

July 3, 2018

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands

Dear Mayor Matayoshi:

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) for the year ended September 30, 2012, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated July 3, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered RALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RALGOV'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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to RALGOV's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to RALGOV, also dated July 3, 2018 on our consideration of RALGOV'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 definition of a deficiency is also set forth in the attached Appendix I.

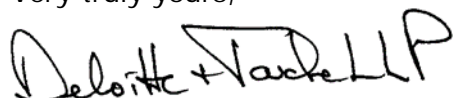
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Council, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of RALGOV for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving RALGOV's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

(1) Accounts Receivable - Others

As of September 30, 2012, employee and other accounts receivable amounted to \$594,448, which includes a corresponding allowance for doubtful accounts of \$413,614 and comprises various receivables from prior fiscal years, including \$132,516 of federal grants and \$131,251 from a contractor, which failed to deliver certain housing projects.

Furthermore, employee advances has increased significantly while inadequate collection has occurred. Formal payroll allotment agreements were not utilized during the year. Recordation of employee advances was recorded in various GL accounts which were not consistently applied.

Details of distribution Fund employee advances (GL 1330) and other receivables (GL 1331) beginning balances were not provided. Thus, we were not able to determine and verify the composition of and collections recorded in the referenced accounts.

We recommend that management examine the detail of accounts receivable to determine uncollectible accounts to be written-off and to obtain requisite approval from the Council. Furthermore, management should require timely delivery of billings and invoices to grantors and/or customers. Management should also enforce agreed payroll deductions from employee advances.

(2) Fixed Asset Register

Construction in progress in relation to housing project was not timely updated in the accounting records.

Existence tests performed noted three assets that were not located and two additional assets that were not in good condition. Adequate documentation evidencing periodic inventory of fixed assets is not available.

RALGOV switched vehicles with an affiliated entity. However, written documentation approving this transaction was not available. In addition, RALGOV-owned vehicles lack a city government seal to facilitate identification and distinction of RALGOV properties.

We recommend RALGOV update the capital asset register to verify proper identification and monitoring of capital assets. Further, RALGOV may wish to consider attaching RALGOV's seal and providing an ID number for government-owned vehicles to facilitate identification and monitoring.

(3) Interfund Balances

As of September 30, 2012, interfund balances did not reconcile resulting in an unreconciled variance of \$52,405. An audit adjustment was proposed to correct this condition. We recommend that interfund balances be periodically reconciled.

(4) Bank Reconciliation

Bank reconciliations included outstanding checks of \$146,140. Of that amount, 52% or \$76,166 was classified as stale checks.

<u>Fund</u>	<u>Outstanding Checks</u>	<u>Stale Checks</u>
General Fund	\$ 37,218	\$ 21,800
Payroll	8,071	4,476
Resettlement Project	40,235	16,575
Distribution	<u>60,616</u>	<u>33,315</u>
Total	\$ <u>146,140</u>	\$ <u>76,166</u>

SECTION I – CONTROL DEFICIENCIES, CONTINUED

(4) Bank Reconciliation, Continued

Invalid reconciling items were also noted including \$4,000 from the transitional fund and \$17,300 from the resettlement project.

We recommend management investigate long outstanding checks and determine an appropriate course of action.

(5) Expenditures

Several disbursements were not supported by vendor invoices and approver signatures.

- a. General fund check # 44636, death donation expense of \$5,000, lacks a death certificate on file and check#44412 lacks a formal invoice. Thus, we were not able to validate these transactions.
- b. Three general fund disbursements involving per diem for international travel exceed \$500 in reference to existing RALGOV travel policy. Payments were provided for a clothing allowance. No written approval or documentation of the clothing allowance policy was available to support these disbursements.
- c. General fund check # 44507 amounting to \$8,543 as payment for several airline tickets was not properly supported by approved travel forms and invoices.
- d. LDA allotment check # 94144 to MIDB lacked a detailed listing of employees with corresponding balances.
- e. RBI check # 1156 lacked a supporting invoice on file.
- f. Resettlement project travel expenses for document no. 4950 amounting to \$2,255 were approved without adequate documentation as to the purpose of the travel. A related consultancy agreement was not available for examination.
- g. Resettlement project expenses with Purchase Requisition no. 5410 amounting to \$33,000 lack formal invoices on file.
- h. Resettlement project expenses with Purchase Requisition no. 5906, amounting to \$8,000, lack an approver's signature to evidence disbursement authorization.

