

Performance Audit on Kosrae Port Authority Cash Handling Procedures

A Report to the
Governor
and the
Legislature of
the State of Kosrae



Stoney S. Taulung
PUBLIC AUDITOR



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June 29, 2019

The Board of Directors
Kosrae Port Authority
Kosrae State, Federated States of Micronesia 96944

Re: Performance Audit on Kosrae Port Authority (the Authority)

EXECUTIVE SUMMARY

We have completed a Performance Audit on Kosrae Port Authority. The purposes of the audit were to determine whether the Authority's internal controls are adequate to ensure that (1) all fees due are timely collected and deposited and (2) disbursements made are authorized and economical.

The audit was performed 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. The audit was also conducted pursuant to Title 10 Chapter 4 of the Kosrae State Code. Furthermore, Financial Management Regulation and Kosrae Port Authority Policies and Procedural Manual were used as criteria. This performance audit covered the period from October 01, 2017 to June 30, 2018.

Based on our audit, we concluded that Kosrae Port Authority did not establish and implement an effective system to provide sufficient controls on the collection and disbursement. As a result of internal control weakness, the audit discloses the following:

1. Unrecorded departure collection \$2,940.00.
2. Delay deposit of wharfage collection in the amount of \$1,928.00.
3. Lack of control in using receipts display undetermined total revenue.
4. Inefficient disbursement of fund by not following financial regulation and policies.

We recommend that the Kosrae Port Authority exert more effort to:

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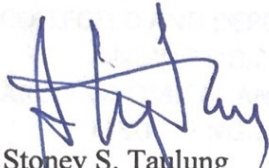
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1. Develop and implement policies and procedure to control the collection. Thus, the authority should look into the possibility of system evaluation to focus on the monitoring and verification of financial transactions.
2. Prudent implementation of Kosrae Financial Management Regulation should integrate in disbursement procedure.
3. KPA should review and update its operation manual and to write policies consistent to Kosrae Financial Management Regulation and Internal control best practice to strengthen financial reporting and operation control.

The Office of the Public Auditor provided draft copies and discussed the contents of this report with the Kosrae Port Authority. The Management Response letter was received on June 26, 2019 and included in the final audit report as annex 1.

Respectfully submitted,



Stoney S. Taulung
Public Auditor

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INTRODUCTION

The Kosrae State Office of the Public Auditor (KOPA) received the Legislative Resolution No 11-306 to conduct a special audit on Kosrae Port Authority (KPA) and report to Kosrae State Legislature. Accordingly, KOPA conducted cash count and internal control risk assessment on KPA operation and transactions.

Background

Kosrae Port Authority (KPA), a component unit of the Kosrae State Government was established by Kosrae Public Law 7-91. The primary purpose of the Authority is to oversee the use and maintenance of Kosrae State's sea and air ports.

The Authority is vested with the following powers and duties:

- (1) To operate, manage, equip, and maintain all ports of entry into the State including, the Okat and Lelu harbors and docks and the Okat airfield.
- (2) To expand and improve upon the services offered at the ports of entry, and where practicable, construct and operate new facilities to meet the foreseeable demand for Authority services.
- (3) To adopt, enforce regulations as inspections or examinations as provided by law and etc.

The Authority began operating as a separate entity in fiscal year 2008.

KPA is governed by a five member Board of Directors. The Board is composed of four directors appointed by the Governor with the advice and consent of the Legislature and ex-officio, the Director of the Department of Transportation and Infrastructure. An appointed director serves for a term of four years, subject to reappointment and until his successor has been appointed and qualifies. The Governor appoints two directors to two-year terms and two directors to four-year terms.

The Authority's financial statements are incorporated into the financial statements of the Kosrae State Government as a component unit.

As provided by law, the Authority charges and collects fees as provided below:

Airport Utilization Fee

Airport utilization fee is commonly referred as "Airport Departure Fee", an amount of \$15.00 collected from a passenger departing Kosrae International Airport. "Passenger" being defined as any person departing from Kosrae International Airport by commercial aircraft except;

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- (a) Transit passengers who arrive and depart from the Kosrae International Airport within a twenty-four hour period on the same flight and aircraft
- (b) Airline employees necessary for aircraft flight operations;
- (b) Persons departing for medical emergencies, including the patient and necessary attendants, as certified by the Director of Health Services, his designee, or other licensed medical practitioner;
- (c) Children under the age of two while travelling with an adult;
- (d) United States Armed Forces personnel travelling as an activity of the United States Armed Forces;
- (e) Persons on charitable or disaster relief missions officially sanctioned by the Governor, his designee, or the Speaker of the Legislature or his designee.

