

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**CUSTOMS & TAX ADMINISTRATION AUDIT
FISCAL YEAR 2004**

AUDIT NO. 2005-05



Haser H. Hainrick
National Public Auditor

AUDIT OF CUSTOMS & TAX ADMINISTRATION
FSM NATIONAL GOVERNMENT
FISCAL YEAR 2004
REPORT #2005-05

EXECUTIVE SUMMARY

ABOUT THE ADMINISTRATION OF CUSTOMS & TAX

The Division of Customs & Tax Administration (CTA), within FSM Department of Finance and Administration (DoF&A), was created pursuant to Title 54 of the FSM Code. Its primary responsibilities, among others, are to maximize tax collections; ensure compliance with all national tax laws; and offer recommendations for amendments to such laws, when appropriate. The FSM DoF&A's Division of National Treasury (the Treasury) is responsible for the recording and distribution of customs and tax revenue shares to the State and National Governments. The Secretary of the DoF&A is required to comply with the Customs Act of 1996, the Financial Management Act of 1979, and the DoF&A's Finance Office Procedures in managing, collecting, recording, and distributing customs and tax revenues to the National and State Governments.

FINDINGS

- ❖ Customs and tax cash collections are not consistently deposited to the bank in a timely manner by the CTA Field Offices. In addition, the CTA Field Offices' collections are not consistently receipted, recorded, and deposited to the bank by the Treasury in a timely manner.
- ❖ Access to a CTA Field Office facility is not restricted to authorized personnel only in order to preserve the confidentiality of the CTA files and to adequately safeguard government assets.
- ❖ There is a lack of proper monitoring and oversight of the CTA collections by the Treasury; thereby, causing discrepancies between the CTA collections and the Treasury's General Ledger records. As a result, remittances of state revenue shares are not made in a timely manner.

RECOMMENDATIONS

- ✓ All collections of customs and tax revenues should be promptly deposited to the bank or the Treasury. In addition, clear policies and procedures should be put in place to ensure that collections are deposited in tact and that they are timely. These policies and procedures should indicate the oversight responsibilities with respect to the timely depositing of cash collections.
- ✓ The already configured facilities should be utilized by restricting access to only authorized personnel. The Deputy Assistant Secretaries should preserve the confidentiality of all CTA documents and adequately protect government assets at all times. Additionally, internal policies and procedures should be put in place to address the access privileges of all CTA facilities, and by extension, limiting access to records, and assets.
- ✓ The Divisions of CTA and Treasury should perform frequent reconciliations of CTA collections with Treasury's records in the General Ledger. In addition, clear policies and procedures should be put in place to ensure that all collections are receipted and recorded immediately upon receipt of the information from the CTA Field Offices. These policies and procedures should indicate the oversight responsibilities with respect to timely receipts, accounting, and reconciliation of customs and tax collections.

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The Honorable Members of Congress
His Excellency Joseph J. Urusemal, President
Federated States of Micronesia

INDEPENDENT AUDITOR'S REPORT

We have examined the Customs & Tax Administration (CTA) and the FSM National Treasury Divisions' compliance with applicable laws and regulations including but not limited to the Customs Act of 1996¹ as amended, the Financial Management Act of 1979² as amended, and the Department of Finance and Administration (DoF&A) Office Procedures regarding the ongoing management of customs and tax revenue collections, reporting, and distribution of States' revenue shares covering the fiscal year 2004. The CTA and the Treasury Divisions are situated within the FSM DoF&A. The Acts and the Finance Office Procedures provide policies, procedures, guidelines, and requirements for the administration of customs and tax activities and the distribution of revenues to the National and State Governments. They serve as the principal guides under which the customs and tax function is managed and customs and tax revenues are distributed to the Governments. Management is responsible for the compliance with those requirements. Our responsibility is to express an opinion on Department of Finance and Administration's compliance based on our examination.

Our examination was conducted in accordance with compliance attestation standards established by the American Institute of Certified Public Accountants and accordingly, included examining, on a test basis, evidence about the Divisions' compliance with those requirements and performing such other procedures, as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the DoF&A's compliance with specified requirements.

