

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

NAMDRIK ALELE LOCAL GOVERNMENT

FINANCIAL STATEMENT,
AND INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

PERIOD FROM OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2012



AUDIT No.: OAG 20/12-2345

December 17, 2013

Date

P.O. BOX 245
MAJURO, MH 96960
REPUBLIC OF THE MARSHALL ISLANDS

NAMDRIK ALELE LOCAL GOVERNMENT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**PERIOD FROM OCTOBER 1, 2007
THROUGH SEPTEMBER 30, 2012**

NAMDRIK ALELE LOCAL GOVERNMENT

Period from October 1, 2007 through September 30, 2012

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REPUBLIC OF THE MARSHALL ISLANDS

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INDEPENDENT AUDITORS' REPORT

Mayor Clarence Luther
Namdrik Alele Local Government
Republic of the Marshall Islands:

We were engaged to audit the accompanying schedule of cash receipts and disbursements of the Namdrik Alele Local Government (NALGOV) for the period from October 1, 2007 through September 30, 2012. This financial statement is the responsibility of the management of NALGOV.

Because of inadequacies in NALGOV's accounting records, we were unable to form an opinion regarding the amounts recorded as cash receipts and disbursements in the accompanying financial statement (stated at \$142,707 and \$128,668, respectively).

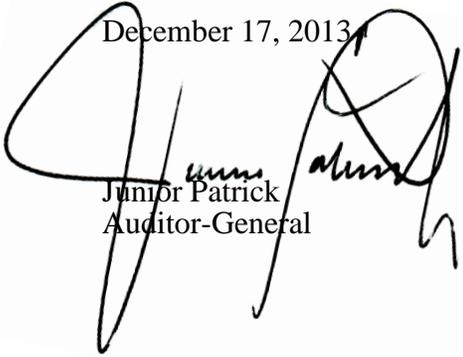
As described in note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the significance of the matter discussed in the second paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of NALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an engagement to audit financial statements in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement to audit.

The Other Supplementary Information, on page 5, is presented for the purpose of additional analysis and is not a required part of the basic financial statement of NALGOV. This supplementary information is the responsibility of the management of NALGOV. The additional information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Because of the significance of the matter discussed in the second paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the supplementary information in relation to the basic financial statement taken as a whole.

December 17, 2013

A handwritten signature in black ink, appearing to read "Junior Patrick", is written over the typed name. The signature is stylized and somewhat illegible.

Junior Patrick
Auditor-General

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements
Period from October 1, 2007 through September 30, 2012

Cash receipts:	
RepMar contributions	\$ 85,263
Local revenue	19,687
Taiwan contributions	14,061
Mayor's salary	10,491
Other	<u>13,205</u>
Total cash receipts	<u>142,707</u>
Disbursements:	
Sitting fee	56,450
Salary	10,491
Other purchases	<u>61,727</u>
Total disbursements	<u>128,668</u>
Net change in cash	<u>\$ 14,039</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

NAMDRIK ALELE LOCAL GOVERNMENT

Notes to Schedule of Receipts and Disbursements
Period from October 1, 2007 through September 30, 2012

(1) Basis of Accounting

The schedule of receipts and disbursements has been prepared on the cash basis of accounting. Receipts have been recognized when received in cash and disbursements have been recognized when cash is disbursed. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

NALGOV is not required to adopt fund basis accounting for local government in conformity with standards promulgated by Governmental Accounting Standards Boards (GASB). However, NALGOV is required to comply with accounting system requirements established by the Republic of the Marshall Islands Ministry of Internal Affairs.

(2) Organization

NALGOV was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of NALGOV. NALGOV is governed by an elected mayor, council members and representatives.

(3) Cash

As of September 30, 2012, the carrying amount of NALGOV's total cash was \$2,941, which corresponds to the bank balance, which is maintained at a financial institution not subject to Federal Deposit Insurance Corporation (FDIC) insurance. NALGOV does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of NALGOV states that "no taxes shall be imposed and no other revenues shall be raised and no money of the Local Government shall be expended, unless authorized by law".

