

Performance Audit on Cash Handling for Kosrae Visitor's Bureau

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



Stoney S. Taulung
PUBLIC AUDITOR



GOVERNMENT OF KOSRAE
OFFICE OF THE PUBLIC AUDITOR
POST OFFICE BOX 727
KOSRAE, FEDERATED STATES OF MICRONESIA 96944
TELEPHONE: (691) 370-3440, FACSIMILE: (691) 370-3443

May 30, 2016

The Honorable Governor, Lyndon H. Jackson
The Honorable Speaker, Tulensa Palik
The Honorable Members, 11th Kosrae State Legislature
Kosrae State Government
Kosrae State, Federated States of Micronesia 96944

Re: Performance Audit on Kosrae Visitor's Bureau Cash Handling Procedures

EXECUTIVE SUMMARY

We respectfully submit this Performance Audit PA 03-16 on Kosrae Visitor's Bureau Cash Handling Procedures for the covering period of FY 2014-2015.

The objective of the audit was to determine whether (1) receipts and disbursement of all funds are properly recorded, accounted for and authorized in accordance with applicable laws and regulations for the fiscal years ended September 30, 2014 to 2015. (2) identify and provide status information for each recommendation reviewed and classified as follows:

Implemented: Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.

In Progress: Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.

Partially Implemented: Auditee implemented the recommendation in part, but is not making efforts to fully implement it.

Not Implemented: Auditee has not implemented the recommendation and indicates that it will not do so.

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 State Government Administrative Manual and Policy were used as criteria for compliance.

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Period of FY 2014-2015

With reference to the specific objectives, we noted the following (1) Kosrae Visitor's Bureau did not comply with the Financial Management Regulation and Kosrae State Code. KVB violates SL No. 8-99 maintaining bank account other than KVB revolving fund. (2) Most of the recommendation and commitment on the previous audit were not properly implemented.

Based on the foregoing findings, we recommend (1) that a report of deposit showing all the collection from sales and other sources must be prepared to match with the amount in the validated deposit slip. (2) a formal accounting procedure must be established in recording transactions involving in the fund. (3) the Bureau to ensure that supporting documents such as vendor's receipts, invoices and other documents must be checked verified and filed along with the duplicate copy of the check in every disbursement made. (4) a. a report of deposit showing the receipt numbers of the receipts used must be prepared to match with the amount in the validated deposit slip. b. also that the Bureau use an official receipt or sales receipt having a properly indicated serial number, enough to accommodate sales made in two months of time. (5) that the management must ensure proper and timely preparation bank reconciliation schedules. (6) that a regular monthly physical stocktaking to be conducted and to match actual inventory items to inventory records.

Details of our examination are discussed in the findings and recommendations section of this report.

The Office of the Public Auditor provided draft copies of this report to the Administrator of Kosrae Visitor's Bureau and Board of Directors for their review and comment on July 21, 2016. Copies of the SL No. 8-99 and the Management Response were attached as appendix 1 and 2. The contents were discussed with Kosrae Visitor's Bureau Management and were given 10 working days to respond.

Respectfully submitted,


Stoney S. Taulung
Public Auditor

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INTRODUCTION:

The Kosrae State Office of the Public Auditor (OPA) received the Legislative Resolution No. 11-80 to conduct a special audit on Kosrae Visitor's Bureau (KVB) and report to the Kosrae State Legislature. Accordingly, we visited previous audit conducted on FY 2010 and assess the implementation of recommendations as committed by the KVB management.

BACKGROUND

Kosrae Visitors Bureau was established by State Law no. 7-62 .The Bureau and was created to:

1. Promote and develop Kosrae's tourism industry, provide and disseminate information and materials promoting Kosrae as a visitor destination.; to promote local interest and participation at all levels of the visitor industry;
2. Assist both government and private entities in the development, implementation and promotion of programs to further education, training, employment assistance and entrepreneurial development.
3. Promote local cultural activities for the residents, promote items for local manufacture, and assist in the development of adequate tourist facilities and attractions. In addition,
4. Work with other entities to collect, analyze, evaluate and to regularly publish comprehensive data on the visitors industry.