Our examination disclosed the following material noncompliance with applicable regulations, policies, and procedures directly relating to the management of customs and tax collections and distributions during the fiscal year 2004:

- Untimely reporting and accounting of customs and tax revenue collections; and
- Untimely distribution of customs and tax revenue shares to the Governments.

In our opinion, except for the material noncompliance described above, the Department of Finance and Administration has complied, in all materials, with the aforementioned requirements referred to in the above paragraphs.

A handwritten signature in black ink, appearing to read "H. Hainrick".

Haser H. Hainrick
National Public Auditor

March 10, 2006

¹ The CTA Standard Operating Procedures (SOP) and DoF&A Finance Office Procedures are the related policies and procedures.

² The Financial Management Regulations (FMR) are the related regulations.

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INTRODUCTION

BACKGROUND

The Division of Customs & Tax Administration (CTA), within FSM DoF&A, was created pursuant to Title 54 of the FSM Code. Its primary responsibilities, among others, are to maximize tax collections; ensure compliance with all national tax laws; and offer recommendations for amendments to such laws, when appropriate.

The Secretary of the DoF&A has the ultimate accountability of the customs and tax functions with respect to collections, compliance, accounting, and revenue shares to the Governments. The Assistant Secretary for CTA, who is the head of the Division, is responsible for the oversight and general operations of the Division. Reporting to the Assistant Secretary are the Tax Advisor, the Manager of the Compliance Branch, the Manager of the Document Processing Branch, and four Deputy Assistant Secretaries located at each State CTA Field Office. Support staff includes ten personnel at the CTA Central Office in Palikir and twenty-two at the four Field Offices as of fiscal year 2004.

The CTA Division is comprised of the two main functions of *Customs* and *Tax Administration*, both of which share the same Field Offices in Chuuk, Kosrae, Pohnpei, and Yap. Each field office is headed by a Deputy Assistant Secretary, tasked with the management of the daily activities. The Deputy Assistant Secretaries report to the Assistant Secretary.

1. ***Tax Administration*** is comprised of the Compliance, Document Processing, and Collection Branches. The Compliance and Document Processing Branches are located at the CTA Central Office in Palikir and each area is headed by a Branch Manager. The Collection Branch is located within the CTA Field Offices in each of the States.

The Compliance Branch is responsible for planning and conducting annual audits of taxpayers' records for compliance with appropriate laws and determining the accuracy and completeness of taxpayers' tax returns.

The Document Processing Branch receives daily and monthly cash collection reports from the Field Offices and reviews tax returns for accuracy and completeness. The Branch also processes income tax refunds, maintains taxpayers' returns, relevant documentation, and files.

The Collection Branch monitors the filing of tax returns and payments; processes tax returns from delinquent taxpayers; updates tax rolls (taxpayer list) periodically; solicits tax returns from late filers; collects tax payments and deposits all collections to the banks/Treasury; and prepares daily/monthly activity reports for transmittal to the CTA Central Office and the Treasury.

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2. **Customs Administration** includes a Customs Specialist and a Customs Analyst. Eighteen other support staff, consisting of Customs Inspectors and Customs Officers, are employed at the Field Offices. Its general responsibilities include:
- A. Inspection at ports of entry, assessment, and collection of taxes on goods and merchandise imported into the FSM by sea or air; and
 - B. Prevention of prohibited goods of merchandise imported into the FSM.

In addition to the customs and tax responsibilities at the CTA, the Treasury has the responsibility of receipting, recording, and distributing revenue shares to all the State Governments. Upon receipt of revenues from the CTA Field Offices, the Treasury applies the applicable revenue share formulae, based on revenue type classifications and applicable rules, regulations, and laws and are reflected in the General Ledger. The Treasury is required to remit the States' revenue shares on a monthly basis.

