

**KOSRAE STATE GOVERNMENT  
OFFICE OF THE PUBLIC AUDITOR**

**ANNUAL REPORT  
2020**



**Stoney S. Taulung**  
**Public Auditor, Kosrae State**  
**December 2020**

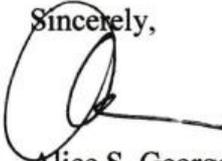
## Public Auditor's Message

It gives me great pleasure and honor to present to the Leaders of Kosrae State the 2020 Annual Audit Report, which summarizes the major achievements and performance output of the Office of the Public Auditor, Kosrae State during Calendar Year 2020. As Public Auditor for Kosrae State, I am pleased to report to the Stakeholders and the general public on the progress and major accomplishments of the Office of the Public Auditor.

This report presents the progress that have been made during the previous and current years which illustrates that the Office of the Public Auditor has made some progress to improve the quality, quantity and timeliness of the audit activities. This report includes major findings and recommendations identified through audit and attestation engagements conducted during the calendar year. It is designed to inform the Governor, Members of the Legislature and the people of Kosrae State about the Office of the Public Auditor's progress and performance in serving as a watch dog on government resources. Our services are linked to good governance and aim toward improving the Kosrae State Government operations, efficiency, transparency and accountability.

It is extremely important to acknowledge with great appreciation the valuable contributions provided by the U.S. Office of Insular Affairs, Office of Inspector General, USDA Graduate School, PASAI, APIPA and National Office of Public Auditor. I must also extend appreciation for the dedicated and hard- working staffs of the Public Auditor's Office as well as those offices that provide timely and reliable information that enable our work possible.

Sincerely,



Alice S. George  
Acting Public Auditor  
Kosrae State Government

## Table of Contents

Public Auditor’s Message.....	1
Table of Contents.....	2
Abbreviation.....	3
I. Introduction and Background.....	4
II. Highlights of 2020 accomplishment.....	8
III. Summary of Performance Audit Findings and Recommendations.....	9
IV. Employees Capacity Building and Skill Enhancement.....	19
V. Operation Budget and Expenditure.....	20
VI. Office Administrative Matters.....	21
VII. Appendices.....	22
Appendix I: Description of Audits.....	22
Appendix II: Audit Inspection Standards.....	22
Appendix III: General and Qualitative Standards.....	23

## Abbreviations

AICPA	American Institute of Certified Public Accountant
ADB	Asian Development Bank
CPA	Certified Public Accountant
CPE	Continuing Professional Education
DOA	Department of Administration
DT	Deloitte & Touche
Dev.	Development
FSM	Federated States of Micronesia
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. Government Accounting Office
GAS	Government Auditing Standards
HRM	Human Resource Management
IAASP	International Auditing and Assurance Standards Board
IIA	Institute of International Auditors
IDI	INTOSAI Development Initiative
ISA	International Statements on Audits
ISACA	Information Systems Audit and Control Association
KIRMA	Kosrae Island Resource Management Authority
MD&A	Management's Discussion and analysis
MOU	Memorandum of Understanding
OIA	US Department of Interior, Office of the Inspector General
OMB	US Office of Management and Budget
OPA	Office of Public Auditor
ONPA	Office of the National Public Auditor
PCAOB	Public Company Accounting Oversight Board
RHCDS	Rural Housing & Community Development Service
RMI	Republic of the Marshall Island
SAS	Statements on Auditing Standards
SPASAI	South Pacific Association of Supreme Audit Institutions
SSAE	Statements on Standards for Attestation Engagement
UNDP	United Nation Development Program
USA	United States of America
USDA	US Department of Agriculture

## **I. Introduction and Background**

The Office of the Public Auditor (OPA), Kosrae State Government is grateful with the excellent support given by the leaders of the State Government and all offices that contributed their efforts in providing information that is essential and required in our work. This annual report summarizes the significant achievements of the Office of the Public Auditor and brings to light our continued efforts to achieve the desired outcomes.

The purpose of this Annual Performance Report is to serve as public information and it can also serve as a tool for dissemination of information for public awareness and for possible renewal of political commitment or decision making process. The Plan outlines the OPA strategic goals and activities necessary to achieve the goals. Kosrae State Public Auditor's Office is committed to join the other Audit Offices within the FSM and the Pacific region to ensure that public resources are used efficiently, economically, effectively and legally.