Port and Dock Fees

Kosrae Port Authority collects the following fees from masters and agents of vessels using the ports and docks in the State of Kosrae:

- 1) Entry Fee
 - a) \$0.20 per gross registered ton for vessels of specified tonnage;
 - b) \$3.00 per foot or fraction thereof as measured from bowsprit to stern for yachts, sailboats, pleasure crafts and other vessels of unspecified tonnage;
- 2) Anchorage Fee
 - a) \$0.10 per gross registered ton per 24 hours or fraction thereof for vessels of specified tonnage;
 - b) \$30.00 for the first 24 hours and \$10 for each additional 24 hours for yachts, sailboats, pleasure crafts and other vessels of unspecified tonnage; except if such vessels anchor less than 24 hours the anchorage fee shall be \$15.00;
- 3) Dockage Fee
 - a) \$0.14 per gross registered ton per 24 hours or fraction thereof for vessels of specified tonnage;
 - b) \$50.00 per 24 hours or fraction thereof for yachts, sailboats, pleasure crafts and other vessels of unspecified tonnage; except if such vessels remain at the dock less than 24 hours the dockage fee shall be \$25.00;
- 4) Wharfage Fee
 - a) \$1.25 per revenue ton for cargo conveyed over the dock.
 - b) \$0.50 per metric ton of fuel conveyed from tanker to storage tank.
- 5) Transshipment Fee

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- a) A transshipment fee of \$1.25 per revenue ton of fish or other cargoes off-loaded or transferred onto vessel at the port or in the territorial waters of Kosrae State. SL 11-43 refer this fee as State' share fee ¹
 - 6) Handling Charges
 - a) \$100 line handling fee per vessel
 - b) \$50 line boat per service.
 - 7) Navigational Aids Due at \$15 per trip.
 - 8) Passenger Fee. There shall be a charge of \$3.00 per person that boards a vessel through any port within the control of Kosrae Port Authority.

Financial Figures²

The Authority's net assets amounted to \$15,955,704 and \$16,780,004 during fiscal years 2017 and 2016 respectively. The decrease in the assets is due to the normal wear and tear of fixed assets recognized as accumulated depreciation

During its FY 2017 and 2016 operations, the Authority incurred losses of \$841,510 and \$776,073 respectively.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The purposes of the audit were to determine whether the Authority's internal controls are adequate to;

- (1) Ensure that all fees due are timely collected and deposited.
- (2) Ensure that disbursements made are authorized and economical.

Scope

Our performance audit covered the Kosrae Port Authority's transaction for October 01, 2017 to June 30, 2018. However, the gathering, reviewing and testing of relevant information and documentations included previous and subsequent period for analytical purposes. We conducted the inspections pursuant to Kosrae State Code Title 10, section 4 which stated in part:

- (a) The Public Auditor shall inspect and audit personally, or by his duly authorized assistants, all account, books, and other financial records of

¹ SL-11-43 State' Share Fee of the port and dock fees.

² Kosrae Port Authority, Financial Statements and Independent Auditors Report, Years ended September 30, 2018 and 2017.

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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 received public funds from the State Government;

(b) Inspect and audit personally, or by his duly authorized assistants, the fiscal books, records and accounts of all allottees and other custodians of public funds, making independent verification of all assets, liabilities, revenues, expenditures and obligations of the State Government, entities owned in whole or part by the State Government, and agencies of the State Government;

(c) Inspect and audit personally, or by his duly authorized assistant, the fiscal books, records, and other financial records associated with any project, program and activity receiving funding in whole or in part from public funds of the State Government, including the records of any contractor performing public work on a cost-reimbursement-type contract in order to verify the cost charged to the public contractor;

(d) Inspect and audit personally or by his duly authorized assistants, the books, records, accounts, and other financial records associated with business sales that may be used for sales assessment for tax collection purposes”

Audit Methodology

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards³ 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.

In planning our examination, we obtained sufficient understanding of the internal controls that is material to the audit objectives to plan the engagement and design the audit procedures. Based on this assessment, we reviewed documents and records relevant to the Project.

