**Administration of Funds**

The NDG financial management laws prescribe regulations and requirements for the handling and managing of the District's cash receipts and cash disbursements. The laws established the Treasury Office within the Executive Branch and defined its fiscal functions, roles and responsibilities, including but not limited to the following:

- 1) Budget Control - To ensure that expenditures stay within the approved budget;
- 2) Revenue Collection – To monitor and cause collection of all taxes, fees, licenses and other debt owing Nett District Government;

NETT DISTRICT GOVERNMENT  
AUDIT REPORT  
FISCAL YEARS 2019 AND 2020

- Observed operation and interviewed relevant personnel and other individuals, as appropriate;
- Analyzed, compared and tested records, data and documents;
- Confirmed amounts and balances from third party, as necessary; and,
- Performed other procedures as necessary to achieve the audit objectives.

The engagement included a review and assessment of related internal controls and compliance with laws and regulations over cash receipts and cash disbursements activities for the Fiscal Years 2019 and 2020.

Due to the unavailability of supporting records and source documents, our audit procedures were limited and our judgements were also based on estimations and assumptions we made.

Also, as part of this audit, we followed up and evaluated the status of the prior years' audit findings related to our audit objectives to determine whether management has taken appropriate corrective action to resolve the findings.

**Prior Audit Coverage**

The most recent audit of Nett District Government was performed by the Pohnpei Office of the Public Auditor for the Fiscal Year Ended September 30, 2001. The conclusion of that audit were as follows: (1) NDG did not properly account for and record all receipts and disbursements; (2) NDG did not comply with certain provisions of its Financial Management Act; and that, (3) internal controls over financial reporting were not effective and efficient.

We followed up on the status of the findings on the FY 2001 audit related to our current audit objectives and found out that the same problems concerning cash receipts and cash disbursements still exist in the District's operation. Our audit findings are discussed fully in the Schedule of Findings and Recommendations on pages 7 to 12 of this report.

In addition, the Pohnpei Office of the Public Auditor's Compliance Investigative Division (CID) conducted an investigation in 2015 regarding NDG funds allegedly taken from its Treasury Office. The investigation was completed and the incident was reported to the Office of the Attorney General.

Besides for our performance audits, Nett District Government was also included and covered under the Annual Single Audit for the primary government.

NETT DISTRICT GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEARS 2019 AND 2020

**Finding No. 1 Significant Internal Control Weaknesses Resulted in Missing Collections and Non-Compliance with NDG Financial Management Regulations**

Criteria

One of the important management responsibilities is to design and implement suitable internal controls related to the handling and processing of cash receipts to ensure they are reasonably safeguarded and secured from possible loss due to error, abuse, misuse and/or theft. Also, duties need to be segregated to ensure suitable check and balance thus avoiding or reducing the risk of wrongdoings.

In addition to good practice, NDG's Financial Management Regulations (FMR) Part 2.5 requires that all monies collected are to be recorded and deposited to the bank. Furthermore, FMR 2.7 requires daily deposit of collections unless the total amount is less than \$100. The NDG Treasurer is responsible for proper accounting and safeguarding of all monies collected and of all funds of the Nett District Government, including its bank accounts.

Condition

From our examinations of the available records/documents as well as interview with the Treasury personnel, we determined that NDG's internal controls over its cash receipts for the fiscal years 2019 and 2020 were deficient and weak. NDG used generic cash receipts which were not always issued in numerical sequence or from the same batch, making it hard to accurately determine the completeness of the total collections.

Even so, we were able to estimate that the NDG's gross receipts for both fiscal years totaled \$1,664,019. NDG however, can only provide corresponding copies of receipts and records of deposits for \$321,261 or 19% of the total collections. These records showed undeposited collections, late deposits and receipts issued and or deposits made, out of normal sequence.

Due to the unavailability of source documents for the remaining collections, we analyzed and compared the amounts recorded in the cash receipts journal with the bank's records of deposits and the results were as follows:

- We could not verify whether \$65,400 of the collections was deposited to the District's bank accounts;

NETT DISTRICT GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEARS 2019 AND 2020

**Finding No. 1 Significant Internal Control Weaknesses Resulted in Missing Collections and Non-Compliance with NDG Financial Management Regulations, Continued**

Effect:

The condition resulted in cash receipts unaccounted for and practices not in line with the NDG FMR. The condition also indicates the possibility of more irregularities and has been referred to the Pohnpei Office of the Public Auditor's Compliance Investigative Division for investigation.

