

Audit on Utwa Municipal Government

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



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November 21, 2017

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

Re: Performance Audit on Utwa Municipal Government

EXECUTIVE SUMMARY

We respectfully submit this Performance Audit PA 03-2017 on Utwa Municipal Government covering the period of FY 2014-2016.

The objective of the audit was to determine whether (1) Utwa Municipal Government cash receipts and disbursements are properly recorded, accounted for and authorized in accordance with applicable laws and regulations and (2) Utwa Municipal Government has the adequate controls in place to safeguard its assets against loss, waste, and misuse.

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, Utwa Financial Management Act was used as the criteria for compliance.

With reference to the specific objectives, we noted the following (1) Utwa Municipal Government was not able to provide adequate documentation of its disbursements for the period covered (2) Collections and other funds received to include revenue shares and state appropriations for the period covered were not recorded (3) Checks issued payable to cash and; (4) Municipal properties and assets were not accounted for.

Based on the foregoing findings, we recommend (1) that all supporting documents for disbursements be verified, approved, and filed in every disbursement made (2) that collections received through the use of official receipts and recorded in the cash receipts book (3) that the council pass a resolution to prohibit issuance of checks payable to cash (4) that the Utwa Municipality account and conduct physical inventory of all fixed assets.

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 with the Acting Mayor of Utwa Municipal Government and the Chairman of Utwa Municipal Council for review and comment on November 16, 2017. Attached with the report as annex 1 is the Utwa Municipal Government management respond dated November 21, 2017.

Respectfully submitted,


Stoney S. Taulung
Public Auditor

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INTRODUCTION:

The Kosrae State Office of the Public Auditor (OPA) received a request from Utwa Municipal Council as Resolution No. 16-01 to conduct an audit on Utwa Municipal Government in compliance with laws, regulations, and policies on the operational and financial activities.

BACKGROUND

Utwa is one of the four municipalities of Kosrae. The municipal governments are provided for in Title 8 of the Kosrae State Code. The Utwa Municipality has a charter, which provides for the structure and operation of a democratic government and other matters within its jurisdiction in a manner consistent with the law. The charter of a municipality remains in effect until amended or repealed. If a charter provision is inconsistent with a higher provision of law, the higher provision substitute for the charter provision. An affirmative referendum vote shall amend, repeals, or adopts a new charter. If not, ordinance may establish a procedure.

Like the other municipalities, Utwa Municipal Government has three branches of government and they are; the Executive, the Legislative, and the Judiciary. The executive authority of Utwa Municipal Government shall be vested in the Mayor. The Mayor shall be elected by majority of the qualified voters of the municipality at a general election. Mayor serves a term of 2 years and is responsible for the execution of ordinance and other functions established under the Utwa Constitution.

The legislative authority of Utwa Municipal Government is vested in the Municipal Council. The Council shall be composed of 5 members, who shall be elected every 2 years at the general election by the qualified voters of Utwa Municipal Government. It is the responsibility of the Council to set, provide policies and guidelines through the office of the mayor.

The Utwa Municipal Government has its own Manual of Administration. UMG's Manual of Administration was updated and in effective in October 2005. The manual is designed to provide policy and guidelines for the operation of Utwa Municipal Government. It contains policies for employment, personnel management, and related administrative functions. This manual is subject to change by the office of the Mayor but must have prior approval by the Utwa Municipal Council.

AUDIT OBJECTIVE

The objectives of our audit are the following:

1. To determine whether Utwa Municipal Government cash receipts and disbursements are properly recorded, accounted for and authorized in accordance with applicable laws and regulations;
2. To determine whether Utwa Municipal Government has adequate controls in place to safeguard its assets against loss, waste, and misuse.

AUDIT SCOPE

The audit covered fiscal years ended September 30, 2014 through 2016. We have summarized all the disbursements for the period and noted incompleteness of documents submitted for review and evaluation. However, we examined available receipts and disbursements for the period covered. We gathered information from the office of Utwa Municipal Government and the Department of Administration and Finance. This is the first time an audit has been conducted on Utwa Municipal Government. 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 the 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 Utwa Municipal Government employees. We also review transaction process and documentation. In addition, we perform assessment on the implementation of a previous audit. The audit criteria used to develop the required audit tests were based on (1) the State Financial Management Regulation (2) the Utwa Financial Management Act and (3) the Utwa Municipal Government Manual of Operation.

