

Performance Audit on the Kosrae Housing & Rural Development Authority

AUDIT REPORT NO PA 01-2025

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Auditor's Report

Board of Directors, Kosrae Housing & Rural Development Authority
Executive Director, Kosrae Housing & Rural Development Authority
Kosrae State Government, Federated States of Micronesia 96944

Subject: Performance Audit Report on the Kosrae Housing and Rural Development Authority

Report No: PA 01-2025

Date: December 29, 2025

Executive Summary

This report presents the results of the performance audit of the Kosrae Housing and Rural Development Authority (KHRDA or "the Authority") for fiscal years 2022, 2023, and through June 2024. The audit was conducted to assess (1) the efficiency and effectiveness of KHRDA's operations and (2) to determine whether the collection and disbursement of funds complied with applicable regulations, internal policies, and funding agreements.

We conducted the audit in accordance with auditing standards generally acceptable in the United States of America and the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and Kosrae State Code Title 10 Chapter 4 and other laws promulgated thereafter.

Conclusion

We concluded that (1) the Authority has not implemented an updated organizational strategic planning and governing framework to ensure the effectiveness and efficiency of its operations. Also (2) KHRDA has not fully complied with established regulations, internal policies, and recognized best practices in the management of its collections and disbursements.

Principal Findings

1. **Absence of Strategic Direction:** KHRDA operates without a current, approved strategic plan. The most recent plan expired in 2021, and the draft 2023-2027 plan remains unfinalized. The Authority's Manual of Operations is outdated, failing to reflect its expanded mandate under State Law 11-115 and current organizational structure.
2. **Weaknesses in Financial Controls:** Significant internal control deficiencies were identified in cash management, including:
 - Delayed and unmatched bank deposits.
 - Lack of daily collection reports and missing deposit slips.
 - Weak Controls Over Official Receipts Lead to Duplication
 - Disbursements processed without proper authorization, incomplete supporting documentation, and non-compliance with procurement procedures.
 - Improper recording of expenses and non-compliance with payroll documentation requirements.
 - Non-Compliance with Loan Documentation Requirements.

These conditions increase the risk of fraud, errors, and mismanagement of public funds.

Recommendations

We recommend the KHRDA Board and Management:

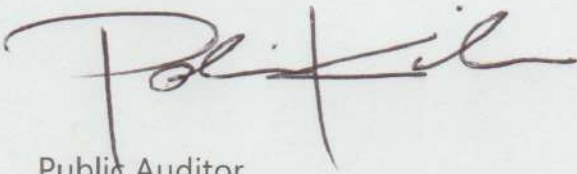
1. **Finalize and implement** an updated Strategic Plan and an updated Manual of Operations that aligns with its expanded operational mandates.

2. **Strengthen internal controls** by enforcing existing policies for cash receipts and disbursements, ensuring proper documentation and authorization for all transactions, and performing regular bank reconciliations and supervisory reviews.
3. **Provide ongoing training** to ensure all staff understand and adhere to financial and operational policies.

The Office of the Public Auditor provided draft copies and discussed the contents of this report with the Kosrae Housing and Rural Development Authority. The KHRDA Management provided its response on December 10, 2025, expressing views on select findings of the report. The Public Auditor responded to the KHRDA comments emphasizing the need for resolution of unresolved findings of the audit.

The OPA audit plan will need to consider inclusion of follow-up with the KHRDA on the appropriate resolution of the findings of this report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'P. Kil', is written over a horizontal line.

Public Auditor

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Background

The Kosrae Housing and Rural Development Authority (the "Authority"), formerly named Kosrae Housing Authority was established by Kosrae State Public Law 10-113 with the name change by Kosrae State Public Law 11-115 in June 2017. The primary purpose of this program is to promote healthy and sound living standards as well as to promote economic advancement by providing housing and rural development loans to qualified individuals in the State of Kosrae and Kosraeans living abroad.

Mandates

The authority is vested with the following powers and duties:

- a. To manage, use and invest the funds and other properties of the HRDA in accordance with acceptable business practices consistent with HRDA organic law.
- b. To lend money to qualified Kosraean living in Kosrae or Kosraeans living abroad who wish to build and maintain residential homes in Kosrae.
- c. To lend money or establish lending program to qualified individuals who wishes to engage in small scale rural development projects with priorities given to rural farmers, producers, women and small business entrepreneurs.
- d. To seek and receive grants, donations and other funds to be used by the Authority for purposes for which it is created.
- e. To borrow money only when it is fiscally prudent to do so.
- f. To adopt rules, regulations and policies to implement the provisions of HRDA law consistent with applicable consumer protection laws and other applicable laws.
- g. To exercise all powers necessary to effectively discharge its duties and responsibilities.

The Authority began operating as a separate entity on October 01, 2015; Housing became an autonomous government agency having its own financial and management protocols established by its first Board of Directors.

The Authority is governed by a Board of Directors. The Board of Directors is composed of five (5) members, who are appointed by the Governor with the advice and consent of the Legislature. The Executive Director serves as an ex-officio member of the board.

The Executive Director is responsible for implementing the policies set by the HRDA Board of Directors. These policies apply consistently across all HRDA operations, unless the Board makes specific exceptions. In the absence of established policies, the Executive Director may take actions necessary for day-to-day operations, acting in the best interest of the HRDA. Such

actions are subject to review and approval by the Board at its next meeting. Any actions taken outside of existing guidelines must be reported to the Board, including the reasons involved parties, and a proposed new policy if needed.

Manual of Operation

The KHRDA is currently using KHA manual of operations which stipulates the composition of management and administrative staff and lists the responsibilities of each position.

| Position | Role Description |
|------------------------------|--|
| Executive Director | Supervises and manages HRDA daily operations, to the HRDA Board of Directors, prepares annual budget, etc. |
| Chief Finance Officer | Provides up to date financial performance of the program, loan information and status, proficiency with MS office or related programs, maintains bank accounts and reconcile periodically. |
| Administrative Assistant | Provides up to date financial performance of the program, loan information and status, proficient with MS Office or related programs, maintains bank accounts and reconcile periodically, etc. |
| Senior Loan Officer | Review loan applications to ensure completeness, recommend approval/disapproval of loans and other duties. |
| Loan Packager | Review loan application to ensure completeness. Prepares loan/grant closing documents and conducts closing conference, maintains bank accounts and reconcile periodically for USDA Rural Development accounts. |
| Loan Collection Officer | Collects monthly loan repayments and issues payment receipts; works with delinquent borrowers and collects delinquent accounts, and other related duties. |
| Assistant Collection Officer | Assist LCO, as directed. |
| Civil Engineer | Analyze and certify blueprints, drawings, and engineering reports, tests soil composition, terrain hydrological characteristics, and other related duties, assist in on-site inspections. |
| Construction Inspector | Involving in loan closing, conducts on-site inspections, write up inspection reports, provides advisory opinions, issue purchase authorization, etc. |
| Maintenance Staff | Provide necessary maintenance for all HRDA assets and properties and also serve as office assistant to discharge duties and responsibilities in effective manner. |

Loan Policies

KHA lending policies describe eligibility requirements, procedure from application filling, review and approval of request, and disbursement of loan proceeds. Loan applications must meet the following requirements.

- a) The applicant must be at least 22 years of age and born of or adopted by at least one Kosraean parent or married to someone born or adopted by at least one Kosraean parent.
- b) The applicant must have proof of good credit satisfactory to the requirements of KHA Board.
- c) The applicant must not be a staff member of KHRDA or members of KHA Board of Directors.
- d) A certificate of ownership must be attached to the application. In lieu of a certificate of ownership, a land use right consented to by the owner in a format approved by the Attorney General's office or, in the case of a deceased owner, a similar land use right consented to by all the heirs of the deceased owner must be attached to the application. If none of the above is available, then a court granting the applicant either a life estate or another definite period of possession is also acceptable.
- e) The applicant must be the person who intends to live in the house or the immediate family of the person who intends to live in the house. The loan can only be approved for residential purposes of the applicant.
- f) The applicant must show a demonstrable need for the home construction or rehabilitation and access and site development applied for.
- g) The property on which the home is situated must be free from encumbrance except circumstances stipulated in the KHA manual of operations.

Accounting Policies

1) Cash Management

- a) Bank accounts are to be established as required by donors and funding requirements and the State law.
- b) All checks written on HRDA accounts will require two signatories.
- c) Individuals generally authorized to sign checks, including the Chief Finance Officer and the Senior Loan Packager along with the Executive Director of HRDA should be formally approved by the board.

- d) All bank accounts and designated signatories should be authorized by the HRDA Board of Directors reflected in the KHA Board of Directors meeting minutes.
- e) Banks are to be promptly notified of all changes of authorized checks signers.
- f) All checks are to be pre-numbered and accounted for a check custodian (used, voided, not use).
- g) Voided checks are to properly deface and maintained.
- h) Banks reconciliations to the ledger are to be done monthly and promptly provided to the Executive Director.

