



GOVERNMENT OF KOSRAE

OFFICE OF THE PUBLIC AUDITOR

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February 16, 2017

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

Re: Performance Audit on Kosrae High School Vocational Fund

EXECUTIVE SUMMARY

We respectfully submit this Performance Audit PA 01-2017 on Kosrae State High School Vocational Educational Fund Cash Handling Procedures covering the period of FY 2009-2016

The objective of the audit was to determine whether (1) Kosrae State High School manages its Vocational Education Fund in accordance with Kosrae Financial Management Regulation and Kosrae State Code; (2) Cash Receipts are complete, accurate, properly recorded and timely deposited; and (3) Validity, completeness and accuracy of disbursement made during the period.

The audit was performed in accordance with auditing standards generally acceptable in the United States of America and the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The audit was also conducted pursuant to Title 10 Chapter 4 of the Kosrae State Code. Furthermore, Financial Management Regulation and the Kosrae State Code were use as criteria for compliance.

With reference to the specific objectives we noted the following:

- (1) That the establishment of Kosrae High school Vocational Educational Fund violates the Financial Management Regulation and Kosrae State Code.

(2) That the controls over the collection are weak

2.1 Unreported Sales amounting to US \$1,574.00

2.2 Unaccounted sales of US \$312.48

2.3 FY 2009-2016 completeness of collection cannot be reviewed due to improper use of cash receipts.

(3) That 50%-65% of fund disbursement for the covering period were not made in accordance with the purpose of the fund.

Based on the foregoing findings, we recommend (1) that Kosrae High school Vocational account with the Bank of FSM be accounted and closed; (2) that proper accounting the fund and restitution of possible loss; and (3) that accountability of the management should be identified and explanation for the unallowable and unsupported expense should be made thereafter.

Details of our examination are discussed in the findings and recommendations section of this report.

The Office of the Public Auditor provided draft copies of this report with the Director of Education for this review and comment on January 20, 2017. Attached with the report as annex 1 is the DOE management respond on the audit findings dated February 13, 2017.

Respectfully submitted,

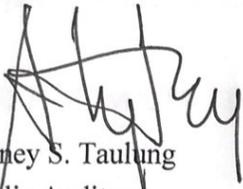

Stoney S. Taulung
Public Auditor

TABLE OF CONTENTS

EXECUTIVE SUMMARY4

INTRODUCTION.....4

BACKGROUND.....4
 Vocational Education Fund.....4

AUDIT OBJECTIVE AND SCOPE.....5
 Objective.....5
 Scope.....5

METHODOLOGY.....6

PRIOR YEAR AUDIT.....7

CONCLUSION.....7

FINDINGS AND RECOMMENDATIONS.....7

Finding 1. Creation and maintaining of KHS Vocational Fund violated the Kosrae Financial
 Management Regulation and Kosrae State Code.....7

Finding 2. Controls over collection are weak.....8

Finding 3. The use of the fund is not in accordance with the
 purpose.....10

ANNEX I MANAGEMENT RESPONSE.....11

ANNEX II SALES.....13

AUDITOR’S COMMENT.....14

ACKNOWLEDGEMENT AND OPA CONTACTS.....15

INTRODUCTION:

This audit was conducted by the Kosrae State Office of the Public Auditor (OPA) as an executive request from the office of the Governor of Kosrae State. It is also in relation to the concern raised by the Department of Administration and Finance with regards to the accuracy of the amount transmitted to them. Accordingly, we performed cash count however there was no collection at the time of the cash count. Initial review of documents submitted to the Office of the Public Auditor by the head of the vocational department displayed sound purpose to conduct performance audit on handling of collection.

BACKGROUND:

The State Educational Mission-to provide a student-centered education system that develops the skills, knowledge and values of the youth and young adults of Kosrae to become responsible, productive and life-long learners and be competitive locally and globally.

Kosrae High School (KHS) is the only high school on the island. KHS opened up in the 1960's in Yekula and was originally a boarding school. The school is now located in the center of the island in Tofol and was renovated and completed in 2010. There are 45 faculties with degrees ranging from Associate Studies (AS), Bachelor of Arts (BA), PHDs teaching at the school with the cooperation of the **World Teach** Volunteers. There is one Principal and one Vice-Principal. Kosrae High School serves grade 9-12 and has an after school sports program and numerous clubs. All students must take English, Math, Science and Social Studies. In addition, KHS has two track systems for senior students (1) *the vocational school* and (2) *the Kosrae advanced program* with average enrollee of 51% and 49% respectively. **Vocational students** must take 12 units in their chosen field. **Advanced students** must take public speaking, chemistry, physics, algebra II, pre-calculus, economics, government, music, art and Spanish. The high school offers job shadowing programs in nursing, radio broadcasting, electrical engineering and hotel management.