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AUDIT SCOPE AND OBJECTIVES

A. SCOPE

The audit evaluated the Secretary of the DoF&A's assertions (agreed to and signed on November 8, 2005) relative to the Customs Act of 1996³ and the Financial Management Act of 1979⁴ as amended regarding the ongoing management of customs and tax revenue collections, reporting, and distribution of States revenue shares for the fiscal year 2004. The audit fieldwork was conducted at the CTA Central Office in Palikir, the Division of Treasury, and at the CTA Field Offices in Chuuk, Kosrae, Pohnpei, and Yap. The audit was conducted pursuant to Title 55 FSMC Chapter 5 of the FSM Code.

The audit was performed in accordance with Generally Accepted Auditing Standards issued by the American Institute of Certified Public Accountants and included tests of records, transactions, and other auditing procedures that are necessary under the circumstances.

The Secretary of the DoF&A is responsible for the overall management of customs and tax revenue collections, reporting, and distribution of the States' revenue shares in accordance with the standards and procedures outlined in the Customs Act of 1996 as amended, the Financial Management Regulations, and the FSM Finance Operating Procedures.

B. AUDIT OBJECTIVES

The objectives of the audit are to determine that:

- a. Customs and tax revenue collections are reported and accounted for in a timely manner; and
- b. Customs and tax revenue distributions to the Governments (four State Governments and the National Government) are accurate and timely.

C. METHODOLOGY

We obtained relevant documents and reports related to the CTA cash collections such as bank deposits, Treasury receipt and accounting of the cash collections, tax refunds, remittance of States revenue shares, customs and tax year-end accruals, and receipt books from the CTA Central Office, CTA Field Offices, and the Treasury. We also interviewed and gathered relevant data to accomplish related analysis in order to achieve our objectives.

³ The CTA Standard Operating Procedures (SOP) and DoF&A Finance Office Procedures are the related policies and procedures.

⁴ The Financial Management Regulations (FMR) are the related regulations.

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Additionally, we conducted fieldwork based on random sample selections at the CTA Field Offices, CTA Central, and the Treasury to validate our analysis.

Finally, we summarized the results of our audit procedures as completed.

D. PRIOR AUDIT COVERAGE

The ONPA performed a prior audit of the CTA in 1999, which covered the period from January 1, 1997 to June 30, 1998. The Audit Report (#189814) was issued on March 31, 1999. Unresolved findings are reiterated in this report.

E. CONCLUSION

Based on our audit, we concluded that:

- Customs and tax revenue collections are not reported and accounted for in a timely manner; and
- Distributions of customs and tax revenue shares to the Governments are untimely.

We have offered recommendations in order to address each of the specific findings included in the following pages.

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FINDINGS & RECOMMENDATIONS

FINDING #1 - CTA Collections Not Received and Accounted for by the Treasury

(Divisions of the CTA and National Treasury)

Criteria: All payments submitted to the Treasury shall be promptly received, accounted for, and recorded in the General Ledger in a timely manner (Procedure 9 of the Finance Office Procedures).

Condition: Based on the samples we reviewed, we found that the following revenue collections were not received and accounted for at the Treasury:

CTA FIELD OFFICE	DESCRIPTION	AMOUNT
Chuuk	Wire Transfer	\$653
Chuuk	Cash collections	\$100
Yap	Five (5) Days' Cash Collections	\$33,234

We verified that the documentation for these collections, including the bank deposit slips, days' collection summaries, and all related tax and customs receipts were forwarded and filed at the Treasury. However, these collections were not received and accounted for. Additionally, we have traced these collections to the bank statements maintained at the Treasury and have verified that the amounts were appropriately reflected in the bank accounts. **This finding was identified in a prior ONPA audit.**

Cause: Proper procedures are not in place for the reconciliation of the CTA daily collections and customs and tax records reflected in the General Ledger. Additionally, there is a lack of high-level review of the Treasury's function to ensure that all the CTA collections that are deposited and forwarded to the Treasury are properly received and accounted for.