(5) RepMar Contributions

NALGOV receives annual grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$17,053 from the Local Government Fund, which is distributed on a quarterly basis. This quarterly allotment is contingent upon NALGOV providing financial reports and supporting documents. For the period from October 1, 2007 through September 30, 2012, NALGOV received total grant funding of \$85,263 from RepMar. In addition, NALGOV received \$14,061 from RepMar as a pass-through grant from the Government of the Republic of China (Taiwan) for the starting phase of the Pearl Project.

NAMDRIK ALELE LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
Period from October 1, 2007 through September 30, 2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Cash receipts:						
RepMar contributions	\$ 25,579	\$ 17,053	\$ 12,789	\$ 12,789	\$ 17,053	\$ 85,263
Local revenue	3,543	9,617	3,353	-	3,174	19,687
Taiwan contributions	-	-	14,061	-	-	14,061
Transfer in for Mayor's salary	5,396	5,095	-	-	-	10,491
Other	-	7,000	3,715	2,490	-	13,205
Total cash receipts	<u>34,518</u>	<u>38,765</u>	<u>33,918</u>	<u>15,279</u>	<u>20,227</u>	<u>142,707</u>
Disbursements:						
Sitting fee	11,092	15,810	13,980	4,695	10,873	56,450
Salary	5,396	5,095	-	-	-	10,491
Other purchases	<u>7,603</u>	<u>15,054</u>	<u>15,965</u>	<u>9,943</u>	<u>13,162</u>	<u>61,727</u>
Total disbursements	<u>24,091</u>	<u>35,959</u>	<u>29,945</u>	<u>14,638</u>	<u>24,035</u>	<u>128,668</u>
Net change in cash	<u>\$ 10,427</u>	<u>\$ 2,806</u>	<u>\$ 3,973</u>	<u>\$ 641</u>	<u>\$ (3,808)</u>	<u>\$ 14,039</u>

See Accompanying Independent Auditors' Report.

NAMDRIK ALELE LOCAL GOVERNMENT

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

PERIOD FROM OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2012



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Office of the Auditor-General

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON UPON THE ENGAGEMENT TO AUDIT FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mayor Clarence Luther
Namdrik Alele Local Government
Republic of the Marshall Islands:

We were engaged to audit the financial statement of NALGOV for the period from October 1, 2007 through September 30, 2012, and have issued our report thereon dated December 17, 2013. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statement due to inadequacies in the accounting records.

Internal Control Over Financial Reporting

Management of NALGOV is responsible for establishing and maintaining effective internal control over financial reporting. In planning our audit, we considered NALGOV's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 9 through 29), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as *Finding No. 2, Finding No. 3, Finding No. 4, Finding No. 5, Finding No. 10, Finding No. 11, Finding No. 14, Finding No. 15 and Finding No. 16* to be material weaknesses.

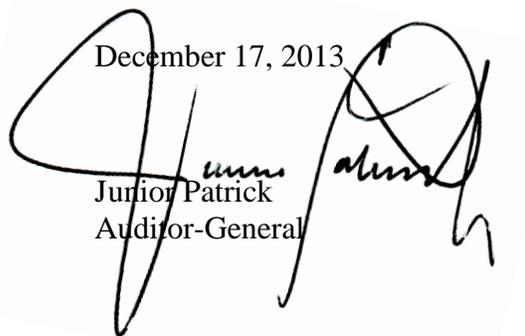
Compliance and Other Matters

As part of obtaining reasonable assurance about whether NALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as *Finding No. 1, Finding No. 3, Finding No. 6, Finding No. 7, Finding No. 8, Finding No. 9, Finding No. 12, Finding No.13 and Finding No. 15*.

We provided NALGOV with a copy of this report and gave them an opportunity to respond to our findings, however, we did not receive a response within the time allotted. We did receive a response from the Ministry of Internal Affairs, Local Government Division as the administrator of local governments. These responses are described in the accompanying Appendix I. We did not audit the Ministry of Internal Affairs' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Council Members, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

December 17, 2013



Junior Patrick
Auditor-General

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2007 through September 30, 2012

Local Non-compliance

Finding No. 1

Criteria:

The Ministry of Internal Affairs Local Government Act of 1980 stated that the Constitution of every local government shall comply with its provisions, but may contain other provisions not inconsistent with the Local Government Act or any other Central Government law.