³ GAGAS – Generally Accepted Government Auditing Standard referred to as the Yellow Book issued 2014

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We considered compliance to state laws, regulations and policies to be able to render an opinion to our audit objectives. Our procedures were also designed to identify weaknesses on internal controls that are material to the expression of an opinion to our audit objectives.

Audit procedures included, but were not limited to, interviews of Kosrae Port Authority management and employees and review of transaction process and documentation. We also perform analytical review of disbursement and collection transactions and procedures. The audit criteria used to develop the required audit tests were based on (1) the Financial Management Regulation, (2) Kosrae State Code and (3) Kosrae Port Authority Policies and Procedures Manual.

PRIOR YEAR AUDITS/REVIEWS

The Authority is being audited by other auditors during its annual financial audit requirements as a component unit of Kosrae State Government. We have noted points for improvement indicated in the Management Letter and considered in the audit planning of this performance audit.

CONCLUSION

Based on our audit, we conclude that Kosrae Port Authority did not establish and implement an effective system to provide sufficient controls on the collection and disbursement.

As a result of internal control weakness, the audit discloses the following:

1. Unrecorded departure collection \$2,940.00
2. Delay deposit of wharfage collection in the amount of \$1,928.00
3. Lack of control in using receipts display undetermined total revenue.
4. Inefficient disbursement of fund by not following financial regulation and policies

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FINDINGS AND RECOMMENDATIONS

Finding No. 1: Existing control did not ensure that all fees are collected and deposited

1. Inefficient Collection and Deposit of Fees and Dues resulted to question cost of undeposited amount of US\$ 5,355.00

a. Comparative examination of total departure fees that should have been collected based on the airline manifest amounted to \$78,075.00 against total deposit made for departure fee shows amount \$ 72,720.00 resulted to \$ 5,355.00 difference.

b. We also noted that the total amount of departure fee collection did not match with the manifest and total number of passengers boarded out of the island. According to our examination period which started from October 2017 to June 2018 the authority collected \$65,636.24 in which it didn't tallied with the manifest from United Airlines on the total number of passengers boarded in which as per manifest the total amount of collection from the period examined is \$78,075.00. Unrecorded collection of \$12,438.76 was noted. (annex 2)

Management response:

The difference of \$5,355.00 is has reviewed but the issue is that United Airline Manifest can be in typical error comparing to Kosrae Port Authority's Financial Statements.

Auditor response:

Manifest referred to the audit report was the document provided by United Airlines to KPA for collection of departure fee. This documents display remarks from the KPA collector such as PAID, DIPLO, INFANT, REFERRAL. Auditor counted only all the paid remarks and resulted to the following:

Reconciliation of deposit slip against records (book) reveals total deposit of \$ 66,795.00

Reconciliation of Manifest and additional information given to us by KPA reveals net collection of \$69,735.00. **Hence \$ 2,940.00 is still unaccounted.**

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Auditor noted that the summary of Departure Fee exemptions submitted to us during the fieldwork shows different total of exempted passengers reflected in the Management Response letter.

- c. Collection was not completely deposited on time. Based on the auditor's review of deposit slips and collection receipts, although Departure fees were deposited on a timely manner, Wharfage and other collections indicate delayed deposit.

Example are the collection for Wharfage from April 06-May 02, 2018 under receipts numbers 2075-2141 in the amount of \$ 1,928.00 was deposit on May 08, 2018.

- d. Based on the interviews we conducted with the Kosrae Port Authority finance division, there has been time where private vessels and yacht got in and ported out without paying any port fees, and there were times that the authority received payments without issuing any payment receipts. This was farther confirmed by the auditors thru Immigration interview compared to KPA revenue ledger on Entry Fees.

Immigration record	8
KPA record	5
<hr/>	
Difference	3
<hr/>	

Management response: (annex 1)

Some of yatch/sailing boat fee are erroneously recorded as wharfage fee.

Auditor response:

Review of follow up documents submitted to us after exit conference, shows that Official Receipt (OR) 1666 that was apparently issued for the payment of Yatch was included and recorded as total amount of \$ 444.97 for wharfage revenue. Hence, OR 1666 did not display full description of transaction as to the type of income. Furthermore the attachment for the deposit of the said amount did not show the breakdown of the cash deposited. Best practice dictates that all financial transaction

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should provide full description and details. Journal vouchers⁴ should be filed with complete attachment and breakdowns of the amount of the transactions. This is also show weakness on the financial reporting control on lack of monitoring and transaction validation system.