Effect: As a result, \$33,987 of customs and tax revenue collections that were properly deposited into bank accounts were not received and accounted for in the General Ledger. Moreover, the State Governments have not been properly credited for revenues due to them.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that

- (A) Clear policies and procedures are put in place to ensure that collections are received and recorded immediately upon receipt of the information from the CTA Field

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Offices. These policies and procedures should indicate the oversight responsibilities with respect to the timely receipt and accounting of customs and tax collections.

- (B) The Divisions of CTA and Treasury perform frequent reconciliations of the CTA collections with the Treasury's records reflected in the General Ledger.

Auditee's Response:

Agreed.

Procedures implemented since November 1, 2005 for the monitoring of collections from the States provide for a daily review of collections at the States by the Assistant Secretary, National Treasury. Any failures to report the banking of collections are followed up immediately with the relevant National Treasury Field Office. Field Offices are required to report zero collections were applicable.

This review achieves the dual purpose of maintaining a running tally of amounts due to States and the National Government, and of ensuring that collections are received by the National Treasury daily.

Also, the National Treasury now performs a monthly reconciliation of the General Ledger with the CTA record of collections for the month.

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FINDING #2 - Discrepancies Between CTA and Treasury Records

(Division of the National Treasury and Customs & Tax Administration)

Criteria: All customs and tax collections should be promptly and accurately receipted and recorded in the General Ledger maintained by the Treasury.

Condition: Our analysis of the CTA cash collections and the Treasury General Ledger receipts indicated a variance of approximately \$267,339. During our review of the cash collections receipted at the Treasury, we found that several were not immediately receipted and recorded in the General Ledger. In addition, we found instances where several days' cash collections were untimely and combined in single Treasury cash receipts. **This finding was identified in a prior ONPA audit.**

Cause: CTA Field Offices' bank deposits and taxpayers' wire transfers were not receipted for at the Treasury. Cash collections were not promptly receipted and recorded in the General Ledger as they arrive at Treasury.

Effect: As a result, there are delays in remittance of customs and tax revenue to the respective State Governments.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) The Divisions of CTA and Treasury perform frequent reconciliations of the CTA collections with the Treasury's records in the General Ledger. This should be a collaborative effort between the Divisions of the CTA and the Treasury.
- (B) Clear policies and procedures are put in place to ensure that collections are receipted and recorded immediately upon receipt of the information from the CTA Field Offices. These policies and procedures should indicate the oversight responsibilities with respect to the timely receipt and accounting of customs and tax collections.

Auditee's Response:

Agreed.

The procedures introduced on November 1, 2005 quickly identify if there is a delay in receipting at National Treasury at Palikir. High level oversight is carried out to identify and follow up on delays and any failures in submitting reports in a timely manner.

The National Treasury now performs a monthly reconciliation of the General Ledger with the CTA record of collections for the month.

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FINDING #3 - Untimely Remittance of Revenue Shares to The Governments.

(Division of the National Treasury and Customs & Tax Administration)

Criteria: Customs and tax revenue distributions to the Governments should be accurately and timely (Procedure 9 of the Finance Office Procedures).

Condition: Based on our review and analysis of the cash remittances by the Treasury to the State Governments, we noted that the Treasury's remittance of the States' shares of the revenues collected by the CTA were remitted past the anticipated fifth business day of the following month.

Cause: There is an absence of clearly established procedures or guidelines by the Secretary of Finance and Administration for the remittance of revenue shares to the State Governments. Additionally, the untimely receipt and accounting of customs and tax collections by Treasury contributes to the late remittances.

Effect: As a result, there are delays in the remittance of customs and tax revenue to the respective State Governments.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) Clear policies and procedures are put in place to ensure that collections are receipted and recorded immediately upon receipt of the information from the CTA Field Offices. These policies and procedures should indicate the oversight responsibilities with respect to the timely receipt and accounting of customs and tax collections.
- (B) The Divisions of CTA and Treasury perform frequent reconciliations of the CTA collections with the Treasury's records in the General Ledger. This should be a collaborative effort between the Divisions of the CTA and the Treasury.