Vocational Educational Fund-Vocational Education program includes baking class, construction, mechanic, agriculture, home arts and sewing class. Due to late processing of items through purchase requisition with the Finance Office, and the need for immediate purchasing of instructional materials, the school principal in School Year 2009-2010, Mr. Taludson Isaac, created a fund they call the **Vocational Education Fund**. *The purpose of this specific fund is to assist the students and the school on all immediate needs on **instructional purposes only**.* Income of the above mention fund includes **all sales/collection** from vocational day, A/C and refrigeration, mechanic, carpentry, sewing, child development, food & nutrition and school store.

Kosrae State Financial Management Regulation

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

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

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

Section 10.205. The Revenue Fund

(1) The Revenue Fund contains all monies received by the Government pursuant to a law imposing a tax, duty or tariff, and all other revenues and reimbursements from a fine, fee, license, interest, rent, or Government service, and other Government collection or collections by a government for the Government's benefit except as otherwise required by law. A person who receives monies pursuant to this section transmits the monies within seven days of receipt to the Division of Finance and Budget for deposit in the Revenue Fund. Exemptions of which include but not limited to the Department of Education collection (KSC 10.205- (1)(j) which states: Likewise, this provision was comprised in FMR VI (6.3) Fund Accounts

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

AUDIT OBJECTIVES AND SCOPE

Objectives

The purpose of this audit is to assess Kosrae State High School Vocational Education Fund Cash Handling Procedure. Specific objective includes the following:

1. Kosrae State High School manages its Vocational Education Fund in accordance with Kosrae Financial Management Regulation and Kosrae State Code.
2. Cash Receipts are complete, accurate, properly recorded and timely deposited.
3. Validity, completeness and accuracy of disbursement made during the period;

Scope

Our performance audit covered the Kosrae High School Vocational Education Fund's transaction for the calendar year 2009-2016. However, the gathering, reviewing and testing of relevant information and documentations included previous and subsequent period for analytical purposes. We conducted the inspections pursuant to Kosrae State Code Title 10, section 4 which stated in part:

- (a) The Public Auditor shall inspect and audit personally, or by his duly authorized assistants, all account, books, and other financial records of the State Government, to include but not be limited to, every branch, department, office, political subdivision, board, commission, agency, other public legal entity (owned, or partially owned by the state), whether they receive public funds or not, and nonprofit organizations that received public funds from the State Government;
- (b) Inspect and audit personally, or by his duly authorized assistants, the fiscal books, records and accounts of all allottees and other custodians of public funds, making independent verification of all assets, liabilities, revenues, expenditures and obligations of the State Government, entities owned in whole or part by the State Government, and agencies of the State Government;
- (c) Inspect and audit personally, or by his duly authorized assistant, the fiscal books, records, and other financial records associated with any project, program and activity receiving funding in whole or in part from public funds of the State Government, including the records of any contractor performing public work on a cost-reimbursement-type contract in order to verify the cost charged to the public contractor;
- (d) Inspect and audit personally or by his duly authorized assistants, the books, records, accounts, and other financial records associated with business sales that may be used for sales assessment for tax collection purposes.

AUDIT METHODOLOGY

The audit was conducted in accordance with generally accepted government auditing standard (GAGAS). Those standards requires that we plan and perform the audit to obtain, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning our examination, we obtained sufficient understanding of the internal controls that is material to the audit objectives to plan the engagement and design the audit procedures. Based on this assessment, we reviewed documents and records relevant to the Kosrae High School Vocational Fund cash management.

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. Details of our findings and recommendations are explained in the schedule of Findings and Recommendation of this report.

PRIOR YEAR AUDITS/REVIEWS

This is the first time that a separate audit / examination was conducted on Cash Handling Procedure of the Kosrae High School Vocational Fund.

CONCLUSION

Based on our examinations and audit objectives, we conclude that the following:

1. Establishment of Kosrae High School Vocational Education Fund violates the Financial Management Regulation and Kosrae State Code.
2. Controls over collection are weak.
3. KHS Vocational Educational Fund internal controls did not ensure that disbursements made are authorized and reasonable.

The findings and recommendations are discussed in detail in the following pages.

