

**PERFORMANCE AUDIT ON THE IMPLEMENTATION OF
THE RECOMMENDATIONS**
of audit report no. PA01-2018
Lelu Town Government (LTG)

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



Stoney S. Taulung
PUBLIC AUDITOR



GOVERNMENT OF KOSRAE
OFFICE OF THE PUBLIC AUDITOR
POST OFFICE BOX 847
KOSRAE, FEDERATED STATES OF MICRONESIA 96944
TELEPHONE: (691) 370-3766, FACSIMILE(691) 370-3443

June 1, 2021

The Honorable Governor, Carson K. Sigras
The Honorable Speaker, Tulensa W. Palik
The Honorable Members, 12th Kosrae State Legislature
Kosrae State Government
Federated States of Micronesia 96944

**Re: Performance Audit on the Implementation of the Recommendation reflected in the
Audit Report PA01-2018 for Lelu Town Government (LTG)**

EXECUTIVE SUMMARY

We respectfully submit this Performance Audit PA01-2021 report on the implementation of the recommendations reflected in the Audit Report PA01-2018 that has been issued for Lelu Town Government.

The objectives of this audit are 1) To assess and provide assurance to the Lelu Town Government on the progress that has been made on the implementation of the recommendations outlined in the audit report PA01-2018 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 and Lelu Town Government Manual of Operation and Charter were used as criteria for compliance.

Based on our follow-up audit, we found that Lelu Town Government did not fully implemented the corrective action to address the audit finding and recommendations in audit Report PA01-2018, we conclude that of the 7 recommendation, a) Four (4) substantially Implemented and Three (3) are not yet implemented. The status of implementation is defined in Annex B. The summaries of recommendation with their status of implementation are as reflected below;

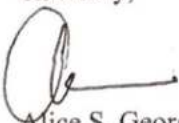
| <i>Recommendations:</i> | <i>Status:</i> |
|---|---------------------------|
| On Finding No.01 disbursement does not comply with the LTG financial management regulations and Manual of Administration resulting to questionable transactions. | |
| a. compliance to the provisions of the Municipal Charter | Not yet implemented |
| b. pass a resolution to have an ordinance for financial management | Not yet implemented |
| c. to ensure that all supporting documents for disbursements are verified and approved prior to payment. | Substantially Implemented |
| Finding 02: Weak Internal Control on Cash Transactions. | |
| a. Schedule of deposits showing the cash receipts used must be prepared and filed in every deposit transaction along with the validated deposit slip. | Substantially Implemented |
| b. Perform timely Bank Reconciliations (monthly) | Substantially Implemented |
| c. Physical inventories of blank check stock periodically conducted by persons independent of the cash disbursement function | Not yet implemented |
| Finding 03: Absence of books of accounts | |
| a. Implement the necessary bookkeeping procedure to properly record and account LTG financial transaction | Substantially Implemented |

After evaluating the results of this performance audit, we recommend that 1) LTG management should fully address and implement all the (7) audit recommendations reflected in the audit report PA01-2018, and 2) LTG management should resolve on the restitution of unexplained and unliquidated advances of the previous Mayor in the amount of \$3,000.00.

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 Mayor of Lelu Town Government and Councilmen for their review and comment on May 4, 2021. A copy of the management response is included on this report as Annex D.

Sincerely,



Alice S. George,
Acting Public Auditor

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INTRODUCTION

Background

The Office of the Kosrae Public Auditor conducted a Performance Audit on Lelu Town Government operation and issued PA 01-2018. Lelu is one of the four municipalities of Kosrae. It is a small isle connected to the main island by a 730-meter long causeway. It is the largest town of Kosrae.

Based on the Audit Report PA 01-2018, three (3) findings were reported and seven (7) recommendations were given as a result and reflected below.

Finding Number 1: Lelu Town Government disbursement does not comply with the LTG financial management regulations and Manual of Administration resulting to questionable transactions.

Condition: Our examination was applied to all disbursements made by the Municipality for the period covered and noted the following findings:

- a. Checks issued files are incomplete for the covered period. Forty-eight percent (48%) or 10 pcs out of 21 pcs of void checks does not have original copy on file.
- b. Thirty-three percent (33%) of the total amount of disbursements aggregating to \$25,093.55 were completely unsupported by the required disbursement documents.
- c. Included in the unsupported check voucher are 3 checks drawn in the name of the Mayor amounting to \$1000 per check (\$3000) apparently should be classified as cash advance to purchase supplies in Pohnpei during his travel. The treasurer confirms that there is no liquidation for this amount up to the time of the audit.

Finding Number 2: Weak Internal Control on Cash Transactions.

2.1 No Segregation of Duties

2.1a Collection

- i. During our examination we have noted that the municipality has no formal control procedures over collections. Review of the internal controls over cash receipts, we noted that the Mayor is responsible for the collection and deposit of funds and subsequently updating the cash receipts journal. These collections are from ordinances imposing taxes and all other revenues or reimbursements collected based on fines, fees, licenses, interests, rents or government services. And we noted in most cases that these collections are being paid in cash which is vulnerable to misappropriation.

- ii. The auditors noted and verified that the collection process is basically conducted by the mayor's office. The mayor's secretary receives collection and prepares receipts for collection while mayor keep the money, do the deposit, keep the receipt stubs, deposit slips and bank statement. All the documents for cash transactions were kept by the Mayor and submit them to the treasurer for recording but not in the regular manner.
- iii. In addition, no cash book is being maintained to record amounts collected. Schedule of deposits showing the receipts used to match with the validated deposit slip amount are not being prepared. Further, there are no review procedures to check if funds collected were properly and timely deposited.