2) Cash Receipts

- a) Someone other than the person making deposits is responsible for opening the daily mail, making a log of cash receipts, restrictively endorsing payments, and account coding the receipt by receivable or revenue account.
- b) The Executive Director or his designee prepares bank deposit slips, listing each item for deposit.
- c) Money received is deposited daily. The bank's stamped duplicate deposit slip is attached to the remittance documentation.
- d) The daily deposit log and duplicate deposit slip is forwarded to the financial officer for verification and data entry.
- e) Cash is deposited in the bank account either with Bank of FSM or Bank of Guam.

3) Cash Disbursement

- a) Cash disbursements are made by check.
- b) The Executive Director, or designee approves all invoices for payment. Such approvals shall be reviewed by the HRDA Board of Directors at their monthly meetings.
- c) Vendor invoices are calculated on site to ensure accuracy. This recalculation must occur prior to the preparation of a check to pay the invoice. After the recalculation is complete, the employee who performed the recalculation must initial the vendor invoice, indicating that the amount is correct and the invoice can be paid.
- d) Checks for payment are signed only when supported approved invoices (checks will not be processed and signed in advance of proper invoicing approval procedures).

- e) Checks signers are to compare data on supporting documents to checks presented for their signature.
- f) Bank transfers are scheduled and verified by the Financial Officer to ascertain that both side of the transaction are recorded.
- g) The employee responsible for mailing checks will not be responsible for recording cash disbursements. These two functions must be handled by different employees to ensure that the appropriate checks and balances are in place.
- h) Supporting documentation shall be reviewed and initiated as being approved for payment. Once paid, the supporting documentation shall bear notations as to the check number of payment, date paid, and general ledger account code.
- i) Account coding for each payment is to be reviewed for accuracy.
- j) HRDA finance and accounting staff will ensure that all costs approved for payment from any funding source are recognized as ordinary, necessary, within the budget, are arm's length transactions, and do not deviate from established practices of the organization.
- k) A cost will be considered reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Audit Objectives, Scope & Methodology

Objectives

The purpose of this audit is to determine whether:

- 1) To assess the efficiency and effectiveness of the HRDA operation to accomplish their mandate.
- 2) To determine whether the collections and disbursement of HRDA were in accordance with the state's financial management regulations, operation policies and fund agreement.

Scope and Methodology

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. 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. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to achieve the audit objectives. We believe that the evidence obtained provided reasonable basis for our findings and conclusions based on our audit objectives. The scope of this audit covered Fiscal Years 2022, 2023 and through June 2024.

The audit was also conducted pursuant to Title 10 Chapter 4 of the Kosrae State Code, which states partly, “ *(a) Inspect and audit personally, or by his duly authorized assistants, all accounts, books, and other financial records of the State Government, to include but not be limited to, every branch, department, office, political subdivision, board, commission, agency, other public legal entity (owned, or partially owned, by the State), whether they receive public funds or not, and nonprofit organizations that receive public funds from the State Government;*” and other laws promulgated thereafter. We used the Kosrae State Financial Management Regulation, the Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the Compact of Free Association and other applicable OMB Circulars, acceptable project management standards, the KHRDA manual of operation and internal control best practices as criteria for compliance and performance.

Accordingly, we included such tests of records and other auditing procedures that were considered necessary to achieve the audit objectives. We believe that the evidence obtained provided reasonable basis for our findings and conclusions based on our audit objectives. To determine whether adequate controls and compliance in KHRDA collection and disbursement process, we have reviewed the KHRDA cash transactions within the audit scope covering period and evaluate if it's conformity with the applicable regulations and policies. We also performed transaction sampling and substantive testing for 20% disbursement. In addition, we conducted interviews with the management and responsible staff and data evaluation for operational evaluations.

Prior Year Audits/Reviews

This is the first time that a separate audit has been performed by the Kosrae State Public Auditors Office.

Conclusion

We concluded the following based on the objectives of audit.

- (1) The HRDA has not implemented an updated organizational strategic planning and governing framework to ensure the effectiveness and efficiency of its operation
- (2) That HRDA has not fully complied with established regulations, internal policies, funding agreements, and recognized best practices in the management of collections and disbursements.

Findings & Recommendations

1. Absence of Approved and Updated Documents to Measure Organizational Effectiveness and Efficiency.

Condition:

1.1. *The organization does not have a current or updated strategic plan in place.*

The most recent strategic plan expired in 2017-2021, and there is no documented evidence of a formally approved replacement. KHDRA has a draft strategic plan for 2023-27, yet to be finalized. The draft strategic plan includes objectives, activities, performance indicators and expected results.

1.2. *The organization's operating manual was not updated to reflect the expanded power, duties and responsibilities as mandated by the new law and prescribed in Sec.7.306.03.*

KHRDA has a manual of administration dated 2015 which was previously created for the operation of then KHA. However, KHA became KHRDA under state law 11-115 of June 2017, which gives KHRDA expanded mandates. Several sections of the manual refer to outdated processes, organizational structures and staff roles.

Criteria:

Sound and prudent management and governance practices call for organizational planning that establishes strategic goals and plans for achieving established goals, with a governing framework that ensures effectiveness and efficiency in the achievement of its goals.

Additionally, best practice emphasizes that performance should be measurable, documented, and regularly reviewed to ensure that activities contribute to achieving the organization's mandate and objectives efficiently and effectively.

In this regard, management is expected to:

- Develop and maintain official documents and systems for measuring performance (e.g., KPIs, targets, performance reports).
- Review and update these tools periodically; and
- Use performance data to support decision-making, accountability, and continuous improvement.

Cause:

This occurred due to the absence of a formal performance management system and inadequate emphasis on establishing measurable indicators and documentation processes for monitoring and evaluation. Additionally, there has been limited management initiative to develop and implement tools that assess operational performance objectively.

Without official documents and established performance indicators, management is unable to accurately assess whether organizational goals are being achieved efficiently and effectively. This may lead to poor decision-making, inefficient resource utilization, and difficulty demonstrating accountability and results to stakeholders.

Effect:

Reliance on outdated policies and procedures increases the risk of inconsistent practices, employee errors, inefficiencies, and non-compliance with current regulations or internal policies. New staff may also be improperly trained, relying on incorrect or obsolete information.

Recommendation:

The KHRDA is recommended to:

- 1) Develop and implement an official strategic plan(s) inclusive of implementation strategies, performance monitoring and evaluation, and reporting mechanisms. These should be reviewed periodically to ensure alignment with the organization's strategic objectives and mandate.
- 2) Implement an initiative to review and update the HRDA Manual of Administration;
 - a. to align with applicable financial management provisions stipulated by state law, the State Financial Management Regulations to the extent applicable.
 - b. to align with organizational mandates and the nature and circumstances of HRDA programs and funding streams; and,
 - c. emphasizes training of staff in applicable policies and procedures of the manual.

2. Weaknesses in Compliance with Internal Controls on Collection and Disbursement.

Condition:

The audit noted weaknesses in the organization's compliance with internal control procedures governing the collection and disbursement of funds. Instances were observed where collections were not deposited promptly, official receipts were not consistently issued, and some disbursements lacked complete supporting documentation or were processed without proper authorization. Additionally, periodic reconciliations between cash records, bank statements, and accounting books were either delayed or not performed consistently.

2.1. There are adequate procedures and controls. However, it is not properly documented. The organization's operating manual was not updated to reflect the expanded power, duties and responsibilities as mandated by the new law and prescribed in Sec.7.306.03. Several sections of the manual refer to outdated processes, organizational structures, system workflows, or job roles that no longer reflect current practices.

2.2. Not fully complying with the collection and deposit procedure and best practices.

2.2.1. Inconsistent Utilization of Daily Collection Report (DCR). During the audit, it was observed that Daily Collection Report is not consistently prepared or maintained. As a result, daily cash inflows are not formally documented or reviewed by management. Audit review reveals 11 DCRs or 28.20% of the total collection samples are missing. Absence of DCR indicates ineffective internal controls over cash handling and revenue recognition. Without a daily record, discrepancies in collections may go unnoticed for extended periods. Management lacks timely and accurate data on daily financial performance.

Table 1: Missing Daily Collection Report for FY2023 (CASH)

| Payment Received Date | Date of Deposit | Receipt Number | Type of Loan | Amount (USD) |
|-----------------------|-----------------|----------------|--------------|--------------|
| Jan. 04, 2023 | Jan. 05, 2023 | 9067 | HRDA | 80.00 |
| Jan. 06, 2023 | Jan. 10, 2023 | 9073 | USDA | 344.00 |
| Jan. 10, 2023 | Jan. 12, 2023 | 9102 | HRDA | 135.66 |
| Jan. 20, 2023 | Jan. 23, 2023 | 9141 | HRDA | 150.00 |
| Feb. 01, 2023 | Feb. 02, 2023 | 9155 | USDA | 140.00 |
| Feb. 02, 2023 | Feb. 03, 2023 | 9160 | HRDA | 50.00 |
| Feb. 07, 2023 | Feb. 08, 2023 | 9172 | USDA | 346.00 |
| Feb. 08, 2023 | Feb. 10, 2023 | 9187 | HRDA | 214.70 |
| Feb. 13, 2023 | Feb 14, 2023 | 9250 | HRDA | 50.00 |
| Feb. 17, 2023 | Feb 20, 2023 | 9273 | USDA | 35.00 |
| Feb 24, 2023 | Feb. 27, 2023 | 9306 | HRDA | 300.00 |
| Mar. 03, 2023 | Mar. 06, 2023 | 9332 | HRDA | 262.00 |
| Mar. 06, 2023 | Mar. 09, 2023 | 9334 | HRDA | 120.00 |
| Mar. 14, 2023 | Mar. 16, 2023 | 09375 | USDA | 10.00 |
| Mar. 24, 2023 | Mar. 27, 2023 | 09388 | USDA | 230.00 |

2.2.2 Unmatched Collection and Deposit. The auditors noted instances where collections recorded in the cash receipt log did not match the deposit slips attached in the supporting documents.

