

# PERFORMANCE AUDIT

Audit Report No. PA 04-2021

## PERFORMANCE AUDIT ON THE IMPLEMENTATION OF THE RECOMMENDATIONS of audit report no. FCA01-2020 *Tafunsak Municipal Government(TMG)*

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



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PUBLIC AUDITOR



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December 30, 2021

The Honorable Governor, Carson K. Sigrah  
The Honorable Speaker, Tulensa W. Palik  
The Honorable Members, 12<sup>th</sup> Kosrae State Legislature  
The Honorable Mayor of TMG, Jackson Albert  
The Honorable Chairman of TMG 9<sup>th</sup> Council, Alerson Alik

**Re: Performance Audit on the Implementation of the Recommendations reflected in the Audit Report FCA01-2020 for Tafunsak Municipal Government**

**EXECUTIVE SUMMARY**

We respectfully submit this Performance Audit PA04-2021 report on the implementation of the recommendations reflected in the Audit Report FCA 01-2020 that has been issued for Tafunsak Municipal Government.

The objectives of this audit are 1) To assess and provide assurance to the Tafunsak Municipal Government on the progress that has been made on the implementation of the recommendations outlined in the audit report FCA 01-2020 and 2) To identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the stakeholders about the status of implementation as review on those findings.

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to performance audit 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, the state Financial Management Regulation, Tafunsak Municipal Government Manual of Administration (MOA) and Constitution (Charter) were used as criteria for compliance.

Based on our follow-up audit, we found that Tafunsak Municipal Government did not fully implement the corrective actions to address the audit findings and recommendations in audit

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Report FCA 01-2020, we conclude that of the twelve (12) recommendations, a) Six (6) substantially implemented and b) Six (6) are not yet implemented. The status of implementation is defined in Annex A. The summaries of recommendation with their status of implementation are as reflected below;

Recommendations	Status
<b>Finding 01</b> Weaknesses in internal control did not provide assurance on the accuracy and completeness of cash balances.	
a. Schedule of deposits showing the cash receipts used must be prepared and filed in every deposit transaction along with the validate slip. A person not connected with collection and deposit process inspect on a regular basis.	Substantially implemented
b. Use of prenumbered cash receipt form	Substantially implemented
c. Use of prenumbered cash disbursement form	Not yet implemented
d. Perform timely bank reconciliation	Not yet implemented
e. Physical inventories of blank checks conducted by person independent of cash disbursement	Not yet implemented
<b>Finding 02</b> Disbursements not in compliance with established policies and procedures	
a. To develop, put in place and require adequate review of disbursement before payments are issued	Substantially implemented
b. Period monitoring and reviewing of disbursement and payment processes	Substantially implemented
<b>Finding 03</b> Collections and other funds received were not properly documented, recorded and completely deposited show cash collection mishandling is prevalent	
a. Use of official receipts. Collections are recorded in the cash receipt log book. Funds received from both State and National Government must be recorded in TMG's book of accounts	Substantially implemented
<b>Finding 04</b> Inadequate documentation of payroll disbursement	
a. To comply with its own manual of administration and the State Public Service System on Salaries and Allowances	Substantially implemented
<b>Finding 05</b> Payment of unauthorized benefits amounting to \$26,170.70	

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a. To establish and implemented detailed policy on benefits of employees according to the Public Service System	Not yet implemented
<b>Finding 06</b> Did not maintain books of accounts as required in TMG's Manual of Administration	
a. To set up and maintain its book of accounts. Individual ledgers on each type of assets, liabilities, revenues and expenditures must be prepared. Sub ledgers of individual vendors must be maintained as well.	Not yet implemented
<b>Finding 07</b> TMG has no proper valuation for its Fixed Assets	
a. To account and conduct physical inventory of all its fixed assets	Not yet implemented

After evaluating the results of this performance audit, we recommend that 1) TMG should fully address and implement all the twelve (12) audit recommendations reflected in the audit report FCA 01-2020.

Details of our examinations are discussed in the status of implementation section of this report.