### ***1.1 Mission Statement***

The Office of the Public Auditor shall engage in audit, inspect and analyze government activities and programs with independence and to achieve high level of efficiency and accountability for the benefit of the government and the people.

The Office of the Public Auditor will continue to serve the Government and the people by providing to the Governor, Speaker, Chief Justice and Municipal Leaders timely and reliable information's that will enable the leaders to use the audit results as basis to enact laws to promote accountability and transparency.

### ***1.2 Vision Statement***

Since the creation of the Office of the Public Auditor, it is anticipated that all output will be achieved at a high level through the performance of high quality, independent audits and investigation.

### ***1.3 Values***

The performance of the Office of the Public Auditor shall be recognized and respected through the following:

- Independence
- Professionalism
- Honesty

### ***1.4 Performance Measures***

The performance output of the Office of Public Auditor is to achieve the following objectives:

- Timely, Reliable, Usefulness and Understandable
- Accepted and Implemented recommendation
- Improvement in Government Operation
- Fiscal Impact

The Annual Performance Plan develop by the Office of the Public Auditor has four strategic goals which also include activities, objectives and output. The four strategic goals include the following:

1. Responsible fiscal policies that support financial stability and economic development. This goal is to improve the effectiveness of the audit services.
2. Adoption of best practices in the transparency of fiscal management and establish effective deterrence and investigation of white collar crimes.
3. Enhance accountability in the Public Sector by disseminating audit results.
4. Improved Public Sector Management and resources allocation and strengthen capacity building.

The Annual Performance Plan is designed to include the activities necessary to achieve the strategic goals. The Plan will enable each activity to be measured in order to know how much progress is achieved.

#### ***1.5 Duties and Responsibilities of the Kosrae State Public Auditor***

The Kosrae State Code, Title 10. Section 4 which specifies the duties and responsibilities of the Office of the Public Auditor. The OPA serve as the state premier watchdog to ensure that funding and properties of the state government are expended or managed accordingly. The Office is charged with a broad and comprehensive program of audits to deliver for the state government. The Office of the Public Auditor is authorized by law to conduct audit and inspect to evaluate the accuracy and effectiveness of management controls to direct projects and programs toward successful accomplishment. The following include specific responsibilities, which are designed to promote integrity and improve performance in government services and operations:

- shall inspect and audit transactions, accounts, books, and other financial records of the state government, to include but not 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 receive public funds from the State Government “and other laws promulgated thereafter.”
- inspect and audit transactions, accounts, books, and other financial records associated with any project, program, and activity receiving funds in whole or in part from public funds of the State Government,
- perform audits as otherwise specifically required by the statutes,

- have the discretion to perform audits, or assist in the performance of audits, upon request by the States,
- have the exclusive audit jurisdiction over public funds of the State Government, but shall have the authority to contract for independent auditing services to be performed under his supervision in instances where specialized expertise is required.
- file a report at least once a year with the State Legislature and other reports as deemed necessary by the Public Auditor and all reports of the Public Auditor shall be made available to the general public.
- submit recommendations with audit reports which shall be confined to matters within the jurisdiction of the Public Auditor, including compliance or noncompliance with laws governing the expenditure of public moneys and the need for amendments or new laws to secure the efficient expenditure of public funds,
- keep a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers and other materials pertaining to the work of the Office of the Public Auditor.

### **1.6 Independence and Legal framework**

A fundamental principle of auditing is to provide an independent opinion on the performance of the audited entities and their compliance with laws, rules, and regulations. *Lima Declaration on Auditing* Precepts mandated that audit institute can accomplish their tasks objectively and effectively only if they are independent from the audited entity and are protected against outside influence.

## **II. Highlights of the 2020 Accomplishment**

The Office of the Public Auditor performs the audit and investigative work in compliance with the Government Auditing Standards issued by the Comptroller General of the United States as well as the existing State Laws and Regulations. We extend appreciation to the Executive and Legislative body for the trust and confidence shown in demanding audit services as evident in requesting special audit. Considering our limited resources, we will continue to respond effectively to any special request.