Table 2: Collection and Deposit Reconciliation

| Deposit Date | Deposit Amount (\$) | Cash Collection Report (\$) | Variance (\$) | % Unmatched |
|--------------|---------------------|-----------------------------|-------------------|---------------|
| Nov 08, 2021 | 266.00 | 4,956.48 | 4,690.48 | 94.63% |
| Nov 30, 2021 | 9,178.09 | 9,862.19 | 684.10 | 6.94% |
| Jan 28, 2022 | 4,577.04 | 4,977.04 | 400.00 | 8.04% |
| Feb 01, 2022 | 8,442.21 | 8,965.21 | 523.00 | 5.84% |
| Jan 10, 2023 | 459.00 | 759.00 | 300.00 | 39.53% |
| Total | \$22,922.34 | \$29,519.92 | \$6,597.58 | 22.35% |

2.2.3 Delay in Deposit of Funds

Upon assessment of the collections and deposits procedure, we noted inefficient cash management practice. We noticed that deposits of collections were deposited in the bank in a timely manner, with delays averaging three (3) and up to nine (9) days. In addition, we observed that in some instances, cash collections were deposited after 3 days.

Table 3: FY 2022 (November to March) OR Book & Deposit Trail Assessment

| Official Receipt No. | Collection Classification | Amount | Date Collected | Date Deposited | Means of Payment | Aging of Deposit (from collection date) | Documented | |
|----------------------|---------------------------|------------|----------------|----------------|------------------|--|------------|--------------|
| | | | | | | | Yes | No |
| 7524 | HRDA Loan | Total | 11/09/21 | 12/09/21 | Cash | 23 days | | |
| 7525 | HRDA Loan | \$175.00 | 11/09/21 | 12/09/21 | Cash | 23 days | | |
| 7561 | HRDA Loan | Total | 11/22/21 | 11/29/21 | Cash | 6 days | | |
| 7562 | HRDA Loan | \$250.00 | 11/22/21 | 11/29/21 | Cash | 6 days | | |
| 7650 | USDA | \$230.00 | 12/03/21 | 12/06/21 | Cash | 2 days* | | |
| 7663 | HRDA Loan | \$260.00 | 12/13/21 | 02/08/22 | Cash | 42 days | | |
| 7780 | HRDA Loan | \$70.00 | 01/10/22 | 01/13/22 | Check | 3 days | ✓ | |
| 7786 | HRDA Loan | \$75.00 | 01/14/22 | 01/19/22 | Cash | 4 days* | | NACCR,NADCR |
| 7789 | USDA | \$130.00 | 01/14/22 | 01/19/22 | Check | 4 days* | ✓ | |
| 7795 | HRDA (allot.) | \$2,764.65 | 01/17/22 | 01/19/22 | Check | 3 days | ✓ | |
| 7797 | HRDA (fees) | \$87.56 | 01/17/22 | 01/19/22 | Cash | 3 days | ✓ | |
| 7801 | ESCROW | \$63.11 | 01/18/22 | 01/19/22 | Check | 2 days | ✓ | |
| 7824 | USDA | \$181.00 | 01/31/22 | 02/03/22 | Cash | 4 days | | NACCR/ NADCR |
| 7848 | HRDA Loan | \$100.00 | 02/01/22 | 02/03/22 | Cash | 3 days | ✓ | |
| 7850 | HRDA Loan | \$215.80 | 02/01/22 | 02/03/22 | Cash | 3 days | ✓ | |
| 7914 | USDA | \$173.00 | 02/15/22 | 02/16/22 | Cash | 2 days | ✓ | |
| 7934 | USDA | \$185.00 | 02/17/22 | 02/18/22 | Cash | 2 days | ✓ | |
| 7937 | HRDA (allot.) | \$872.35 | 02/18/22 | 02/21/22 | Check | 2 days* | ✓ | |
| 7967 | USDA | \$300.00 | 02/25/22 | 02/28/22 | Check | 2 days* | | NACC |
| 7969 | ESCROW (allot) | \$117.21 | 02/25/22 | 02/28/22 | Check | 2 days* | | |
| 7972 | USDA (SS allot) | \$449.41 | 02/25/22 | 02/28/22 | Check | 2 days* | | |
| 7973 | HRDA (SS allot) | \$7,259.16 | 02/25/22 | 02/28/22 | Check | 2 days* | | |
| 8022 | ESCROW | \$63.11 | 03/11/22 | 03/14/22 | Check | 2 days* | | NADCR |
| 8030 | HRDA Loan | \$126.00 | 03/18/22 | 03/22/22 | Check | 3 days* | | |
| 9073 | USDA | \$344.00 | 01/06/23 | 01/10/23 | Cash | 3 days* | | |
| 9102 | HRDA Loan | \$135.66 | 01/10/23 | 01/12/23 | Cash | 3 days | | |

| | | | | | | | | |
|------------|-------------|----------|----------|----------|-------|---------|---|--------------------|
| 9103 | HRDA Loan | \$214.34 | 01/10/23 | 01/12/23 | Cash | 3 days | | |
| 9155 | USDA | \$140.00 | 02/01/23 | 02/02/23 | Cash | 2 days | | NADCR/NACCR |
| 9186 | HRDA Loan | \$135.30 | 02/08/23 | 02/10/23 | Cash | 3 days | | NADCR/NACCR |
| 9334 | HRDA Loan | \$120.00 | 03/06/23 | 03/09/23 | Cash | 4 days | | NADCR |
| 09375 | USDA | \$10.00 | 03/14/23 | 03/16/23 | Cash | 3 days | ✓ | |
| 09380 | Partnership | \$15.00 | 03/17/23 | 03/22/23 | Check | 4 days* | ✓ | |
| 09387 | HRDA Loan | \$160.00 | 03/24/23 | 03/27/23 | Cash | 2 days* | | NADCR |
| 09388 | USDA | \$230.00 | 03/24/23 | 03/27/23 | Cash | 2 days* | | NADCR |
| Ck#1055241 | | \$145.41 | 01/11/24 | 02/08/24 | Check | 21 days | | NADCR, NAOR, NACCR |
| Ck#105517 | | \$905.42 | 01/18/24 | 02/08/24 | Check | 16 days | | NADCR, NAOR, NACCR |
| 09715 | USDA | \$135.00 | 02/29/24 | 03/22/24 | Cash | 17 days | | NACCR, NADCR |
| 09716 | USDA | \$140.00 | 02/29/24 | 03/22/24 | Cash | 17 days | | |
| 09726 | USDA | \$35.00 | 03/01/24 | 03/22/24 | Cash | 16 days | | |
| 09730 | USDA | \$190.00 | 03/04/24 | 03/22/24 | Cash | 15 days | | |
| 09747 | USDA | \$35.00 | 03/12/24 | 03/22/24 | Cash | 9 days | | |

Note: Saturday and Sunday not included in the number of days in the aging of deposit.

| | | | |
|-------|---|-------|-------------------------------------|
| (*) | Weekend | | |
| NADCR | Non-attachment of Daily Collection Report | NAOR | Non-attachment of Official Receipts |
| NACC | Non-attachment of Copy of Checks | NACCR | Non-attachment of Cash Count Report |

2.2.4 Missing Deposit Slips. During the audit of cash receipts for the period FY 2022 to June 2024, it was noted that several deposit slips were missing from the collection and deposit files. Specifically, 8 missing deposit slips amounting to US\$ 28,830.46 out of 39 samples or 21 percent of deposit transactions did not have the corresponding deposit slips on file to support the bank deposits recorded in the general ledger.