Condition:

We reviewed the Constitution of NALGOV noting that the term of the Mayor shall be for two years while the Constitution of the Republic of the Marshall Islands and the Local Government Act state that elections to the Council shall be conducted in every fourth calendar year.

Cause:

The cause of the above condition is lack of adherence to the Local Government Act and the Constitution of the Republic of the Marshall Islands.

Effect:

The effect of the above condition is non-compliance with the Local Government Act as well as the Constitution of the Republic of the Marshall Islands.

Recommendation:

We recommend for NALGOV Council and the Ministry of Internal Affairs work together to amend the Constitution of Namdrik Alele Local Government to comply with the Local Government Act and the Constitution of the Republic of the Marshall Islands.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Accounting System

Finding No. 2

Criteria:

All local governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the Ministry of Internal Affairs.

Condition:

Namdrik Alele Local Government did not adopt the system established by Ministry of Internal Affairs or any accounting system at all.

Cause:

The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs and the Ministry of Finance to ensure that NALGOV adopt the established accounting system.

Effect:

The effect of the above condition is that NALGOV was not in compliance with the Financial Memoranda No. 1987-1 which results in:

- We were unable to perform an audit of a complete set of financial statements.
- Financial transactions not recorded properly into a general ledger.
- NALGOV did not classify their expenditures according to their respective classes, as such; we could not perform a budget to actual comparison of revenues and expenditures to test for compliance with the budget ordinance.
- There is a total of \$32,038 in local and other revenues that were unidentified and unsupported.
- We were informed by the Finance Director that there were other cash collections relating to rental of truck and boat, however, they were not accounted for and reported in the quarterly reports to the Ministry of Internal Affairs. These collections were spent on unidentified expenses for goods and services purchased on the island.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Accounting System

Finding No. 2, (Continued)

Recommendation:

We recommend that NALGOV utilize the accounting system established by the Ministry of Internal Affairs in order to comply with the Financial Memoranda No. 1987-1. Additionally, we recommend that the Ministry of Internal Affairs work with the local government to ensure that NALGOV utilize the accounting system as required.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Missing Supporting Documents

Finding No. 3

Criteria:

The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to proof that actual payment was made. Additionally, accountability and good governance require that supporting documents for all transactions be filed and maintained for all public funds.

Condition:

During our testing of 70 expenditures, we noted the following checks issued for purchase of goods and services in which we did not find copies of invoices or receipts as evidence for these purchases:

<u>Item</u>	<u>Check No.</u>	<u>Date</u>	<u>Amount</u>
1	1139	03/22/2010	1,750.00
2	1329	4/21/2008	240.00
3	1359	5/27/2008	212.03
4	1367	6/19/2008	279.4
5	1402	8/26/2008	290.54
6	1436	11/20/2008	500.00
7	1503	3/28/2009	212.03
8	1508	05/04/2009	574.60
9	1510	05/04/2009	837.40
10	1576	01/05/2010	328.00
11	1630	04/09/2010	328.00
12	1637	04/20/2010	328.00
13	1782	01/24/2011	552.50
14	1786	02/22/2011	305.00
15	1789	03/03/2011	414.44
16	1821	10/05/2011	651.80
17	1845	11/15/2011	395.00
18	1889	02/08/2012	344.50
19	1892	06/27/2012	<u>299.05</u>
Total			\$ 7,092.29

The following checks were issued to cash and we did not note copies of valid invoices to support these disbursements with the exception of check # 1493.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Missing Supporting Documents

Finding No. 3, (Continued)

20	1493	02/25/2009	3,534.00
21	1898	05/14/2012	2,619.47
22	1513	06/12/2009	854.14
23	1368	06/21/2008	1,300.00
24	1438	01/22/2009	1,056.00
25	1465	01/20/2009	1,500.00
26	1494	02/25/2009	708.97
27	1528	06/16/2009	1,497.50
28	1581	02/18/2010	450.00
29	1649	06/03/2010	450.00
30	1673	07/07/2010	1,500.00
31	1797	09/16/2011	500.00
32	1885	02/06/2012	750.00

Check No. 1547 in the amount of \$2,235.83 was issued to the Finance Executive for unused fund match and no supporting document was available to support the propriety of the payment.

