

# Performance Audit on Handling of Collection of Kosrae Broadcast Authority

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



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# GOVERNMENT OF KOSRAE

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October 13, 2016

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

### **Re: Performance Audit on Kosrae Broadcast Authority on Handling of Collection**

#### **EXECUTIVE SUMMARY**

We respectfully submit this Performance Audit PA 04-16 on handling of collection for the Kosrae Broadcast Authority for the covering period of FY 2013-2015.

The objectives of the audit were to determine whether (1) receipt and disbursement of all funds are properly recorded, accounted for and authorized in accordance with applicable laws and regulations for the fiscal years 2013-2015. (2) all fixed assets and supplies are accurately recorded and are adequately safeguarded.

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 (FMR) and Kosrae State Code (KSC) were used as criteria for compliance.

With reference to the specific objectives we noted the following (1) Kosrae Broadcast Authority cash handling did not comply with the Financial Management Regulation and Kosrae State Code. KBA violates the KSC 10.205 for the provision on timely transmittal of collection to the Department of Administration and Finance. (2) Kosrae Broadcast Authority has no sufficient control over cash collection. (3) Fixed Assets are not accurately recorded and are not adequately safeguarded.

Based on the foregoing findings, we recommend (1) that the management of Kosrae Broadcast Authority should develop a system to ensure that all collections are properly identified, control totals developed and collections promptly deposited intact within the period that the Kosrae State Law and Financial Management Regulation require. (2) report of deposit showing the receipt numbers of the receipts used must be prepared to match with the amount in the transmittal 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. (3) KBA should have proper inventory of their official receipt to ensure sufficient booklet for 3 months collection. (4) KBA should provide a good filing system for its entire documents especially used receipts and transmittal receipts for audit purposes. (5) that the State should provide a clear policy on the submission of list of donated items and tagging. Thus, we recommend that the Financial Management Regulation (FMR) be updated to provide a specific provision on the reporting, recording, and use of donated items in the government offices and agencies. (6) Executive Policy No. 46 for use of the equipment should be strictly followed. Therefore, we recommend that KBA should provide a form that could monitor and authorize the use of 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 Manager of KBA for his review and comment on October 05, 2016. Attached with the report as annex 7 is the KBA management response dated October 11, 2016.

Respectfully submitted,

  
Stoney S. Taulung  
Public Auditor

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## **INTRODUCTION:**

This audit was conducted by the Kosrae State Office of the Public Auditor (OPA) due to concern raised by the Department of Administration and Finance regarding weak control involving the cash collection by the Kosrae Broadcast Authority (KBA). Accordingly, we performed cash count however there was no collection at the time of the cash count. Initial review of documents submitted to us by the finance displayed sound purpose to conduct performance audit on handling of collection.

The auditor also includes inspection of fixed assets to heed to the public concern on the unauthorized use of certain fixed assets.

## **BACKGROUND**

Kosrae State Code title 7 chapter 2 sections 7.201 to 7.207 established the power and duties of Kosrae Broadcast Authority to broadcast regular radio programming pursuant to the law. (see: annex 1)

### **Financial Management Regulation (FMR)<sup>1</sup>**

“The purposes of these regulations are to implement and establish a Financial Management System, setting forth guidelines, procedures, requirement, and standards to provide fiscal control and accountability over public funds and other funds for which the government is a trustee<sup>2</sup>, a fiduciary<sup>3</sup>, or is any other way responsible.”

### **Cash Collection<sup>4</sup>**

Section 10.203. Treasurer. The Director<sup>5</sup> is the Treasurer and has full responsibility and authority for the Treasury, for the collection, administration, and safekeeping of all public funds deposited in the Treasury as general realizations of the Government and for disbursements from the Treasury pursuant to law.

#### Section 10.205. The Revenue Fund

The Revenue Fund contains all monies received by the Government pursuant to a law imposing a tax, duty or tariff, and all other revenues and reimbursements from a fine, fee, license, interest, rent, or Government service, and other Government collection or collections by a government for the Government's benefit except as otherwise required by law. A person

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1. **FMR** - These regulations are promulgated by the Director of the Department of Administration and Finance pursuant to Sections 10.202 and 2.402 of the Kosrae State Code. These regulations shall have the force and effect of law.

<sup>2</sup> **Trustee** - An individual or organization which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the beneficiary's interests in mind, and may be liable for damages in the event of not doing so

<sup>3</sup> **Fiduciary** - a person to whom property or power is entrusted for the benefit of another.

<sup>4</sup> **Cash collection** is the total amount of your cash receipts for the accounting period.

<sup>5</sup> **Director** – is referred to the Director of Administration and Finance

who receives monies pursuant to this section **transmits the monies within seven days of receipt to the Division of Finance and Budget for deposit in the Revenue Fund.**

Exemptions of which include but not limited to KBA collection (KSC 10.205- (1)(i) which states: (see: annex 2 ). Likewise, this provision was comprised in FMR VI (6.3) Fund Accounts (see: annex 3)

- (i) The Division of Finance and Budget retains in a Broadcast Authority Fund all monies from payments received from advertisements and other broadcasting programs requiring payments to the State Broadcast Authority. Monies in the Broadcast Authority Fund are available solely for the purpose of funding operations of the State Broadcast Authority

### **Fixed Asset**<sup>6</sup>

#### **FMR Part V. Property Management and Control**

##### 5.1 General

a) This Part shall apply to the following property of the Kosrae State Government: typewriters, computers, filing cabinets, vehicles, copy machines, desks, chairs, printers, boats, tables, air conditioners, heavy equipment, grass eaters, green machines, lawn mowers, refrigerators, washers, dryers, stoves, and any Personal Property with a value of \$1,000 or more and a useful life of more than one year (hereinafter all and any of these things shall be referred to as “Property”).

b) Such property shall be under the overall control and accountability of the Director, or his designee, excluding property under the administration of the State judicial system, as required under Section 8 of Article VI of the Kosrae State Constitution. Therefore, under this Part V, only Section 5.8 of these regulations shall apply to property under the administration of the State judicial system or property under the administration of the State Legislature.

c) Buildings and real property owned by the Kosrae State Government shall be referred to as “Fixed Assets”.