2.1b Disbursement

Disbursement and approval function are not segregated from recording function. The Mayor/staff handles the preparation of check disbursement and at the same time performs the recording in the disbursement journal. Only Individual ledger was being maintained by the treasurer. Yet, the Mayor is one of the authorized signatories for the checks, approving officer at the same for purchasing activities.

2.2 No procedural control on Checks and Cash Items

During fieldwork the auditor observe and confirm that blank check stock and cash collection was being maintained by the Mayor in his desk drawer with no locks and sometimes at Mayor's house. In addition No physical inventories of blank check stock periodically conducted by persons independent of the cash disbursement function.

2.3 No procedural control on detail accounting of Cash and Cash Item

Lelu Town Government does not have procedures to ensure that collections and disbursements are accurately and promptly recorded. No periodic checking and review is being made for cash transactions. Hence, LTG did not performed Bank Reconciliation for the period covered.

Finding Number 3: Absence of books of accounts

Condition: Lelu Town Government only maintains cash disbursement journal to record payments made on various expenditures incurred and cash receipts journal to record collections arising from local revenues including funds received from revenue sharing. The Municipality does not maintain individual general ledgers to accommodate transactions involving its assets, liabilities, only fund balances, revenues and different types of expenses are being maintained. We noted also that some expenses are not properly classified to its nature.

Interview with the treasurer confirms that the recording and maintenance of books of accounts was not done regularly because of unavailability of documents which was usually kept by the mayor.

In the Management Response dated October 29, 2018 which was attached to Audit Report PA 01-2018, Lelu Town Government signed by the councils noted the findings and acknowledged recommendations to help improve management of the financial affairs of the municipality.

OBJECTIVE, SCOPE, METHODOLOGY

Objectives

1. The objective of this audit was to assess and provide assurance to the Lelu Town Municipality on the progress that has been made on the implementation of the recommendations outlined in the audit report PA 01-2018.
2. 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.

Scope

The scope of our performance audit was to assess the extent to which LTG management had made satisfactory progress in implementing the recommendations in the Lelu Town Government operation audit report no. PA 01-2018 issued in October 30, 2018. 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

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 Lelu Town Government employees and stakeholders. We also review transaction process and documentation. In addition we perform assessment on the implementation of the previous audit. The audit criteria used to develop the required audit tests were based on previous audit report issued.

PRIOR AUDIT COVERAGE

This is the second performance audit on the Lelu Town Government operation. The objective of this second performance audit is to assess the extent to which LTG Management had implemented the recommendation reflected in the Audit Report PA 01-2018.

CONCLUSION

We concluded that based on the audit objectives:

- (1) Lelu Town Government has not yet fully implemented all audit recommendations and need to take appropriate action in order to address audit findings and the seven (7) audit recommendations as per Audit Report No. PA 01-2018; and
- (2) The LTG management failed to initiate appropriate action on the restitution of questionable disbursement amounting to \$3,000.00.

STATUS OF IMPLEMENTATIONS OF AUDIT RECOMMENDATIONS

Finding Number 1: Lelu Town Government disbursement does not comply with the LTG financial management regulations and Manual of Administration resulting to questionable transactions.

1.1 Recommendation:

- a. We recommend compliance to the provisions of the Municipal Charter.
- b. We also strongly recommend that the council **pass a resolution** to have an ordinance for financial management. Financial management rules and procedures that will include specific functions of the treasurer, books of accounts, preparation of bank reconciliation schedules, document filing system and retention period of disbursement documents such as disbursement voucher, vendor's receipts and invoices and other supporting documents.
- c. The municipality should ensure that all supporting documents for disbursements are verified and approved prior to payment. Pre-numbered voucher should indicate clear and detailed purpose of disbursement with the certification of what budget or appropriation to be charge with. Voucher numbers therein should be the basis of filing along with all supporting documents. By so doing, a systematic filing of disbursement documents can be easily achieved. Approval of check vouchers should be delegated to the Treasurer and/or Mayor and/or a representative of the council and should in accordance with proper internal control system.

1.2 Prior Management Response:

The members of the 10th Lelu Town Council also agree to provide a resolution for the purpose of enforcing its Financial Management Act. This council also recommends that a full prosecution for criminal offense under any misuse of public funds under the Lelu Town Government shall be prosecuted under law.

1.3 Current Implementation Status: Not yet Implemented

Based on interview with the management and key staff of Lelu Town Government, they have implemented QuickBooks to provide sufficient accounting records. The said program provides voucher system, however the auditors were advised that LTG is now using Request for Payment Form to save cost of supplies. It was also discussed that restitution of questionable transaction amounted to \$3,000.00 has not been settled pending for legal advice from the municipal legal consultant.

1.4 Effect of Non-Implementation:

The absence of council resolution on enforcing its financial management act affects the legal basis of failure to consistent application of financial policies and identification specific accountabilities.

1.5 Cause of Non-Implementation:

The council is waiting for the full recommendation from the Mayor on the effectiveness and efficiency of Quickbook.

Finding Number 2: Weak Internal Control on Cash Transactions.

2.1 Recommendation: That the executive and councils of LTG 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. Perform timely Bank Reconciliations (monthly) to ensure the following:
 - (i) Comparison of checks in appropriate detail with disbursement records.
 - (ii) Accounting for numerical sequence of cashed checks
 - (iii) Examination of signatures and endorsements on a test basis.
 - (iv) Comparison of book balances used in reconciliations with the general ledger
 - (v) Comparison of deposit amounts and dates with cash receipt entries
 - (vi) Investigation of outstanding items
 - (vii) Footing of cash books.