The Bureau is governed by a Board of Directors which consists of five members, all are appointed by the Governor of Kosrae State with the advice and consent of the State Legislature. Three of the Board Directors shall be members of a private sector whose primary occupations are in the tourism industry.

The Board of Directors shall hire a Coordinating Officer who shall be responsible to the Board of Directors to execute its programs. The Board appoints a Coordinating Officer and fixes his compensation. The Coordinating Officer is tasked to manage the daily business of the Bureau, selecting and appointing employees of the Bureau. He is also directed to plan, organize, coordinate and control the services of such employees in the exercise of the responsibilities of the Bureau under the direction of the Board.

The board is required to present an annual report to the Governor and to the Legislature on the affairs of the Bureau within 60 days after the end of each fiscal year.

AUDIT OBJECTIVE AND SCOPE

Objectives

The purpose of this audit is to determine whether:

- (1) To determine whether receipt and disbursement of all funds are properly recorded, accounted for and authorized in accordance with applicable laws and regulations for the fiscal years ended September 30, 2014 and 2015.
- (2) Identify and provide status information for each recommendation reviewed and classified as follows:
 - ☐ **Implemented:** Auditee fully implemented the recommendation, either as described in the report or in a manner that resolved the underlying issue.
 - ☐ **In Progress:** Auditee has specific plans to begin, or has begun, to implement and intends to fully implement the recommendation.
 - ☐ **Partially Implemented:** Auditee implemented the recommendation in part, but is not making efforts to fully implement it.
 - ☐ **Not Implemented:** Auditee has not implemented the recommendation and indicates that it will not do so.

Scope

Our performance audit covered the transactions of the Kosrae Visitor's Bureau covering FY 2014 - 2015. 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 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

The audit was conducted in accordance with generally accepted government auditing standard (GAGAS). Those standards requires that we plan and perform the audit to obtain, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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.

We considered compliance to state laws and regulations 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 Visitor's Bureau employees and stakeholders. We also review of transaction process and documentation. In addition we perform assessment on the implementation of previous audit. The audit criteria used to develop the required audit tests were based on (1) the Financial Management Regulation (2) Kosrae Code; and (3) previous audit report issued.

PRIOR YEAR AUDITS/REVIEWS

This is the second time that a separate audit / examination was conducted with the Kosrae Visitor's Bureau.

CONCLUSION

We concluded that based on the audit objectives were:

- (1) Kosrae Visitor's Bureau cash handling did not comply with the Financial Management Regulation and Kosrae State Code. KVB violates SL no. 8-99 maintaining bank account other than KVB revolving fund.

- (2) Most of the recommendation and commitment on the previous audit were not properly implemented.

Finding No. 1: Kosrae Visitor's Bureau cash handling did not comply with the Financial Management Regulation and Kosrae State Code.

Condition: 1.a) KVB violates SL no. 8-99 maintaining bank account other than KVB revolving fund.

State Law : 8-99 amending Kosrae State Code 10.205 (1)(d) states that 'The Kosrae Visitors Bureau may retain monies received from the sale of books, postcards, handicrafts and other tourist material for the purpose of acquiring additional inventory of such classes of items'.

Auditors' examination of KVB documents reveals that the Bureau maintains two (2) separate checking accounts at the Bank of Federated States of Micronesia as follows:

<i>Kosrae Visitor's Bureau</i>	<i>77107-00068</i>	<i>Revolving Fund</i>
<i>Kosrae Tourism Conference</i>	<i>77102-04749</i>	<i>Special Events/Conference</i>

While the bureau was authorized by the state to maintain revolving fund account, the creation of the second account as a depository account for conference and special activities fund and donation is unlawful. In addition, the auditors noted that the said revolving fund although authorized by law was not recorded in the Kosrae State books this due to the bureau failure to report

Criteria: Kosrae State Law 8-99 authorizing the Bureau to retain only the monies from the sales of books, postcards, handicrafts and other tourist materials.

