

July 31, 2015

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, 2010, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated July 31, 2015, 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to RALGOV, also dated July 31, 2015 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.

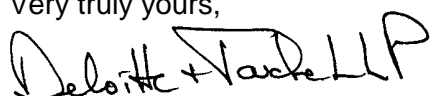
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2010 that we wish to bring to your attention:

**(1) Accounts Receivable - Others**

As of September 30, 2010, accounts receivable, excluding interest receivable, amounted to \$388,028, which includes an allowance for doubtful accounts of \$375,864 and comprises various receivables from prior fiscal years, including \$146,934 from federal grants and \$131,251 from a contractor, which failed to deliver certain housing projects. 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.

**(2) Fixed Asset Register**

As of September 30, 2010, the General Ledger and related fixed asset register balances were not updated for 2009 and 2010 additions. An audit adjustment in the amount of \$125,443 was proposed to update the General Ledger balances. We recommend that the fixed asset register be updated for additions and be reconciled to the General Ledger.

**(3) Interfund Balances**

As of September 30, 2010, interfund balances did not reconcile resulting in an unreconciled variance of \$16,594. An audit adjustment was proposed to correct this condition. We recommend that interfund balances be periodically reconciled.

**(4) Accrued Expenditures**

Obligations for goods and services provided by vendors for which invoices have yet to be received should be accrued in the accounting period in which the goods and services were provided. During our examination of subsequent disbursements, we noted one payment (check # 41941) for \$3,666 that was not accrued as at September 30, 2010. As the amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend that management require the accrual of expenditures in the accounting period in which goods and services are provided.

**(5) Expenditures**

One General Fund expenditure (check # 41614 for \$250) and two Resettlement Phase One Fund expenditures (check #s 6203 and 6310 for \$74,333 and \$3,000) were not supported by vendor invoices. We recommend that payments be supported by vendor invoices.

**(6) Personnel Action Forms (PAF)**

Of eighty-six employees files examined, we noted one instance (Employee ID # ANJ\*\*\*) where the PAF was not signed by the Mayor or City Manager and six instances (Employee ID #s ARE\*\*\*, BOA\*\*\*, EDM\*\*\*, LAN\*\*\*, LAN\*\*\* and RAN\*\*\*) where the PAF was not prepared to indicate employee payrate changes. We recommend that PAFs be approved by the Mayor or City Manager and that authorized changes to employee payrates be evidenced by approved PAFs.

## SECTION I – CONTROL DEFICIENCIES, CONTINUED

### (7) Payroll Allotment Authorizations

As of September 30, 2010, RALGOV recorded salary advances in the General Fund of \$29,892. We selected three advances for testing, of which two (Employee ID #s AREERI and LOKCHR) were not supported by payroll allotment authorizations allowing RALGOV to garnish the employee's salary as repayment. We recommend that management require the completion of payroll allotment authorizations prior to the payment of salary advances.

### (8) Travel Expenditures

Travel expenditures should be evidenced by pre-approved travel authorizations. We noted one instance where \$1,600 of travel expenditures relating to per diem were incurred for a four-day stopover on Guam for a meeting that was not supported by travel authorizations. We recommend that travel expenditures be evidenced by pre-approved travel authorizations.

### (9) General Ledger Transaction Listings

General Ledger variances existed between the trial balance and detailed transactional listings for the General Fund and the Resettlement Phase One Fund. Specifically, trial balance expenditures for the General Fund and the Resettlement Phase One Fund of \$1,343,188 and \$2,031,123, respectively, were supported by detailed transactional listings totaling \$1,318,188 and \$1,976,244, respectively, resulting in undocumented variances of \$25,000 and \$54,879. We recommend that General Ledger trial balances be supported by detailed transactional listings.

## 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 close involvement of management in the day-to-day operations and close 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 close involvement of management on a continuing basis and their thorough review of accounting activities and financial reports as a means to maintain effective internal controls until a more structured control environment becomes cost effective.

**SECTION II - OTHER MATTERS, CONTINUED**(2) Sick Leave and Annual Leave Policy

There are currently no policies and procedures governing employee absences including sick leave and vacation leave. Employee paid time off is usually allowed by management. However, no policies are in place that establishes limits and authorizations. Furthermore, 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, as 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 its legal counsel as to the need to obtain approval of the Amended Trust from RepMar.

(4) Scholarship Assistance

Guidelines on Scholarship Grants indicate that a student shall receive scholarship funds "...provided the student meets the minimum grade requirement of 2.0 average [in the prior semester]". For one scholarship payment (check # 41048) in the amount of \$500, the student achieved a 1.5 average for the prior semester and per the policy should have not received scholarship funds. However, the Mayor and Council decided to give students one extra semester to raise their grade average. We recommend that the guidelines associated with scholarship assistance be amended to reflect this discretionary power.

(5) Over-Expenditures

During the year ended September 30, 2010, RALGOV incurred the following expenditures that exceeded authorized budgetary amounts as approved by Appropriation Ordinance 2010-01:

Expenditure Category	Approved Budget	Actual	Over-Expenditure
Per diem	\$ 71,000	\$ 83,859	\$ (12,859)
Utilities	\$ 73,750	\$ 79,859	\$ (6,109)
Housing and other allowances	\$ 21,000	\$ 25,475	\$ (4,475)

We recommend that management adhere to established budgetary constraints. In the event that budget reprogramming is required, we recommend that management seek the approval of the Executive Committee.

**SECTION II - OTHER MATTERS, CONTINUED**

(6) Council Ordinances and Resolutions

During the year ended September 30, 2010, RALGOV approved the following ordinances and resolutions:

Ordinance 2010-1: October 23, 2009	Resolution 2010-4: March 30, 2010
Ordinance 2010-2: January 8, 2010	Resolution 2010-5: May 31, 2010
Resolution 2010-1: January 8, 2010	Resolution 2010-6: June 25, 2010
Resolution 2010-2: March 30, 2010	Resolution 2010-7: June 26, 2010
Resolution 2010-3: March 30, 2010	Ordinance 2010-3: September 28, 2010

Copies of Executive Committee Council minutes of meetings were not available to support decisions documented in the above ordinances and resolutions. We recommend that formal minutes of meetings of the Executive Committee be maintained and evidenced through signature by RALGOV Council members.

**SECTION III – DEFINITIONS**

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.