- e. Review of payment receipts, we found also that some of the diplomats and active military were given the receipts in which they had to pay the \$15.00 departure fee. Hence, as per KPA policy (mention the KPA policy provision) that these individuals don't have to pay the fee.
- f. Review of state law regarding income identification reveals that KPA collects Transshipment fee⁵ and subsequently deposit the said fee to Kosrae State's Revenue Fund. However, Kosrae State Law 11-120 indicate "Port and Dock Fee⁶" as Kosrae State's Fees. There is nothing in the law that state's share only pertain to the Transshipment fee.

2. Inefficient Use of Receipts Display Undetermined Total Revenue

- a. Collections on departure fees, auditors noted that there are instances where pre-numbered receipts for departing customers are being duplicated, and numbers are not in sequence as to they skipped few batches.
- b. Some of collections for Entry Fee of yacht were not receipted
- c. Review of collection receipts display noticeable numbers of departure fee receipted has been voided. Apparently, these are receipt issued to those passengers who are exempted in paying the departure fee as per KPA policy.

⁴ **Journal vouchers** - integral part of the audit trail, and carries (1) a serial number, (2) transaction date, (3) transaction amount, (4) ledger account(s) affected, (5) reference(s) to documentary evidence (such as invoices or receipts) supporting the entry, (6) brief description of the transaction, and the (7) signature(s) or initials of one or more authorized signatories. A journal is, in effect, a collection of financial data culled from journal vouchers.

⁵ **Transshipment fee** - a transshipment fee is collected for fish or other cargoes off-loaded or transferred onto a carrier vessel at the port or in the territorial waters of Kosrae State.

⁶ **Port and Dock fees** – SL no. 10-111 includes, entry fee, anchorage and mooring fees, dockage fee, wharfage fee, handling fee, transshipment fee, navigational aids dues and passenger fee.

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- d. It was also noted that the KPA Finance Division did not keep a log book of used receipts
- e. No control or inventory of unused receipts is being kept.

Management Response:

Unintentional skip of receipts caused by miscommunication of switched collectors and besides misarranged of receipt due to the receipts were not attached orderly together like it supposed to.

Auditor Response:

As we acknowledge that most of the citation is due to unintentional human error, this could have been avoided with sufficient controls on the usage and stocking of receipts especially on the skipped receipt. Logbook as control tools is highly recommended.

Cause: The concern unit did not initiate and make it a priority to properly implements the necessary controls governing the collections.

Effect: The failure to implement control policies and procedures exposed the collection to the risk of fraud

Recommendation: Kosrae Port Authority should develop and implement policies and procedure to control the collection. Thus, the authority should look into the possibility of system evaluation to focus on the monitoring of transactions. It is highly recommended that the KPA finance staff to implement proper filing procedures with full disclosure or description of transactions.

Finding No. 2: Existing controls did not ensure that disbursements are economical and authorized

2.1 Price Competitive Requirements

Purchases below \$10,000.00 shall be approved by the General Manager after competitive bids have been obtained, and those bids shall be written and submitted by at least 3 vendors. Where as to purchases exceeding \$10,000.00 shall be reviewed and approved by the Bids Committee to be created within the board.

Review of procurement procedures and documents does not provide sufficient evidence of competitive biddings and review of transaction. Based on our

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inquiries no competitive bidding has been done to purchases below \$10,000.00 and no review has been done to purchases exceeding \$10,000.00 (who approves the expenditure). The auditor noted most of the petty disbursement such as food items and food packaging (chicken, foam plates and cups, pork, forks, sodas, soy sauce, etc) were receipted and paid by the KPA finance without approval from any of the approving body.

2.2 Use of Disbursement Vouchers

Disbursement vouchers should identify the proper accounts to be charged in order to certify availability of funds and to review the supporting documents before issuing any payments. Based on review of documents filed, there were no disbursements vouchers filled and filed. We noted that the authority is not using any disbursement voucher at all. They issued payments to vendors without filling out the voucher.

Cause: Lack of prudent measure to follow the law and policies

Effect: Allowing expenditure without consideration of the established standard and regulation (FMR) has increased the risk of abuse and misuse of fund. Transactions do not ensure maximize benefit against cost.

Recommendation: Prudent implementation of Kosrae Financial Management Regulation should integrate in fiscal management.