5.2 Identification of State Property. Once Property has been acquired by the State, the Branch Head or Department Head in the Executive Branch where the Property is being used

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<sup>6</sup> **Fixed assets**, also known as tangible assets[1] or property, plant, and equipment (PP&E), is a term used in accounting for assets and property that cannot easily be converted into cash. Fixed Assets as assets whose future economic benefit is probable to flow into the entity, whose cost can be measured reliably.

shall be responsible for notifying the Director of the acquisition of such Property and shall designate a Property Custodian from within their branch or department. Thereafter, the Director, or his designee, shall identify all Property as follows:

a) With respect to Kosrae State vehicles placed in service within Kosrae, by affixing a Kosrae State decal and Kosrae State license plate(s), unless otherwise approved by the Director, or his designee; and

b) With respect to all other Property to assign and affix a property tag number to each item at the time of receipt.

## **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 2013- 2015.
- (2) To determine whether all fixed assets and supplies are accurately recorded and are adequately safeguarded.

### **Scope**

Our performance audit covered the transactions of the Kosrae Broadcast Authority for the period covering fiscal year 2013-2015. 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 Broadcast Authority 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 the Financial Management Regulation (FMR) and Kosrae State Code (KSC).

## **PRIOR YEAR AUDITS/REVIEWS**

This is the first time that a separate audit / examination was conducted with the Kosrae Broadcast Authority

## **CONCLUSION**

We concluded that based on the audit objectives were:

- (1) Kosrae Broadcast Authority cash handling did not comply with the Financial Management Regulation and Kosrae State Code. KBA violates KSC 10.205 for the provision on timely transmittal of collection to the Department of Administration and Finance.
- (2) Kosrae Broadcast Authority has no sufficient control over cash collection.
- (3) Fixed assets are not accurately recorded and are not adequately safeguarded.

### **Finding No. 1: Kosrae Broadcast Authority (KBA) cash handling did not comply with the Financial Management Regulation and Kosrae State Code.**

**Condition :** Late transmittal of collection for more than 2 months.

Kosrae State Code (KSC): 10.205 clearly state that “A person who receives monies pursuant to this section transmits the monies within seven days of receipt to the Division of Finance and Budget for deposit in the Revenue Fund.” KBA however, failed to transmit their collection within the specific period that the code requires. However, the auditors’ review of the collection and transmittal documents shows that KBA normally withheld the collection longer than the period required by the law and regulation. (see: annex 4)

**Effect:** Delayed recording of cash receipts and withholding cash collection. Possibility of misuse of fund.

**Cause :** The condition resulted from inability of the management to establish and implement a policy to include controls and procedures.

**Recommendation:** We recommend that the management of KBA should develop system to ensure that collections are properly identified, control totals developed and collections promptly deposited intact within the period that the state law and the financial management regulation requires.

**Finding No. 2: Controls over collection are weak**

2.a ) FY 2013-2015 Completeness of Collections Cannot Be Reviewed Due:

1. Collection Without Receipt due to Unavailability of Official Receipt

The auditor noted collection without receipt from September 2012 – March 2013 for \$ 339.00 allegedly they ran out of official receipt and they waited for the printer to deliver.

2. Missing Official Receipts

During our examination reveals that KBA lost control on its sales receipts procedures. We noted that receipts issued were not properly filed and accounted for. Several receipts were also missing.

2.b) No Record Was Being Maintained For Daily Collection.

We noted that the Authority does not maintain any record to summarize the daily collection. Hence, review of transmittal receipt from State Treasury does not show complete details on inclusive cash receipts.

In addition the total number of transactions logged in the Radio Announcement Log Form <sup>7</sup> does not matched with the total number of receipts. *Thus, there is a strong indication that some of the collections were not receipted and reported to the Finance.*

2.c) Untimely deposit

The comparison made based on the FY2013 - 2015 collection summary reveals that cash collections were deposited late ranging from 2 weeks to 2 months from the date of collection.

**Effects:** Loss of fund and possible misappropriation.

**Causes:** This condition is caused by lack of controls and its implementation over collection and deposits.

**We recommend that:**

1. Report of deposit showing the receipt numbers of the receipts used must be prepared to match with the amount in the transmittal slip. This

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<sup>7</sup> Radio Announcement Log Form - record pertaining to all the announcement request received and rendered by KBA

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.

2. KBA should have proper inventory of their official receipt to ensure sufficient booklet for 3 months collection.
3. KBA should provide good filing system for its entire documents specially used receipts and transmittal receipts for audit purposes.

**Finding No. 3: Controls over fixed asset are weak.**

3.a) Donated assets were not reported and recorded at the Procurement and Supplies Unit

The auditors conducted a surprise inspection of fixed assets and found out some items were not tagged by the Procurement and Supplies Unit. Our interview with the KBA staff reveals that those items were donated by the Church of Jesus Latter- day Saints<sup>8</sup>. They claimed that they are not aware that donated assets should be reported to the Procurement and Supplies Unit for recording and tagging.

3.b) No sufficient policy on the fixed asset custodianship and borrowings.

During the asset counting, the auditors notice empty boxes of *Yamaha CD-C600, Yamaha Speaker MG166 cx-USB, Speaker Stand, Yamaha Power Amplifier P5000s*.

The said items were not in the KBA office at the time of counting and that the manager told the auditors that those items are with him but did not mention the reason why he took it. Furthermore, we were informed by the staffs that a *copier and desktop* were also with the manager. ( see: annex 5)

**Effects :** Use of equipment or other assets for other than the government's benefit.

**Cause :** Unclear policy on donated items and failure of the KBA management to create proper monitoring form for fixed assets.