### **2.1 Audit Activities:**

1. Performance Audit on Health Services Procurement Process
2. Financial and Compliance Audit on Tafunsak Municipal Government
3. Financial and Compliance on Transshipment Fee Kosrae Port Authority
4. Performance Audit on Utwa Municipal Government
5. Non-Audit Services/Cash Count

## **2.2 Investigative Work**

The investigative works are often initiated by concerns received through citizens or from state and municipal leaders or officials. This unit conducted 4 preliminary inquiries and investigations into breaches of both administrative and criminal laws or regulations. The investigative work in 2020 includes the following:

1. Use of government vehicles
2. Alleged misused of government vehicles
3. Mismanagement

## **III. Summary of Performance Audit Findings and Recommendations**

### **3.1 An Audit of Department of Health Services Procurement Process**

Audit Objectives:

- 1) To ensure that adequate properties and supplies are timely provided.
- 2) To procure properties and supplies in accordance with grant requirements and the State's Financial Management Regulations;
- 3) To safeguard its fixed assets and supplies against fraud, waste and abuse.

**Finding No. 1. DHS did not provide assurance that adequate pharmaceuticals and supplies were timely provided.**

1. Insufficient procurement management plan
2. The deficient DHS formulary (Essential Medicine List) may result to not having the most available appropriate medicines.
3. A need to establish system in replenishing pharmaceuticals and medical supplies to ensure efficient public health services.

Recommendation: We recommend the department to carefully plan its limited resources, prioritize its purchases to obtain the most basic needs, especially with medical equipment, tools, medicines, and pharmaceutical supplies to achieve its goals and objectives.

**Finding Number 2: Existing policy on procurement of pharmaceuticals and medical supplies were implemented with weaknesses.**

1. Ordering of pharmaceuticals and medical supplies without considering inventory on hand.

2. No proper justification on explore and selection of vendors.

Recommendation: We recommend that more efforts should be exerted to comply with the applicable provisions of the State's Financial Management Regulations and Purchase contract requirements.

**Finding Number 3: Weak internal control on pharmaceuticals and medical supplies increase the risk of inventory theft, loss, misuse and abuse.**

1. No verification of inventory been done. Physical counts of inventory and reconciliation were not conducted and documented.
2. Stock receiving reports and stock issuance forms for the year were not chronologically and sequentially filed for reference.
3. There were no internal control procedures in place for regular reporting and disposal of expired medicines.
4. For lack of reliable information and inventory reliable information, the DHS management was impaired regarding its ability to (a) know the quantity, location, and value of inventories it owns (b) safeguard its inventories from physical deterioration, theft, loss and mismanagement (c) prevent unnecessary storage and maintenance cost or purchase of inventories already on hand.

Recommendation: We recommend that DHS establish controls over safeguard properties and assign a person responsible to (1) record and reconcile its properties (2) put identification as DHS properties (3) document its assignments to its responsible users (4) and report to the State Supply Officer as required by the State Financial Management Regulation.

**3.2 Financial and Compliance Audit on Tafunsak Municipal Government**

Audit Objectives:

1. Whether cash balances are accurate and complete
2. Whether disbursement made during the covered period are accurate, complete, and authorized
3. Whether receipts are complete, accurate, properly recorded, and timely deposited

**Finding Number 1. Weaknesses in internal control did not provide assurance on the accuracy and completeness of cash balances.**

1.1 No segregation of duties

We noted that the municipality has no formal control procedures over collection. Treasurer is responsible for the collection, deposit of funds and subsequently updating the cash logbook. Also noted that most cases are paid in cash, which is vulnerable to misappropriation.

#### 1.2 No compliance with policies, procedures and regulations

In addition, TMG cash receipts and disbursement vouchers has certain control deficiencies and deviations from TMG's established policies and procedures in regards to handling and accounting of cash receipts.

Recommendation: We recommend that the executive and councils of TMG recognize the existing procedure on the cash handling with the consideration of the internal control on the segregation of duties and reporting.