The Office of the Public Auditor provided draft copies of this report to the Tafunsak Municipal Government Mayor and Council members for their review and comment on November 29, 2021. A copy of the management response is included in this report as Annex B.

Sincerely,

Alice S. George  
Acting Public Auditor

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## **INTRODUCTION**

### **Background**

The Office of the Kosrae Public Auditor conducted a Financial and Compliance Audit on Tafunsak Municipal Government operation and issued FCA 03-2020. Tafunsak is one of the four municipalities of Kosrae.

Based on the Audit Report FCA 01-2020, seven (7) audit findings were reported and twelve (12) audit recommendations were given as a result and as reflected below.

### **Findings**

#### **1. Weaknesses in Internal Control did not provide assurance on the accuracy and completeness of cash balances.**

##### **1.1 No Segregation of Duties**

During our review of the internal controls over cash receipts, we noted that the municipality has no formal control procedures over collection. Treasurer is responsible for the collection and deposit of funds and subsequently updating the cash logbook. We noted in most cases that these collections are being paid in cash which is vulnerable to misappropriation.

It is also observed and verified that the collection process is basically conducted by the Treasurer. The Treasurer receives collection and prepares/issues receipts, keeps the money (custody), does the deposit, keeps the check stubs and deposit slips. All the documents for cash transactions were kept and logged by the Treasurer. Also, the Treasurer is allowed to disburse cash payments to suppliers without documentation on the approval of the purchases.

Tafunsak Municipal Government does not have procedures to ensure that collections and disbursements are accurately and promptly recorded. No periodic checking and reviewing being made for cash transactions.

##### **1.2 Non-compliance with Policies, Procedures and Regulations**

In addition, review of Tafunsak Municipal Government (TMG) cash receipts and disbursement documents, the auditors found certain control deficiencies and deviations from TMG's established policies and procedures in regards to the handling and accounting of cash receipts.

- a. TMG uses different types of collection documents which are not pre-numbered. This practice did not give assurance on the completeness of collection.
- b. While TMG uses logbook to record collections however it was not recorded on the books of accounts as required in the Manual of Administration (MOA)
- c. It was noted that collections were not deposited in a regular and timely manner. Interview with the treasurer reveals that TMG MOA does not provide policy on regular deposit of collection.
- d. No report is being prepared for the Summary of collection against actual deposit showing itemized whether all collections have been deposited.
- e. No bank reconciliation has been prepared. The goal of this process is to ascertain and verify the integrity of data between bank records and company's financial records.

## **2. Disbursements Not in Compliance with Established Policies and Procedures.**

During our examination, we applied all disbursement made by the Municipality for the period covered and noted the following:

- a. Forty-six percent (46%) of the total amount of disbursements aggregating to \$474,267.41 were completely unsupported by the required disbursement documents.
- b. Total operating expenses \$ 23,738.73 or 11% were paid in cash.
- c. 68% of cash payments were not documented.
- d. Some of the expenditure (contracts) does not follow best practice, regulations and law.
- e. 3% original copies of void checks are not on file.

In addition, based on the available document provided, we further noted that liquidation of \$27,756.33 or 4% of advances such as travel allowances and duty allowances were not supported by required documents as stated in the KFMR and MOA.

## **3. Collections and other funds received were not properly documented, recorded and completely deposited show cash collection mishandling is prevalent.**

Examination of submitted collection and deposit documents reveals that deposit includes bank checks which are not recorded in the cash collection logbook. The full amounts of such deposits were reflected as deduction from the cash on hand. Thus, auditors noted indication of

mishandling of cash collection. This condition shows possibility of encashment of personal and salary check which is not in accordance with the best practice.

Review of collection logbook as against the available documents to support the record noted the following:

- a. Average of Eighty-two Percent (82%) of Collections are not receipted;

Year	Amount	No. of transaction
2019	\$ 34,184.15	528
2018	24,980.73	494
2017	39,448.03	381
2016	32,024.62	323
	\$130,637.53	1,726
	=====	=====

- b. Number of erasures and corrections were observed without proper counter signs. (verification or approval)
- c. Cash collections were used to directly pay operating expenses in the total of \$ 23,788.73 or 11%.
- d. Inspection of collection logbook demonstrates daily cash on hand balances are not accurately recorded/reported because of wrong footings and extension. It also shows negative balances.