PRIOR YEAR AUDITS/REVIEWS

This is the first time that a separate audit / examination was conducted with the Utwa Municipal Government.

CONCLUSION

Based on the audit objectives, we concluded that:

1. Utwa Municipal Government's cash receipts and disbursements of funds were not properly accounted for. Due to absence of required supporting documents we were not able to completely determine whether those were valid and authorized.
2. Utwa Municipal Government has inadequate controls in place to safeguard resources against loss, waste, and misuse.

Finding No. 1 Utwa Municipal Government was not able to provide adequate documentation of its disbursements for the period covered.

Finding 1.1 Payroll disbursements and meeting allowances were not adequately supported.

Based on the documents available in the Municipality, all disbursements were not adequately supported with disbursements documents as to receipts, payroll sheet computations, and minutes of meetings for council meetings.

There was minimal effort in requiring and filing required documents in every disbursement of fund. The management did not practice systematic and organized filing of disbursement documents.

As a result, the auditors were unable to determine whether funds disbursed were legal or authorized. Loss of government funds for unauthorized disbursements is highly possible.

Recommendation: We recommend the management that all supporting documents for disbursements be verified, approved, and filed in every disbursement made. A pre-numbered disbursements voucher will be helpful in every disbursement documenting the purposes of disbursements, approvals, availability of funds, and to list other supporting documents included in the disbursements. This voucher will be filed chronologically by attaching the supporting documents such as receipts, payroll sheet computations, minutes of council meetings, and other documents necessary. In addition, we recommend that a disbursement ledger be maintained and kept up to date.

Finding No. 2. Collections and other funds received to include revenue shares and state appropriations for the period covered were not recorded.

Based on available bank statements and documents provided by the municipality, we have noted that collections were not receipted and recorded for the period under examination. Utwa Municipal Government did not record, document, and log collections during examination period. Although we have noted copies of deposit slips showing collections, however those were not receipted and identified as to the nature of collection.

In addition, funds received from the state revenue and appropriations were not recorded in the books of account of the municipality.

Management did not consider documenting collections received through the use of official receipts and recording of funds received from the state government. Funds that were not logged and receipted are more vulnerable to misappropriation.

Recommendation: We strongly recommend that collections be receipted using an official receipt and recorded in the cash receipts book. Funds received from state government through appropriations should be recorded in the Utwa Municipal books of accounts.

Finding No. 3 Checks issued payable to cash.

Based on our review of the disbursements and copies of checks issued for the period covered, we noted that there were checks issued payable to “cash”. Supporting documents were not available in the municipality.

Best practice of strong internal control procedure over check disbursements suggest that no checks should be made “payable to cash”. The management was not able to realize the importance of prohibiting issuance of checks payable to cash and bearer. With this, risk of fund misappropriation is very high.

Recommendation: We strongly recommend that the council pass a resolution to prohibit issuance of checks payable to cash.

Finding No. 4 Municipal properties and assets were not accounted for.

The municipality did not account for its fixed assets nor was a physical inventory conducted. There was no schedule/list of fixed assets and properties during period of examination.

There has been a minimal effort on the part of the management to impose the requirements inventory and tracking of all properties. Proper monitoring of these assets cannot be easily performed.

Recommendation: We recommend that the Utwa Municipality account and conduct physical inventory of all fixed assets.

Management Letter Response:



PUBLIC AUDITOR'S COMMENTS

We would like to extend our appreciation to the Utwa Municipal Government for their cooperation and assistance throughout the course of our audit.

In compliance with government auditing standards, a copy of this draft report was shared with the Acting Mayor and Chairman of the UMG Council to provide response to the findings.

In addition to providing copies of this report to the Mayor, Chairman of the Council and Council Members, we also extend copies to the following officials:

1. Governor, Kosrae State
2. Speaker, 11th KSL
3. Members of the 11th KSL
4. Chairman, Kosrae Delegation to Congress
5. Chief Clerk, Kosrae State Court
6. V6AJ Radio
7. 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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ACKNOWLEDGEMENT AND OPA CONTACT

Audit on Utwa Municipal Government

Report No. PA 03-2017

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

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