#### **Finding Number 2. Disbursement not in compliance with established policies and procedures**

During examination, we applied all disbursements made by the municipality for the period covered and noted the following:

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

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

#### **Finding Number 3. Collections and other funds received were not properly documented, recorded and timely deposited showing cash collection mishandling is prevalent**

Examination of submitted on collection and deposit documents reveal that deposit include bank checks which were not recorded in the cash collection logbook. The full amount of such deposit 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.

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

**Finding Number 4. Inadequate documentation of payroll disbursement**

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.

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

**Finding Number 5. Payment 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 payroll sheet for the covered period displays that SS employees 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.

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

**Finding Number 6. Did not maintain books of account as required in TMG Manual of Administration**

Tafunsak Municipal Government 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 expenditures. Although, TMG provides monthly financial report to account general account, trust fund account and expenditure, the treasurer was not able to submit financial report as required by the MOA such as balance sheet, income statement, and property inventory sheet.

Recommendation: We recommend that the Tafunsak Municipal Government 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. We also recommend that chart of account should be established in accordance with the accounting policies and procedures indicated in the TMG Manual of Administration.

**Finding Number 7. Tafunsak Municipal Government did not maintain ledger 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 was not sure if those recorded in the monthly financial statement are considered as fixed assets in accordance with the TMG MOA and KFMR. Also depreciation was not reflected in the monthly financial reports submitted to the auditors. Fixed assets list was prepared however, it does not reflected book value of equipment hence no fixed assets valuation was conducted.

Recommendation: We recommend that the Municipality account and conduct physical inventory of all its fixed assets. For fixed assets items which cost 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.

**3.3 Financial and Compliance Audit on Transshipment Fee Kosrae Port Authority**

Audit Objectives:

1. To determine Kosrae Port Authority's effectiveness comply on collection of transshipment fee in accordance with the Kosrae State Code and other regulations.

**Finding Number 1. KPA did not comply with Kosrae State Laws resulting to loss of revenue amounting to \$119,107.18 for the fiscal years 2016-2019.**

**1.1 Non-compliance with Kosrae State Code and Kosrae Financial Mangement Regulations**

Interview with the management and staff of Kosrae Port Authority disclosed that the authority did not collect Transshipment fee from 2016-2019 as required by Kosrae State Code 14.104. During the discussion, the management of KPA mentioned that the Kosrae State Executive instructed them to discontinue collection on said fee. However, KPA was not able to provide the auditors any executive memorandum on this matter.

## 1.2 \$119,107.18 loss of income for Kosrae State for FY 2016-2019

We conducted examination of 100% of transactions subject to the transshipment fee from the documents submitted to the auditors to assess transshipment fee corresponding on revenue of cargos offloaded or transferred. Based on our test, we found that the following amount were not billed and collected in FY 2016-2019.

Transferred	\$54,504.19
Offloaded	\$69,483.79
Total	\$119,107.18

Recommendation: We recommend that the management provide a system to ensure that all legal responsibility of the authority will be complied. In addition, the auditor strongly recommends that review and collection of unpaid transshipment fee be made in accordance with the requirement of the law.

### **3.4 Performance audit on Utwe Municipal Government**

#### Audit Objectives:

1. To determine whether Utwe Municipal Government cash receipts and disbursements are properly recorded, accounted for and authorized in accordance with applicable laws and regulations for the fiscal years ended September 30, 2018 through 2019, and
2. To determine whether Utwe Municipal Government has adequate controls in place to safeguard its assets against loss, waste, and misuse.

#### **Finding Number 1. UMG did not maintain books of accounts as required in its Manual of Administration and Financial Management Regulations**

Utwe Municipal Government did not maintain cash disbursement journal to record payments made on various expenditures incurred and cash receipts journal to record collections arising from local revenue including funds received from revenue sharing. In addition, there were no ledgers for creditors and suppliers. The Municipality does not maintain individual general ledger to accommodate transactions involving its assets, liabilities, fund balances, revenues and different types of expenses.

Recommendation: We recommend that Utwe Municipal Government to exert effort to set up and maintains its book 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.