#### 4. Inadequate documentation of payroll disbursements

Based on FY 2016-2019 spending and documents provided, approximately fifty two percent (52%) of the spending of TMG represents salaries and wages of employees. During our examination of payroll checks and timesheet used, we noted the following:

- a. Incomplete file for timecards used to monitor and record hours of duty. (2016)
- b. Cash advances were not recorded (2017-2019) hence the collection logbook shows payment without proper documentation and described as salaries.
- c. SS and compensation Tax was not deducted from the employee salaries hence no document was presented that both are part of employee benefits. ( 2017-2019)
- d. Review of Payroll Sheet reveals wrong extensions and footing that indicate prudent review of payroll computation was not done.



## **5. Payment of Unauthorized Benefits amounting to \$26,170.70**

During our review of Tafunsak Municipal Government (TMG) disbursement and payroll sheet, we found instances of undue benefits given to the employees. The cash disbursement logged of full payment SS and Taxes due. However, review of the payroll sheet for the covered period displays that SS employee share as well as individual compensation taxes were not deducted from the salaries. Also, auditors did not find any documents that such expenses were allowed as part of employment benefits.

## **6. Did not maintain Books of Accounts as required in TMG Manual of Administration**

Tafunsak Municipal Government (TMG) only maintains cash logbook and check book as disbursement journal to record payments made on various expenditures incurred. Cash receipts journals to record collections arising from local revenues including funds received from revenue sharing were recorded in a separate logbook as a cash receipt journal. In addition, a subsidiary ledger for employee cash advances is not being maintained, no ledgers being used for creditors and suppliers. The Municipality does not maintain individual general ledgers to accommodate transactions involving its assets, liabilities, fund balances, revenues and expenditure. Although TMG provides Monthly financial report to account General Account Trust Fund Account and Expenditure, the Treasurer was not able to submit financial reports as required by the MOA such as Balance Sheet, Income Statement and Property Inventory Sheet (fixed asset register)

Likewise, TMG treasurer failed to establish a Chart of Accounts in numeric codes for the accounting of fund sources.

## **7. TMG has no proper valuation for its Fixed Assets.**

Review of TMG disbursement reveals that the Treasurer was not aware of the capitalization of expenses related to purchases of fixed assets. Hence, she is not sure if those recorded in the Monthly Financial Statement (Report) are considered as fixed assets in accordance with the TMG MOA and KFMR.

Also, Depreciation is not reflected in the monthly financial reports submitted to the auditors. Fixed assets list was prepared however it does not reflect book value of equipment (aging of fixed assets) hence no fixed assets valuation was conducted.

## **OBJECTIVES, SCOPE, METHODOLOGY**

### **Objectives**

1. To assess and provide assurance to the Tafunsak Municipality Government on the progress that has been made on the implementation of the recommendations outlined in the audit report FCA 01-2020.
2. To identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and to inform the stakeholders about the status of implementation as reviewed on those findings.

## **Scope**

The scope of our performance audit was to assess the extent to which TMG management had made satisfactory progress in implementing the recommendations in the Tafunsak Municipal Government operation audit report no. FCA01-2020 issued in June 4, 2020. However, the gathering, reviewing and testing of relevant information and documentations included previous and subsequent period for analytical purposes. We conducted the audit and inspection 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**

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The audit was conducted in accordance with Generally Accepted Government Auditing Standard (GAGAS). This standard 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 Tafunsak Municipal Government employees and stakeholders. We also review transaction processes and documentations. 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 previous audit report issued.

### **PRIOR AUDIT COVERAGE**

This is the second performance audit on the TafunsakMunicipal Government operation. The objective of this third performance audit was to assess the extent to which Tafunsak Municipal Government management had implemented the recommendations reflected in the Audit Report FCA 01-2020.