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<sup>8</sup> **Church of Jesus Latter-day Saint** is a religious group and registered non- profit organization located at Lelu Municipality, Kosrae, FSM

**We recommend that:**

1. The State should provide a clear policy on the submission of list of donated items and tagging. Thus, we recommend that the Financial Management Regulation (FMR) be updated to provide specific provision on the reporting, recording and use of Donated Items in the government offices and agencies.
2. Executive Policy<sup>9</sup> No. 46 (see: annex 6) for use of the equipment should be strictly followed. Therefore, we recommend that KBA should provide form that could monitor and authorize the use of the assets.

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<sup>9</sup> **Executive Policy** -All policies issued for internal use within the Executive Branch of the Kosrae State Government will use the standardized procedure format

## **ANNEX: 1**

### **Title 7. AGENCIES AND GOVERNMENT FINANCED ENTERPRISES**

#### **Chapter 2. The Broadcast Authority**

**Section 7.201. The Broadcast Authority.** The Broadcast Authority has the power and duty to:

(1) Broadcast regular radio programming pursuant to law.  
Cross-reference: For delayed effect see Section 1.304(1).

**Section 7.202. Authority Board.**

The Authority is directed by a board of five members who serve terms of two years. Until appointment of a majority of the board the Authority's affairs are managed by its highest ranking staff person.

**Section 7.203. Authority policy.**

The board establishes, and supervises adherence to, Authority policy. A final Authority decision concerning programming is subject to review by the board.

**Section 7.204. Broadcast standards.**

(1) Subject to reasonable regulation by the board, Authority policy and activities conform to the following broadcast standards:

- (a) reasonable access for the expression of opinion;
- (b) the opportunity to reply to criticism;
- (c) conformity to law;
- (d) respect for community standards of decency;
- (e) independent, fair, and balanced reporting of the news.

(2) Authority policy allows for the presentation of a commercial broadcast message for a fee.

**Section 7.205. Access.**

(1) To ensure access the Authority adheres to the following:

- (a) A candidate for elective office has free access to the use of broadcast facilities. A program submitted for broadcasting by a candidate is broadcast as submitted without preview or censorship or follow-up commentary by the Authority. A program submitted by a candidate may relate to any issue of public interest. Upon conclusion of a program by a candidate, there is an announcement disclaiming Government and Authority responsibility for the views expressed.
- (b) The Authority gives an individual or representative of an identifiable group who holds views on an issue of public importance contrary to broadcasted views a reasonable opportunity to present his view.

- (c) The Authority gives an individual or identifiable group which is the subject of criticism, argument or debate during a broadcast an opportunity to respond to the criticism, argument or debate. The responding broadcast is of a duration, and is broadcast at hours, calculated to:
  - (i) reach the same audience as likely heard the original broadcast; and
  - (ii) achieve a timely and adequate response or rebuttal.
- (2) In giving timely and equal access to an entitled person, the Authority may decline to interrupt regularly scheduled broadcast programming.

**Section 7.206. Authority staff.**

The Authority has staff positions determined by the board and funded by law, including an Authority Manager nominated and appointed by the board with the advice and consent of the Legislature. The Authority Manager is the highest ranking staff person and is responsible for the operation of the Authority, subject to board control.

**Section 7.207. Report.**

Eighteen months following the Code's taking effect the Governor reports to the Legislature the Executive's then current broadcasting activities and the feasibility and desirability of a transfer of broadcasting functions to the Authority.

**Annex: 2 TITLE 10: FINANCE**

**CHAPTER 2 : FISCAL MANAGEMENT**

**Section 10.205. The Revenue Fund.**

(1) The Revenue Fund contains all monies received by the Government pursuant to a law imposing a tax, duty or tariff, and all other revenues and reimbursements from a fine, fee, license, interest, rent, or Government service, and other Government collection or collections by a government for the Government's benefit except as otherwise required by law. A person who receives monies pursuant to this section transmits the monies within seven days of receipt to the Division of Finance and Budget for deposit in the Revenue Fund except that:

(a) the Department of Resources and Economic Affairs shall maintain a revolving fund known as the Production Development Fund.

(i) The Fund shall be used:

1. to make low interest loans to individuals to assist with the production of goods for export or sale or consumption in Kosrae; or
2. to make bulk purchase of agriculture supplies for re-sale to farmers at a price no greater than 10% of the net purchase price; or
3. to purchase fishing supplies for re-sale in Kosrae; or
4. to assist with the marketing of Kosraean agriculture produce.

(ii) The Fund shall receive monies from these sources:

1. the sale of supplies and equipment for gardening, livestock and poultry production, and from the marketing of all agriculture produce (2) the sale of agriculture supplies; and
2. the sale of fishing supplies; and
3. the re-payment of principal or interest of the loan

(iii) The Production Development Fund shall be administered by Director of the Department of Resources and Economic Affairs but all funds shall be received, held, disbursed and accounted for by the Director of the Department of Administration and Finance or his designee.

1. The Director of the Department of Administration and Finance shall prepare a monthly report detailing all loans made and listing any other transaction;
2. A copy of this report shall be transmitted to the Director of Resources and Economic Affairs and to the Speaker of the Kosrae State Legislature within 5 business days of the end of each month.

(b) the Sports Council may retain funds collected pursuant to Section 7.902(3), funds obtained through contributions and donations, and any interest thereon for funding operations, acquisition of equipment and the purchase of prizes;

(c) The Division of Finance and Budget retains in an Airport Trust Fund all monies from taxes, duties, tariffs, fees, licenses, rents and other charges arising out of the operations of the Kosrae Airport, including all airport buildings and facilities, which monies are spent at the discretion of the Department of Transportation and Infrastructure for operations, construction and renovation of facilities at the Kosrae Airport.