- c. Physical inventories of blank check stock periodically conducted by persons independent of the cash disbursement function, and reconciled to department records

2.2 Prior Management Response: The members of the 10th Lelu Town Council are accord with recommendations and mentioned work plan for the implementation.

- a. **Collection:** Any cash receipt from any outside source of funds shall be the duties of the treasurer and not the Mayor nor the Mayor's secretary or any person working for LTG expect the Treasurer of the Lelu Town Government as prescribed in the LTG's Manual of Administration that the accounting of all LTG fund is vested in the Treasurer.
- b. **Disbursement:** Any fund of the LTG must first be authorized by the LTG Treasurer with the understanding that the Treasurer must first require supporting documents before releasing such fund as written in the LTG Manual of Administration.
- c. **Procedural control on checks and cash items:** Any cash receive by the LTG shall be deposited and shall be appropriated for its purpose and use before any release of funds.

2.3 Current Implementation Status: Substantial Implementation

Review of updated transaction flow chart as provided by the current Mayor exhibits improvement on the internal control for cash transactions. However, there is a need for further review on the verification function so as the reviewer or inspection function for collection and deposit should be done by a person not connected to the process of collection and deposit.

Improvement on collection and disbursement processes was noted by the auditors. Inspection of documents and files shows validated deposit slips were attached with the collection register. In addition, Checking and approval of cash collections was regularly performed by the Mayor. Likewise, disbursement transaction procedure demonstrates improvement on documentation by the treasurer and certification by the councils. However, LTG has not yet implemented the voucher system instead the auditors were advised that LTG is now using Request for Payment Form to save cost of supplies.

The current Mayor also mentions that bank reconciliation is regularly done however, there was no bank reconciliation report was submitted or shown to the auditor.

2.4 Effect of Substantial Implementation:

Without the full implementation of recommendation on internal controls, there will be no sufficient assurance of accountability and safeguard of asset.

2.5 Cause of Substantial Implementation:

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

Finding Number 3: Absence of books of accounts

3.1 Recommendation:

We recommend that Lelu Town 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.

3.2 Prior Management Response was:

The 10th Lelu Town Council acknowledged the finding and agreed to work on the recommendation to better equip the office in the future to provide a systematic financial procedure for the office of the Lelu Town Government to set up a more transparent and accountable financial system to be used for years to come.

3.3 Current Implementation Status: Substantial Implementation

Lelu Town Government is now using Quickbook for fiscal transaction. The auditor receives copy of detailed ledger and sample of Profit and Loss Year-to-date Comparative Summary. As per review of the sample, chart of accounts were not fully created for general and subsidiary accounts. Beginning balance for its Real Accounts (Balance sheet accounts) and Nominal Accounts (Income Statement accounts) has not been established.

3.4 Effect of Substantial Implementation:

Funds and revenue received will not be properly recorded without establishing proper chart of accounts for proper matching of revenue and expenses. Hence, recording of transaction thru Quickbook will not contribute assurance that LTG management will be provided fair financial reporting as required by the LTG charter. Without essential financial reports it will be hard for the management to make informed decisions.

3.5 Cause of Substantial in Implementation:

LTG management is still in process of determining the actual assets, liabilities and other ownership as of the audit and that they were encountering problems to establish the beginning balances of their real accounts.

III. RECOMMENDATIONS:

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

1. LTG management should fully address and implement all the (7) audit recommendation reflected in the audit report PA 01-2018.
2. LTG management should resolve on the restitution of unexplained and unliquidated advances of the previous mayor in the amount of \$ 3,000.00

ANNEX A: STATUS OF IMPLEMENTATION MATRIX

LELU TOWN GOVERNMENT
Performance Audit on the Implementation of Audit Recommendations
FINANCIAL AND COMPLIANCE ASPECT
FEBRU 2022

| | |
|-----------------------------------|---|
| 1. Not implemented | No progress or insignificant progress |
| 2. Planning stage | Control plans have been created and approved by the appropriate level of management |
| 3. Preparation for implementation | Preparation for implementing a recommendation (drafting or training of staff, developing resources to implement recommendation) |
| 4. Substantial implementation | Structures are in place and progress and achievement results are identified |
| 5. Full implementation | Structures or processes are operating as intended |
| 6. Decline | No applicable related issue |