### **CONCLUSION**

We concluded that based on the audit objectives:

- (1) TafunsakMunicipalGovernment has not yet fully implemented all audit recommendations and need to take appropriate actions in order to address the audit findings and the twelve (12) audit recommendations per Audit Report No. FCA 01-2020.

### **STATUS OF IMPLEMENTATIONS OF AUDIT RECOMMENDATIONS**

**Finding No. 1- Weaknesses in Internal Control<sup>1</sup> did not provide assurance on the accuracy and completeness of cash balances.**

### **1.1 Recommendation**

That the Executive and Councils of TMG reorganize the existing procedure on the cash handling with the consideration of the internal control on the segregation of duties and reporting such as:

- a. Schedule of deposits showing the cash receipts used must be prepared and filed in every deposit transaction along with the validated deposit slip. We also recommend that a person not connected with the collection and depositing process inspect on a regular basis to ensure that all collections have been properly and timely deposited.
- b. Use of pre-numbered Cash Receipt form (voucher) to ensure completeness of collection.
- c. Use of pre-numbered Cash Disbursement Form (voucher) to document approval/authorization of payments.
- d. Perform timely Bank Reconciliations (monthly) to ensure:
  1. Comparison of checks in appropriate detail with disbursement records.
  2. Accounting for numerical sequence of cashed checks.
  3. Examination of signatures and endorsements on a test basis.
  4. Comparison of book balances used in reconciliations with the general ledger.
  5. Comparison of deposit amounts and dates with cash receipt entries.
  6. Investigation of outstanding items
  7. Footing of cash books.
- e. Physical inventories of blank check stock periodically conducted by persons independent of the cash disbursement function, and reconciled to department records.

We also recommend that the Council review the TMG financial affairs to ensure controls continue to function and safeguard the TMG's resources.

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<sup>1</sup>**internal control**- policies and procedures put in place to ensure the continued reliability of accounting systems.

## 1.2 Prior Management Response

Agree with the findings and recommendation during the exit conference.

## 1.3 Current Implementation Status: Substantially Implemented

Based on the interview and the review of current cash handling procedure related to the implementation of recommendation number one;

- a. Schedule of deposit- no schedule attached to the deposit slips, only the copies of checks deposited are attached. **SUBSTANTIALLY IMPLEMENTED**
- b. Generic receipts are used now- Treasury issue collections receipt sequentially, including collection for Marine Park which has its own different collection receipt- **SUBSTANTIALLY IMPLEMENTED**
- c. Pre-numbered disbursement voucher is not used yet, Treasury is seeking auditors assistance on an appropriate form- there are small purchases made as done during the audit. **NOT YET IMPLEMENTED**
- d. Treasury mentioned that she hasn't started doing bank recon as recommended by the auditors- **NOT YET IMPLEMENTED**
- e. Check book is kept by either the Treasurer or the Mayor and the inventory of unused check is not regularly done. **NOT YET IMPLEMENTED**

## 1.4 Effect of Substantial Implementation

The condition reflects unsafe handling of cash collections which exposed the Municipality error and risk to fraud<sup>2</sup>. Weak internal control on the Municipality's cash collections and management raises doubt on the fairness of cash balances as reflected in the financial reports. It also creates uncertainty on the accuracy and fairness of the account balances. In addition, the condition increases the risk of irregularities happening or continuing if not corrected immediately.

## 1.5 Cause of Substantial Implementation

TMG is still determining the personnel capacity to fully implement the internal controls. They are however regularly reviewing the transaction processes to be more effective.

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<sup>2</sup>Fraud- wrongful or criminal deception intended to result in financial or personal gain.

## **Finding No. 2: Disbursements Not in Compliance with Established Policies and Procedures**

### **2.1 Recommendation**

- a. We recommend that TMG develop, put in place and require adequate review of disbursements before payments are issued to ensure that policies and procedures are duly complied with.
- b. To periodically monitor and review the disbursement and payment processes to ensure they continue to function effectively in accordance with established policies and rules

### **2.2 Prior Management Response**

Agree with the findings and recommendation during the exit conference.