(d) The Division of Finance and Budget retains in a Recycling Fund all monies collected pursuant to Title 9, Chapter 22, and follows the Recycling Program Regulations for the disbursement of Recycling Fund monies for the refund of Recycling Deposit fees, and the maintenance of a recycling program;

(e) The Kosrae's 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; and

(f) The Division of Finance and Budget retains in a Publication Fund the proceeds received from the sale of copies of the Kosrae State Code and the Selected Laws of the State of Kosrae, which proceeds are available for use by the Code Revision and Publication Commission to defray the costs of preparation and publication of the Selected Laws of the State of Kosrae;

(g) The Division of Finance and Budget retains in a Health Care Fund all monies collected from or on behalf of patients or clients or the Kosrae Department of the Health Services, including, but not limited to, reimbursements from any program of medical insurance and payments received by the State in connection with off-island referrals. Monies in the Health Care Fund are continually appropriated for expenditures by the Department of Health Services solely for the purchase of medical supplies, inclusive of pharmaceutical supplies, for use by the Department of Health Services, its clinics, dispensaries, programs and patients and for advancing payment of employees' salaries and benefits, when those salaries and benefits have been authorized for reimbursement by the FSM National Government or Kosrae State Government or the relevant government or its department, agency, or entity; provided, however, that the funds received as reimbursement shall also be deposited in the Health Care Fund.

(h) The Division of Finance and Budget retains in a State Scholarship Grant and Loan Fund, all monies received from Kosrae State Government appropriations for scholarship purposes and from loan collection from student loans. Monies in the Scholarship Fund must be made available solely for Kosrae State Scholarship Board and continually loaned out to qualified recipients.

- (i) **The Division of Finance and Budget retains in a Broadcast Authority Fund all monies from payments received from advertisements and other broadcasting programs requiring payments to the State Broadcast Authority. Monies in the Broadcast Authority Fund are available solely for the purpose of funding operations of the State Broadcast Authority;**

(j) The Department of Education retains in a Yearbook Revolving Fund all monies contributed, received and collected from yearbook sales by depositing that revenue into the fund using it strictly for the Kosrae high School yearbook; and

(k) The Department of Resources and Economic Affairs may retain monies collected or received under its housing loan program in the Kosrae Home Improvement Program Revolving Fund, and promulgates regulations and guidelines for the disbursement of said monies;

(l) The Division of Finance and Budget retains in a Department of Transportation and Infrastructure Fund all monies collected from contract and grant projects, for the purpose of purchasing fuel and materials necessary to mobilize and accomplish contracted work including, but not limited to, reimbursement received by the State in connection with contract and grant projects. Any monies received that is in excess of the cost of fuel and materials shall, at the conclusion of the specific contract, be transmitted to the General Revenue Fund. This account may also receive funds from the sale or auction of equipment. Any such funds may be used solely for the repair and replacement of Department equipment and the purchase of fuel necessary for Department work projects; and

**Background:**

Subjection c added by S.L. 8-46 and subsequent subsections renumbered. Subsection (k) added by S.L. 8-234; amended by S. L. 8-17; amended by S.L. 9-15; State Law 9-63 and further amended by S.L. 9-81 and S.L. 9-140..

Each department, office, and agency retaining monies pursuant to subsections (a) through (k) provides a written monthly report to the Governor and the Speaker on the status of the monies, including amounts received and expended; upon determining that a department, office, or agency has money in excess of the amount necessary for the purpose for which it is allowed to retain the funds, the Governor directs that said excess be turned over to the State Treasury.

(m) The Court may retain monies received as payment for published decisions, opinions, rules, or probation fees or other documents issued by the Court.

(i) Monies received as probation fees may only be used to fund client services and programs that are under the supervision of the Probation Officer

Reversion of funds to the Production Development Fund. All funds currently held, either on deposit or in cash, in the Kosrae Farmer's Exchange Fund; the Production Development Fund; the Fisheries Revolving Fund; or the Marketing Support Fund; shall be paid into the Production Development Fund.

(1) Any receivables currently owed to the above referenced funds shall be receivables of the State of Kosrae and shall be paid to the Production Development Fund as they are received.

**Background**

Subsection (1)(a) was amended by State Law 5-36, State Law 7-1 and further amended by State Law 9-106(Aug.2009); subsection (1)(b) was amended by State Law 5-37 and further amended by State Law 5-116; subsection (1)(c) was added by State Law 4-146 and amended by State Laws 5-59 and 5-198 and further amended by State Law 7-1; subsection (1)(d) was added by

State Law 5-15; subsection (1) was amended in its entirety by State Law 5-108, which added subsection (1)(e) and the concluding language of the subsection, Subsection (1)(a) thru (1)(e) were amended by State Laws 5-201 and 6-9; Subsection

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(1) (f) added by State Law 6-9; Subsection (1)(g) added by State Law 6-87; Subsection (1)(h) [Court fine] added by State Law 6-108; Subsection 1(h) [Scholarship Fund] was added by State Law 7-21; Subsection (1)(c) amended by State Laws 6-121 and 6-146. Former Subsection (1)(c) [airport trust fund] was repealed by State Law 7-91. Subsection 2 was amended by State Law 7-1. Subsection (1)(h) (Yearbook Revolving Fund) was added by State Law 7-134. Paragraph 1 amended by SL 9-5 (Mar. 2007). Subsection (1)(m) was amended by State Law 9-111(Sept. 2009).

### **ANNEX: 3 FINANCIAL MANAGEMENT REGULATIONS**

**6.3 Fund Accounts.** A Fund Account shall mean an account with a financial institution which bears interest where and when applicable and appropriate, at a rate comparable to rates offered by financial institutions in the same area, and from which the withdrawal of funds is authorized upon the signature of the Fund Custodian. A Fund Account shall be established by each Fund Custodian for the following funds as set forth in Kosrae State Code Section 10.205, and other laws creating the fund. Only the receipts, revenues, reimbursements or other collections as specified for the specific Fund Account shall be deposited into said accounts. No disbursements other than those authorized in Section 10.205, and other laws creating the fund, for the specific Fund Account shall be made. The specific Fund Accounts authorized by law at the time of these regulations are set forth below. Any additional funds authorized are also subject to these regulations as set forth in this Part.