| RECOMMENDATION | MANAGEMENT RESPONSE | STATUS AS OF February 2022 | AUDITOR COMMENTS |
|---|--|--|---|
| <p>1. LTV documents does not comply with the LTV financial management regulations and Manual of Administration resulting in questionable transactions.</p> <p>Our examination was applied to all disbursements made by the Municipality for the period covered and noted the following findings:</p> <p>(i) checks issued like are incomplete for the interest period, forty eight percent (48%) or 30 per cent of 71 per cent of all checks does not have original copy in the file; forty three percent (43%) of the total amount of disbursements aggregating to \$25,993.15 were completely unsupported by the required disbursement documents; (ii) included in the unsupported check voucher are 3 checks drawn in the name of the Mayor amounting to \$1,000 per check (\$3,000) apparently should be classified as cash advance to purchase supplies in February during his travel. The Treasurer confirms that there is no justification for this amount up to the time of audit.</p> | <p>No document compliance to the provisions of the Municipal Finance Act, 1. The examination by the municipality to the Municipality to have an independent financial management.</p> <p>1.1 A financial management plan and procedures that will include specific functions of the Treasurer, such as: preparation of bank reconciliation statements, account reconciliation and retention period of disbursement documents such as disbursement vouchers, receipt's receipts and invoices and other supporting documents.</p> <p>2. The Municipality should ensure that all supporting documents for disbursements are verified and approved prior to payment. The supported voucher should include clear and precise purpose of disbursement with the confirmation of what budget or appropriation to be charged with, voucher numbers, voucher should be the basis of filing along with all supporting documents, by filing in a systematic filing of disbursement documents can be easily accessed, source of these vouchers should be designed to the Treasurer and the Mayor and the representative of the audit and should be supported with the proper internal control system.</p> | <p>NOT YET IMPLEMENTED No subsequent audit resolution for the purpose to update financial Act of LTV.</p> <p>NOT YET IMPLEMENTED It was also discussed that resolution of questionable transactions amounting to \$3,000 has not been verified pending for legal advice from the municipal legal consultant.</p> | <p>effect: No legal basis for strict implementation of financial management and accountability.</p> <p>Cause: The Council is waiting for full implementation from the Mayor on the effectiveness and efficiency of the QuickBooks.</p> <p>effect: It will reflect the commitment of the current administration of LTV to uphold accountability and accountability in public service.</p> <p>Cause: (i) Mayor can not justify the questionable transactions due to missing receipts and other supporting documents. This is not a priority for LTV Mayor and Councilman now.</p> |
| <p>2. Weak internal Control on Cash Transactions.</p> <p>2.1 No Segregation of Duties</p> <p>2.1.1 Collection: During our examination, we have noted that the municipality has not formal control procedures over collection. Review of the internal control over cash receipts, we noted that the Mayor is responsible for the collection and deposit of funds and subsequently updating the cash receipts account. There</p> | <p>That the Executive and Council of LTV negotiate the meeting procedure on the cash handling with the participation of the external control on the segregation of duties and reporting in audit.</p> | <p>NOT YET IMPLEMENTED Based on interviews and inquiries with the management and key staff of LTV, they have implemented QuickBooks to sufficient accounting records. The system provides voucher system however, the system were advised that LTV is now using manual for payment from its own staff or suppliers.</p> | <p>Effect: Without the full implementation of recommendation on internal controls, there will be no sufficient assurance of accountability and safeguard of assets.</p> <p>Cause: LTV is still determining the personnel capacity to fully implement the internal controls. However, there are measures</p> |

**Performance Audit on Implementation of Recommendations
of audit report no. PA01-2018
Lelu Town Government**

collectors are from end-users imposing taxes and all other revenues or reimbursements collected based on fees, fines, licenses, interest, lease or government services. And we noted in most cases that these collections are being paid in cash which is vulnerable to misappropriation. The auditor noted and verified that the collection process is basically conducted by the mayor's office. The mayor's secretary receives collections and prepares receipts for collection while Mayor keeps the money. As the mayor keeps the receipt stubs, deposit slips and bank statements, all the documents for cash transactions were kept by the Mayor and submitted to the Treasurer for recording but not in the regular manner. In addition, no cash book is being maintained to record amounts collected. Schedule of deposits showing the receipts used to match with the utilized deposit slip amount are not being prepared. Further, there are no written provisions to check if funds collected were properly and timely deposited.

1. Schedule of deposits showing the cash receipt's used need to be prepared per day in every ledger transaction using with the collection deposit slip. We also recommended that a journal not consistent with the collector and recording amount input or a regular book is issues that collection, however properly or not, providing.

2. Prepare simple bank reconciliation (monthly) in office.

3. Comparison of receipts is regularly issued with follow-up receipt records. Accounting for numerical recording of cash checks.

4. Authentication of signature and endorsement as a first step.

5. Comparison of bank balance with a reconciliation with the general ledger. A comparison of deposit amounts and items with cash receipt entries.

The LTO do have an internal control system over cash-related which was being handled by the Treasurer of LTO in September 2017. It is clearly indicated in Part 11.2 and 11.3 of the LTO Manual of Administration that the accounting of LTO fund is under the Treasurer. Collection of any cash receipt from any source of funds shall be the duty of the Treasurer and not the Mayor or the Mayor's secretary or any person working for LTO except the Treasurer of the LTO. The recommendation that prosecution under the criminal offense for any misuse of public funds shall be prosecuted to the fullest effect of law.

7.13 Disbursement of any funds of the LTO must first be authorized by the LTO Treasurer with the understanding that the Treasurer must first ensure supporting documents before releasing such fund. LTO Manual of Administration clearly indicated that all disbursements of funds from the LTO is vested on the Treasurer and not the Mayor. The Mayor/his staff and his wife or any other person are not authorized to prepare checks under the LTO. The only person authorized to prepare checks under LTO is the Treasurer. There are numerous times that the Mayor and his wife had prepared checks for LTO which is against the law as the Mayor is one of the signatories for LTO and for the Mayor to prepare checks it would lead to misuse of government funds. We recommend that prosecution under the criminal offense for any misuse of public funds shall be prosecuted to the fullest effect of law.

7.2 Possession of LTO blank check stubs and cash collection by the Mayor at his office drawer and at his residential home. This is subject to unauthorized use of public funds due to the Mayor being a signatory for LTO checks. Cash collections should be collected by the Treasurer and not the Mayor. Cash collected by the

implementation of cash handling includes the following:

1. Collection report were prepared for verification and approval of Mayor for deposit.
2. Regular monthly bank reconciliation is being performed and recording of bank and other charges are recorded properly and timely. However formal bank reconciliation was not prepared.
3. Inventory of cash and issued check was conducted in a regular manner.
4. Proper safeguarding of checks and cash items is currently implemented.
5. LTO is currently using spreadsheets to ensure proper recording of LTO cash transactions.

ensuring the transaction process to be more effective.