Auditee's Response:

The procedures implemented since November 1, 2005 makes the reconciliation of Treasury records with CTA reports easier and quicker thus enabling a more timely distribution of the States' revenue share. It is to be noted that experience at Kosrae, where General Ledger data is submitted to Palikir monthly, has shown that to achieve the fifth day distribution deadline, it is necessary for the data to be forwarded to Palikir about two days before the month end. This leads to reconciliation problems. With the imminent move of Yap and Chuuk to a similar reporting arrangement as Kosrae, this problem will escalate. Accordingly, the procedures relating to the collection and distribution of customs and tax revenues will be amended to require distribution of State revenue shares by the tenth working day of the month following the month of collection.

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The ADP section of National Treasury will work with Chuuk, Yap, and Kosrae Field Offices with a view to submitting the information to Palikir electronically by email rather than by magnetic tape. This will enable a more timely receipt of information from the Field Offices, which will afford the opportunity for an earlier distribution of shares to the States.

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**FINDING #4 - Untimely Deposit of CTA Collections to the Bank or the Treasury
Administration)**

- Criteria** All CTA cash collections should be deposited to the bank by the end of the next business day (FMR 1.6).
- Condition** Based on sample we reviewed, we found that cash collections for six (6) days or 7.1% in Chuuk, nine (9) days or 17% in Yap, and seventy-two (72) days or 49.0% in Pohnpei were not deposited to the bank or the Treasury⁵ in a timely manner. **This finding was identified in a prior ONPA audit.**
- Cause:** The Field Offices did not consistently comply with the cash deposit requirements. As for Pohnpei CTA, the current requirement to transport and deposit the physical cash collections from their office in Kolonia to the Treasury at Palikir partially contributed to this condition.
- Effect:** The untimely deposit of cash collections causes late receipt, accounting, and the eventual remittance of customs and tax revenues to the Governments. The untimely deposit of cash collections could potentially expose physical cash to theft, misuse, or fraud. As a result, customs and tax collections totaling \$425,472 for Chuuk, \$384,539 for Yap, and \$1,060,953 for Pohnpei were not deposited to the bank or the Treasury in a timely manner.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) All collections of customs and tax are deposited to the bank or the Treasury pursuant to applicable policies and procedures.
- (B) Clear policies and procedures should be put in place and consistently enforced to ensure that collections are deposited in tact and that they are timely. These policies and procedures should indicate oversight responsibilities with respect to the timely deposit of cash collections.

Auditee's Response:

This finding is noted. CTA Central Office will closely monitor its Field Offices to ensure that daily collections are accounted for and transmitted to the National Treasury office in Kosrae, Chuuk and Yap in a timely manner for verification and deposit into the bank pursuant to "Collected Cash and Checks Accounting and Daily Deposit Procedures" in effect on November 1, 2005. The Assistant Secretary CTA will review the current procedure for Pohnpei to transport and deposit daily physical cash collections to the Treasury at Palikir.

⁵ Unlike the Chuuk, Kosrae, and Yap CTA Field Offices that are required to deposit their cash collections to the bank by the next business day, the Pohnpei CTA Field Office deposits their cash collections to the Treasury.

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The review will consider other means of achieving the timely and accurate depositing of the collections including consideration of an earlier balancing cut off than the current 5:00 p.m. cutoff, and the direct deposit by the CTA Field Office at the Bank of FSM.

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FINDING #5 - Collections Received By Treasury Are Not Deposited to the Bank in a Timely Manner

(Division of the National Treasury)

Criteria: All cash collections by the Treasury shall be deposited to the National Government bank accounts by the end of the next business day (FMR 1.6).

Condition: Based on the sample we reviewed, we found that forty-one (41) or 27.9% of the Pohnpei CTA collections deposited at the Treasury, totaling approximately \$536,269, were not deposited promptly to the bank by the Treasury. **This finding was identified in a prior ONPA audit.**

Cause: There is a lack of high-level oversight of Treasury receipts to ensure that all collections are deposited promptly to the bank.