Table 4: Missing Deposit Documentation

| Date | Reported Cash | Reported Checks | Total Recorded | Bank Deposit Found? | Discrepancy |
|--------------|---------------|-----------------|----------------|---------------------|-----------------------------|
| Nov 05, 2021 | – | \$841.35 | \$841.35 | ✓ | \$841.35 (Checks) |
| Nov 17, 2021 | \$100.00 | – | \$100.00 | (pending) | \$100.00 (Cash) |
| Jan 14, 2022 | \$208.00 | \$2,857.31 | \$3,065.31 | (pending) | \$3,065.31 (Cash + Checks) |
| Feb 11, 2022 | \$25.00 | \$4,103.94 | \$4,128.94 | (pending) | \$4,128.94 (Cash + Checks) |
| Jan 30, 2023 | \$400.00 | \$20,000.00 | \$20,400.00 | (pending) | \$20,400.00 (Cash + Checks) |
| Feb 06, 2023 | – | \$15.00 | \$15.00 | (pending) | \$15.00 (Checks) |
| Feb 10, 2023 | \$244.86 | – | \$244.86 | (pending) | \$244.86 (Cash) |
| Feb 15, 2023 | \$35.00 | – | \$35.00 | (pending) | \$35.00 (Cash) |
| TOTAL | \$1,012.86 | \$27,817.60 | \$28,830.46 | (pending result) | \$28,830.46 |

2.2.5 Weak Controls Over Official Receipts Lead to Duplication, Undermining: We identified a breakdown in the control over official receipts. A copied receipt was used as a substitute for an official receipt for over three months. This improper practice directly resulted in receipt number #1627 being assigned to two different borrowers in two separate months, creating duplicate financial documentation and recording.

2.3. Non-Compliance with Procurement & Disbursement Policies

2.3.1. Non-Compliance with Disbursement Policies. During the review of disbursement transactions for the period [FY2022- June 2024], it was noted that several transactions were processed without adherence to the organization's established disbursement policies.

2.3.2. Inadequate authorization and approval of disbursements. Based on our analysis, disbursement process for operations and loan programs for the Housing Authority do not follow the financial requirement for cash disbursements as stated in their manual of administration. Review of 550 vouchers reveals 65 vouchers or 12% were not adequately authorized. There are instances where the Executive Director or designee does not review and approve the request by signing payment requests from both loan programs. In addition, the employees who request payments do not sign payment requests. Kosrae Housing Loans inspection reports are also not signed by the authorized designee, the construction inspector. Regarding disbursements for operations, payment requests are not signed by the authorized requestor, the Executive Director or designee, before transmitting them to Finance for processing of payment. The auditors identified on payment requests that were signed by employees without approved documentation designating the employees to approve payments. (See Schedule 1: Disbursement Authorization Assessment for FY2022- June 2024)

2.3.3. Inadequate Compliance with Procurement Procedures During the audit of disbursement, the auditors identified that the disbursement process for operations and loan programs for the Housing Authority does not follow the financial requirement for procurement process as stated in their manual of administration. We examined the disbursement files and revealed that they were supported with a check, payment request and vendor invoice. However, we noted that KHRDA is using a noncompetitive process where only one vendor invoice is provided to support a purchase. Hence, there was no documentation to justify the sole vendor procurement. Our review of Housing Loan Purchase Authorization (HLP) shows that it is not consistently prepared in both operations and loan disbursement process. In addition, KHRDA is not consistently preparing Receiving Report (RR) to document the actual delivery of the goods and services from the vendor. Likewise, the auditors noted instances where disbursements are made without a payment request or a payment invoice.

2.3.4. Improper Recording of Disbursement During the audit of disbursement transactions, it was noted in the examination of 550 vouchers that 144 vouchers or 26% were charged for incorrect account codes and supporting documentation was often missing or incomplete. Hence, some of the transactions were not recorded in accordance with the organization's accounting policies or generally accepted accounting principles (GAAP). Instances were identified as follow: (see Schedule 2: Disbursement Voucher Assessment for FY2022- June 2024)

- Expenses were charged to incorrect account codes or cost centers.
- Supporting documentation for the disbursements was missing, incomplete, or improperly authorized.
- Payments were recorded as expenses rather than loan/client accounts.

2.3.5. Non-Compliance with Payroll Documentation During the audit of payroll transactions, it was noted that certain disbursements were not adequately supported in accordance with the organization's manual of administration and the State Financial Management Regulations. Specifically, the auditors identified 110 instances or 44.35% of the 248 total samples tested where payroll disbursements lacked proper supporting documentation, such as approved time sheets, leave forms, or Board approvals for special payments. (see Schedule 3: Payroll Documentation & Authorization Assessment for FY2022-June 2024).

- Supporting documentation for the payroll disbursements was missing, incomplete, or improperly authorized (e.g. payment request, timesheet, leave form, annual leave cash out, board approval).
- Employee timecards were not properly utilized.
- Inconsistent employee payroll rate applied without proper approval.

2.3.6. Non-Compliance with Loan Documentation Requirements Exposes Programs to Risk: A review of loan files revealed significant non-compliance with the established loan documentation policies. We identified 20 instances where loan packages for the KHRDA Housing and EDA Revolving Loan Funds were not adequately supported. The deficiencies included missing, incomplete, or improperly authorized documentation, violating the required checklists and procedures of the KHRDA loan policies. (see Schedule 4: Loan Processing Assessment for FY2022- June 2024)

Criteria:

According to the organization's financial regulations and internal control policy, all collections must be receipted, recorded, and deposited intact within the prescribed period. Similarly, all disbursements must be supported by adequate documentation, duly approved, and processed in accordance with established authorization and verification procedures.

Cause:

The weaknesses occurred primarily due to inadequate enforcement of internal control procedures, insufficient management oversight, and lack of regular monitoring by the Finance Unit. In some cases, staff were unaware of updated financial control requirements or failed to comply due to workload and limited supervision.

Effect:

Non-compliance with internal controls over collections and disbursements increases the risk of fund mismanagement, fraud, and loss of organizational resources. It also affects the accuracy

and reliability of financial reporting and undermines stakeholder confidence in the organization's financial governance.

Recommendations:

Management should:

1. Enforce compliance with internal control procedures for all collections and disbursements.
2. Ensure that all receipts, deposits, and disbursements are properly authorized, supported, and recorded.
3. Conduct regular reconciliations and supervisory reviews.
4. Provide continuous training and awareness programs for finance and operations staff on internal control compliance; and
5. Implement a Robust Tracking System: Develop and implement a centralized loan tracking and monitoring system (e.g., a detailed log or database) that mandates all required documents are received, verified, and filed before a loan can advance to the next step.

Supplemental Schedules

Schedule 1: Disbursement Authorization Assessment for FY 2022- June 2024

| Transaction Date | Check number | Amount (\$) | Disbursement Type | Authorized/Approved |
|------------------|--------------|-------------|-------------------|-------------------------------------|
| 18/02/2022 | 1701 | \$249.50 | Loan | None |
| 21/10/2022 | 2059 | \$2,188.35 | Loan | None |
| 02/12/2022 | 4865 | \$259.60 | Operation | None |
| 04/01/2023 | 4916 | \$348.00 | Operation | None |
| 06/01/2023 | 2155 | \$3,567.93 | Loan | None |
| 12/01/2023 | 4954 | \$400.00 | Operation | None |
| 25/01/2023 | 4965 | \$469.00 | Operation | None |
| 25/01/2023 | 4966 | \$2,295.00 | Operation | None |
| 27/01/2023 | 2190 | \$430.00 | Loan | None |
| 27/01/2023 | 2191 | \$540.00 | Loan | None |
| 27/01/2023 | 2192 | \$192.50 | Loan | None |
| 27/01/2023 | 2194 | \$855.00 | Loan | None |
| 30/01/2023 | 4978 | \$231.85 | Operation | For signed/No letter of designation |
| 31/01/2023 | 4977 | \$192.22 | Operation | For signed/No letter of designation |
| 31/01/2023 | 4979 | \$28.95 | Operation | For signed/No letter of designation |
| 31/01/2023 | 4976 | \$110.00 | Operation | For signed/No letter of designation |
| 03/02/2023 | 4993 | \$1,609.97 | Operation | None |
| 03/02/2023 | 4995 | \$12.00 | Operation | None |
| 03/02/2023 | 4996 | \$2,831.37 | Operation | None |
| 03/02/2023 | 2202 | \$4,153.74 | Loan | None |
| 07/02/2023 | 5005 | \$174.00 | Operation | None |
| 07/02/2023 | 5006 | \$600.00 | Operation | For signed/No letter of designation |
| 08/02/2023 | 2205 | \$200.00 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2206 | \$175.00 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2207 | \$295.00 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2208 | \$59.38 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2209 | \$788.85 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2210 | \$513.31 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2211 | \$42.74 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2212 | \$50.00 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2213 | \$75.00 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2214 | \$840.00 | Loan | For signed/no letter of designation |
| 08/02/2023 | 2215 | \$157.90 | Loan | For signed/no letter of designation |
| 10/02/2023 | 5016 | \$250.00 | Operation | None |
| 10/02/2023 | 2216 | \$618.46 | Loan | For signed/no letter of designation |
| 10/02/2023 | 2217 | \$173.08 | Loan | For signed/no letter of designation |
| 17/02/2023 | 5020 | \$500.00 | Operation | None |
| 01/03/2023 | 5042 | \$300.00 | Operation | None |
| 29/03/2023 | 5096 | \$155.30 | Operation | None |
| 29/03/2023 | 5084 | \$174.00 | Operation | None |
| 11/04/2023 | 5112 | \$20.00 | Operation | None |
| 20/07/2023 | 5292 | \$300.00 | Operation | None |
| 06/10/2023 | 5452 | \$179.87 | Operation | None |
| 08/12/2023 | 2477 | \$1,600.70 | Loan | None |