2.1.6 Disbursement: Disbursement and approval function are not segregated from recording function. The Mayor/his staff handles the preparation of check disbursement and at the same time performs the recording in the disbursement journal. Only individual ledger was being maintained by the Treasurer. In the Mayor is one of the authorized signatories for the checks, approving officer at the same time for purchasing activities.

1. Identification of authorizing items.
2. Issuance of cash funds.
3. Physical inventory of check stubs should periodically conducted for physical measurement of the cash disbursement function, and reconciled to disbursement record.

2.2 No Presidential Control on Checks and Cash Items: During lockdown, the auditor observed and verified that blank check stubs and cash collector was being maintained by the Mayor in his desk drawer with no lock.

**Performance Audit on Implementation of Recommendations
of audit report no. PA01-2018
Lelu Town Government**

| ANNEX B: STAGES OF IMPLEMENTATION | | | | | |
|---------------------------------------|--|--|--|---|--|
| | and sometimes at Mayor's house. In addition, no physical inventory of blank checks and periodically conducted by person independent of the cash disbursement function. | | Mayor has not been accurately recorded and it could lead to unauthorized use of public funds. Any cash received by the CTG shall be deposited and staff be appropriated for to acquire and use before any release of funds. | | |
| | 3.2 The Procedures Cannot be Detailed Accounting of Checks and Cash Items. CTG does not have procedures to ensure that collections and disbursements are accurately and properly recorded. No periodic checking and review is being made for cash transactions. Hence, CTG did not performed Bank Reconciliation for the covered period. | | 3.3 The Mayor of the CTG has reviewed and extracted the duties of the Treasurer of the CTG which has caused the absence of collection and disbursement records starting from September 2017 to October 2018. The CTG Mayor shall be held liable for all missing documents which has not been reported prior to its collection and disbursement of funds. The Council recommends that prosecution under the criminal offense for any misuse of public funds shall be prosecuted to the fullest effect of law. | | |
| 1. Absence of Book of Accounts | CTG only maintains cash disbursement journal to record payments made on various expenditures internal and cash receipt journal to record collections arising from local revenues including funds received from revenue sharing. The Municipality does not maintain individual general ledgers to accommodate transactions involving its assets, liabilities, equity fund balances, revenues and different types of expenses are being maintained. We noted also that some expenses are not properly classified to its nature. Interview with the Treasurer confirms that the recording and maintenance of books of accounts was not done regularly because of unavailability of documents which was usually kept by the Mayor. | We recommend that CTG 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 separately with its checks to permit the presentation of its financial statements. Subsequent reports must be incorporated necessary in keeping track of individual activities/transactions. By doing so, relevant and reliable financial information can be easily obtained which is useful for management's decision making. | The Lelu Town Council hereby review the findings and have confirmed that the absence of all books of accounts has been kept by the Mayor on the first day at office. The Lelu Town Treasurer could not provide accurate financial reports such as statement of assets, fund balance and statement of expenditure due to unavailability of these documents which is kept by the Mayor without transcribing such documents to the Treasurer for filing purposes. This body authorizes you Institution to take every measure in retrieving such documents from the Mayor's office or at his residential home. We have repeatedly requesting his office to provide these documents to your office and he has not provided such information until today. This office recommends that you work with the office of the Attorney General to assist your office in retrieving such documents to complete your audit. Mayor Floyd continuously disbursed public funds in excess of budgeted accounts which is a clear indication that the funds obligated from other budget accounts were not earmarked for the purpose of the disbursement. | CONTINUALLY IMPROVING CTG is now using QuickBooks for fiscal transactions. The auditor receives copy of detailed ledger and sample of Profit and Loss Year to Date Comparative Summary. For review of the sample, there is a need to further update the chart of account, for general and subsidiary accounts to establish beginning balance for its Real Accounts (Balance Sheet Accounts) and Nominal Accounts (Income Statement Accounts) to maximize the benefits of using QuickBooks. | Effect: Funds and revenue will not be properly recorded without establishing proper chart of accounts for proper matching of revenue and expenses. Hence, recording of transaction thru QuickBooks will not contribute assurance if at CTG management, will be provided this financial reporting as required by the CTG Charter. Without essential financial reports, it will be hard for the management to make informed decisions. |
| | | | Sample print out of financial reports as required by the charter | | Cause: CTG management is still in process of determining the actual assets, liabilities and other ownership as of the audit and that they were encountering problems to establish the beginning balance of their real accounts. |
| | | Your recommendations are well noted and the management hereby concurred to your recommendations and will work on your recommendations to better equip this office in the future to provide a systematic financial procedure for the office of the Lelu Town Government to set up a more transparent and accountable financial system to be used for years to come. | | | |

ANNEX B: 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 C: LTG ACCOUNTING SPREADSHEET