Recommendation:

We recommend that the District Administrator should assess and take appropriate actions to improve and strengthen the internal controls over cash receipts to prevent or reduce the risk of errors, abuse, misuse, and theft. Actions should include but not limited to the following:

- Establish appropriate policies and procedures that include the maintenance and safeguarding of records, documents, etc., and separation of certain areas of responsibility and duties of personnel handling cash and cash equivalents;
- Require monthly bank reconciliation of the District's bank accounts;
- Implement regular and appropriate review process;
- Conduct training of responsible personnel to enable them to carry out their duties effectively;
- Cause internal inquiry to determine the status of the un-deposited collections; and,
- Require restitution of the missing collections.

Auditee Response: Please refer to the Auditee Response, Exhibit I, on page 14 of this report.

Auditor Reply: The auditors did not review the receipts conveniently found subsequent to the audit exit conference thus cannot "waive", remove, or change the \$65,400 the auditors were not able to verify whether deposited to the bank. However, the amount may change or declared resolved pending the investigation by POPA CID already underway.



NETT DISTRICT GOVERNMENT  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FISCAL YEARS 2019 AND 2020

**Finding No. 2 Deficient Controls and Documentations of Disbursements, Continued**

For payroll related disbursements, we selected four (4) payroll periods (two from FY 2019 and the other two for FY 2020) for our review. We found that numerous documents and records supporting payroll activities could not be located. For example, of the 44 payroll transactions in pay period number 24, only nine (9) were found. This was the same for the other payroll periods, thus our review was limited to available records. For these, we found no significant issues except for the following:

- An employee received two paychecks in payroll period number 11 of fiscal year 2019, totaling \$770. Another employee received two paychecks in payroll period number 1 of fiscal year 2020, with combined total of \$636; and,
- Calculation of income taxes for certain salaries was incorrect.

Cause:

The condition happened due to defective internal controls over cash disbursement, management not providing appropriate support and guidance to personnel, and Legislature's lax oversight. Treasury personnel lacked proper training and knowledge on fiscal management, accounting and internal controls.

Effect:

The condition resulted in non-compliance with the District's FMR and payments with questionable and unclear purpose or justification. The situation is contrary to good accountability and governance and could expose NDG to the risk of errors, abuse, theft and even fraud.

Recommendation:

We recommend that the District Administrator (DistAd) should institute appropriate internal controls within the disbursements function to ensure that all payments are in line with applicable laws and regulations and that related supporting documents are duly maintained. The DistAd should also provide necessary support and guidance to personnel to enable them to perform their duties and responsibilities well, including:

- Establish sets of written policies and procedures to guide employees in their everyday work;

NETT DISTRICT GOVERNMENT

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Exhibit I

AUDITEE RESPONSE

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FISCAL YEARS 2019 AND 2020



OFFICE OF THE DISTRICT ADMINISTRATOR

NETT DISTRICT GOVERNMENT

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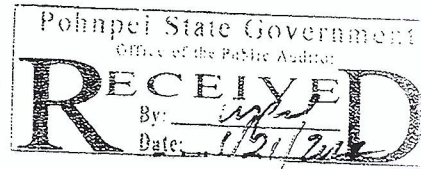


Exhibit I

01/21/2022

Iso, Ihlen K. Joseph  
State Public Auditor  
Pohnpei State Government

RahnLap oh Kaselehlie Maing Isokoah,

01-21-2022  
AM copy.  
Nett Distad is asking us to wave/decide  
the \$65,000 from the final report due to  
their location of relevant documents regard  
the unaccounted funds. Do writelet them and  
advise. *Shaur*  
99

Mwowe ei tungoal wahu pahn kupwur, Kisin likou wia ei tungoal pekipek ong sapwelmatail ehupene me pid  
Audit Report ong District Government en Wein Nett. Ih patohwan peki, pwehki poaloangoaloangadahn pwukoa  
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sapwelmomwi office en kak waive la \$ 65,000.00 sang ni documents kan me se patohwan diar oh  
sapwelmomwi ohpis en kak ketkida ah ong me teiko koaros en kak sansal me sapwelmwomi ohpis en kak ketla  
mwowe..

Kalahngan,

Ni wahu

Daniel Edgar  
District Administrator  
Nett District Government