**Finding Number 2. Disbursements not in compliance with established policies and procedures attributed in weak internal control**

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

- a. Eighty percent (80%) of the total amount of disbursements aggregating to \$34,897.51 were completely unsupported by the required disbursement documents.
- b. Disbursements amounting to \$43,431.01 for period CY 2018-2019 were not recorded.
- c. All disbursements are not supported by purchase orders, purchase requisition and miscellaneous requests.
- d. Funds were not being certified as available for items disbursed.
- e. UMG is not using disbursement voucher thus, approval and authorization of disbursement process were not properly documented.

Recommendation: We recommend the municipality to ensure that all supporting documents covering disbursement are verified, checked and approved prior to payment. A disbursement voucher must be used in every check disbursed indicating the nature and purpose of disbursement duly approved by the treasurer/mayor/ or a representative of the council. All disbursement should be certified by the treasurer or is designee as to availability of funds. Certification made by the treasurer is a control procedure to ensure that budgets are not overspent.

**Finding Number 3. Collections and other funds received were not properly documented and deposited which increases risk of mishandling of revenue**

During our review of internal controls over cash receipts, we noted that the treasurer is responsible for the collection and deposit of funds. These collections are from ordinances imposing taxes and all other revenue or reimbursement collected based on licenses, rents, or government services. We noted in most cases that collections are being paid in cash which is vulnerable to misappropriation.

1. Schedule of deposits showing the receipts used to match with the validated deposit slip amount is not being prepared. Further, there are no review procedures to check if funds collected were properly deposited.
2. We noted that thirty seven (37%) percent of cash collections were late deposit in the average of 2-5 weeks.
3. Auditor observed lack of complete details in issuance of cash collection receipt. Thirteen percent (13%) or \$2,843.00 of issued receipts did not show the name and signature of the collector/cashier. Also, number of erasures and corrections was noted without proper counter sign on verification and approval of cancelled transaction.
4. Likewise, cash collection used to directly pay operating expenses in the total of \$8,533.50 or 40% of collection.

5. Weak internal control in cash collection. It was noted that there was no clear segregation of duties in the handling of cash.

Recommendation: We recommend that an independent individual prepare a listing of all cash received and a cash handling procedure to be implemented to provide assurance that all cash received is deposited on a timely basis and minimize the potential misappropriation of funds. We also strongly recommend discontinuation of using cash collection payment expenses.

**Finding Number 4. Did not maintain sufficient timekeeping and payroll documentation**

Based on CY 2018-2019 spending and documents provided, approximately twelve percent (12%) of the spending of UMG represents salaries and wages of employees. During our review of payroll checks and timesheet used we noted the following:

1. No file for timecards to monitor and record hours of duty
2. SS and compensation tax were not deducted from the employee salary
3. Payroll sheets was not prepared and payment of payroll was based on fixed amount which is not aligned with he signed contract
4. Review of SS and compensation tax paid by UMG for employees did not coincide with the salaries paid during the period
5. Late payments of SS and compensation tax resulted in payment of panalties and interests

Recommendation: We recommend that Utwe municipal council pass a resolution directing the Mayor to establish and implement adequate payroll control objectives and techniques, and to comply with the Manual of Administration and State Financial Management Regulation.

**Finding Number 5. Utwe Municipal Government did not account for its Fixed Assets**

The municipality did not account for its fixed assets nor was a physical inventory conducted. No schedule of fixed assets was prepared by the municipality as of the date of this report. Likewise, there was no recording of fixed assets as to its amount and depreciation.

Recommendation: We recommend that the Municipality conduct physical inventory count of all its fixed assets including semi-expandable ones enabling them to account, assign custody and responsibilities to employees using these assets. For fixed assets item which cost cannot be determined due to lack of records, we recommend the municipality to form a committee to agree on reasonable estimated values of these assets.

**Finding Number 6 Absence of bank reconciliation schedule**

Our audit reveals that the municipality is not preparing bank reconciliation schedules.

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

**Finding Number 7. Inefficient process on payment for FSM Treasury and SS Office resulting to additional costs**

Auditors noted that correct amount of taxes and social security contributions were not being used. It was observed that salaries payment as declared in SS and compensation tax did not matched with the actual salary paid. In addition, upon examination of current disbursement and payroll, we found that the municipality is paying these amounts without corresponding deductions from employees salary.