- a) Funds retained by the Department of Agriculture, Lands and Fisheries received in the sale of supplies and equipment for gardening, livestock and poultry production, and in the marketing of all agricultural produce. No disbursements are authorized for said retained funds. (Section 10.205(1)(a))
- b) Funds retained by the Sports Council collected pursuant to Kosrae State Code Section 7.902(3), funds obtained through contributions and donations, and any interest thereon may be spent for funding operations, acquisition of equipment and the purchase of prizes. (Section 10.205(1)(b))
- c) Funds retained by the Division of Finance and Budget collected from taxes, duties, tariffs, fees, licenses, rents and other charges arising out of the operation of the Kosrae Airport and all airport buildings and facilities (Airport Trust Fund) may be spent at the discretion of the Department of Public Work for construction and renovation of facilities at the Kosrae Airport. (Section 10.205(1)(c))
- d) Funds retained by the Division of Finance and Budget collected pursuant to Kosrae State Code Title 9, Chapter 22 (Recycling Fund) may be spent (1) as specified in regulations promulgated for the disbursement of refunds of beverage container deposits, and (2) for the maintenance of the recycling program. (Section 10.205(1)(d))
- e) Funds retained by the Kosrae Visitors Bureau received from the sale of books, postcards, handicrafts, and other tourist material may be spent to acquire additional inventory of such classes of items. (Section 10.205(1)(e).)
- f) Funds retained by the Division of Finance and Budget collected from the proceeds of sale of copies of the Kosrae State Code and the Selected Laws of the State of Kosrae (Publication Fund) may be spent by the Code Revision and Publication Commission to defray the costs of preparation and publication of the Selected Laws of the State of Kosrae. (Section 10.205(1)(f).)

- g) The Division of Finance and Budget retains in a Health Care Fund all monies collected from or on behalf of patients or clients or the Kosrae Department of the Health Services, including, but not limited to, reimbursements from any program of medical insurance and payments received by the State in connection with off-island referrals. Monies in the Health Care Fund are continually appropriated for expenditures by the Department of Health Services solely for the purchase of medical supplies, inclusive of pharmaceutical supplies, for use by the Department of Health Services, its clinics, dispensaries, programs and patients (Section 10.205 (1)(g)).
- h) The Division of Finance and Budget retains in a State Scholarship Grant and Loan Fund, all monies received from Kosrae State Government appropriations for scholarship purposes and from loan collection from student loans. Monies in the Scholarship Fund must be made available solely for Kosrae State Scholarship Board and continually loaned out to qualified recipients.
- i) The Division of Finance and Budget retains in a Broadcast Authority Fund all monies from payments received from advertisements and other broadcasting programs requiring payments to the State Broadcast Authority. Monies in the Broadcast Authority Fund are available solely for the purpose of funding operations of the State Broadcast Authority;
- j) The Department of Education retains in a Yearbook Revolving Fund all monies contributed, received and collected from yearbook sales by depositing that revenue into the fund using it strictly for the Kosrae high School yearbook; and
- k) The Division of Housing under the Department of Commerce and Industry may retain monies collected or received under its housing loan program in a Housing Renovation Revolving Fund, and promulgates regulation for the disbursement of said monies; and
- l) The Court may retain monies received as payment for published decisions, opinions, rules, or other documents issued by the Court.

Performance Audit on Handling of Collection  
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ANNEX: 4