Effect: unauthorized withholding of excess fund from the Bureau activities.

Recommendation: We recommend that a report of deposit showing all the collection from sales and other sources must be prepared to match with the amount in the validated deposit slip. This schedule will be used for review of an independent individual doing the deposit function to ensure that all funds collected were properly and timely deposited.

It is also recommended that Kosrae Tourism Conference account at the Bank of FSM be accounted and closed.

Condition: 1.b) Incomplete records and documents at the time of fieldwork

08/28/2014	Bank of FSMDB	150.00	08/28/2014
08/28/2014	Bank of Guam	500.00	08/29/2014
10/02/2015	Bank of FSM	300.00	10/12/2015

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10/09/2015	Bank of Guam	500.00	10/13/2015
12/2015	FSM Development Bank	1,200.00	10/12/2015

Total		2,650.00	
		=====	

Our verification the Kosrae Tourism Conference bank account does not show deposits the above check donations. Subsequently, it was reported as deposit in the Revolving Fund account. During the review of documents, the auditor was not able to identify the above mentioned checks because the Bureau fails to prepare schedule of deposits showing details of deposits.

Criteria: All collections from sales and other sources should be summarized into a schedule of deposit showing sales and collection details and should be attached to the validated deposit slips.

Cause: Failure of the management to implement prudent procedures in deposit transaction as recommended in the previous audit.

Effect: Possibility of misappropriation of fund.

Management Response:

The management of Kosrae Visitor's Bureau asked that finding 1.a be removed for the reason deposit was actually made to the Tourism Conference Account with general account name Kosrae Visitors Bureau the same name as the Tourism Revolving account. (See: appendix A).

Auditor Response:

The condition 1.a was result of incomplete submission of documents as requested by the auditor-in-charge during the audit fieldwork. This is also due to the poor compliance of the KVB commitment to the previous audit recommendation. (read: Follow-up audit Report)

Follow-Up Report on Prior Audit Findings Status of Findings

Finding No. 1 – Absence of formal accounting procedures and books of accounts

Condition: We noted that Kosrae Visitors Bureau does not practice prudent accounting procedures to record and report its fund transactions. The Bureau does not have books of accounts, chart of accounts nor proper procedures to records fund transactions.

Recommendation: Formal accounting procedures must be established in recording transactions involving the fund. At minimum, chart of accounts must be prepared to include Cash, Inventories, Sales, Cost of Sales and types of expenses. Also, book of accounts for cash, sales, inventories and expenses must be established. By doing so, required financial statements can be easily prepared. This is also the reason of the finding 1 Condition 1b.

We strongly recommend also using the proforma chart of accounts, accounting entries and proforma balance sheet & statement of revenues. By doing this, the Bureau will be able to properly its fund transactions and submit the required financial statements in the state single audit.

Status: Partially Implemented

The auditor found out that the Bureau is using a single entry accounting in excel format. Although it uses basic chart of account as recommended, the system is not sufficient to produce a reliable financial reporting such as balance sheet & statement of revenue. The report submitted to the auditor titled as Change in Net Asset does not summarized the transactions within the basic accepted accounting and reporting principles to reflect the financial status of the Bureau.

Finding No.2 – Disbursement of Funds

Condition: The management failed to maintain proper and adequate documentation for its disbursement for fiscal year 2004 and 2005

Recommendation: We recommend that the Bureau to ensure that supporting documents such as vendors' receipts, invoices and other documents must be checked verified and filed along with the duplicate copy of the check in every disbursement made. Filing should be made based on the check numbers of related check disbursed. Separate folders should be maintained to accommodate disbursement on a monthly basis, if practicable.