Effect: The untimely deposits of cash collections results in delays in the accounting and ultimate remittance of customs and tax revenue to the State Governments. The untimely deposit of cash collections could potentially expose physical cash to theft, misuse, or fraud. As a result, approximately \$536,269 of customs and tax collections by the Pohnpei Field Office were not timely deposited to the bank.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) All collections of customs and tax revenues are promptly deposited to the bank.
- (B) Clear policies and procedures are put in place to require that collections are deposited in tact and are timely. These policies and procedures should indicate oversight responsibilities with respect to the timely deposits of cash collections.

Auditee's Response:

Agreed.

The condition detected in the Audit should not have occurred as staff at the National Treasury remain at work until the Pohnpei field office lodge collections at Palikir. Treasury staff bank the collections the same day.

The Assistant Secretary CTA is giving consideration to means of avoiding the inefficient practice of Pohnpei Field Office staff lodging funds at Treasury after 5:00 p.m and then the Treasury staff banking the funds after hours.

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FINDING #6 - Untimely Receipt and Accounting of CTA Revenue by the Treasury

(Divisions of the CTA and National Treasury)

Criteria: All CTA collections deposit slips and related support documentation must be promptly submitted to the Treasury where all collections shall be receipted, accounted for, and reflected in the General Ledger in a timely manner.

Condition CTA Field Offices' cash collections that are deposited to the bank are not receipted by the Treasury in a timely manner. The table below indicates the overall significant delays from the time these cash collections are deposited to the bank by the Chuuk, Kosrae, and Yap CTA Field Offices to the time they are receipted and accounted for by the Treasury:

CTA Field Office	% of Sample	Minimum Lag Days	Maximum Lag Days	Average Lag Days
Chuuk	93 %	2	610	25
Kosrae	91%	2	304	33
Yap	91%	2	43	19

This finding was identified in a prior ONPA audit.

Cause: The FSM Treasurer does not receipt and account for CTA collections immediately upon receipt of the information from the CTA Field Offices. Several days' collections are instead combined and reflected in one National Treasury Cash Receipt.

There is a lack of high-level review of Treasury receipts to ensure that all collections are promptly receipted and accounted for in the General Ledger. Proper procedures were not in place for the reconciliation of CTA daily collections and customs and tax records reflected in the General Ledger.

The requirement to mail the CTA collections documentation (bank deposit slips, Daily Revenue Collection Summaries, related customs and tax receipts, etc.) partially contributes to the late receipt and accounting of the collections by the Treasury. The nature of the flight schedules from the CTA Field Offices of Chuuk, Kosrae, and Yap to Pohnpei makes it difficult for the collections documentation to be received by the Treasury promptly after the deposit date of the collections.

Effect The untimely receipt and accounting of cash collections results in delays in remittance of customs and tax revenue to the State Governments.

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Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) Clear policies and procedures are put in place to ensure that collections are receipted and recorded immediately by the Treasurer upon receipt of the information from the CTA Field Offices. These policies and procedures should indicate the oversight responsibilities with respect to the timely receipt and accounting of customs and tax collections.
- (B) The Divisions of CTA and Treasury perform frequent reconciliations of the CTA collections with the Treasury's records that are reflected in the General Ledger.
- (C) A system is put in place to enhance the timeliness of the receipt of the cash collections information from the Field Offices to the FSM Treasury.

Auditee's Response:

The procedures implemented November 1, 2005 require a copy of the Treasury Field Office receipt, a summary of the day's collections, and the banking deposit slip to be faxed each day to Palikir. Treasury receipting is performed from this information. Therefore, there should no longer be a delay in receipting of collections.

Monthly reconciliations of General ledger and CT A collections are now performed.

Procedures provide for a prompt follow up of any missing advice from Field Offices.

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FINDING #7 - Physical Cash Collected Are Not Adequately Safeguarded

(Customs & Tax Administration)

Criteria. All assets shall be adequately safeguarded against theft, embezzlement, or misappropriation.

Condition: We found that for the Field Offices in Chuuk and Pohnpei, all customs and tax collections (physical cash and checks) are dropped in open boxes sitting on an Agent's desk accessible to all Field Office personnel, and potential outside visitors to the facilities.