Recommendation: We recommend that Utwe Municipal Government follow the best practice in preparation of payroll. This will also ensure adherence to the policy in disbursement. Similarly, management should exert additional effort to identify responsible employees for the proper and timely remittance of SS and taxes to avoid incurring additional costs.

**3.4 Cash count on Department of Health Services Collections**

Accordingly, on September 24, 2020, the Kosrae Office of the Public Auditor conducted an unannounced cash count and inspection of government funds collected in the custody of Kosrae Department of Health Services:

As a result, the Auditors found the following:

1. Difference of \$166.00 between collections per receipts vs. daily transaction logbook.
2. Weaknesses in internal control practice on cash custodianship
  - a. Generic receipts were used
  - b. Improper use of daily transaction sheet
  - c. Collection policy transition

The copy of the report was transmitted to the Department of Health Services on October 7, 2020.

**3.5 Cash Count on Kosrae State Court Collections**

Accordingly, on September 24, 2020, the Kosrae Office of the Public Auditor conducted an unannounced cash count and inspection of government funds collected and in custody at the Kosrae State Court. The purpose of the review was to find out whether adequate and proper controls were in place and working effectively to provide reasonable assurance that government funds are safeguarded from loss, abuse and/or other irregularities.

As a result, the auditors found the following:

1. Provisionary, Transcripts, and other miscellaneous fees
  - a. Total cash on hand is equal to the total receipt issued at the time of cash count.
  - b. No disbursement was noted during the period of cash count.
2. Concerning filing fees or fines for traffic violation and other offenses
  - a. \$0.58 overage from September 21-24, 2020 on collection.
  - b. Generic receipts were issued
  - c. Collections are collected and sealed on weekly basis, not on a daily basis

### **3.6 Cash count for Department of Resources and Economic**

The Office of the Public Auditors conducted a surprise cash count and inspection on cash collections in the custody of DREA on October 01, 2020, and noted the following:

#### **Kosrae MicroFinance Union (KMU)**

1. Total cash tallied with the total receipts
  - a. Cash count covers collections on September 25 to October 01, 2020. Auditors counted the amount of \$10.00 during the period

#### **New Production Development Fund**

1. *Agriculture and Land Management*
  - a. Overage of \$9.42 from 9/29 to 30, 2020 collections
  - b. Improper use of collection receipts
2. *Fisheries and Marine Resources*
  - a. Overage of \$0.40 from 9/28 to 10/1/2020 collections
  - b. Improper use of collection receipts.
3. *Production Development Fund*
  - a. No cash collection at the time of cash count

### **3.7 Cash count on Kosrae Housing Authority**

We also extended our inspection and unannounced cash count on collections collected and in the custody of Kosrae Housing Authority on October 02, 2020. The results of the cash count include the following:

1. Total cash tallied with the total receipts
  - a. Cash count covers collections on October 2, 2020 at noon. Auditors counted the amount of \$125.00 which is the only collections collected at the time of count.
2. Weaknesses in usage of official receipts
  - a. Auditor noted that KHA did not use its official receipts in chronological order. The practice exposes KHA collection on the risk of collection fraud.

### **3.8 Cash count on Kosrae Broadcast Authority**

We also extended our surprise cash count to the Kosrae Broadcast Authority on collections collected and in the custody of KBA on October 08, 2020. The result of the cash count is the following:

1. Result of the cash count demonstrate that the system of control is basically sound.
  - a. No cash collection during the time of cash count
  - b. No disbursement was noted during the period of cash count
  - c. Sufficient checking and verification of collection was conducted

### **3.9 Cash count for the Department of Administration and Finance**

Finally the Office of the Public Auditor closed the cash count inspection project with the DOAF on the government funds collected and kept in their custody on October 08, 2020. The result of the cash count is the following:

1. Cash Count
  - a. Total cash on hand is equal to the total receipt issued at the time of cash count
  - b. No disbursement was noted during the period of cash count.
2. Total of 3 checks amounting to \$102.81. As per cashier, these were payroll checks. Good internal control practices dictate that encashment of checks (personal checks) should not be allowed.