Management Response: *KPA do have policies or MOA in Procurement to compare prices. But to be specific, only Kosrae Ace Office Supplies, Hardware and Senny's Fuel Station permit KPA to establish credits account.*

Auditor Response: It is the best practice to provide documents on the exception from Procurement Policies. It might seem impractical but competitive quotations for any procurement are required under Financial Management Regulation. However, the authority may file a **sole supplier**⁷ justification to support the decision on not requiring competitive prices or quotations.

Finding no. 3: Weak Internal Control System⁸

⁷ **Sole Supplier** – (KSFMR) with respect to purchases of goods or services that are available only from a single source, including utilities such as electricity and telephone services, and including such goods as stamps and subscriptions to periodicals, a Memorandum Expenditure Form that has been transmitted to the Director, or his designee, who will certify as to the availability of fund.

⁸ **Internal Control** - are the standards and rules used by organization to ensure that they achieve their stated goals. Effective internal control reduces the risk of asset loss, and helps ensure that plan

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Internal control procedures for cash and its equivalent help prevent loss due to employee fraud and accounting errors. These controls are intended to limit access to cash to specified employees and verify that all receipts, refunds or transfers are documented correctly and in a timely manner. Any withdrawals of company cash must be accompanied by the proper authorization from a supervisor or manager.

3.1 Separation of Duties Not Consistently Implemented.

The principle of segregation of duties requires that activities should be performed by more than one person to prevent fraud, misuse and error. These activities include transactions initiation, authorization or approval, accounting, reconciliation and custody of inventory. Best practice advises that each employee should have their own duties and responsibilities so that the goals and targets of their mission to be established. It's best to have individuals carrying out their required task so that when it comes to financial procedures, they can have checks and balances in their financial operations.

As the result of inquiries and interviews done in our risk assessment, auditors noted that only one person handled most of the financial matters starting from verification of collections, safekeeping of cash, depositing of collection, disbursing of funds, processing of payroll, receipting of payments, and updating of their quick book.

3.2 Lack Control on Documentation

Documentation provides evidence of the underlying transactions. It is the input to establishing proper financial records. Financial documents should be pre-numbered to ensure all transactions are recorded and accounted for.

Collections on departure fees, auditor noted that there are instances where pre-numbered receipts for departing customers are being duplicated, and numbers are not in sequence as to they skipped few batches. This process does not ensure completeness of record and accountability.

3.3 Lack of Effective Monitoring System.

Best practice for documentation and monitoring is when a payment comes into the office; the cash processing clerk should immediately record the transaction into the **cash receipt log** and assign an identification number. If

information is complete and accurate, financial statements are reliable, and the plan's operations are conducted in accordance with the provisions of applicable laws and regulations.

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the payer is present in the office, the clerk should issue a signed receipt listing the date and amount received. **The transaction numbers must be unique and sequential so an auditor can quickly see if a cash receipt is missing from the log.** If an employee transfers possession of a cash receipt to another employee, both parties must sign a receipt stating the date and dollar amount of the transfer.

Review of records and files kept by the authority, reveals that only sales for wharfage are being logged. Thus, no summary of total collection per day was prepared and that recording was made directly to the Quick Books without detailed summary supporting the collection and deposit entries. Amount of the transaction was recorded per batch without details.

3.4 Lacks Reconciliation procedure

Each day, the employee responsible for preparing the reconciliations should compare the day's total from the cash receipts log with the daily bank deposits and the cash held in the lockbox or safe. At the end of the month, he will print the general ledger reports for the company's cash account and compare them to the monthly totals on the cash receipt log. One of the management tools for effective control on cash management is Bank Reconciliation Statement. A bank reconciliation statement is a document that matches the cash balance on a company's balance sheet to the corresponding amount on its bank statement. Reconciling the two accounts helps determine if accounting changes are needed. Bank reconciliations are completed at regular intervals to ensure that the company's cash records are correct. They also help detect fraud and any cash manipulations. Reconciliation must be signed and dated by the person who prepared it.

Bank Reconciliation was not timely and properly prepared. Review of bank reconciliation statement submitted to us, we noted that KPA prepares an adjusted balance type of bank reconciliation where in cash per bank and per book were reconciled to come up with the corrected balance as of the given period. However as per the auditor interview this was not regularly done. In addition, the presentation and preparation of bank reconciliation as preferred form was not properly and completely done. It was note that the submitted Bank Reconciliation Statement has not signed and dated by the person who prepared it.

1. Deposit per book not in Bank (deposit in transit) was taken as adjustment to the book balance.
2. Unrecorded Deposits from Oct 2017- April 2018 were still reconciliation item in June, 2018.