**KOSRAE BROADCAST AUTHORITY  
SCHEDULE OF COLLECTION AND TRANSMITTAL  
APRIL 2013 - AUGUST 2015**

Date	Receipt #	Name	Amount	Date of transmittal	Receipt No.	Particular	Amount	remarks
4/24/2013	751	Post Office Kosrae	\$ 18.00					
4/25/2013	752	Ann Higgin	\$ 15.00					
4/29/2013	753	Kenye Hairom	\$ 6.00					
4/29/2013	754	Daisyme Hostino	\$ 9.00	5/7/2013	25905	748-754 (\$60)	\$ 48.00	late transmittal
5/13/2013	755	Kenye D. Mike	\$ 12.00	5/13/2013		755	\$ 12.00	
5/20/2013	756	William Jr. Tara	\$ 6.00	5/20/2013		756	\$ 6.00	
5/20/2013	757	Kenye Rens	\$ 33.00	5/31/2013		757	\$ 33.00	
5/22/2013	758	Vivian Skilling	\$ 9.00					
5/22/2013	759	Merlinda Jarinson	\$ 21.00					
5/22/2013	760	Merinda Aliksa	\$ 11.00					
5/22/2013	761	Sepe Georgie	\$ 6.00					
6/10/2013	762	Senny's Enterprise	\$ 30.00	6/4/2013		05/20-31/2016	\$ 47.00	
6/19/2013	763	Custom & Tax Administration	\$ 372.00					
				6/21/2013		06/1-20/2013	\$ 402.00	
7/2/2013	764	COM-FSM Kosrae Campus	\$ 153.00					
7/2/2013	765	Bank of FSM Kosrae Branch	\$ 39.00	7/4/2013		6/24-7/02/2013	\$ 192.00	
7/4/2013	766	George Tulenkun	\$ 12.00					late transmittal
7/4/2013	767	Nickson Martin	\$ 42.00					late transmittal
7/9/2013	768	Kenye Jason Tara	\$ 9.00					late transmittal
7/10/2013	769	Kun Sigrah	\$ 9.00					late transmittal
7/10/2013	770	Ruth Tabert	\$ 9.00					late transmittal
				7/30/2013		07/4-30/2013	\$ 81.00	
7/18/2013	771	Kenye Jason Tara	\$ 6.00					
7/26/2013	772	Kennedy N. Skilling	\$ 45.00					
8/5/2013	773	AOS	\$ 36.00					
8/27/2013	774	Kosrae Utility Authority	\$ 63.00					
				8/30/2013		771-776	\$ 150.00	
8/28/2013	775	Marvella Skipper	\$ 15.00					
8/28/2013	776	FSM Development Bank	\$ 105.00					
9/24/2013	777	FSM Development Bank	\$ 48.00					
				10/15/2013	27468	8/30/13-10/15/13 #775-777	\$ 168.00	
10/7/2013	778	FSMPC	\$ 21.00					late transmittal
10/11/2013	779	Shra Allison	\$ 3.00					late transmittal
								late transmittal
10/17/2013	780	Mary Witson	\$ 30.00					okay
10/17/2013	781	Mary Norlin	\$ 3.00					okay
				10/25/2013	27583	10/7-25/13	\$ 57.00	
10/21/2013	782	Juniro Josahia	\$ 12.00	11/1/2013	27646	10/26/13-11/1/13	\$ 12.00	late transmittal
10/31/2013	783	Bank of FSM Kosrae Branch	\$ 39.00					late transmittal
11/14/2013	784	COM-FSM Kosrae Campus	\$ 192.00					
11/14/2013	785	Kenye Hairom	\$ 9.00	11/14/2013		10/31-11/14/2013	\$ 240.00	
11/14/2013	786	Frank K. Store	\$ 18.00					
				11/19/2013		786	\$ 18.00	
11/26/2013	787	Kosrae Terminal & Stevedoring Com.	\$ 21.00					late transmittal
11/27/2013	788	Robson Henry	\$ 24.00					late transmittal
11/27/2013	789	Frank Store	\$ 18.00					late transmittal
11/28/2013	790	Senny's Enterprise	\$ 15.00					late transmittal
				12/12/2013		787-790	\$ 78.00	
12/24/2013	791	Spring Enterprise	\$ 15.00					
1/3/2014	792	Custom & Tax Administration	\$ 81.00	1/3/2014		12/24/13-1/3/14	\$ 96.00	okay
1/15/2014	793	Etawi Tansak	\$ 15.00					okay
1/15/2014	794	FSM Development Bank	\$ 138.00	1/16/2014		1/4/14-1/16/14	\$ 153.00	okay
3/18/2014	795	Shra Aaron Wakuk	\$ 6.00					okay
3/18/2014	796	Maiyo Tulensa	\$ 3.00					okay
3/26/2013	797	Shrue Greg George	\$ 3.00	3/27/2014	29751	1/17/14-3/27/14	\$ 12.00	okay
3/28/2014	798	Kenye Kephass	\$ 6.00					okay
4/2/2014	799	Sepe Georgie	\$ 6.00	4/3/2014	29824	3/28/14-4/3/14	\$ 12.00	okay
4/23/2014	800	Kenny Kephass	\$ 6.00					okay
4/23/2014	801	Kenny Kephass	\$ 6.00					okay
4/23/2014	802	Lawrence Talley	\$ 6.00					okay
4/23/2014	803	Antilise Camper	\$ 12.00	4/24/2014	30026	4/23/2014	\$ 30.00	okay
4/24/2014	804	Sepe Georgie	\$ 6.00					
5/1/2014	805	Bercil Timothy	\$ 18.00					late transmittal
5/12/2014	806	Simpson Import Company	\$ 12.00					late transmittal
5/20/2014	807	Gateway Utwe	\$ 12.00					okay
5/22/2014	808	Sealand Shipping Agency	\$ 20.00	5/26/2014	30381	4/24/14-5/22/14	\$ 68.00	
6/6/2014	809	Jeff Bua	\$ 18.00					late transmittal
6/9/2014	810	Dorbina Ludick	\$ 12.00	8/18/2014	31349	6/1/14-8/15/14 #809-811	\$ 30.00	late transmittal
	811	no receipt on file						
	812	no receipt on file						
	813	no receipt on file						
	814	no receipt on file						
	815	no receipt on file						
	816	no receipt on file						
	817	no receipt on file						
	818	no receipt on file						

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5/12/2014	806	Simpson Import Company	\$ 12.00						late transmittal
5/20/2014	807	Gateway Utwe	\$ 12.00						okay
5/22/2014	808	Sealand Shipping Agency	\$ 20.00	5/26/2014	30381	4/24/14-5/22/14	\$ 68.00		
6/6/2014	809	Jeff Bua	\$ 18.00						late transmittal
6/9/2014	810	Dorbina Ludick	\$ 12.00	8/18/2014	31349	6/1/14-8/15/14 #809-811	\$ 30.00		late transmittal
	811	no receipt on file							
	812	no receipt on file							
	813	no receipt on file							
	814	no receipt on file							
	815	no receipt on file							
	816	no receipt on file							
	817	no receipt on file							
	818	no receipt on file							
	819	no receipt on file							
	820	no receipt on file							
	821	no receipt on file							
	822	no receipt on file							
			\$ 63.00	9/4/2014	31527	8/16/14-9/3/14	\$ 63.00		
			\$ 63.00	9/18/2014	31630	9/5-18/14	\$ 63.00		
			\$ 54.00	10/22/2014	31983	9/9/14-10/22/14	\$ 54.00		
			\$ 96.00	12/2/2014	32373	9/15-30/14	\$ 96.00		
12/3/2014	823	Movida's Retail	\$ 9.00						2 weeks
12/16/2014	824	Gibson Siba	\$ 18.00						okay
12/18/2014	825	Frank K. Store	\$ 18.00						okay
12/23/2014	826	Gibson Siba	\$ 6.00						
	827		\$ 36.00	12/23/2014	32801	12/1-23/14	\$ 87.00		
1/30/2015	828	FSM Development Bank	\$ 48.00						
				2/4/2015		828	\$ 48.00		
2/2/2015	829	FSM Development Bank	\$ 15.00						
				2/4/2015		829	\$ 15.00		
3/10/2015	830	Renton Isaac	\$ 12.00						
3/10/2015	831	Floyd Alokoa	\$ 3.00						
				3/10/2015		830-831	\$ 15.00		
3/30/2015	832	Floyd Alokoa	\$ 12.00						
3/30/2015	833	Sydney Jesse	\$ 15.00						
3/30/2015	834	Ann Higgin	\$ 9.00						
3/30/2015	835	Floyd Alokoa	\$ 3.00						
3/30/2015	836	Victory Chapel	\$ 18.00						
				3/30/2015		832-836	\$ 57.00		
4/9/2015	837	Floyd Alokoa	\$ 6.00						
4/20/2015	838	FSMDB	\$ 39.00						late transmittal
4/20/2015	839	Lerina J. Nena	\$ 30.00						late transmittal
4/23/2015	840	Floyd Alokoa	\$ 6.00						late transmittal
4/27/2015	841	Lerina J. Nena	\$ 9.00						late transmittal
5/4/2015	842	Shra Aron	\$ 6.00						late transmittal
5/7/2015	843	Floyd Alokoa	\$ 6.00						late transmittal
5/12/2015	844	Mathew Simpson	\$ 12.00						late transmittal
5/15/2015	845	Grant Ismael	\$ 9.00						late transmittal
5/15/2015	846	Ann Higgin	\$ 6.00						late transmittal
				5/25/2015		04/1-5/15/2015 837-846	\$ 129.00		late transmittal
5/26/2015	847	Ruth Trav	\$ 6.00						
5/27/2015	848	Evelyn Billy	\$ 9.00						
				6/4/2015		847-848	\$ 15.00		
6/25/2015	849	Senny's Enterprise	\$ 15.00						late transmittal
7/6/2015	850	Kesia George	\$ 3.00						late transmittal
7/17/2015	851	Floyd Alokoa	\$ 18.00						
7/17/2015	852	Filasko	\$ 6.00						
				7/17/2015		849-852	\$ 42.00		
7/27/2015	853	Kosrae SDA School	\$ 264.00						
7/27/2015	854	Floyd Alokoa	\$ 12.00						
7/30/2015	855	Shrew Jonas	\$ 3.00						
				7/31/2015		853-855	\$ 279.00		
8/6/2015	856	Sepe Georgie	\$ 6.00						
8/28/2015	857	Harvey Tulensru	\$ 12.00						
			\$ 2,926.00				\$ 2,908.00		