Findings and Recommendations

Finding No. 1 : Creation and maintaining of KHS Vocational Education Fund violated the Kosrae Financial Management Regulation and Kosrae State Code.

'The Revenue Fund contains all monies received by the Government pursuant to a law imposing a tax, duty or tariff, and all other revenues and reimbursements from a fine, fee, license, interest, rent, or Government service, and other Government collection or collections by a government for the Government's benefit except as otherwise required by law. A person who receives monies pursuant to this section transmits the monies within seven days of receipt to the Division of Finance and Budget for deposit in the Revenue Fund. Exemptions of which include but not limited to the Department of Education (KSC 10.205- (1) which states:

(j) The Department of Education retains in a Yearbook Revolving Fund all monies contributed, received and collected from yearbook sales by depositing that revenue into the fund *using it strictly for the Kosrae high School yearbook"* Likewise, this provision was comprised in FMR VI (6.3) Fund Accounts.

While the department of Education was authorized by the state to maintain revolving fund account, the creation of the Vocational Fund account as a depository account for proceeds from sales of items sold during vocational day, vocational scraps, store/canteen and donations is unlawful. In addition, the auditors noted that the said fund was not recorded in the Kosrae State books this is due to the department failure to report the creation and activities of the fund to finance.

Criteria: Kosrae State Code 10.205 (1)(j) and Kosrae Financial Management Regulation VI (6.3)

Effect: Unauthorized withholding of fund from the High School Vocational activities.

Recommendation: It is also recommended that Kosrae High School Vocational account at the Bank of FSM be accounted and closed.

Finding No. 2: Controls over collection are weak

2.1 Unreported Sales amounting to US \$1,574.00

The following sales were receipted but not included in the yearly sales summary:

2010	US \$652.00
2011	20.00
2014	307.00
2015	69.00
2016	526.00
Total	US \$1,574.00

2.2 Unaccounted Sales of US \$312.48. (see: Annex 2)

Auditor's review on the reports submitted by the custodian bank balance as of May 30, 2016 should be US \$2,558.81

Balance per bank	US \$2,246.33
Adjusted book balance	US (\$2,558.81)
Unaccounted Cash	US (\$312.48)

2.3 FY 2009-2016 Completeness of Collections Cannot Be Reviewed Due to Improper Use of Cash Receipts.

Auditor's review of the sales receipts reveals the following:

1. KHS Vocational Department uses receipts bought from the stores and uses it as collection receipt and payment receipts at the same time.
2. Also, auditors' interview with the fund administrator reveals that not all collections were receipted such as sales made by person other than him and those sales from the school store/canteen.
3. Total collection reported amounted to US \$7,867.90 did not match with the Sales receipt on file which amounted to US \$3,304.00 only.
4. Copy of memorandum from KHS submitted to the Director of Education does not include profit received from Business Class 2012 amounting to US \$826.40
5. There were no sales receipts on file for 2012 & 2013.

2.4 Cash Collections were not timely deposited

Review of Kosrae High School Vocational fund transaction reveals that collections from school year 2009- 2012 were kept by the custodian until September 18, 2013 when the account in FSM bank was open for the amount of US\$ 1,150.13.

Criteria: Ideal internal control procedure for collection is the issuance of pre numbered official receipts. Official receipts are accountable forms which must be issued chronologically, filed and reviewed to ensure that all collections have been deposited.

Effects: Loss of fund and possible misappropriation.

Causes: The condition resulted from inability to establish and implement a policy to include controls and procedures. This condition is caused by lack of controls and its implementation over collection and deposits.

Recommendations: We recommend that management establish and implement a policy over collection of funds. A policy to include receipting procedures, preparation of a schedule showing the receipt numbers used for every deposit made frequent deposits and/or minimum amount to be deposited and an independent review to check the schedule of receipts used against the validated deposit slips.

We also recommend that the restitution of unaccounted and unreported sales by the responsible personnel.

Finding No. 3 – The use of the Fund is not in accordance with the purpose

Our review noted that 50%- 65% funds disbursed for period FY 2010 -2016 were not made in accordance with the purpose of the fund. It was used to buy assorted groceries, cash power, gasoline, office miscellaneous needs, send-off & welcome parties, picnics, etc. In addition the following were also noted:

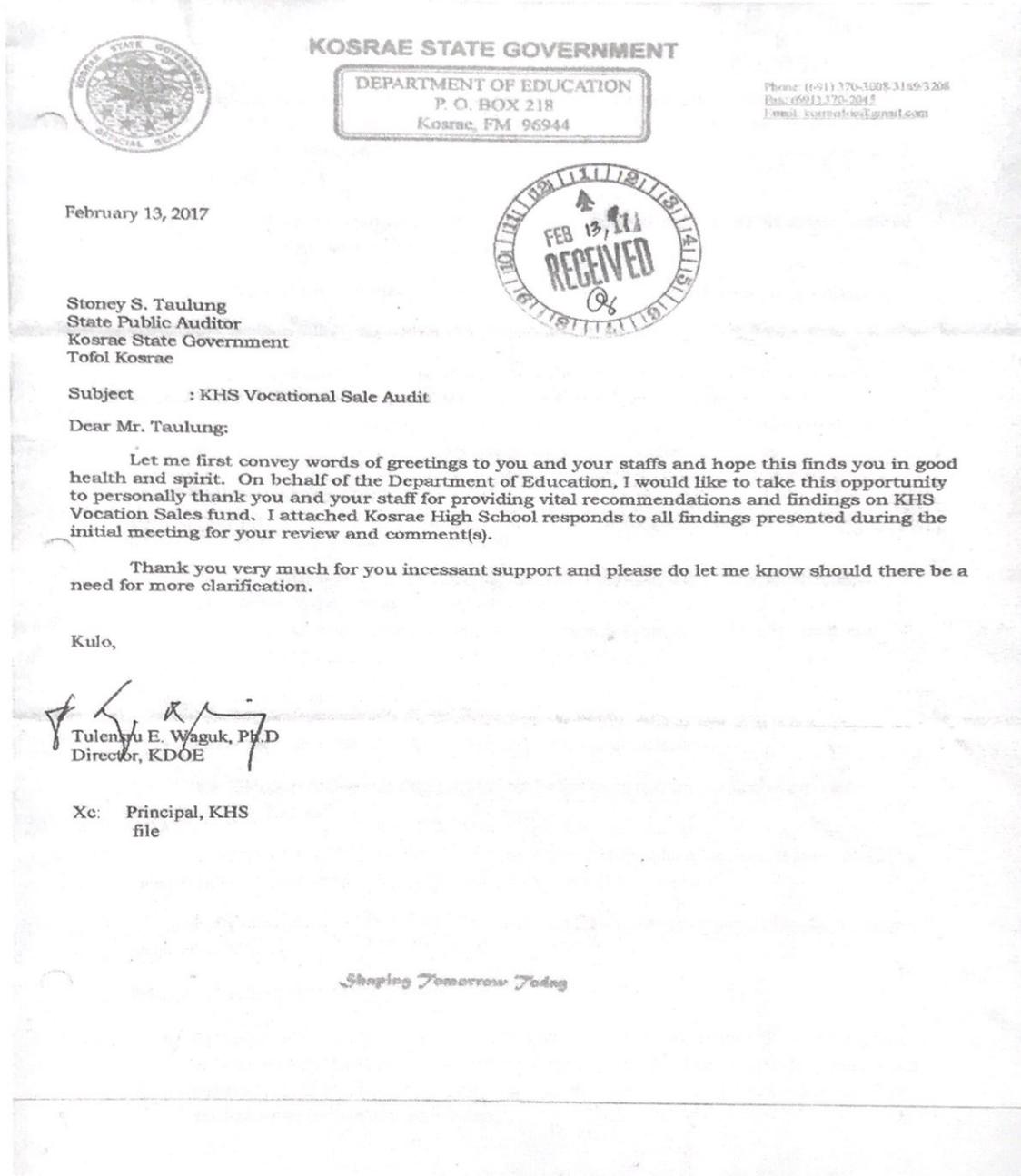
1. The auditor noted expenses amounting to US \$2,594.00 were receipted by the custodian using the receipt intended for sales.
2. The fund was use for staff cash advances.
3. The fund was also use to buy pressure washer amounting to US \$369.99 for the use of school purposes. This should be requested thru finance under consumable expenses.
4. During examination, the auditor found out that some of the reported expenses have no supporting documents on file.

Criteria: The purpose of this specific fund is to assist the students and the school on all immediate needs on **instructional purposes only**.

Effect: Loss of government funds for unallowable disbursements.

Recommendation: The auditor recommends that the management of the Kosrae High School vocational fund to comply with the provisions of the purpose of the fund. Thus, accountability of the management should be identified and explanation for the unallowable and unsupported expenses should be made thereafter.