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During the audit, the auditors noted that there was no logbook or daily transaction printed, signed and filed to evidence of daily transaction reconciliation.

Effect: Lack of internal controls can lead to legal and financial consequences by failing to manage organizational risks. Also, it may leads to inefficient resource allocation.

Cause: We noted that minimal effort from the KPA management to ensure that effective and efficient control were included in their fiscal management⁹.

Recommendation: A Prudent government practices requires that there should be written policies and procedures to govern all financial transactions to ensure controls and eradicate the risk of fraud, waste and misuse. We therefore recommend that KPA should review and update its operation manual and to write policies consistent to Kosrae Financial Management Regulation and Internal control best practice.

Management Response:

Audit with Delloitte ensure every transaction and reconciliations were practicable and secure. Plus formats and procedures practiced by KPS were adopted from Kosrae State Treasury. Delloitte Auditors were satisfied by procedures by KPS hence KPA assume all operations were secure and efficient.

Auditor response:

Auditor noted Deloitte Management Letter directed to The Board of Directors of Kosrae Port Authority Dated December 28, 2018 attachment III Section 1 number 4 Cash Collection Deficiencies on internal control. It further gives the definition of Deficiency in Financial reporting and Deficiency in operation in Section II of the same attachment. Hence, Deloitte as external auditor of KPA provides attachment IV on the inherent limitations of internal control over financial reporting neither mention their evaluation on internal control over KPA operation.

The Auditor therefore, still recommend for the KPA management to evaluate existing financial reporting and operational internal controls. More so, that the management should evaluate efficiency and effectivity of reconciliation tools such as transaction logbook and bank reconciliation statement.

⁹ Fiscal management is the process of planning, directing and controlling financial resources.

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Management Response: Annex 1



KOSRAE PORT AUTHORITY

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June 21, 2019

From: William O. Tosie
General Manager
Kosrae Port Authority

To: Mr. Stoney S. Taulung
State Public Auditor
Office of the Public Auditor
Tofol, Kosrae FM 96944

Re: Response/Draft Audit Findings

Dear Mr. Taulung,

Forwarded herewith is our response per your Draft Audit Findings.

Evidently, Kosrae Port Management and Staffs have compiled documents per attach to verify and to document our response per your citations/finding. They are self explanatory, specific to uncollected departure fees.

We will stand prepare to supplement other documents you may need from us.

Kujima lulap,

A handwritten signature in black ink, appearing to read 'William O. Tosie'.

William O. Tosie
General Manager, KPA

XC: KPA BOD
File

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June 20, 2019

In response to the findings commencing KOPA's Special Audit, all findings and recommendations are highly relevant and corrective. Kosrae Port Authority (KPA) has compiled all available data and records to respond to every finding. Some findings were reviewed and retraced and seemed to not record completely, therefore KPA Finance has reached out to United Airlines and Immigration and Labor Administration for more information. Nevertheless, below are some grounds that can be considered.

Subject I. Collection Difference between Deposition and United Airline Manifest.

- A. The difference of \$5,355.00 is has reviewed but the issue is that United Airline Manifest can be in typical error comparing to Kosrae Port Authority's Financial Statements. (examples and explanation is shown below)
- Based on OPA's presentation and findings, both mentioned uncollected fee of exactly 357 passengers based on information gathered by KOPA from United Airlines and Immigration Office. Therefore, KPA Administration retraced all data and come up with exactly 225 exempted passengers which left out 132 passengers.
 - o Both United Airlines and Immigration manifests will always be greater than KPA's manifests. Purpose is that they include every passenger on board, diplomatic, medical referral, infants, military personnel, and transits.
 - o Data from Immigration supports that approximately 122 infants were listed in their records which may left out 10 passengers. There are other contradictions supporting these explanations like October and November 2017 were also incomplete.
 - o In addition, infants were not included in the outbound manifest submitted to KPA and Immigration during collection or process in boarding.
- B. Also, based on info achieved from both United Airlines and Immigration, the information they provided includes all boarded passengers. Despite the fact that KPA does not charge military personnel, diplomatic passengers, infants, medical referrals, and transit passengers. This also contributes into the point that United Airlines does not specify what kind of passengers boarded a flight like KPA does. Based on United

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Airline's information, they only provided a total figure of boarded passengers. These include all passengers paid and exempted. Another contribution to the difference was transit passengers were often on the double flights on Monday Flight. Transit passengers were coming out Majuro on Flight 133 than returned to Kwajalein on Flight 155.