#### **4.1 The Association of Pacific Island Public Auditors Conference (APIPA)**

The Kosrae Office of the Public Auditor is a member of the Association of the Pacific Island Public Auditor (APIPA). This Association was organized in 1988 through a Memorandum of Understanding (MOU) that was executed by the heads of the audit organizations of five Pacific Island Nations. APIPA was formed to achieve the following objectives:

1. To establish an organized body to act as one voice in support of the goal of promoting efficiency and accountability in the use of public resources of emerging nations of the Pacific.
2. To provide a forum for the exchange of ideas, experience, problems, and the identification of solutions which are often unique to the Pacific Auditors in the Pacific.
3. Sponsor auditing and accounting training workshops, in cooperation with establish associations of the staff of member offices.
4. Identify scholarship sources for Pacific Islanders in need of financial assistance to study auditing and accounting at the post secondary level; and
5. Promote public awareness for the purposes of conducting audits of public resources.

The first organizational meeting of APIPA was held in Saipan in March 1988 and the first annual conference was held in Majuro in June 1989.

The Association of the Pacific Island Public Auditor, has been expanded to include the Republic of Palau and Marshall CNMI Guam, American Samoa, US Virgin Islands, and the FSM National Government and its four states namely Chuuk, Pohnpei, Kosrae, and Yap.

The 31<sup>st</sup> Annual Association of the Pacific Island Public Auditor (APIPA) conference was done online (virtual conference) using the zoom platform started on August 3-14, 2020 with 4 hours each day with over 700 participants all across the region. The objectives of the APIPA conference include the following:

- Enhance and upgrade the knowledge of Auditors and staff with auditing skills and techniques necessary to improve services in an effective and efficient manner.
- Provide opportunity for the participants to earn Continuing Professional Education (CPE) hours as required in the U.S. Generally Accepted Government Auditing Standards (GAGAS).

### **Pacific Association of Supreme Audit Institute (PASAI)**

The Pacific Association of Supreme Audit Institute (PASAI) has its own mandate in providing audit services. In accordance with standards establish to perform efficiently and effectively, it is necessary that audit performances reflect both professionalism and competence. Therefore, PASAI recognizes the importance of quality assurance and the benefits that are available to its members that can enhance their development.

Unfortunately this year, with the COVID 19 pandemic outbreak and funding limitation there was no trainings attended for the Office of the Public Auditor, but we have it in plan to participate on virtual conferences that will be offered by the PASAI in the near future.

### **V. Operation budget and Expenditure**

The operation budget for the office is amounted \$102,014.00 for fiscal year 2019 and the amount will continue at \$102,014.00 for fiscal year 2020. This current budget includes five category items (Personnel, Travel, Contractual Services, Other Current Expenses and Fixed Assets). The current Organizational Structure includes three Units including (Compliance Investigation Unit, Audit Unit and Administrative Unit). It is anticipated that in the future the number of staff will increase along with the projected amount for the coming fiscal year. The Office of the Public Auditor will continue to seek support from the Leaders at both State and National Government to appropriate funding for training as well as technical assistance to ensure effective and efficient performance as well as to comply with the continued professional education hours required to meet the Generally Accepted Government Auditing Standards (GAGAS). We thank the US Office of Insular Affairs (OIA) as well as the Kosrae State Legislature for the support given to increase the number of staff. The increase in the Personnel Item was from a new position of Auditor II.

## Operation Budget and Expenditure

Items	Budget Input	
	Approved FY2020	Proposed FY2019
<b>Revenues</b>	<b>102,014.00</b>	<b>134,280.00</b>
General Fund	0	0
Capacity Building Sector Grant (Compact)		
<b>Total Revenue</b>	<b>\$ 102,014</b>	<b>\$ 134,280.00</b>
<b>Expenditures</b>		
No. Personnel	7	7
Personnel	73,537	74,629
Travel	20,277	18,837
Contractual Services	-	18,190
Other Curr. Expend.	6,950	11,624
Fixed Assets	1,250	4,000
<b>Totals</b>	<b>\$ 102,014</b>	<b>\$ 134,280</b>