Status: Partially Implemented

Review of files reveals that the Bureau fails to consistently implement the auditors' recommendation on proper filing of paid receipt and use of disbursement form. The auditor noted use of "KVB Invoice" as disbursement voucher to pay the supplier however it is not consistently numbered. The secretary admits that sometimes she forgets to put number on it.

Finding No.3 - Cash Reciepts

Condition: We noted that the Bureau does not prepare schedule of deposit showing cash sales receipt numbers in every deposit transaction. Its sales log worksheet to accommodate listings of sales does not include sales receipt numbers. We also found out that some cash receipts from sales were not deposited, instead these are being used to pay for gasoline, automobile repairs, tour guide & cultural demo fees and other supplies.

Recommendation: We recommend that a report of deposit showing the receipt numbers of the receipts used must be prepared to match with the amount in the validated deposit slip. This schedule will be used for review of an independent individual doing the deposit function to ensure that all funds collected were properly and timely deposited. Also, preparation of this schedule helps in the reconciliation of bank balances.

We recommend also that the Bureau use an official receipt or sales receipt having a properly indicated serial numbers, enough to accommodate sales made in two months time.

All revenues arising from sales collected must be deposited in the bank and all expense disbursements should be made through the usual checking disbursement account of the Bureau as discussed in Recommendations in finding no. 2.

Status: Partially Implemented

Receipts and deposit records were reviewed and monies are promptly receipted, posted and deposit for the FY 2010 to FY2014. However, KVB fails to consistently implement the recommended procedure. Further review of the transaction reveals that the Bureau stops the bank transaction and went back to the old collection and payment system due to lack of authorized signatories.

Finding No. 4 – Bank reconciliation schedules are not being prepared

Condition: The Bureau is not preparing bank reconciliation schedules to reconcile its cash amount on its book and its bank balance.

Recommendation: We recommend that management must ensure proper and timely preparation bank reconciliation schedules. At minimum, the same must be prepared on a monthly basis. Differences identified during the process should be investigated and resolved immediately. Bank reconciliation is a vital tool to detect errors or irregularities involving cash.

Status: Partially Implemented

Bank reconciliations are now performed timely, however this done only for the Kosrae Visitor's Bureau account for revolving fund and not with the Kosrae Tourism Conference account.

Finding No. 5 – Absence of controls over sales receipts

Condition: During our examination we noted that the Bureau lost control on its sales receipts procedures. We noted receipts issued were not properly prenumbered, filed and accounted for. Several receipts were also missing. We also noted that sales receipts used on its sale transactions were also being used as receipts on payments for its vendors.

Recommendation: We highly recommend that the Bureau to have its own receipts printed and must be only used for sale of inventories. Payments to vendors should be documented with their vendors' invoices or vendor's receipts.

Status: Partially implemented

Auditors noted that the KVB does not have an official receipt or sales receipt and still using generic receipt available at any office supplies store. However, the auditors' review of the sales

reveals that sales receipts are accounted and properly logged. The Bureau uses the generic receipt solely for sales and uses separate form to pay the suppliers.

Finding No. 6 – Regular physical stocktaking of inventories

Condition: During our examination, we noted that there was no regular stocktaking of inventories being conducted by the Bureau. Monthly reports do not include amount of inventories or “items available for sale”.

Recommendation: We recommend that a regular monthly physical stocktaking to be conducted and to match actual inventory items to inventory records. By doing so, differences can be easily identified and will facilitate preparation of the required financial statements.

Status: Implemented

Auditors’ review of documents and records reveals that the Bureau is implementing effective inventory system using specific identification inventory which are tag per item and per supplier.

Finding No. 7 – Annual Reports

Condition: We found out that the management of the Bureau did not comply with one of its enabling law provisions to prepare and submit its annual report for fiscal years 2004 and 2005. No annual reports were prepared for these periods.

Recommendation: We recommend compliance with laws and regulations.