| Transaction Date | Check number | Amount (\$) | Disbursement Type | Authorized/Approved |
|------------------|--------------|--------------------|-------------------|---------------------|
| 08/12/2023 | 2476 | \$606.00 | Loan | None |
| 08/12/2023 | 2474 | \$1,420.00 | Loan | None |
| 13/12/2023 | 2479 | \$1,912.40 | Loan | None |
| 19/12/2023 | 5619 | \$201.78 | Operation | None |
| 02/01/2024 | 5652 | \$585.00 | Operation | None |
| 09/01/2024 | 5664 | \$120.00 | Operation | None |
| 09/01/2024 | 5663 | \$258.75 | Operation | None |
| 22/01/2024 | 5695 | \$350.00 | Operation | None |
| 26/01/2024 | 5698 | \$250.00 | Operation | None |
| 26/01/2024 | 5697 | \$67.55 | Operation | None |
| 31/01/2024 | 5717 | \$36.00 | Operation | None |
| 16/02/2024 | 2502 | \$2,133.10 | Loan | None |
| 16/02/2024 | 2503 | \$347.00 | Loan | None |
| 16/02/2024 | 2499 | \$5,577.60 | Loan | None |
| 27/02/2024 | 2518 | \$44.00 | Loan | None |
| 05/03/2024 | 2541 | \$425.50 | Loan | None |
| 08/03/2024 | 2545 | \$385.00 | Loan | none |
| 08/03/2024 | 2547 | \$137.50 | Loan | None |
| 08/03/2024 | 2548 | \$520.29 | Loan | None |
| 11/03/2024 | 2550 | \$142.91 | Loan | None |
| 14/03/2024 | 2562 | \$35.20 | Loan | None |
| Total | | \$44,763.15 | | |

Schedule 2: Disbursement Voucher Assessment for FY2022- June 2024

| Transaction Date | Check Number | Amount (\$) | Disbursement type | Account Code | Account Name | Invoice Description |
|------------------|--------------|-------------|-------------------|--------------|-----------------|---------------------|
| 27/12/2021 | 4260 | \$478.02 | Operation | 5170 | POL | Food |
| 10/02/2022 | 1686 | \$571.42 | Loan | No account | | HRLF loan |
| 10/02/2022 | 1687 | \$462.78 | Loan | No account | | overpayment |
| 01/10/2022 | 4103 | \$217.35 | Operation | 5120 | Travel expenses | Food |
| 01/10/2022 | 4104 | \$466.57 | Operation | 5210 | Utility | Office supplies |
| 04/10/2022 | 2025 | \$125.00 | Operation | 5140 | food | Repairing car |
| 14/10/2022 | 2048 | \$5,761.05 | Loan | 5180 | printing | HRLF loan |
| 21/10/2022 | 2059 | \$2,188.35 | Loan | 5180 | Printing | HRLF loan |
| 01/11/2022 | 2061 | \$3,116.29 | Loan | 5180 | Printing | HRLF loan |
| 04/11/2022 | 2066 | \$701.90 | Loan | 5180 | Printing | HRLF loan |
| 04/11/2022 | 2068 | \$541.00 | Loan | 5180 | Printing | HRLF loan |
| 04/11/2022 | 2070 | \$325.00 | Loan | 5180 | Printing | HRLF loan |
| 17/11/2022 | 2084 | \$4057.11 | Loan | 5180 | Printing | HRLF loan |
| 18/11/2022 | 2074 | \$200.00 | Loan | 5180 | Printing | HRLF loan |
| 18/11/2022 | 2077 | \$600.00 | Loan | 5180 | Printing | HRLF loan |
| 18/11/2022 | 4817 | \$371.60 | Operation | 5140 | Food | Food and POL |
| 25/11/2022 | 2085 | \$233.35 | Loan | 5180 | Printing | HRLF loan |

| Transaction Date | Check Number | Amount (\$) | Disbursement type | Account Code | Account Name | Invoice Description |
|------------------|--------------|-------------|-------------------|--------------|-----------------|-----------------------|
| 25/11/2022 | 2088 | \$3,197.78 | Loan | 5180 | Printing | HRLF loan |
| 02/12/2022 | 2094 | \$2,108.48 | Loan | 5180 | Printing | HRLF loan |
| 02/12/2022 | 2095 | \$425.00 | Loan | 5180 | Printing | HRLF loan |
| 02/12/2022 | 2096 | \$1,970.00 | Loan | 5180 | Printing | HRLF loan |
| 09/12/2022 | 2099 | \$2,200.00 | Loan | 5180 | Printing | HRLF loan |
| 09/12/2022 | 2100 | \$30.00 | Loan | 5180 | Printing | HRLF loan |
| 09/12/2022 | 2102 | \$200.00 | Loan | 5180 | Printing | HRLF loan |
| 09/12/2022 | 2105 | \$4,472.42 | Loan | 5180 | Printing | HRLF loan |
| 09/12/2022 | 2106 | \$200.00 | Loan | 5180 | Printing | HRLF loan |
| 14/12/2022 | 2110 | \$195.00 | Loan | 5160 | Office supplies | HRLF loan |
| 16/12/2022 | 4891 | \$271.40 | Operation | 5140 | Food | POL |
| 21/12/2022 | 2125 | \$5,770.42 | Loan | 5180 | Printing | HRLF loan |
| 05/01/2023 | 4928 | \$700.00 | Operation | 5140 | Food | contract |
| 06/01/2023 | 2155 | \$3,567.93 | Loan | 5180 | Printing | HRLF loan |
| 10/01/2023 | 4937 | \$141.26 | Operation | 5140 | Food | Car tires |
| 12/01/2023 | 4953 | \$20.00 | Operation | 5140 | Food | Cash power |
| 12/01/2023 | 4951 | \$1,116.75 | Operation | 5140 | Food | Bank fees |
| 12/01/2023 | 4954 | \$400.00 | Operation | 5140 | Food | Power |
| 20/01/2023 | 2157 | \$1,895.00 | Loan | 5180 | Printing | HRLF loan |
| 20/01/2023 | 2158 | \$4,447.36 | Loan | 5180 | Printing | HRLF loan |
| 25/01/2023 | 4965 | \$469.00 | Operation | No account | | Travel Expenses |
| 25/01/2023 | 4966 | \$2,295.00 | Operation | No account | | Travel Expenses |
| 27/01/2023 | 2190 | \$430.00 | Loan | 5180 | Printing | HRLF loan |
| 27/01/2023 | 2191 | \$540.00 | Loan | 5180 | Printing | HRLF loan |
| 27/01/2023 | 2192 | \$192.50 | Loan | 5180 | Printing | HRLF loan |
| 27/01/2023 | 2193 | \$215.00 | Loan | 5180 | Printing | HRLF loan |
| 27/01/2023 | 2194 | \$855.00 | Loan | 5180 | Printing | HRLF loan |
| 31/01/2023 | 2195 | \$126.90 | Loan | 5180 | Printing | HRLF loan |
| 31/01/2023 | 2200 | \$1,078.81 | Loan | 5180 | Printing | HRLF loan |
| 31/01/2023 | 2201 | \$237.00 | Loan | 5180 | Printing | EDA RLF loan |
| 31/01/2023 | 4981 | \$383.50 | Operation | 5140 | Food | POL |
| 31/01/2023 | 4980 | \$127.48 | Operation | 5140 | Food | Supplies |
| 31/01/2023 | 4977 | \$192.22 | Operation | 5140 | Food | Communication billing |
| 31/01/2023 | 4979 | \$28.95 | Operation | 5140 | Food | Supplies |
| 03/02/2023 | 2202 | \$4,153.74 | Loan | 5180 | Printing | HRLF loan |
| 03/02/2023 | 4993 | \$1,609.97 | Operation | 5140 | Food | Laptop, desktop |
| 03/02/2023 | 4996 | \$2,831.37 | Operation | 5140 | Food | Bank fees |
| 07/02/2023 | 2204 | \$2,497.85 | Loan | 5180 | Printing | HRLF loan |
| 07/02/2023 | 5006 | \$600.00 | Operation | 5140 | Food | Meter |
| 14/02/2023 | 2218 | \$360.00 | Loan | 5180 | Printing | HRLF loan |
| 14/02/2023 | 5018 | \$160.00 | Operation | 5140 | Food | Office supplies |
| 17/02/2023 | 5019 | \$108.00 | Operation | 5140 | Food | POL |
| 17/02/2023 | 5041 | \$70.80 | Operation | 5140 | Food | POL |
| 17/02/2023 | 2219 | \$1,546.11 | Loan | 5180 | Printing | HRLF loan |
| 20/02/2023 | 5021 | \$231.18 | Operation | 5140 | Food | Bank fees |
| 22/02/2023 | 2237 | \$1,700.00 | Loan | 5180 | Printing | HRLF loan |
| 22/02/2023 | 2238 | \$209.40 | Loan | 5180 | Printing | HRLF loan |