Cause: There is a lack of CTA management's awareness to the possibilities of theft, embezzlement, or misappropriation of assets.

Effect: As a result, there are known instances of errors resulting in the Field Offices' inability to always balance cash collections with receipt documentation.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) All cash collections are adequately secured pending deposits to the bank or the Treasury, thereby, limiting the number of people who could potentially have access to the cash.
- (B) Policies and procedures are put in place with respect to the physical collections, safekeeping, and depositing of the cash to the bank/Treasury.

Auditee's Response:

Finding is noted. Safeguard measures will be developed and implemented as soon as possible to ensure that all cash collections are adequately secured pending deposit to the bank or to the Treasury. The Assistant Secretary CT A will ensure the measures are implemented.

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FINDING #8 - Unrestricted Access to a CTA Field Office

(Customs & Tax Administration)

Criteria: Access to CTA facilities and files should be restricted to allow access to only authorized personnel.

Condition: During our review at the Pohnpei CTA, we observed on several occasions that customers were allowed access to the inside facilities of the Field Office.

Cause: CTA Field Office personnel allow unauthorized individuals access to the inside facilities without constant restrictions.

Effect: As a result, these customers could potentially gain access to confidential customs and tax files, clearance stamps, manual receipt books, computer facilities, and physical cash and check collections that are kept in a cash box placed on one of the Agent's desk. Unrestricted access to physical cash by individuals other than authorized CTA personnel could result in theft of Government assets.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) The already configured facilities are utilized by restricting access to only authorized personnel.
- (B) The Deputy Assistant Secretary preserves the confidentiality of all CTA documents at all times.
- (C) Internal policies and procedures are put in place to address the access privileges of all CTA facilities, files, and records.

Auditee's Response:

We have also noted this finding. The Assistant Secretary CT A will ensure measures are put in place to address the issue of unrestricted access to Field Offices, particularly at the CTA Field Office in Pohnpei.

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FINDING #9 - Customs Clearance Stamps Are Not Adequately Safeguarded.

(Customs & Tax Administration)

- Criteria:** CTA clearance stamps should be adequately secured when not in use and accessible only to authorized personnel.
- Condition:** During our review at the Pohnpei CTA, we observed that clearance stamps were left on a desk when not in use while the responsible Officers were away. **This finding was identified in a prior ONPA audit.**
- Cause:** There is a lack of adequate management oversight in ensuring that all critical CTA properties are properly safeguarded at all times.
- Effect:** As a result, customs clearance stamps could potentially be abused and used for unauthorized purposes, which could result in customs and tax fraud.

Recommendation:

The Secretary of Finance and Administration or his designee should ensure that:

- (A) Internal policies and procedures are put in place to address the proper control and custody of all clearance stamps and receipt books.
- (B) To the extent possible, clearance stamps should be under the control and custody of the least number of CTA personnel in order to enhance the responsibility and accountability over these clearance stamps and receipt books.

Auditee's Response:

The Assistant Secretary CTA will ensure measures are developed and implemented to adequately safeguard CTA clearance stamps, cash receipts, and critical CTA properties.

**AUDIT OF CUSTOMS & TAX ADMINISTRATION
FSM NATIONAL GOVERNMENT
FISCAL YEAR 2004
REPORT #2005-05**

NATIONAL PUBLIC AUDITOR'S COMMENTS

In addition to providing copies of this report to the President and Members of the Congress, we also sent copies to the Secretary of the Department of Finance & Administration, the Assistant Secretary for Customs & Tax Administration, the Assistant Secretary for the Treasury Division, and the Deputy Assistant Secretaries for the Customs & Tax Administration Field Offices in the States of Chuuk, Kosrae, Pohnpei, and Yap. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting the office. Contact information for the Office can be found on the last page of this report, along with the National Public Auditor (ONPA) and staff who made major contributions to this report.



Haser H. Hainrick
National Public Auditor

March 10, 2006

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ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

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