## **ANNEX: 5 FIXED ASSET SPOT CHECK REPORT**

To : Working Paper File  
From : Emma Balagot  
Subject : Fixed Assets Inventory  
Kosrae Broadcast Authority

The purpose of this working paper is to summarize the result of the **fixed assets**<sup>1</sup> inventory at the Kosrae Broadcast Authority on April 22 and April 25, 2016. The purpose of an **asset inventory**<sup>2</sup> is to physically count and document the location of all assets listed and not listed on the financial statement for proper **fixed assets management**.<sup>3</sup>

The auditor conducted a surprise asset inventory on April 22, 2016 at the office of the Kosrae Broadcast Authority as part of the legislative request for the performance audit of KBA. We have counted and verified mostly of the assets within the office except the Recording Room/ stock room since it was lock and the key is with the KBA manager. The auditors decide to seal the room pending for the continuance of the counting on Monday, April 25, 2016. It was clear with the KBA staff that the room was sealed and no one should open it without the knowledge of the auditors.

The auditors went back to KBA, Monday April 25, 2016. We were surprise that the Recording Room/ stockroom were already open. We were informed by KBA manager that he opened it last Friday just after we left the KBA office to get some chairs without knowing that the seal should not be broken. The auditors remind him that it is a standard procedure that anything that was sealed for the inventory should not be open without the knowledge of the auditor.

In addition, the auditors explain to the manager that during the asset counting on April 22, 2016. We notice empty boxes of following:

Yamaha CD-C600  
Yamaha Speaker MG166 cx-USB  
Speaker Stand  
Yamaha Power Amplifier P5000s

The above items, according to the manager were donated by the Mormon Church (The Church of Jesus Christ of Latter-day Saints) for the use of the KBA. He also adds, that those items were

<sup>1</sup> A fixed asset is an item with a useful life greater than one reporting period, and which exceeds an entity's minimum capitalization limit. A fixed asset is not purchased with the intent of immediate resale, but rather for productive use within the entity.

<sup>2</sup> A detailed, itemized list, report, or record of things in one's possession, especially a periodic survey of all goods and materials in stock. The process of making such a list, report, or record.

<sup>3</sup> Fixed assets management is an accounting process that seeks to track fixed assets for the purposes of financial accounting, preventive maintenance, and theft deterrence.

not reported to the finance for proper tagging. The auditors remind him that all items purchased or donated to the state should be properly reported and tagged as per the Kosrae Financial Management Regulation (KFMR)<sup>4</sup>. However, the said items were not in the KBA office at the time of counting and that the manager told the auditors that those items are with him but did not mention the reason why he took it.

Furthermore, we were informed by the staff that a copy and desktop were also with the manager.

As per policy it is unethical and inappropriate for any employee of the government to take any of the items from the office without proper documentation on the official purpose.

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<sup>4</sup> Kosrae Financial Management Regulation are rules and policies covering the fiscal management of the state

**ANNEX: 6 EXECUTIVE POLICY NO. 46**

KOSRAE STATE GOVERNMENT  
MANUAL OF ADMINISTRATION  
EXECUTIVE BRANCH

Subject: Government Video, Audiovisual, and Digital Equipment.

Purpose: To establish proper control and procedures for the use, recording, and dissemination of government-owned video, audiovisual, and digital equipment.