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02/24/21

Accrual Basis

LTG Profit & Loss October 2019 through December 2020

| | Oct '19 - Dec 20 |
|----------------------------------|------------------|
| Ordinary Income/Expense | |
| Income | |
| Awane Marine Park | 140.00 |
| battery charge | 86.00 |
| business license | 11,995.06 |
| contribution | -1,788.55 |
| donation January 18 | 50.00 |
| Job Order | 43,534.00 |
| liberation donation | 5,500.00 |
| Other Income | 129.00 |
| Pig pen project income | 1,500.00 |
| Resting House Project | 9,608.00 |
| Revenue Sharing | 273,149.05 |
| Sales | 3,600.00 |
| Sprungansralu Project | 2,500.00 |
| trash bin platform project | 6,854.27 |
| Trash collection income | 3,716.00 |
| water maintenance | 158.00 |
| Total Income | 360,730.83 |
| Expense | |
| 2020 charter Day expense | 2,766.07 |
| all others Legislative | 3,021.00 |
| Allotment | 289.00 |
| Appropriation | 1,000.00 |
| Automobile Expense | 25.29 |
| Bank Service Charges | 4,399.85 |
| beautification project | 3,198.62 |
| bonus | 1,000.00 |
| Charter Commission | 150.00 |
| christmas expense | 4,404.26 |
| committee allowance | 8,625.00 |
| contingency expense | 3,648.36 |
| contractual Services | 13,301.62 |
| contribution expense | 793.85 |
| contribution Expenses | 120.00 |
| Culture, Tradition Association E | 370.00 |
| equipment parts | 362.73 |
| equipment Rental | 2,475.00 |
| Equipment Repair & maintenance | 2,568.68 |
| Filling Materials | 400.00 |
| fixed assets | 6,790.00 |
| January 18 activity | 4,094.68 |
| job order Returns | 391.75 |
| Lelu Woman Association | 1,000.00 |
| Liberation expense | 15,764.25 |
| Mayor's Message expense | 2,614.21 |
| Medals Store | 770.00 |
| Park and Recreation Expense | 4,171.17 |
| payroll allotment | 32,958.73 |
| Payroll Expenses | 144.95 |
| POL christmas | 304.55 |
| POL expense | 10,221.45 |
| POL expense Security | 916.75 |
| POL Trash collection DT&I expen | 499.67 |
| project development | 4,537.51 |
| PTA Lelu | 95.00 |
| PTA Sansrik | 695.00 |
| registration expense | 81.50 |
| Renovation | 549.46 |
| Representation allowances | 13,495.50 |
| resting house project expense | 9,608.00 |
| River Clean up | 242.90 |
| salary expense | 102,379.31 |
| salay expense | 64.54 |

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Accrual Basis

LTG
Profit & Loss
October 2019 through December 2020

| | Oct '19 - Dec 20 |
|---------------------------------|-------------------|
| Senior Citizens | 1,000.00 |
| session allowance | 27,300.00 |
| Standing committee meeting expe | 600.00 |
| supplies Expense | 8,187.36 |
| supplies legislative | 1,389.38 |
| Telephone Expense | 4,148.45 |
| Tournament expenses | 3,657.16 |
| training expenses | 3,078.00 |
| Trash bin Project | 78.73 |
| trash bin project expense | 2,771.83 |
| Travel Expense | 8,757.56 |
| Utilities | 3,820.00 |
| vehicle registration fee | 140.00 |
| withholding tax expense | 29,353.23 |
| Youth Association | 500.00 |
| Total Expense | 360,089.91 |
| Net Ordinary Income | 640.92 |
| Net Income | 640.92 |