### **2.3 Current Implementation Status: Substantially Implemented**

- a. The Mayor and Council allowance request payment form is used now starting after the audit report was issued. This form is signed by the member requesting and then approved by either the Mayor or the Chairman of the council. **SUBSTANTIALLY IMPLEMENTED**
- b. According to the Treasurer, monthly monitoring and reviewing of expenditures were done by signatories while reviewers of the checks are either the Chairman or Vice from the Council and either the Mayor or Treasurer from the Executive. **SUBSTANTIALLY IMPLEMENTED**

Although the auditors notice substantial improvement of TMG disbursement procedure, it was noted that the use of cash for immediate purchases is still prevalent.

### **2.4 Effect of Substantial Implementation**

The above condition exposes the Municipality to potential errors and/or even deliberate wrongdoings that would not be detected on a timely basis. The condition does not provide reasonable assurance that disbursements made were all from authorized and valid obligations of the TMG.

### **2.5 Cause of Substantial Implementation**

TMG have interest in providing the proper accounting of revenue and collection and to promote accountability. However, the management failed to recognize the importance of strict policy in the use of cash collection and the threat that it may cause.

**Finding No. 3: Collections and other funds received were not properly documented, recorded, and completely deposited show cash collection mishandling is prevalent.**

### **3.1 Recommendation**

We highly recommend collections to be receipted using an official receipt and recorded in the cash receipts logbook. Funds collected for operation and received from State and National government appropriations should be recorded in the TMG's books of accounts.

### **3.2 Prior Management Response**

Agree with the findings and recommendation during the exit conference

### **3.3 Current Implementation Status: Substantially Implemented**

- a. Generic receipt books are used now to record all collections starting the month after the audit report was issued.
- b. Revenue share and other funds are recorded in TMG log books (collection) but not receipted.
- c. Review of TMG books of account and other records of collections.
- d. Currently, TMG is in the process of creating an ordinance/policy for timing of deposit.

### **3.4 Effect of Substantial Implementation**

Proper recording and documentation of collections and revenue shares lessen the probability of misappropriation and fraud. This resulted also in the ability to prepare a fair financial report.

### **3.5 Cause of Substantial Implementation**

TMG management's interest to mitigate this problem to effectively and efficiently follow the law and regulation related to collections and other funds received by the municipality.

**Finding Number 4: Inadequate documentation of payroll disbursements**

#### 4.1 Recommendation

We recommend TMG to comply with its own Manual of Administration on Salaries and Allowances and also in compliance with Kosrae State Public Service System to ensure safety of public funds.

#### 4.2 Prior Management Response

Agree with the findings and recommendations during the exit conference.

#### 4.3 Current Implementation Status: **Substantially implemented**

Upon interview with the TMG Government Council, Mayor, and staff, the auditor found out that the previous council did not pass any resolution with regards to the auditor's recommendation in payroll. However, other recommendations related to the preparation of payroll and timekeeping were implemented.

#### 4.4 Effect of Substantial Implementation

These conditions resulted in substantial controls on the payroll process. However, TMG should amend their policy in payroll benefits to properly allow the exemption on required payroll deductions as employee benefit.

#### 4.5 Cause of Substantial Implementation

Substantial implementation is due to UMG leaders' interest to mitigate this problem to effectively and efficiently follow the requirements of the regulation, policies and best practices on payroll register and timekeeping. Hence the council's resolution regarding policy on benefits of employees was delayed because of other important decisions and activities to mitigate impact of the pandemic in their community and the state.

### **Finding Number 5: Payment of Unauthorized Benefits amounting to \$26,170.70**

#### 5.1 Recommendation

We recommend that TMG establish and implement detailed policy on benefits of employees according to the Public Service System (PSS).

*Management Response:*



“The TMG MOA under Personnel Management Section regarding Vacancy Procedures, bullet no. 4 Salary & Benefits. That Benefit includes SS and Tax which is paid by the employer, the TMG office.”

## 5.2 Prior Management Response

The TMG MOA under Personnel Management Section regarding Vacancy Procedures, bullet no. 4 Salary & Benefits. That Benefit includes SS and Tax which is paid by the employer, the TMG office.”