We recommend that payments be supported by vendor invoices.

(6) Collections

A check of \$6,000 intended as grant assistance for electric billings was received in March 15, 2012 but was deposited in June 30, 2012. This deposit was held for over three months.

We recommend RALGOV improve financial management and practice timely deposits.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

(7) Procurement

- a. Our examination of resettlement project expenses noted the following transactions lack quotations from various vendors and procurement documentation to evidence compliance with RepMar’s Procurement Code.

GL Account	Doc No.	Description	Amount
Charters	PR6412	Charter boat for supplies to Rongelap	\$31,200
Charters	PR6936	Freight charges	5,000
Supplies	PR5739	Parts for generator at Rongelap	7,080
Maintenance - equipment	12875	13x24 Tire Pneumatic 12 ply	7,707
Fuel and oil	PR5900	Diesel fuel for Rongelap resettlement	21,450
Fuel and oil	PR6636	Fuel for O & M	22,200
Fuel and oil	PR6865	Diesel for RNP O&M	22,450
Fuel and oil	A-753	Fuel for O & M at Rongelap	44,400
Fuel and oil	PR7369	Fuel for O & M at Rongelap	44,400
Fuel and oil	PR7167	Fuel for O & M at Rongelap	44,400

- b. Two resettlement expenses tested indicated that attached quotations were dated more than 90 days. Adequate documentation for the use of those old quotations was not available.

We recommend management comply with RepMar’s Procurement Code.

(9) Payroll

Of seven payroll items tested, one Personnel Action Form was not completely filled out including the approved annual salary.

Timesheets are not kept for employees. However, supervisors are required to submit exception reports for employee absences and other employee matters. Exception reports were not available for examination for the entire audit period.

We recommend that management adopt a policy of requiring timesheets to monitor employee attendance.

(10) Investment

Stock certificates supporting RALGOV’s investment of 1,000 common shares or an equivalent of \$10,000 based on \$1.00 par value in a local company were not on file to verify the existence and completeness of ownership.

Monthly statements for an investment in a savings plan were not on file. An insured individual covered in the related insurance policy resigned from his position but no change has been made in the insurance policy. Adequate documentation for the approval and assignment of the insured employees has not been provided.

We recommend RALGOV maintain adequate documentation. RALGOV should also determine an appropriate course of action for its investment in a savings plan.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Segregation of Duties

RALGOV's current level of staffing limits the number of personnel available for accounting duties. Accordingly, appropriate segregation of duties is not always possible which may result in a weakness in internal controls, specifically in the role of the City Manager who has access to assets, has approving authority for disbursements, and also has full access to accounting records. To mitigate this weakness, a critical element in RALGOV's internal control system is the involvement of management in the day-to-day operations and review of accounting activities and financial reports.

Furthermore, certain duties of the Chief Accountant are incompatible such as processing checks for claims payments and distribution of such to payees. We recommend that management establish controls to require rotation of the check distribution function among RALGOV staff.

We encourage involvement of management on a continuing basis and thorough review of accounting activities and financial reports as a means to maintain effective internal control until a more structured control environment becomes cost effective.

(2) Sick Leave and Annual Leave Policy

There are currently no policies and procedures governing employee absences including sick and vacation leave. Employee paid time off is usually allowed by management. However, no policies are in place that establish limits and authorizations. Furthermore, a mandatory vacation policy may be especially beneficial to RALGOV, being a small entity where certain employees may be handling incompatible duties. This would allow management to observe if there is any noticeable change while another person is performing the duties. We recommend that management establish vacation and sick leave policies.

(3) Amendments to Claims Trust Agreement

The original Trust Agreement was approved by the Government of the Marshall Islands (RepMar) through the Ministry of Finance and the Attorney General, consistent with the Rongelap Agreed Minute, pursuant to Section 8 of the Article II of the Compact Section 177 Agreement. However, it appears that such approval was not obtained for the Amended Claims Trust Agreement. We recommend that management consult with legal counsel as to the need to obtain approval of the Amended Trust from RepMar.

(4) Reporting

Management reports were not available. We recommend management consider preparing management reports that assist management and executive officers to monitor financial transactions and that support a relevant and well-informed decision making process.

SECTION III – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

RALGOV's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.