ANNEX 1 – MANAGEMENT RESPONSE



KOSRAE STATE GOVERNMENT

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February 13, 2017



Stoney S. Taulung
State Public Auditor
Kosrae State Government
Tofol Kosrae

Subject : KHS Vocational Sale Audit

Dear Mr. Taulung:

Let me first convey words of greetings to you and your staffs and hope this finds you in good health and spirit. On behalf of the Department of Education, I would like to take this opportunity to personally thank you and your staff for providing vital recommendations and findings on KHS Vocation Sales fund. I attached Kosrae High School responds to all findings presented during the initial meeting for your review and comment(s).

Thank you very much for you incessant support and please do let me know should there be a need for more clarification.

Kulo,


Tulensyu E. Waguk, Ph.D
Director, KDOE

Xc: Principal, KHS
file

Shaping Tomorrow Today

11/30/17 [un]
@ 1:50 pm

Unfortunately, the sales from 2010 were not reflected on the report submitted. Sorry for the inconveniences. Now that the sales are identified, amount receivable to the total amount of sales matches the expected collection from this year 2010 on all items sold. Hope this report can be included in the final report.

Finding No. 1: Creation and maintaining of KHS Vocational Education Fund violated the Kosrae Financial Management Regulation and Kosrae State Code.

- As mention, initiation of this fund was intended for vocational urgent needs, to speed up the processing of requisition.
- Now that we have seen and understand the policy regarding any received monies pursuant to the law imposing a tax and other government collection, as a government agency, we will comply to this law and hope that such actions and misunderstanding will be avoided.
- Any collections from KHS in any functions will be provided with full description on sales, receive monies, expenditures of collection to the Kosrae State Department of Finance.

Finding No. 2: Controls over collection are weak.

2.1 Unreported Sales amounting to US\$1,574.00

- The unreported amount of \$652.00 is now inserted into this report, yes, for some reasons, it was not reported on the previous submission.
- All other unreported receipts will be provided in the final submission, provided that they are available in our ledger.

2.2 Unaccounted Sales of US\$312.48

- Please allow us to find the shortfall and report in the final submission.

2.3 FY 2009-2016 Completeness of Collection Cannot Be Reviewed Due to Improper Use of Cash Receipts.

1. Unfortunately, Mr. Kun Johnnithan, who is responsible for submitting request payment for the Lunch Program happen to use my receipt book due to unavailability of receipt.

2. We have no argument to the findings in section 2.3. Please accept our apology for all these inconveniences.

2.4 Cash Collections were not timely deposited.

- Again, now that the policy is self-explanatory and understood at this time, all collections, sales on any vocational functions will be monitored and accounted for before submitting reports and documents to the Department of Education than the department will do the transmittal of all documents to the Department of Finance.

To recall the creation of vocational fund is to purchase immediate vocational instructional needs. The controls over collection are weak according to the findings.

1. The vocational instructional needs have to purchase on time with available receipts at all time.
2. Records of all money collected must be receipted and recorded at all time.
3. All money collected should be counted and deposited at the state treasury no later than seven days after collection.
4. We have total of three different treasurers during three different periods which also contributed to the weak collections.
5. The state policy does not allow any bank account to any governmental agencies. The school will have their collections deposited to the state treasury with a collections report no later than seven days after collections.
6. The improper use of cash receipt, someone from the lunch program borrowed to make payment receipts to the Island bakeries. He should have one for his own.
7. During the year's sales, all vocational teachers were selling their own products with their students. They do the selling as well as collections, then after that they submit their final collections without receipts.
8. The funds are spent by not only one person who can also contribute to the weakness of receipts collections at the different vendors.
9. We do have profits from the business class canteen with the total amount that reflected during SY 11-12. A clear record has to be provided with the profits to be deposited at the state treasury.
10. Instructional needs as well as food stuffs were needed and purchase to fulfill the needs of the school. What has left in that bank account was deposited at the state treasury.

Public Auditor's Comments

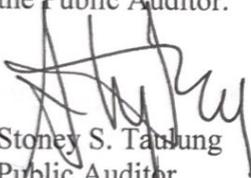
We would like to extend our appreciation to the Kosrae High School Principal and key staff for their cooperation and assistance throughout the course of our audit.

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

In addition to provide a copy to the Director of Education, we also extend copies to the following officials and agencies:

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

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


Stoney S. Taulung
Public Auditor

ACKNOWLEDGEMENT AND OPA CONTACTS

Audit of the Kosrae High School Vocational Fund Handling of Collection
Report No. PA 01-2017

OPA CONTACT

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ACKNOWLEDGEMENT

The audit staff contributed to this report

Emma Balagot, Audit Manager
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OPA MISSION

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

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