Status: Implemented

The Bureau was able to submit annual report for the FY 2014-2015.

ANNEX 1

EIGHT KOSRAE STATE LEGISLATURE
FIFTH REGULAR SESSION, 2005

State Law No. 8-99
L.B. No. 8-182

A BILL FOR AN ACT

To amend Section 10.205(1)(d) of Title 10 of the Kosrae State Code, to replace "Department of Commerce and Industry" with Kosrae Visitor Bureau"; and for other purposes.

BE IT ENACTED BY THE KOSRAE STATE LEGISLATURE

Section 1. Purpose. This amendment is introduced to clarify that the Kosrae Visitors Bureau has taken up all functions and duties formerly carried by the Division of Tourism under the Department of Commerce and Industry, as mandated under State Law No. 7-62.

Section 2. Amendment. Section 10.205(1)(d) of Title 10 of the Kosrae State Code is hereby amended to read as follows:

"(d) The Kosrae Visitors Bureau may retain monies received from the sale of books, postcards, handicrafts, and other tourist material for the purpose of acquiring additional inventory of such classes of items."

Section 3. Effective Date. This act takes effect upon its approval by the Governor or upon its becoming law without such approval.

PASSED BY EIGHT KOSRAE STATE LEGISLATURE ON THIS 24th DAY OF
FEBRUARY, 2005.

/s/ Hiteo S. Shrew

Speaker, 8th Kosrae State Legislature

Attested by: /s/ Tosie K. Elley
Chief Clerk

Rensley A. Sigrah
Governor, State of Kosrae

Date: _____

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ANNEX 2



KOSRAE VISITORS BUREAU

P.O. BOX 659

Tofol, Kosrae 96944, Federated States of Micronesia

Email: Kosrae@mail.fm, Web site: www.Kosrae.com

Tel: (691) 370-2228, Fax: (691) 370-2187



May 19, 2016

Mr. Stoney Taulung
Kosrae State Auditor, Kosrae State Government
Tofol, Kosrae, FSM 96944

Subject: MANAGEMENT RESPOND ON KVB AUDIT 2014-2015 REPORT

Dear Mr. Taulung:

I hereby wish to submit management comments to the draft Audit Report for KVB for FY2014-2015 concluded by your office and discussed during the Exit Conference on May 06, 2016. As you had pointed out that you had finalized all parts of this audit, I thank you for those findings and ways to improve our accounting and reporting in this important matter. Also, as your designated Auditor Ms. Alice S. George who worked on this audit had pointed out, there were two main objectives used in examining the funds used by KVB in the duration being audited, had found following findings:

1. KVB cash handling did not comply with FMR and State Code specifically on two issues as follows:
 - a. Unidentified deposits of \$2,650.00
 - b. Violation in creation of a bank account other than the Tourism Revolving Fund
2. Follow Up on previous audit of FY2004-2005.
 - a. 1. Absence of format accounting procedures and books of accounts
 - b. 2. Disbursement of funds
 - c. 3. Cash Receipts
 - d. 4. Bank reconciliations
 - e. 5. Absence of control over sales receipts
 - f. 6. Regular stocktaking inventory
 - g. 7. Annual Reports

Management Responses:

In Objective 1 above,

On Objective 1.a above, we would like to ask that you remove from the audit this particular section as it is a non-issue regarding deposits being unidentified. We had verified that Ms. George's findings were not as thorough as she had claimed and we have found out that all deposits claimed to be unidentified are actually deposited and accounted for in the account that should be deposited into. Further, her statement saying that deposits were made in to the Revolving fund account was not true too. The attached Appendix A, B, and C will tell you that the Tourism Conference account is called Kosrae Visitors Bureau, same name as the Tourism Revolving account being called Kosrae Visitors Bureau as verified by Bank of FSM(Appendix C) that both accounts used the same name. The attachment Appendix A will also show each check deposited and accounted for in total amount of

KVB

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Email: Kosrae@mail.fm, Web site: www.Kosrae.com

Tel: (691) 370-2228, Fax: (691) 370-2187



\$2,650.00 in the Tourism Conference account unlike her statement in the report which those statements are presumptuous and can be very damaging for us.