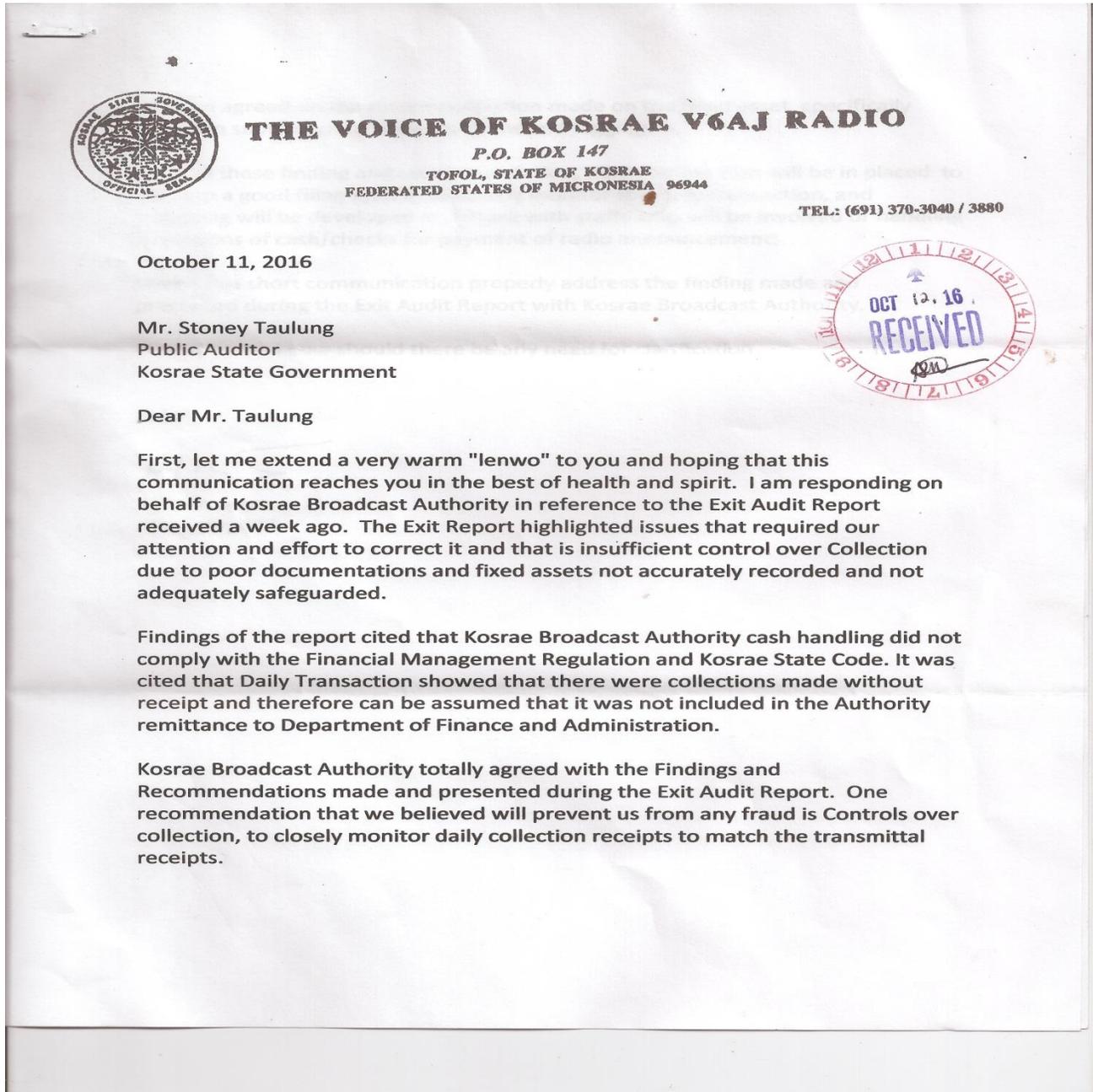
For the purpose of this policy, government –owned (purchased or donated) video, audiovisual, and digital equipment shall include video, audiovisual, and digital cameras, recorders, tapes and discs.

1. Government owned (purchased or donated) video, audio, and digital equipment shall not be used to record and disseminate information on any functions other than those approved for government purposes.
2. A Department Director must, immediately after the effective date of this policy, establish an internal policy covering the request, approval, and screening procedures for the use of such equipment in his/her respective department. This section shall apply only to those departments and offices that have such equipment.
3. The Public Information and Protocol Services Unit within the Governor’s Office is responsible for reviewing, approving, and disseminating of all government taped/recorded programs.
4. Unauthorized use of government video, audiovisual, and digital equipment is not permitted.

/s/ Rensley A. Sigrav  
Governor  
Kosrae State Government

To become Effective: 12/31/02

**ANNEX: 7 MANAGEMENT RESPONSE**



We also agreed on the recommendation made on the fixed asset, specifically policy on submission of donated items and tagging.

With all these finding and recommendation, KBA's Action Plan will be in placed to develop a good filing system to closely monitor the daily transaction, and enforcing will be developed and share with staffs who will be involved or handling collections of cash/checks for payment of radio announcements.

I hope this short communication properly address the finding made and presented during the Exit Audit Report with Kosrae Broadcast Authority.

Please let me know should there be any need for clarification.

Kulo



Keitson Jonas  
Manager, KBA

## Public Auditor's Comments

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

In compliance with the Generally Accepted Government Auditing Standards, a copy for the draft report was shared with the Kosrae Broadcast Authority with a management response. The response is attached which agreed on all findings and recommendations on the submitted report.

In addition to provide a copy to the Manager of Kosrae Broadcast Authority, we also extend copies to the following officials and agencies:

1. Governor, Kosrae State Government
2. Speaker, 11<sup>th</sup> Kosrae KSL and all members
3. Chief Clerk, Kosrae State Court
4. V6AJ Radio

If there is any question or concern regarding this report, please feel free to contact the Office of the Public Auditor.



Stoney S. Taulung  
Public Auditor

## ACKNOWLEDGEMENT AND OPA CONTACTS

### Audit of the Kosrae Broadcast Authority on Handling of Collection Report No. PA 04-2016

#### OPA CONTACT

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#### ACKNOWLEDGEMENT

The audit staff contributed to this report

Emma Belagot, Audit Manager  
Alice S. George, Auditor III

#### OPA Mission

Conduct effective and efficient audit  
And investigation to ensure that  
Government resources are properly  
managed.

#### OFFICE CONTACT

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