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Accrual Basis

LTG
Profit & Loss Prev Year Comparison
October 2019 through December 2020

| | Oct '19 - Dec 20 | Oct '18 - Dec 19 | \$ Change | % Change |
|----------------------------------|-------------------|-------------------|-------------------|---------------|
| Ordinary Income/Expense | | | | |
| Income | | | | |
| 2019 Liberation Donations | 0.00 | 11,675.00 | -11,675.00 | -100.0% |
| Awane Marine Park | 140.00 | 260.00 | -120.00 | -46.2% |
| battery charge | 86.00 | 44.00 | 42.00 | 95.5% |
| business license | 11,995.06 | 12,170.00 | -174.94 | -1.4% |
| business license | 0.00 | 850.00 | -850.00 | -100.0% |
| Cash in Bank Saving account | 0.00 | 30,000.00 | -30,000.00 | -100.0% |
| contribution | -1,788.55 | -1,363.55 | -425.00 | -31.2% |
| donation January 18 | 50.00 | 0.00 | 50.00 | 100.0% |
| Finpe Project Income | 0.00 | 11,073.00 | -11,073.00 | -100.0% |
| fork lift rental | 0.00 | 25.00 | -25.00 | -100.0% |
| garbage fee | 0.00 | 66.00 | -66.00 | -100.0% |
| Job Order | 43,534.00 | 25,792.40 | 17,741.60 | 68.8% |
| Job order (PVC) pipe | 0.00 | 100.00 | -100.00 | -100.0% |
| liberation donation | 5,500.00 | 0.00 | 5,500.00 | 100.0% |
| Other Income | 129.00 | 24.00 | 105.00 | 437.5% |
| penalty income | 0.00 | 70.00 | -70.00 | -100.0% |
| Pig pen project income | 1,500.00 | 0.00 | 1,500.00 | 100.0% |
| reimbursement | 0.00 | 4,843.06 | -4,843.06 | -100.0% |
| Resting House Project | 9,608.00 | 7,608.00 | 2,000.00 | 26.3% |
| Revenue Sharing | 273,149.05 | 285,738.00 | -12,588.95 | -4.4% |
| Sales | 3,600.00 | 4,896.54 | -1,296.54 | -26.5% |
| Saving Account BOFSM | 0.00 | 30,000.00 | -30,000.00 | -100.0% |
| Srungansralu Project | 2,500.00 | 0.00 | 2,500.00 | 100.0% |
| trash bin platform project | 6,854.27 | 6,988.00 | -133.73 | -1.9% |
| Trash collection income | 3,716.00 | 2,219.00 | 1,497.00 | 67.5% |
| water maintenance | 158.00 | 75.00 | 83.00 | 110.7% |
| Total Income | 360,730.83 | 433,153.45 | -72,422.62 | -16.7% |
| Expense | | | | |
| 2020 charter Day expense | 2,766.07 | 0.00 | 2,766.07 | 100.0% |
| aggregates | 0.00 | 250.00 | -250.00 | -100.0% |
| all otherers executive | 0.00 | 275.35 | -275.35 | -100.0% |
| all others Legislative | 3,021.00 | 2,482.85 | 538.15 | 21.7% |
| Allotment | 289.00 | 0.00 | 289.00 | 100.0% |
| Appropriation | 1,000.00 | 500.00 | 500.00 | 100.0% |
| Automobile Expense | 25.29 | 103.27 | -77.98 | -75.5% |
| Bank Service Charges | 4,399.85 | 1,451.21 | 2,948.64 | 203.2% |
| beautification project | 3,198.62 | 3,900.00 | -701.38 | -18.0% |
| bonus | 1,000.00 | 0.00 | 1,000.00 | 100.0% |
| Charter Commission | 150.00 | 12,998.43 | -12,848.43 | -98.9% |
| christmas expense | 4,404.26 | 4,404.26 | 0.00 | 0.0% |
| clean up activity | 0.00 | 225.00 | -225.00 | -100.0% |
| committee allowance | 8,625.00 | 2,925.00 | 5,700.00 | 194.9% |
| contingency expense | 3,648.36 | 6,045.27 | -2,396.91 | -39.7% |
| contractual Services | 13,301.62 | 15,819.21 | -2,517.59 | -15.9% |
| contribution expense | 793.85 | 2,986.00 | -2,192.15 | -73.4% |
| contribution Expenses | 120.00 | 1,173.85 | -1,053.85 | -89.8% |
| Culture, Tradition Association E | 370.00 | 230.00 | 140.00 | 60.9% |
| Election Board | 0.00 | 2,228.65 | -2,228.65 | -100.0% |
| equipment parts | 362.73 | 0.00 | 362.73 | 100.0% |
| equipment Rental | 2,475.00 | 2,332.75 | 142.25 | 6.1% |
| Equipment Repair & maintenance | 2,568.68 | 4,581.77 | -2,013.09 | -43.9% |
| Filling Materials | 400.00 | 11,465.00 | -11,065.00 | -96.5% |
| Finpe Project | 0.00 | 855.68 | -855.68 | -100.0% |
| fixed assets | 6,790.00 | 3,723.00 | 3,067.00 | 82.4% |
| inauguration 2019 | 0.00 | 8,126.80 | -8,126.80 | -100.0% |
| Inspection expense | 0.00 | 2,443.30 | -2,443.30 | -100.0% |
| January 18 activity | 4,094.68 | 2,395.67 | 1,699.01 | 70.9% |
| job order Returns | 391.75 | 231.75 | 160.00 | 69.0% |
| Leadership conference | 0.00 | 3,001.72 | -3,001.72 | -100.0% |
| Lelu Woman Association | 1,000.00 | 1,000.00 | 0.00 | 0.0% |
| Liberation expense | 15,764.25 | 15,485.32 | 278.93 | 1.8% |
| Mayor's Message expense | 2,614.21 | 1,404.26 | 1,209.95 | 86.2% |

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Accrual Basis

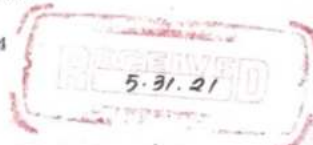
LTG
Profit & Loss Prev Year Comparison
October 2019 through December 2020

| | Oct '19 - Dec 20 | Oct '18 - Dec 19 | \$ Change | % Change |
|---------------------------------|------------------|------------------|------------|----------|
| Medals Store | 770.00 | 0.00 | 770.00 | 100.0% |
| Miscellaneous expense | 0.00 | 1,675.00 | -1,675.00 | -100.0% |
| office machine maintenance | 0.00 | 40.00 | -40.00 | -100.0% |
| Office Renovation | 0.00 | 877.34 | -877.34 | -100.0% |
| Office Supplies | 0.00 | 718.29 | -718.29 | -100.0% |
| Parents Teacher Association | 0.00 | 920.00 | -920.00 | -100.0% |
| Park and Recreation Expense | 4,171.17 | 3,328.27 | 842.90 | 25.3% |
| payroll allotment | 32,958.73 | 20,075.38 | 12,883.35 | 64.2% |
| Payroll Expenses | 144.95 | 0.00 | 144.95 | 100.0% |
| POL christmas | 304.55 | 48.40 | 256.15 | 529.2% |
| POL expense | 10,221.45 | 23,587.37 | -13,365.92 | -56.7% |
| POL expense Security | 916.75 | 176.00 | 740.75 | 420.9% |
| POL Trash collection DT&I expen | 489.67 | 0.00 | 489.67 | 100.0% |
| Post Office box rental | 0.00 | 40.00 | -40.00 | -100.0% |
| project development | 4,537.51 | 0.00 | 4,537.51 | 100.0% |
| PTA Lelu | 95.00 | 200.00 | -105.00 | -52.5% |
| PTA Sansrik | 695.00 | 450.00 | 245.00 | 54.4% |
| registration expense | 81.50 | 0.00 | 81.50 | 100.0% |
| Renovation | 549.46 | 7,213.00 | -6,663.54 | -92.4% |
| Rent Expense | 0.00 | 77.94 | -77.94 | -100.0% |
| Repairs and Maintenance | 0.00 | 247.76 | -247.76 | -100.0% |
| Representation allowances | 13,495.50 | 18,579.00 | -5,083.50 | -27.4% |
| resting house project expense | 9,608.00 | 7,208.00 | 2,400.00 | 33.3% |
| River Clean up | 242.90 | 0.00 | 242.90 | 100.0% |
| salary expense | 102,379.31 | 121,201.72 | -18,822.41 | -15.5% |
| salay expense | 64.54 | 0.00 | 64.54 | 100.0% |
| sales return | 0.00 | 120.00 | -120.00 | -100.0% |
| Senior Citizens | 1,000.00 | 2,000.00 | -1,000.00 | -50.0% |
| session allowance | 27,300.00 | 33,600.00 | -6,300.00 | -18.8% |
| Standing committee meeting expe | 600.00 | 625.00 | -25.00 | -4.0% |
| supplies Expense | 8,187.36 | 12,686.19 | -4,498.83 | -35.5% |
| supplies legislative | 1,389.38 | 1,703.49 | -314.11 | -18.4% |
| Telephone Expense | 4,146.45 | 3,272.26 | 874.19 | 26.7% |
| Tournament expenses | 3,657.16 | 0.00 | 3,657.16 | 100.0% |
| training expenses | 3,078.00 | 425.00 | 2,653.00 | 624.2% |
| Trash bin Project | 78.73 | 1,276.94 | -1,198.21 | -93.8% |
| trash bin project expense | 2,771.83 | 1,846.48 | 925.35 | 50.1% |
| Travel Expense | 8,757.56 | 2,140.00 | 6,617.56 | 309.2% |
| Utilities | 3,820.00 | 4,570.00 | -750.00 | -16.4% |
| vehicle registration fee | 140.00 | 44.00 | 96.00 | 218.2% |
| withholding tax expense | 29,353.23 | 28,510.25 | 842.98 | 3.0% |
| Youth Association | 500.00 | 0.00 | 500.00 | 100.0% |
| Total Expense | 360,089.91 | 414,528.45 | -54,438.54 | -13.1% |
| Net Ordinary Income | 640.92 | 18,625.00 | -17,984.08 | -96.6% |
| Net Income | 640.92 | 18,625.00 | -17,984.08 | -96.6% |