Total Discrepancies \$ 26,048.20

NAMDRIK ALELE LOCAL GOVERNMENT
Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Missing Supporting Documents

Finding No. 3, (Continued)

Cause:

The cause of the above is the lack of adherence to established rules and regulations when purchasing goods and services.

Effect:

The effect of the above condition is that NALGOV did not comply with rules and regulations as established for all local governments receiving funds from the LGF grants. Additionally, there is a possibility for misappropriation of public funds.

Recommendation:

We recommend for NALGOV to ensure that valid invoices are maintained and provided to Ministry of Internal Affairs in the quarterly financial reports. Additionally, we recommend for the Ministry of Internal Affairs to review all financial reports to ensure that all funds expended are supported by valid invoices. As a second measure to ensure that funds used are supported by valid invoices, we recommend for the Ministry of Finance to ensure that no funds are released to each local government unless they provide a complete financial report with all required supporting documents.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period From October 1, 2007 through September 30, 2012

Cash Receipts

Finding No. 4

Criteria:

A proper system of internal control requires that collection of revenues be supported by cash receipts and be deposited intact in a timely manner. Additionally, a cash receipts journal should be maintained that indicate the cash receipts being issued in a sequential manner and documents the customer name, date, amount of cash received and the type of revenue collected.

Condition:

During the fiscal years ended September 30, 2008, 2009, 2010, 2011 and 2012, NALGOV collected and deposited \$32,038 in local and other revenues, however, there was no evidence that cash receipts were issued or that a cash receipts journal was maintained as support for the collection. We were also informed during our interview with the Executive Director for Finance that there were cash collections on Namdrik that were not deposited and accounted for but were used to purchase supplies and immediate needs of the local government on the island.

Cause:

The cause of the above condition is lack of adherence to established rules and procedures outlined in the Financial Memoranda No. 1987-1.

Effect:

The effect of the above condition is the possibility for misappropriation of public funds. Additionally, there is no audit trail to determine how much local revenues were collected and expended without authorization and in violation of the provisions of NALGOV Constitution that requires that there shall be no monies expended without prior authorization by the Council by means of an ordinance.

Recommendation:

We recommend that NALGOV issue official cash receipts to customers when collecting rental fees and other revenues as a measure for transparency and accountability. Additionally, these collections should be accounted for through a cash receipts journal and be deposited intact in a timely manner. Furthermore, we recommend that the Ministry of Internal Affairs and the Ministry of Finance review the financial reports to make sure that all supporting documents are attached and that they tie to the report.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Sitting Fees

Finding No. 5

Criteria:

Sitting fee should be paid only to those Council Members who were present at a council meeting.

Condition:

During our preliminary review, we noted a certain council member was paid sitting fee when the council minutes indicate he was not present during the council meetings:

Check #:	1422	9/11/08	\$135
	1424	8/27/08	\$135
	1346	5/20/08	\$135
	1542	6/19/09	\$165

The following checks were cited during our preliminary survey to be paid for sitting fees for Council Members who were marked absent:

Check#:	1811	9/26/11	\$185
	1813	9/27/11	\$200
	1814	9/26/11	\$125

Cause:

The cause of the above condition is the lack of rules and regulations requiring that sitting fees be paid only to employees and Council Members of NALGOV who were present during a Council meeting.

Effect:

The effect of the above condition is that disbursements were unsubstantiated.

Recommendation:

We recommend that NALGOV only pay sitting fees to Council Members who attended a meeting. Additionally, payments described in the financial reports as sitting fees should only be for employees and council Members.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Local non-compliance

Finding No. 6

Criteria:

The Constitution of NALGOV state that no monies of the local government shall be expended without prior authorization in the budget appropriation ordinance.