| Transaction Date | Check Number | Amount (\$) | Disbursement type | Account Code | Account Name | Invoice Description |
|------------------|-----------------|-------------|-------------------|--------------|------------------|-----------------------|
| 22/02/2023 | 2239 | \$609.25 | Loan | 5180 | Printing | HRLF loan |
| 22/02/2023 | 2240 | \$847.00 | Loan | 5180 | Printing | HRLF loan |
| 22/02/2023 | 5022 | 115.47 | Operation | 5140 | Food | Car battery |
| 23/02/2023 | 5023 | \$60.00 | Operation | 5140 | Food | Staff meeting |
| 24/02/2023 | 2243 | \$106.20 | Loan | 5180 | Printing | HRLF loan |
| 24/02/2023 | 2244 | \$105.29 | Loan | 5180 | Printing | HRLF loan |
| 24/02/2023 | 2245 | \$4,053.93 | Loan | 5180 | Printing | HRLF loan |
| 24/02/2023 | 5038 | \$174.00 | Operation | 5140 | Food | Communication billing |
| 24/02/2023 | 5039 | \$321.90 | Operation | 5140 | Food | Office supplies |
| 01/03/2023 | 5042 | \$300.00 | Operation | 5140 | Food | contractor |
| 03/03/2023 | 2260 | \$206.00 | Loan | 5180 | Printing | HRLF loan |
| 03/03/2023 | 2261 | \$39.80 | Loan | 5180 | Printing | HRLF loan |
| 03/03/2023 | 2262 | \$750.00 | Loan | 5180 | Printing | HRLF loan |
| 03/03/2023 | 2263 | \$75.80 | Loan | 5180 | Printing | HRLF loan |
| 16/03/2023 | 5063 | \$300.00 | Operation | 5260 | Bank charges | contract |
| 16/03/2023 | 5064 | \$174.00 | Operation | 5140 | Food | POL |
| 17/03/2023 | 5074 | \$149.99 | Operation | 5140 | Food | Supplies |
| 29/03/2023 | 5096 | \$155.30 | Operation | 5140 | Food | POL |
| 29/03/2023 | 2292 | \$4,140.00 | Loan | 5180 | Printing | HRLF loan |
| 29/09/2023 | 2449 | \$440.18 | Loan | No account | | |
| 06/10/2023 | 2443 | \$300.00 | Loan | No account | | |
| 06/10/2023 | 2452 | \$353.92 | Loan | No account | | |
| 06/10/2023 | 2453 | \$450.00 | Loan | No account | | |
| 10/10/2023 | 5457 | \$250.00 | Operation | No account | | HPG quarterly pay |
| 11/10/2023 | 2454 | \$2,300.00 | Operation | 5140 | Food | No Invoice |
| 11/10/2023 | 5461 | \$78.69 | Operation | 5140 | Food | Car battery |
| 12/10/2023 | 2455 | \$103.85 | Loan | No account | | |
| 12/10/2023 | 5462 | \$84.19 | Operation | 5140 | Food | Car battery |
| 20/10/2023 | 5477 | \$600.80 | Operation | No account | | Cash power |
| 20/10/2023 | 5480 | \$150.00 | Operation | No account | | EDA quarterly pay |
| 26/10/2023 | 5483 | \$200.00 | Operation | 5140 | Food | Cash power |
| 01/11/2023 | 2458 | \$258.65 | Loan | 5180 | Printing | HRLF loan |
| 01/11/2023 | 2459 | \$25.84 | Loan | 5180 | Printing | HRLF loan |
| 01/11/2023 | 5494 | \$585.00 | Operation | 5140 | Food | Office supplies |
| 02/11/2023 | 2460 | \$1,153.85 | Loan | No account | | |
| 02/11/2023 | 5511 | \$426.88 | Operation | 5140 | Food | Office supplies |
| 02/11/2023 | 5510 | \$402.50 | Operation | 5140 | Food | POL |
| 08/11/2023 | 5522-5530, 5543 | \$1,425.00 | Operation | 5172 | Interest expense | Employee bonus |
| 08/11/2023 | 5536 | \$110.00 | Operation | 5140 | Food | Vehicle maintenance |
| 08/11/2023 | 5535 | \$60.00 | Operation | 5140 | Food | Car tire |
| 08/11/2023 | 5533 | \$149.99 | Operation | 5140 | Food | Office supplies |
| 08/11/2023 | 5539 | \$7.00 | Operation | 5140 | Food | Vehicle repair |
| 08/11/2023 | 5541 | \$7.00 | Operation | 5140 | Food | Vehicle repair |
| 08/11/2023 | 5534 | \$6.00 | Operation | 5140 | Food | Vehicle repair |

| Transaction Date | Check Number | Amount (\$) | Disbursement type | Account Code | Account Name | Invoice Description |
|------------------|--------------|-------------|---------------------|--------------|--------------|---------------------|
| 08/11/2023 | 5540 | \$40.00 | Operation | 5140 | Food | Car tire |
| 17/11/2023 | 5554 | \$70.00 | Operation | 5140 | Food | Vehicle maintenance |
| 20/11/2023 | 5555 | \$299.86 | Operation | 5140 | Food | Bank fees |
| 21/11/2023 | 5564 | \$250.00 | Operation | 5140 | Food | Staff meeting |
| 30/11/2023 | 2466 | \$460.77 | Loan | No account | | |
| 01/12/2023 | 2467 | \$905.18 | Loan | No account | | |
| 01/12/2023 | 2468 | \$1,730.77 | Loan | No account | | |
| 01/12/2023 | 2469 | \$1,153.84 | Loan | No account | | |
| 01/12/2023 | 2470 | \$960.00 | Loan | No account | | |
| 06/12/2023 | 2471 | \$7,704.37 | Loan | No account | | |
| 08/12/2023 | 2477 | \$1,600.70 | Loan | No account | | |
| 08/12/2023 | 2476 | \$606.00 | Loan | No account | | |
| 08/12/2023 | 2474 | \$1,420.00 | Loan | No account | | |
| 18/12/2023 | 5616 | \$540.00 | Operation | 5140 | Food | POL |
| 19/12/2023 | 5619 | \$201.78 | Operation | 5140 | Food | Supplies |
| 22/12/2023 | 2485 | \$55.42 | Loan | No account | | |
| 22/12/2023 | 2486 | \$139.24 | Loan | No account | | |
| 22/12/2023 | 2487 | \$320.26 | Loan | No account | | |
| 28/12/2023 | 5640 | \$250.00 | Operation | 5260 | Bank charges | EDA overtime |
| 28/12/2023 | 5639 | \$250.00 | Operation | 5260 | Bank charges | EDA overtime |
| 02/02/2024 | 2494 | \$576.93 | Loan | No account | | |
| 02/02/2024 | 2495 | \$230.77 | Loan | No account | | |
| 02/02/2024 | 2496 | \$1,006.38 | Loan | No account | | |
| 06/02/2024 | 2497 | \$3,249.47 | Loan | 5140 | Food | HRLF loan |
| 16/02/2024 | 2504 | \$104.95 | Loan | No account | | |
| 16/02/2024 | 2500 | \$1,041.34 | Loan | No account | | |
| 16/02/2024 | 2501 | \$1,927.96 | Loan | No account | | |
| 27/02/2024 | 2516 | \$1,164.01 | Loan | No account | | |
| 27/02/2024 | 2517 | \$172.80 | Loan | No account | | |
| 27/02/2024 | 2518 | \$44.00 | Operation | No account | | |
| 29/02/2024 | 2528 | \$159.80 | Loan | No account | | |
| 04/03/2024 | 2532 | \$2,222.26 | Operation | No account | | |
| 05/03/2024 | 2543 | \$1,216.00 | Operation | No account | | |
| 05/03/2024 | 2541 | \$425.50 | Operation | 5180 | Printing | POL |
| 08/03/2024 | 2545 | \$385.00 | No Purchase Request | No account | | |
| 08/03/2024 | 2547 | \$137.50 | No Purchase Request | No account | | |
| 08/03/2024 | 2548 | \$520.29 | No Purchase Request | No account | | |
| 08/03/2024 | 2549 | \$79.39 | loan | No account | | |
| 11/03/2024 | 2550 | \$142.91 | Operation | No account | | |
| 14/03/2024 | 2559 | \$576.92 | Loan | No account | | |
| 14/03/2024 | 2562 | \$35.20 | No Purchase Request | No account | | |
| 14/03/2024 | 2560 | \$2,277.92 | Loan | No account | | |

| Transaction Date | Check Number | Amount (\$) | Disbursement type | Account Code | Account Name | Invoice Description |
|------------------|--------------|-------------|-------------------|--------------|--------------|---------------------|
| 14/03/2024 | 2561 | \$1,278.79 | Loan | No account | | |
| 19/03/2024 | 2563 | \$390.00 | | No account | | Voided check |
| 20/03/2024 | 2564 | \$121.99 | No invoice | 5180 | Printing | No invoice |
| 27/03/2024 | 2579 | \$250.00 | Operation | No account | | |