For the finding in number 1.b regarding an account that the Board created (Appendix C) in June 09, 2009, it is the understanding of the Board of Directors during that time, during the inception of the said account that a Resolution of the Board is within power and authority of the Bureau as an agency of the State a right to create such an account through a signed Board Resolution. The intention of the account was to keep donated funds for the events of KVB such as hosting conferences and Rockhopper. Additionally, only the board members can sign off on disbursements and not management to avoid mismanagement of the account. We have seen other entities in our government do the same practice for their events for many years, for example, the State Fair Committee. **Our plan of Actions:** We could immediately close the account and deposit future donations in to the State Treasury to be re-appropriated to the KVB regular budget for hosting of future events.

On Objective 2 above,

We concur with all her Findings on Objective 2: # 1-6 as listed above due to technical difficulties we faced in managing the Revolving Fund throughout the ten years since last audit and find your findings to be unquestionable. FYI, there are several valid reasons why the problems keep occurring and we wish to share these issues again in this audit. Basically, the problems started with issues lack of knowledge; we have difficulties in learning accounting and technical reporting while on the job with many other projects of the agency. We also have issue of time as we lack time to work on the account because of limited staff. Additionally, our office went through several staff changes and during the staff changes, responsibilities to manage the account were overlooked. There were three staff changes and particularly staffs responsible to oversee this account were those who were changed which causes us to overlook responsibilities. After the last audit, these issues still lingered on similarly to the period in this current audit. We need help. **Our plan of Action:** we will comply with this audit and try our best for improvements that are needed in Findings 1-6. For Finding 7 in this section, we will start complying with submitting periodic reports on regular basis based and procedures to our leaders and State Division of Finance.

We want to be able to present you this respond for any possible changes before you officially put out the final report. We thank you very much for your efforts in this project which I know will help us in the long run.

Sincerely,

Grant Ismael
KVB Administrator

Cc : KVB board and file

KVB

PUBLIC AUDITOR'S COMMENTS

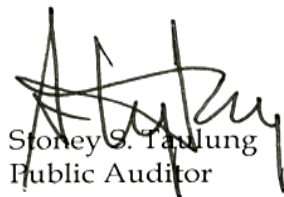
We would like to extend our appreciation to Kosrae Visitor's Bureau Management and Board for their cooperation and assistance throughout the course of our audit.

In compliance with Generally Accepted Government Auditing Standards, a copy for the draft report was shared with Kosrae Visitor's Bureau with a management response. The response is attached which agreed on most of the findings and recommendations except requesting few changes to be made before final report released.

In addition to providing a copy to the Administrator of Kosrae Visitor's Bureau, we also extend copies to the following officials and agencies:

1. Governor, Kosrae State
2. Speaker, 11th KSL
3. Members of the 11th KSL
4. Chief Clerk, Kosrae State Court
5. V6AJ Radio

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



Stoney S. Taulung
Public Auditor

ACKNOWLEDGEMENT AND OPA CONTACT

Audit of the Kosrae Visitor's Bureau on Cash Handling Procedure
Report No. PA 03-2016

OPA Contact Stoney S. Taulung, Public Auditor
ksauditor@mail.fm

ACKNOWLEDGEMENT Emma Balagot, CPA, Audit Manager
The audit staff contributed to the report Alice S. George, Auditor III

OPA Mission Conduct effective and efficient audits and
Investigation to ensure that Government
resources are properly managed.

OFFICE CONTACT Government of Kosrae
Office of the Public Auditor
Post Office Box 847
Kosrae State Federated States of Micronesia
96944

Telephone Number: 691-370-3766