ANNEX D: MANAGEMENT RESPONSE



OFFICE OF THE MAYOR
LELU TOWN GOVERNMENT
P.O.BOX 307
Lelu, Kosrae FSM 96944
Tel. 691-370-3037
Email: kjipalt@gmail.com



May 31, 2021

Mrs. Alice S. George
Administrator
Office of the Public Auditor
Kosrae Federated States of Micronesia

Dear Mrs. Alice S. George,

Hope this communication finds you with the best of your health and prosperity.

In regards to the Audit findings as per PA 01-2021 I am very pleased to respond to the report on behalf of the Chairman and members of the 11th Lelu Town Councils. I hereby wish to notify that the draft report was well received however apologized for not respond immediately.

As per your findings : Finding number 1: Lelu Town Government disbursement does not comply with the LTG Financial management regulations and Manual of Administration resulting to questionable transactions.

Recommendations: Strongly recommending the Lelu Town Government initiative compliance to the Municipal Charter and initiate or develop a resolution to have an ordinance establishing a financial management with the establishment of Quickbook accounting programs.

As per findings L.2, Prior Management Response was:

The members of the 10th Lelu Town Councils was agreed to provide a resolution for the purpose of enforcing its Financial Management Act which was fully recommended full prosecution to the findings. However, the 11th Lelu Town Councils had agreed upon the findings and would like to request not to take full prosecutions to the current findings.

Other current implementation is to develop a resolution encouraging set up of the QuickBook Accounting program to be effectively used as accounting system.

3.2 Prior Management Respond:

Performance Audit on Implementation of Recommendations
of audit report no. PA01-2018
Lelu Town Government

AUDITOR'S COMMENTS

The 11th Lelu Town Council acknowledged the findings and agreed to work on the recommendation to better equip the office in the future and established a systematic financial procedure for the office of the Lelu Town Government.


Recommendations:

After evaluating the results of the performance audit PA 01-2018 :

1. LTG management should fully address and implement all the ^{* recommendations in audit PA 01-2018,}
2. LTG management should restitution of the unexplained amount as identified in the findings.

As explained the LTG will take immediate responds in providing a resolution as per requirement at the earliest convenience.

Respectfully


Presley P. Abraham
Mayor, LTG

XC: Honorable Osamu Nedlic, Chairman 11th LTC
File

PUBLIC AUDITOR'S COMMENTS

We would like to extend our appreciation to the Lelu Town Government Mayor, Councilmen and staff for their cooperation and assistance throughout the course of the audit.

In compliance with Generally Accepted Government Auditing Standard, a copy of the draft report was discussed and agreed upon with the LTG Mayor and Councilmen and is attached as Annex D in this report.

In addition, we also extended copies to the following officials:

1. Governor, Kosrae State
2. Lt. Governor, Kosrae State
3. Speaker, 12th KSL and all members
4. Attorney General
5. Chief Clerk, Kosrae State Court
6. V6AJ Radio

If there is any question or concerns regarding this report, please contact the Office of the Public Auditor.



Alice S. George
Acting Public Auditor

ACKNOWLEDGEMENT AND OPA CONTACT

Performance Audit on the Implementation of the Recommendations of Lelu Town Government
Audit Report No. PA01-2021

OPA CONTACT Alice S. George
ksauditor@mail.fm

ACKNOWLEDGEMENT Emma P. Balagot, CPA, Audit Manager
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
investigations to ensure that government
resources are properly managed.

OFFICE CONTACT Government of Kosrae
Office of the Public Auditor
Post Office Box 847
Kosrae, FSM 96944

Tel No: 691-370-3766
Fraud Hotline: 691-370-3767
Website: www.ksaopa.fm