Condition:

Based on our review of the budget appropriations, we did not note a budget ordinance on file for the fiscal years ended September 30, 2008 and 2009. Additionally, NALGOV did not include travel in their budget ordinance, however, we noted monies disbursed for airfare. Per inquiry with the Mayor, he asserted that when he travels, he write checks to himself for per diem based on his own estimates of how much he will need on the trip. We could not identify the amounts paid for per diem, however, the following are amounts paid to the airline:

Date	Payee	Description	Check #	Amount
06/11/2008	AMI	Ticket	1365	\$ 167.00
08/30/2010	AMI		1688	362.00
08/26/2010	AMI	Pearl Project	1683	492.00
02/07/2012	AMI		1888	780.00
02/06/2012	AMI		1887	344.00
				<u>\$2,145.00</u>

Cause:

The cause of the above condition is lack of compliance with NALGOV Constitution.

Effect:

The effect of the above condition is that NALGOV was not in compliance with its Constitution. In addition, we could not quantify how much of the total expense for the periods from FY2008 to FY2012 were related to unauthorized travel expense due to lack of recording of financial transactions.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Local non-compliance

Finding No. 6, (Continued)

Recommendation:

We recommend that NALGOV maintain a copy of the budget ordinance on file and that it only expend amounts authorized by the Council. In addition, we recommend that NALGOV include travel expense in their budget ordinance as it is a necessary component of operations.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period From October 1, 2007 through September 30, 2012

Local non-compliance

Finding No.7

Criteria:

The rules and procedures of the OIEDF, Section VII(E) require that a local government, at the end of the fiscal year, will report the money used in an annual financial report. The financial report must include receipts of all purchases under the OIEDF as well as communications to include management and operation of the projects.

Condition:

We noted that NALGOV was not in compliance with this requirement as there was no annual financial report filed on the Pearl Project. Additionally, NALGOV does not prepare its financial reports based on account classifications but classified them into sitting fees and purchases. As such, we could not determine how much of the \$14,061.98 that was received from the OIEDF grant was used for the Pearl Project, or whether expenditures incurred were related to or authorized under the project.

Cause:

The cause of the above condition is the lack of oversight by the Ministry of Finance to ensure that NALGOV comply with this reporting requirement.

Effect:

The effect of the above condition is that NALGOV was not in compliance with reporting requirements as promulgated by the OIEDF Rules and Procedures.

Recommendation:

We recommend that NALGOV adhere to compliance requirements as set forth in the OIEDF Rules and Procedures.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Local Non-compliance

Finding No.8

Criteria:

The Financial Memoranda No. 1987-1 states that the next quarterly allotment will not be released unless a financial report of the previous quarter is furnished by the local government.

Condition:

NALGOV did not provide a timely financial report for the last quarter of FY2010 and therefore, did not receive the funding of \$4,263 for that quarter.

Cause:

The cause of the above condition is due to lack of coordination by NALGOV to fulfill their responsibilities as required under the Local Government Financial Memoranda No. 1987-1.

Effect:

The effect of the above condition is that NALGOV did not comply with their financial reporting requirement and therefore lost their funding for that quarter.

Recommendation:

We recommend that NALGOV ensure compliance with the reporting requirements as established under the Local Government Financial Memoranda No. 1987-1 in order for them to receive the full funding awarded each year.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Local non-compliance

Finding No.9

Criteria:

The Financial Memoranda No. 1987-1 requires that the financial report must be filed by the 15th of January, April, July and October. It further stated that the report must not exceed the quarterly allotment allocated to the local government.

Condition:

Based on our review of NALGOV's financial reports, we noted financial reports were not filed within the required deadline as indicated below:

- 1st Qtr FY2008 did not have a financial report on file.
- 2nd Qtr FY2008 filed on May 22, 2008, 37 days late, and expenditures were over by \$337.
- 3rd Qtr FY2008 filed on August 11, 2008, 26 days late, and expenditure over by \$2,407.
- 4th Qtr FY2008 filed on October 29, 2008, 14 days late, and expenditures over by \$12,207.
- 2nd Qtr FY2009 filed on May 17, 2009, 32 days late, and expenditures over by \$9,034.
- 3rd Qtr FY2009 was not dated, and expenditures over by \$5,982.
- 4th Qtr FY2009 filed on December 16, 2009, 61 days late.
- 1st Qtr FY2010 filed on February 10, 2010, 27 days late.
- 2nd Qtr FY2010 filed on May 19, 2010, 34 days late, and expenditures over by \$2,774.
- 3rd Qtr FY2010 filed on September 14, 2010, 91 days late, and expenditures over by \$2,782.
- 4th Qtr FY2010 filed on December 8, 2010, about 54 days late, and expenditure over by \$7,606.85.
- 2nd Qtr FY2011 filed on August 10, 2011, 117 days late, and expenditures over by \$4,985.
- 3rd Qtr FY2011 filed on September 6, 2011, 58 days late.
- 4th Qtr FY2011 filed on October 28, 2011, 13 days late.
- 2nd Qtr FY2012 had expenditures over by \$4,551.32
- 3rd Qtr FY2012 filed on May 18, 2012, 33 days late, and expenditure over by \$1,401.
- 4th Qtr FY2012 filed on August 29, 2012, 45 days late.

Cause:

The cause of the above condition is the lack of review and oversight by the Ministry of Internal Affairs and the Ministry of Finance to evaluate the propriety and accuracy of the financial reports filed prior to acceptance.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Local non-compliance

Finding No.9, (Continued)

Effect:

The effect of the above condition is that NALGOV was not in compliance with the financial reporting requirements.

Recommendation:

We recommend that NALGOV adhere to reporting requirements as dictated by the Financial Memoranda No. 1987-1. We also recommend that the Ministry of Internal affairs address these compliance issues with NALGOV on a regular basis to resolve these issues.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Missing Cancelled Checks and Bank Statements

Finding No.10

Criteria:

The Local Government Financial Memoranda No. 1987-1 requires that cancelled checks and bank statements is maintained on file to support checks issued.

Condition:

Of \$57,878 in expenditures, we could not verify that amounts and payee were correctly recorded by the bank for the following payments as bank statements and cancelled checks were missing and not available for review:

Check #:		
1538	7/04/09	\$ 650.00
1547	7/20/09	2,235.83
1673	7/07/10	1,500.00
1683	8/26/10	492.00
1694	9/01/10	2,514.00
1704	9/04/10	800.00
1711	9/06/10	<u>750.00</u>
Total		<u>\$8,941.83</u>

Cause:

The cause of the above condition is the lack of oversight by Ministry of Internal Affairs requiring that cancelled checks and bank statements be provided as part of the financial reports.

Effect:

The effect of the above condition is that we were unable to verify whether checks were properly endorsed and that amounts issued were correctly cleared by the bank.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Missing Cancelled Checks and Bank Statements

Finding No.10, (Continued)

Recommendation:

We recommend that all bank statements and cancelled checks be maintained on file as support for actual checks issued and also to comply with rules and regulations established by the Ministry of Internal Affairs. We also recommend for NALGOV to make copies of these documents for backup in case documents provided to the Ministry of Internal Affairs are lost.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Unauthorized expenses

Finding No. 11

Criteria:

Checks should be distributed to the proper payee with a proper description and be supported by valid invoices.

Condition:

Of sixty additional items selected for testing, we noted that check # 1429 totaling \$400 was issued to MEC with the description stating mayor's salary and with no invoice available to support disbursement.

Cause:

The cause of the above condition is the lack of management review of the checks to ensure they are processed correctly and are supported by valid invoices.

Effect:

The effect of the above condition is the possibility for misappropriation of public funds.

Recommendation:

We recommend that NALGOV carefully review checks prior to distribution and ensure valid invoices are maintained to justify disbursement of public funds. We also recommend that the Ministry of Internal Affairs review all financial reports and verify that all checks issued were supported by valid invoices.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period From October 1, 2007 through September 30, 2012

Local non-compliance

Finding No. 12

Criteria:

Section 203 of the Local Government Act requires that at the end of each quarter, every Local Government Council shall provide to the Secretary of Finance, through the Secretary of Internal Affairs, a list of names of all businesses licensed under its jurisdiction.

Condition:

We did not note any business listing filed with the Ministry of Internal Affairs and the Ministry of Finance.

Cause:

The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs to ensure that prior to acceptance of the financial reports that a business listing is provided as part of the financial report as required.