## VI. Office Administrative Matters

### 6.1 Audit Peer Review (Internal Quality Control)

The Peer Review is conducted every three years to comply with the Government Auditing Standards which requires that audit organizations are required to undergo a quality control review. This review will ensure that Auditors who perform work under Generally Accepted Government Auditing Standards which include planning, directing, performing field work or reporting on an audit or attestation engagement maintain their professional competence through Continuing Professional Education (CPE). Therefore, each Auditor performing work under GAGAS should complete, every 2 years at least 80 hours of CPE that should be directly related to government auditing. All six staffs within the Office of the Public Auditor have completed more than 40 CPE hours in 2020

## **6.2 OPA Time Table**

### **Time Table for calendar year 2020**

The timetable shows the activities or audit plan that will be conducted in 2020. It is anticipated that 1 performance audit and 2 compliance audit will be conducted along with 5 plus inspections. The previous audit findings shows that there were serious deficiencies, therefore, it is our plan that follow ups will be made to ensure that corrective measures or progress are seriously taken to improve the audit findings. Inspections will be conducted to determine whether funds and properties are utilized accordingly. As required, all staffs are required to earn not less than 40 CPE hours every year, therefore, it is proposed that the staff attended the Annual APIPA Conference, AGA Conference and PASAI training. We anticipate repeating the same rating in the 2021 Peer Review to fully comply with Government Auditing Standards.

## **VII. Appendices**

### **Appendix I: Description of Audits**

The type of audits and applicable audit standards shall be as follows:

- **Financial and Compliance.** These audits determine whether the financial statements of an audit entity present fairly the financial position and results of financial operation in accordance with generally accepted accounting principles and whether the entity has complied with the laws and regulations that may have a material effect upon the financial statements.
- **Economy and efficiency.** This type of audit determines whether an entity is managing and utilizing its resources economically and efficiently, the cause of inefficiencies or uneconomical practices, and whether the entity is complied with laws and regulations concerning economy and efficiency.
- **Program results.** This type of audit determines whether the desired results or benefits established by the Legislature or other authorizing body are being achieved and whether the program administrator has considered alternatives that might yield desired results at a lower cost.

### **Appendix II: Audit Inspections Standards**

The primary aim of the investigative work in this office is to gather reliable evidence to place a suspect before the courts. The Compliance Investigative Unit needs to identify the causes and systems weaknesses which allowed the offense or breach to occur and where appropriate, make recommendations for remedial and or further action to prevent the offense or breach occurring again. The standards for inspections or investigative work include the following:

- Determine whether or not an offense or breach has been committed;
- Determine what specific offense or breach (if any) has been committed,
- Determine where it was committed,
- Determine how it was committed,
- Determine who it was committed by,
- Determine why it was committed,
- Identify, obtain and analyze all of the relevant information and evidence
- Identify systems weaknesses,
- Draw logical conclusions based on the information and evidence,
- Make appropriate recommendations based on the conclusions, and
- Present these conclusions to an appropriate authority for further action.

### **Appendix III: General and Qualitative Standards for Investigation**

The Office of the Public Auditor has made a decision to follow the ONPA Compliance and Investigative Unit to adopted Qualitative Standards of Investigations which was developed by the U.S. President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency. The General and Qualitative Standards include the following:

- **General Standards.** General Standards apply to investigators and the organizational environment in which he perform. They address the need for criteria. The three general standards address qualifications, independence and due professional care.
- **Qualification.** Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.
- **Independence.** In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to independence; must be an independent organization; and must maintain an independent attitude.
- **Due Professional Care.** Use due professional care in conducting investigations and in preparing related reports.
- **Qualitative Standards.** Qualitative Standards apply to the management functions and processes investigators perform. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are planning, Execution, Reporting and Information Management.
- **Planning.** Establish organization and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.
- **Execution.** Conduct investigations in a timely, efficient, thorough and legal manner.
- **Reporting.** Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objectives.

- **Information.** Management. Store investigative data in a manner allowing effective retrieval, referencing and analysis.

If you suspect fraud, waste, abuse or misused in government department or agency, contact the Office of the Public Auditor:

Call our Office Hotline : 370-3767

Visit our email address : ksauditor@mail.fm

Call our Office : 370-3766

Official Website : [www.ksaopa.fm](http://www.ksaopa.fm)

Visit us at the Kosrae Audit : Tofol, Lelu

All information will be held in strict confidence.