Schedule 3: Payroll Documentation & Authorization Assessment (FY2023- June 2024)

| Transaction date | Check number | Amount (\$) | Approved/authorized | Complete documentation |
|------------------|--------------|-------------|---------------------|------------------------|
| 04/01/2023 | 4920 | 130.52 | None | Inadequate |
| 04/01/2023 | 4926 | 659.69 | None | Inadequate |
| 04/01/2023 | 4917 | 149.21 | None | Inadequate |
| 04/01/2023 | 4918 | 206.48 | None | Inadequate |
| 04/01/2023 | 4919 | 469.26 | None | Inadequate |
| 04/01/2023 | 4921 | 79.82 | None | Inadequate |
| 04/01/2023 | 4922 | 180.85 | None | Inadequate |
| 04/01/2023 | 4923 | 407.41 | None | Inadequate |
| 04/01/2023 | 4925 | 136.59 | None | Inadequate |
| 06/01/2023 | 4932 | 120.96 | None | Inadequate |
| 06/01/2023 | 4934 | 71.68 | None | Inadequate |
| 06/01/2023 | 4936 | 90.48 | Yes | Inadequate |
| 12/01/2023 | 4941 | 423.80 | None | Yes |
| 13/01/2023 | 4955 | 149.21 | None | Inadequate |
| 13/01/2023 | 4956 | 206.48 | None | Inadequate |
| 13/01/2023 | 4957 | 514.63 | None | Inadequate |
| 13/01/2023 | 4958 | 130.52 | None | Inadequate |
| 13/01/2023 | 4959 | 114.70 | None | Inadequate |
| 13/01/2023 | 4960 | 180.85 | None | Inadequate |
| 13/01/2023 | 4961 | 407.41 | None | Inadequate |
| 13/01/2023 | 4962 | 481.40 | None | Inadequate |
| 13/01/2023 | 4963 | 136.59 | None | Inadequate |
| 31/01/2023 | 4968 | 423.80 | None | Inadequate |
| 02/02/2023 | 4991 | 68.70 | None | Inadequate |
| 02/02/2023 | 4982 | 278.09 | None | Inadequate |
| 02/02/2023 | 4984 | 469.26 | None | Inadequate |
| 02/02/2023 | 4985 | 180.85 | None | Inadequate |
| 02/02/2023 | 4990 | 778.53 | None | Inadequate |
| 07/02/2023 | 4994 | 189.21 | None | Inadequate |
| 07/02/2023 | 4997 | 206.48 | None | Inadequate |
| 07/02/2023 | 4998 | 469.26 | None | Inadequate |
| 07/02/2023 | 4999 | 130.52 | None | Inadequate |
| 07/02/2023 | 5000 | 33.82 | None | Inadequate |
| 07/02/2023 | 5001 | 180.85 | None | Inadequate |

| Transaction date | Check number | Amount (\$) | Approved/authorized | Complete documentation |
|------------------|--------------|-------------|---------------------|------------------------|
| 07/02/2023 | 5002 | 407.41 | None | Inadequate |
| 07/02/2023 | 5003 | 311.59 | None | Inadequate |
| 07/02/2023 | 5004 | 778.53 | None | Inadequate |
| 24/02/2023 | 5043 | 45.00 | Yes | Inadequate |
| 10/06/2023 | 5009 | 25.00 | None | yes |
| 04/10/2023 | 5429 | 149.21 | None | Inadequate |
| 04/10/2023 | 5430 | 206.48 | None | Inadequate |
| 04/10/2023 | 5431 | 419.26 | None | Inadequate |
| 04/10/2023 | 5432 | 172.93 | None | Inadequate |
| 04/10/2023 | 5433 | 43.11 | None | Inadequate |
| 04/10/2023 | 5434 | 104.85 | None | Inadequate |
| 04/10/2023 | 5435 | 407.41 | None | Inadequate |
| 04/10/2023 | 5438 | 530.34 | None | Inadequate |
| 04/10/2023 | 5439 | 393.40 | None | Inadequate |
| 19/10/2023 | 5472 | 521.40 | Yes | Inadequate |
| 19/10/2023 | 5471 | 680.08 | None | Inadequate |
| 02/11/2023 | 5515 | 141.66 | Yes | Inadequate |
| 02/11/2023 | 5513 | 149.21 | Yes | Inadequate |
| 02/11/2023 | 5518 | 104.85 | None | Inadequate |
| 13/11/2023 | 5547 | 130.52 | None | Inadequate |
| 13/11/2023 | 5550 | 104.85 | None | Inadequate |
| 22/11/2023 | 5568 | 88.49 | None | Inadequate |
| 22/11/2023 | 5569 | 226.80 | None | Inadequate |
| 22/11/2023 | 5570 | 174.38 | None | Inadequate |
| 22/11/2023 | 5571 | 55.53 | None | Inadequate |
| 22/11/2023 | 5572 | 213.83 | None | Inadequate |
| 22/11/2023 | 5573 | 299.46 | None | Inadequate |
| 22/11/2023 | 5574 | 356.55 | None | Inadequate |
| 22/11/2023 | 5567 | 193.33 | None | Inadequate |
| 28/11/2023 | 5585 | 104.85 | None | Inadequate |
| 28/11/2023 | 5575 | 159.94 | None | Inadequate |
| 28/11/2023 | 5584 | 949.59 | None | Inadequate |
| 28/11/2023 | 5578 | 172.93 | None | Inadequate |
| 28/11/2023 | 5577 | 419.26 | None | Inadequate |
| 28/11/2023 | 5576 | 206.48 | None | Inadequate |
| 28/11/2023 | 5579 | 43.11 | None | Inadequate |
| 13/12/2023 | 5613 | 393.40 | None | Inadequate |
| 13/12/2023 | 5612 | 407.41 | None | Inadequate |
| 13/12/2023 | 5614 | 118.35 | None | Inadequate |
| 13/12/2023 | 5610 | 23.11 | None | Inadequate |
| 13/12/2023 | 5607 | 206.48 | None | Inadequate |
| 13/12/2023 | 5608 | 419.26 | None | Inadequate |
| 13/12/2023 | 5609 | 172.93 | None | Inadequate |
| 22/12/2023 | 5636 | 407.41 | None | Inadequate |
| 22/12/2023 | 5637 | 690.53 | None | Inadequate |
| 22/12/2023 | 5638 | 350.00 | None | Inadequate |
| 02/01/2024 | 5641 | 246.94 | None | inadequate |
| 02/01/2024 | 5643 | 206.48 | None | Inadequate |

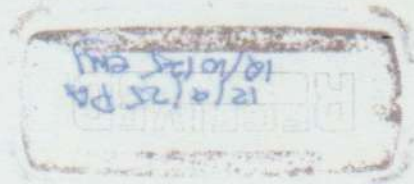
| Transaction date | Check number | Amount (\$) | Approved/authorized | Complete documentation |
|------------------|--------------|-------------|---------------------|------------------------|
| 02/01/2024 | 5644 | 419.26 | None | Inadequate |
| 02/01/2024 | 5645 | 172.93 | None | Inadequate |
| 02/01/2024 | 5646 | 73.11 | None | Inadequate |
| 02/01/2024 | 5647 | 129.57 | None | Inadequate |
| 02/01/2024 | 5648 | 180.85 | None | Inadequate |
| 02/01/2024 | 5649 | 407.41 | None | Inadequate |
| 02/01/2024 | 5651 | 749.96 | None | Inadequate |
| 31/01/2024 | 5708 | 393.40 | None | Inadequate |
| 06/02/2024 | 5721 | 129.57 | None | Inadequate |
| 21/02/2024 | 2510 | 129.57 | None | Inadequate |
| 21/02/2024 | 2508 | 172.93 | None | Inadequate |
| 21/02/2024 | 2507 | 419.26 | None | Inadequate |
| 21/02/2024 | 2511 | 407.41 | None | Inadequate |
| 05/03/2024 | 2533 | 159.94 | None | Inadequate |
| 05/03/2024 | 2534 | 206.48 | None | Inadequate |
| 05/03/2024 | 2536 | 172.93 | None | Inadequate |
| 05/03/2024 | 2538 | 129.57 | None | Inadequate |
| 05/03/2024 | 2539 | 407.41 | None | Inadequate |
| 20/03/2024 | 2572 | 129.57 | None | Inadequate |
| 20/03/2024 | 2570 | 172.93 | None | Inadequate |
| 20/03/2024 | 2569 | 419.26 | None | Inadequate |
| 20/03/2024 | 2568 | 206.48 | None | Inadequate |
| 20/03/2024 | 2567 | 159.94 | None | Inadequate |
| 24/06/2024 | 2777 | 202.93 | None | Inadequate |
| 24/06/2024 | 2778 | 206.46 | None | Inadequate |
| 24/06/2024 | 2780 | 249.83 | None | Inadequate |
| 24/06/2024 | 2782 | 151.37 | None | Inadequate |
| 24/06/2024 | 2783 | 458.50 | None | inadequate |