Effect:

The effect of the above condition is that NALGOV was not in compliance with the requirements of the Local Government Act.

Recommendation:

We recommend that the Ministry of Internal Affairs and the Ministry of Finance ensure that all local governments are aware of what their financial and reporting requirements are and to ensure that they comply with these requirements. Additionally, we recommend that prior to acceptance of the quarterly financial report from each local government, the Ministry of Internal Affairs review the financial report using a checklist that lists what documents are required to be included in the financial report.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Grant-in-aid Matching

Finding No. 13

Criteria:

The Financial Memoranda No. 1987-1, states that no money of local government should be used to match grant-in-aid.

Condition:

During our testing of expenditures, we noted that the following checks were issued to the Secretary of Finance for matching of grant-in-aid:

Check#:	1392	\$2,212.64
	1460	2,500.00
	1673	1,500.00
	1796	<u>1,875.00</u>
		<u>\$8,087.64</u>

Cause:

The cause of the above condition is the lack of adherence to the Financial Memoranda No. 1987-1.

Effect:

The effect of the above condition is that NALGOV was not in compliance with the provisions of the Local Government Financial Memoranda No. 1987-1.

Recommendation:

We recommend that NALGOV adhere to the Local Government Financial Memoranda No. 1987-1.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Bank Reconciliation

Finding No.14

Criteria:

Proper internal control requires bank reconciliation to be performed on a regular basis to prevent fraud and error.

Condition:

NALGOV's financial records were not properly reconciled to those of the bank as we noted that NALGOV did not have records of their financial transactions but relied on the bank to indicate what checks have been cleared and what deposits have been made into their bank account.

Cause:

The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs and the Ministry of Finance to ensure that bank reconciliations are properly performed.

Effect:

The effect of the above condition is that NALGOV may not be able to detect fraud in a timely manner if they do not perform bank reconciliations timely and accurately.

Recommendation:

We recommend that NALGOV ensure that bank reconciliations are performed on a regular basis.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Segregation of Duties

Finding No. 15

Criteria:

Segregation of duties is an internal control concept in which individuals do not have responsibility for incompatible activities. The recordkeeping or authorization function should be separated from the physical custody of the asset to guard against misuse.

Condition:

The Mayor has custody of the checks and he is an authorized signatory on the checks. He also prepares the financial reports.

Cause:

The cause of the above condition is lack of established internal control procedures to ensure that the person issuing checks and in charge of all of the financial transactions of NALGOV is not a signatory on the checks.

Effect:

The effect of the above condition is the susceptibility for misuse of public funds.

Recommendation:

We recommend that the Council establish internal control rules and regulations to ensure that there is segregation of duties at NALGOV.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

NAMDRIK ALELE LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2012

Local Government Accounting System

Finding No. 16

Criteria:

The Local Government Accounting System requires that each local government utilize personnel action, travel expense, purchase order and budget control worksheet as part of their record keeping.

Condition:

NALGOV did not utilize any of these forms during the periods ended September 2008 to 2012.

Cause:

The cause of the above condition is the lack of adherence to these compliance requirements.

Effect:

The effect of the above condition is that we could not determine the propriety of many of the expenses as they were not supported by the forms as specified in the above condition; and noncompliance with the requirements of the Local Government Accounting System.

Recommendation:

We recommend that the Council utilize the above forms as support for expenses incurred and to comply with the requirements of the Local Government Accounting System.

Auditee Response: NALGOV did not provide a response to our finding, however, we received a response from the Ministry of Internal Affairs, Division of Local Governments, see Appendix I.

Namdrik Alele Local Government

Republic of the Marshall Islands

Introduction:

The Local Government of Namdrik Atoll established by decree under the Constitution of the Republic of the Marshall Islands for the people of Namdrik Atoll, to serve, stand guard, and protect its constituents.

Answer to the findings served to us in Namdrik Alele Local Government's Audit report during the period: October 1st, 2007 through September 30th, 2012.