Note: A chart is also attached with this document to explain more on the exempted passenger, pass-thru passengers or transiting passengers.

Subject 2. Inefficient use of Receipts

A. Duplications of receipts: This is highly impractical since all receipts are printed by Kosrae Printing Office and it only requested and printed once. Assumptions stated that "a receipt is charged twice or a batch is charged twice." This cannot be, because KPA do not have the technologies and supplies to process the receipt plus the format is only known by Kosrae Printing Office. So the batches were only skipped due to human error. Below are also explanations on the receipts.

a. A passenger can be canceled nor rebooked from a flight and instead of reimbursing their payment, they insist on keeping the receipt for they will rebook to the next available flight like in the example explained below.

i. *For example: John Doe paid his departure fee on January 01, 2019, and then somehow he volunteered due to overbook of flight. Then John Doe is willing to give up his seat and rebooked to the next available flight. There are other cases that can a passenger cancel on a flight, like some passengers usually uses the body pass ticket which given by United Airline employees to family and friends. This case is usual however it occurs every month.*

B. Voided receipts: can be done when a passenger cancels or when a receipt is mistakenly skipped or written. This also occurred in the case above.

C. Skipped batches of receipts: Unintentional skip of receipt caused by miscommunication of switched collectors and besides misarranged of receipts due to the receipts were not attached orderly together like it suppose to.

Yachts/Sailing Vessels

A. Findings stated that collection was missing 3 vessels or three sail boats were uncollected.

a. Financial data proves that these three vessels were paid for but it was recorded in the wharfage fee instead of entry fee. (Attachments to prove this can be provided).

Regarding the wharfage receipt collections, some cargoes can be held off by Stevedoring Services due to delay of payment which KPA issued receipt already. This can also result

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in delay of payment to our receipts also. Therefore, this matter was cited by Delloitte Audit on the same period and KPA is currently responding to comply to collect on time and deposit on time.

Internal Control: Existing Control did not ensure that disbursements are economical and authorized.

- A. **Price Competitive Requirements:** KPA do have policies or MOA in Procurement to compare prices. But to be specific, only Kosrae Ace Office Supplies, Hardware and Senny's Fuel Station permit KPA to establish credits account with due to
- B. **Use of Disbursement Vouchers:** KPA does not have a disbursement vouching process but still willing to adopt any process applicable.
 - a. Currently, KPA Finance normally uses receipts as supporting documents and accounts were categorized specifically on an Approved Budget.

Weak Internal Control System

- A. Audit with Delloitte ensure every transactions and reconciliations were practicable and secure. Plus formats and procedures practiced by KPA were adopted from Kosrae State Treasury. Delloitte Auditors were satisfied by procedures by KPA hence KPA assume all operations were secure and efficient.

KPA Management and Finance Division have been improving since 2015. Still today, developments and improvements on all activities were concern carefully to ensure safety and efficiency of everything. Back in 2013-2015 KPA was operating without electricity due to lack of funding. During this period, employees were also underpaid; equipments were not operating. Then after 2016-2017 a report was published and submitted by the Office of the FSM President to KPA stating a well economically position. So for kind consideration, KPA has just improved after decades of struggling.

To conclude this respond document regarding the Draft findings from OPA, every finding is a lesson learned for the KPA. Of course, there will always be questions within all financial activities. Your findings were exemplary and KPA kindly except them with considerations toward through additional concentrations.

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PUBLIC AUDITOR'S COMMENTS

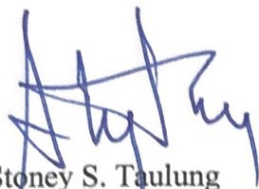
We would like to extend our appreciation to Kosrae Port Authority for their cooperation and assistance throughout the course of our audit.

In compliance with Generally Accepted Government Auditing Standards, a copy of this draft report was shared with KPA General Manager and Chairman of KPA Board to provide response to the findings.

In addition to providing copies to the KPA and Board Members, we also extend copies to the following officials:

1. Governor, Kosrae State
2. Speaker, 12th KSL
3. Members of the 12th KSL
4. Chief Clerk, Kosrae State Court
5. V6AJ Radio
6. Attorney General, Kosrae State

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



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Public Auditor

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Investigation to ensure that Government
resources are properly managed

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