### *Auditor’s Response:*

Section of the Manual of Administration as referred by the management mentions the salaries and benefits as part of vacancy announcement as required by the Public Service System. There is no mention of SS employees share and Compensation tax as part of benefits of individual employees. In addition, review of official employee contracts form shows as provision VII Deduction: includes deduction for personal income taxes, social security and insurance premium due from the contractor to the State or the National Government will be made by the government

## 5.3 Current Implementation Status: **Not yet implemented**

No council resolution was presented to the auditors.

## 5.4 Effect of No Implementation

The condition, if not corrected, will result to undue expenses and misuse of funds.

## 5.5 Cause of No Implementation

The council’s resolution regarding policy on benefits of employees was delayed because of other important decisions and activities to mitigate impact of the pandemic in their community and the state.

Nevertheless, in the TMG management response, the council claims that the resolution is under process to establish and implement the policy on employee benefit.

## **Finding Number 6: Did not maintain Books of Accounts as required in TMG Manual of Administration**

### 6.1 Recommendation

We recommend the Tafunsak Municipal Government to set up and maintain its books of accounts. Individual ledgers must be prepared to accommodate transactions on each type of assets, liabilities, revenues and expenditures especially with its classes to permit the preparation of its financial statements. Subsidiary ledgers must be maintained necessary in keeping track of individual vendors/contractors. By doing so, relevant and

reliable financial information can be easily obtained which is useful for management's decision making.

Similarly, we recommend that chart of account should be established in accordance with the accounting policies and procedures indicated in TMG Manual of Administration.

## **6.2 Prior Management Response**

- a. To prepare Bank Reconciliation
- b. Summarize monthly deposit/history (Statement)
- c. Every other month for follow-up on reconciliation

## **6.3 Current Implementation Status: Not Yet Implemented**

The auditors' review of current TMG documentation and reporting reveals that the above mentioned reports and summary were not prepared contrary to the Mayor's commitment in their previous management response. Similarly, no official chart of account was presented to the auditors upon inquiry.

## **6.4 Effect of No Implementation**

Arising from this condition, the auditors were unable to determine the completeness and accuracy of cash transaction. The municipality was not able to prepare accurate financial reports such as statement of assets and fund balance, and statement of operations.

## **6.5 Cause of No Implementation**

While TMG has sufficient personnel for proper administration, no training were given to them in accordance with the needs identified in the audit report. Also, TMG does not have enough funds to send their staff for training and to add that travel ban resulted from the Pandemic limits the chances for consultant to conduct on-island training usually sponsored by the State Finance Department.

## **Finding Number 7: TMG has no proper valuation for its Fixed Assets**

### **7.1 Recommendation**

We recommend that the Municipality account and conduct physical inventory of all its fixed assets. For fixed assets items which costs cannot be determined due to lack of records, we recommend that the Municipality form a committee to agree on the reasonable estimated values of these assets.

### **7.2 Prior Management Response**

The TMG office is now aware of all the rules and procedures covering fixed assets therefore, compliance of this office will surely be administered.

### **7.3 Current Implementation Status: **Not yet Implemented****

The auditors noted that TMG did not conduct inventory and valuation of fixed assets. TMG failed to show records and updated list of fixed assets

### **7.4 Effect of No Implementation**

Proper monitoring of these assets cannot be easily performed. Financial reports such as balance sheet (or statement of assets) and fund balance to include fixed assets cannot be prepared.

### **7.5 Cause of No Implementation**

TMG management was lacking initiation to properly identify and safeguard its fixed assets.

## **RECOMMENDATIONS**

After evaluating the results of this performance audit, we recommend that:

1. TMG management should fully address and implement all the twelve (12) audit recommendations reflected in the audit report FCA 01-2020.