Comments & Answers

Local Non-Compliance

Finding No. 1

The Ministry of Internal Affairs in its proposal for donor partners ARIAL and the Commonwealth of Local Government Forum through the office of MIMA (Marshall Islands Mayors Association) sought assistance for a Legal Councilor to review all the twenty-four Local Government constitutions; therefore Namdrik Alele Local Government's constitution has been proposed for revision.

Accounting System

Finding No.2

The Ministry of Internal Affairs will enforce NALGOV to utilize the accounting system.

Missing Supporting Document

Finding No. 3

The Treasurer for NALGOV, the office of the Local Government Division, and the Ministry of Finance all make copies of checks for reporting; therefore the Local Government Division office will on their behalf make sure to have every copy in file.

Cash Receipts

Finding No. 4

The Ministry of Internal Affairs will do its part to make sure NALGOV submit such cash receipts to their reports.

Sitting Fees

Finding No. 5

The Ministry of Internal Affairs will enforce NALGOV to follow the requirements of the Local Government Fund.

Local Non-Compliance

Finding No. 6

Since all the Constitutions of the 24 localities are in the proposal for assistance of a Legal Councilors, all findings in regards to NALGOV's deficit will be addressed. For the time being, the Office of the Local Government Division refers to the Local Government Act of 1980.

Local Non-Compliance

Finding No. 7

The Ministry of Internal Affairs on its side has enforced NALGOV and the other Local Governments to follow the proper procedures of the OIEDF Policy.

Local Non-Compliance

Finding No. 8

The Ministry of Internal Affairs will also take its part and enforce NALGOV to follow the rules and procedures under the Local Government Financial Memoranda No. 1987-1.

Local Non-Compliance

Finding No. 9

The Ministry of Internal Affairs has taken the extra step in making sure that all Local Governments, when submitting reports, have all the required documents attached. The Ministry of Internal Affairs will take the effort and enforce that NALGOV and the other Local Governments to follow all policies of monies and/or grants awarded to them.

Missing Cancelled Checks and Bank Statements

Finding No. 10

This issue is caused by lack of filing in the Office of the Local Government Division from previous years; therefore this issue has been addressed to the new staff of the office as they have encountered other problems with the filing system and the office will take the extra effort to examine and review all reports.

Unauthorized Expenses

Finding No. 11

The Ministry of Internal Affairs has committed to review all reports before requesting of monies.

Local Non-Compliance

Finding No.12

There is a checklist for all the grants awarded to the Local Governments and the Ministry of Internal Affairs reviews all submission. If there are required documents missing, the Office of the Local Government Division will see to it with the Local Government.

Grant In Aid Matching

Finding No. 13

The Ministry of Internal Affairs is aware that the Local Government Fund cannot be used for matching otherwise if NALGOV wanted to have such transaction recorded, it is most likely that a certain group (church, women's group, etc.) applied for Grant in Aid and gave NALGOV their matching fund to be deposited in NALGOV's bank account; therefore checks were made out to the Secretary of Finance in this sense.

Bank Reconciliation

Finding No. 14

The Ministry of Internal Affairs will take its part and review submission of reports to the office.

Segregation of Duties

Finding No. 15

The Ministry of the Internal Affairs will take the effort and advise all mayors to segregate the duties so as not to overwhelm themselves and also to give other council members the incentive to work corporately.

Local Government Accounting System

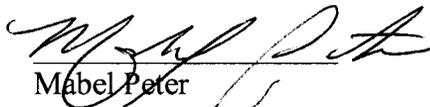
Finding No. 16

The Ministry of Internal Affairs will also take its part and ensure that advises are given to both the Mayor and the council to follow the Policy, rules and procedures of grants.

In conclusion:

On Behalf of Namdrik Alele Atoll Local Government, the Local Government Division under the Ministry of Internal Affairs, submit to your respective office our responses to the findings incur upon the Ministry. It is therefore in our understanding that responses to NALGOV Audit findings from the period of October 1st, 2007 through September 30th, 2012 are submitted as comments and reassurance for the delegated office of the Local Governments.

Regards,

 12/17/13
Mabel Peter
Chief, Local Government Division
Ministry of Internal Affairs

*Cc: Clarence Luther; Mayor Namdrik
Molly Helkena; Acting Secretary
Filed.*

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