Schedule 4: Loan Processing Assessment for FY2022- June 2024 (Approved Loans)

| Client | Loan Type | Documentation/Package |
|--------|-----------|-----------------------|
| 1 | HRLF | inadequate |
| 2 | HRLF | inadequate |
| 6 | HRLF | inadequate |
| 8 | HRLF | inadequate |
| 9 | HRLF | inadequate |
| 12 | HRLF | inadequate |
| 15 | HRLF | inadequate |
| 1 | EDA RLF | inadequate |
| 2 | EDA RLF | inadequate |

| Client | Loan Type | Documentation/Package |
|--------|-----------|-----------------------|
| 3 | EDA RLF | inadequate |
| 4 | EDA RLF | inadequate |
| 5 | EDA RLF | inadequate |
| 6 | EDA RLF | inadequate |
| 7 | EDA RLF | inadequate |
| 8 | EDA RLF | inadequate |
| 9 | EDA RLF | inadequate |
| 10 | EDA RLF | inadequate |
| 11 | EDA RLF | inadequate |
| 12 | EDA RLF | inadequate |
| 13 | EDA RLF | inadequate |

Schedule 5: KHRDA Management Response



HOUSING & RURAL DEVELOPMENT AUTHORITY

P.O. BOX 533 TOFOL KOSRAE 96944

TELEPHONE: 370-2068/2064

Dec 10, 2025

Mr. Palikkun Kilafwasru
Public Auditor
Kosrae State Government

Subject: Missed Docs/Files

Dear Public Auditor,

Per agreement during the exit conference, I am pleased to share with you files and information that deemed missing by your staff auditors. These files are important to amend the narrative and conclusions for each of the following

1. SDP – We have confirmed with DREA that SDP is completed and HRDA is part of the State SDP. The last SDP consultation with HRDA was on December 2024.
2. MOA – MOA was developed in 2015, all amendments are done by way of Board resolutions. HRDA stores in file all resolutions passed by the Board. HRDA is in compliance with all resolutions. This is similar to State Code, laws are passed but Code not updated.
3. On page 6, the second conclusion is ludicrous. We have met all requirements with exception to have a loan software to aid the accuracy of our data based on findings by external auditors. HRDA was able to qualify for US federal funding and there is no such thing as non-compliance.
4. On page 8, again we have an SDP with performance benchmarks. The previous SDP rolled over with performance benchmarks and strategic targets during the time a new SDP was in formation period. The remarks are absurd as HRDA received a rather high mark by the consultant who reviewed all entities prior to new SDP.
5. Please refer to folder with files containing claims of missing forms listed in your Table 1
6. Please refer to folder with files containing claims on reconciliation in your Table 2
7. On your Table 3, important to note that daily deposit is 1 day. You collect today, deposit tomorrow. When deposit staff not working, may take more than 1 day. But anything above 5 days, we will find



HOUSING & RURAL DEVELOPMENT AUTHORITY

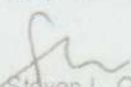
P.O. BOX 533 TOFOL KOSRAE 96944

TELEPHONE: 370-2068/2064

why such not in compliance with Board daily deposit policy. For USDA, Board requires that 25th of each month, collections be remitted to USDA central collection in Missouri.

8. In Table 4, please refer to folder containing missing deposit information. I strongly advise that in future, your staff auditor pursue information with bank and not making any short cuts.
9. Page 13, please refer to folder on employment contracts
10. For all schedules you provided, we may need additional time (one week) to have person in charge to review the acct codes, chart of accts and authorization issues

Kulo


Steven L. George
Executive Director

Schedule 6: Public Auditor's Response to Management Letter



GOVERNMENT OF KOSRAE

OFFICE OF THE PUBLIC AUDITOR

POST OFFICE BOX 847

KOSRAE, FEDERATED STATES OF MICRONESIA 96944

WEBSITE: www.ksopa.fm | EMAIL: pub.ksauditor@gmail.com

TELEPHONE: 370-3766 | FRAUD HOTLINE: (691) 370-3767

December 23, 2025

Steven L. George
Executive Director
Kosrae Housing & Rural Development Authority
Tofol, Kosrae FM 96944

Subject: *Response to KHRDA Management Response to KHRDA Performance Audit Report*

Dear Executive Director George,

I am in receipt of your letter dated December 10, 2025 with regard to the draft performance audit report on the Kosrae Housing & Rural Development Authority (KHRDA). I appreciate your feedback and candor and wish to offer the following in response:

First, it must be noted at the outset that all audit findings contained in our reports are derived based on structured and documented audit methodologies. In the case of the KHRDA performance audit, findings are based on interviews with management and staff of the KHRDA, and the analysis of requested and submitted data and documents, including the following:

- Financial statements and accounting records;
- Minutes of meetings; and
- Contracts, policies, and board resolutions;
- Any other pertinent data requested.

Furthermore, the auditee has the inherent responsibility of ensuring that information submitted to the auditors are complete and verified, and that a representative adequately coordinates and ensures the fulfillment of this role in liaison with the auditors.

The auditors' primary responsibility is to plan the audit, apply their methodology, and assess the results based on the information presented.

Notwithstanding the foregoing, it is important to note the status of findings and recommendations of the audit after consideration of the information presented in your response to this report as follows:



| Finding | Status |
|--|--|
| <p>1.1 KHRDA SDP</p> <p>In the documentation of the interviews with management and staff of the organization, it was noted that no strategic plan was formally in place as of the period under the audit scope.</p> | <p>Partially Resolved</p> <p>Upon receipt of KHRDA management response and verification with the appropriate state agency, KHRDA strategic plan is incorporated as a component of the wider state SDP taking effect in January 2025.</p> <p>However, strategic direction is first the responsibility of the Board of Director as the body responsible for the governance of the KHRDA. Therefore, the formal endorsement of the Board is recommended.</p> |
| <p>1.2 Manual of Administration Update</p> <p>The MOA was not updated to reflect mandate and operational changes since 2015.</p> | <p>Not Resolved.</p> <p>It is recommended that the Manual of Administration is updated with training provided for staff.</p> |
| <p>1.3 Update MOA to realign processes and roles.</p> | <p>Not Resolved.</p> <p>See 1.2.</p> |
| <p>2.1 Lack of full compliance with collections and deposits policies.</p> <p>Analysis documented delayed deposit of USDA collections, copies of bank deposits not on file, or inconsistent preparation of daily collection reporting.</p> | <p>Not Resolved</p> <p>The consistent preparation of daily collection report and filing of copies of bank deposits is urged to inform reconciliations and provide the basis for accurate reporting.</p> <p>The inconsistencies noted in the collection receipts and records of bank deposits will likely be referred for further review by the Compliance Unit of the OPA.</p> <p>By Board Resolution, the remittance of USDA payments is done by the 25th day of each month. However, such collections are still subject to the KHRDA deposit policy absent an exception explicitly provided by the Board of Directors.</p> |
| <p>2.2 Non-compliance with procurement and disbursement policies.</p> | <p>Not Resolved.</p> <p>Proper approval of disbursement is a critical element of a system of internal control. It is recommended that in the absence of authorized signatories, proper designation is documented and kept on file.</p> <p>Increased oversight is recommended over the accuracy of information on purchase forms and</p> |



| | |
|--|--|
| | the appropriate recording of expenditure to reflect its purpose. |
| | Related to finding 1.2, it is recommended that competitive procurement provisions for both projects and operations in the MOA are updated and clarified. |
| | We further recommend increased oversight and effort in the complete documentation of loan packaging checklist. |

As an autonomous component unit, it is imperative that the KHRDA maintains an adequate system of internal control which includes ensuring proper documentation of bank records, financial records, and related files to ensure accurate reporting, governance and decision-making and are readily available for auditing purposes as well.

Notwithstanding the foregoing, I acknowledge and appreciate the guidance and cooperation of the KHRDA Management and staff in the audit process. Such continued cooperation would be appreciated in the ensuing follow-up on findings and recommendations of this report.

Sincerely,

Palikkun N. Kilafwasru
Public Auditor

Public Auditor's Comments

We would like to extend our appreciation to the Director of the Kosrae Housing and Rural Development Authority for assistance throughout the course of our audit.

In compliance with Generally Accepted Government Auditing Standards, a copy of the draft report was shared with the Kosrae Housing and Rural Development Authority. The Authority provided their response as attached in this report.

In addition to providing copies of this report to the Kosrae Housing and Rural Development Authority, Members of the Board, we also extended copies to the following officials:

1. Governor, Kosrae State
2. Speaker, 13th KSL and all members
3. Attorney General
4. Chief Clerk, Kosrae State Court
5. V6AJ Radio

If there are any questions or concerns regarding this report, please contact the Office of the Public Auditor.

Acknowledgement and OPA Contact

Audit of the Kosrae Housing and Rural Development Authority
Report No. PA 01-2025

OPA CONTACT

Palikkun N. Kilafwasru, Public Auditor
pali.ksauditor@gmail.com

ACKNOWLEDGMENT

The audit staff that make key contributions
to this report.

Emma P. Balagot, Audit Advisor
Elizabeth M. Jonah, Auditor III
Randy Laborete, Investigative Auditor

OPA Mission

Perform high quality audit and investigation to
promote greater impact in people's lives.

Office Contact

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