## **ANNEX A: Stages of Implementation**

There are five stages used to assess the status of implementation of the recommendations. Stages are listed below:

- (i) **Not yet Implemented** – No progress or insignificant progress: Action such as having meetings and generating informal plans.
- (ii) **Planning Stage:** When formal plans for organization changes have been created and approved by the appropriate level of management with appropriate resources to implement the recommendation.
- (iii) **Preparation for Implementation:** If the entity made preparation for implementing a recommendation by hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.
- (iv) **Substantial Implementation:** If the structures or process are in place and integrated within at least some parts of the organization, and some achieved results have been identified.
- (v) **Full Implementation:** If the structure and processes are operating as intended and are fully implemented.

### **Obsolete**

The recommendation is obsolete if it is no longer applicable because the issue has been outdated as a result of having been superseded by something newer.

## ANNEX B: MANAGEMENT RESPONSE

Date: 12/07/21



To: Kosrae Public Auditor

Kosrae state FM 96944

*Pain kom:*

*Christmas Greetings to you all hope this letter find you in good health and spirit. And once again let me praise the Lord for saving our lives and all the blessing he bestow upon us.*

*In respond to your finding in doing auditing to Tafunsak MunicipaGovernment, but let me thank you and your good office for the hard work, very educational advises and recommendation you have provided.*

*Simply, let remind you and your good Office that Tafunsak Municipal Government is operating on a very simple process of financial management where everybody trust everybody.*

**Anyway, finding No. 1** *Weakness in Internal Control did not provide assurance on the accuracy and completeness of cash balance.*

- a. That has been implemented.*
- b. That, we are trying our very best to create a form of our own to tackle the problem.*
- c. The signing of the checks for fund disbursement from both branches the (executive and legislative ) is our way of approving/authorization of payments. I assure you and good office that this problem will be solved in the near days once we come up with a form (voucher). And let point out that administration has been change every four years, different mayor every terms and different management, employees and sometimes polices.*

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- d. *The activity has been done but no documentations, I assure that the Tafunsak Municipal Government will apply the process.*
- e. *Yes, many thanks to you and your good office, TMG will start implementing.*

**Finding No. 2** *Disbursements not in compliance with Established policies and procedures.*

- a. *Letter, a & b, as mentioned here substantially implemented, TMG will try our very best to fully implement.*

**Finding NO. 3 & 4 ( 3. Collections and other funds received were not properly documented, recorded, and completely deposited show cash collection mishandling is prevalent. 4 Inadequate documentation of payroll disbursement)**

- a. *Off course, and we are working to improve the issues regarding collection system in our local government so called Tafunsak Municipal Government.*

**Finding NO. 5** *Payment of unauthorized Benefits amounting to \$26,170.70*

- a. *A resolution is under process to comply with the TMG, MOA to establish and implement the policy on benefits of employees.*

**Finding NO. 6** *Did not maintain Book of Accounts as required in the MOA*


- a. *Tafunsak Municipal Government will and thank you for point out this issue to improve the TMG management system.*

**Finding NO. 7** *TMG has no proper valuation for Fixed Assetd.*

Performance Audit on Implementation of Recommendations  
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a. Yes, TMG has not done any inventory of Fixed assets as mention in our MOA, so thanks once again for re commendation. TMG will establish a system.

*Nunak munas fwin tiac kalem kom sukosok in pang nga in aketeyac, tuh pa ingan top lasr nuke finding lowos ah.*

Kulo ma lulap  
  
Jackson Albert  
mayor

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Tafunsak Municipal Government

**PUBLIC AUDITOR'S COMMENTS**

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

In compliance with government auditing standards, a copy of this draft report was shared with the TMG Mayor and Chairman of the TMG 9<sup>th</sup> Council to provide response to the findings.

In addition, the Public Auditor Office also extends copies of this report to the following officials:

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

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

Respectfully,



Alice S. George  
Acting Public Auditor



## ACKNOWLEDGEMENT AND OPA CONTACT

Performance Audit on the Implementation of the Recommendations of Tafunsak Municipal  
Government  
Report No. PA04-2021

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The audit staff that make key contributions to Elizabeth M. Jonah, Auditor II  
this report Reed Floyd, Auditor I

OPA MISSION Conduct effective and efficient audits and  
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