

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

MILELOK LOCAL GOVERNMENT

**FINANCIAL STATEMENT
AND
INDEPENDENT AUDITORS' REPORT**

PERIOD FROM OCTOBER 01, 2007 THROUGH SEPTEMBER 30, 2011



AUDIT No.: OAG 19/11-9999

July 09, 2015

Date

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

MILELOK LOCAL GOVERNMENT

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**PERIOD FROM OCTOBER 01, 2007 THROUGH
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MILELOK LOCAL GOVERNMENT

Period from October 1, 2007 through September 30, 2011

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INDEPENDENT AUDITORS' REPORT

Mayor Tommy K. Leban
Milelok Local Government
Republic of the Marshall Islands

We were engaged to audit the accompanying schedule of cash receipts and disbursements of the Milelok Local Government (MLGOV) for the period from October 1, 2007 through September 30, 2011. This financial statement is the responsibility of the management of MLGOV.

Because of inadequacies in MLGOV'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 \$317,264 and \$301,369, respectively).

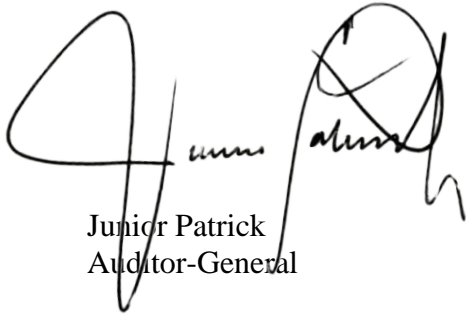
As described in note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 July 9, 2015, on our consideration of MLGOV'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 6, is presented for the purpose of additional analysis and is not a required part of the basic financial statement of MLGOV. This supplementary information is the responsibility of the management of MLGOV. 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.

July 9, 2015



Junior Patrick
Auditor-General

MILELOK LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements
Period from October 1, 2007 through September 30, 2011

Cash receipts:	
RepMar contributions	\$ 171,909
Grant from Embassy of Japan	105,000
Local revenue	10,970
Unreported revenue	<u>29,385</u>
Total cash receipts	<u>317,264</u>
Disbursements:	
Grant from Embassy of Japan	105,000
ROC Fund (OIEDF)	95,794
Salary	31,403
Grant-in-Aid	15,313
Transportation	5,647
Travel/Per-diem	1,717
Equipments	1,507
Mayor's salary	1,244
Allowance	325
Supplies and materials	35
Others	5,386
Unreported disbursements	<u>37,998</u>
Total disbursements	<u>301,369</u>
Net change in cash	<u>\$ 15,895</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

MILELOK LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2007 through September 30, 2011

(1) Organization

Milelok Local Government (MLGOV) 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 MLGOV. MLGOV is governed by an elected mayor, Council members and representatives.

(2) Basis of Accounting

The schedule of cash 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.

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

(3) Cash

As of September 30, 2011, the carrying amount of MLGOV's total cash was \$5,282, which corresponds to the bank balance, which is maintained at a financial institution not subject to Federal Deposit Insurance Corporation (FDIC) insurance. MLGOV does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of MLGOV 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

MLGOV 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 MLGOV providing financial reports and supporting documents. For the period from October 1, 2007 through September 30, 2011, MLGOV received a total of \$59,558 from RepMar under this grant. In addition, MLGOV receives annual appropriation grant funding from RepMar of \$100,000 from the Outer Islands Economic Development Fund (OIEDF) and administered by Ministry of Finance. The disbursement of this grant fund is contingent upon MLGOV providing proposal application and approved Council resolution. For the period from October 1, 2007 through September 30, 2011, MLGOV received a total of \$95,794 from RepMar under this grant. Finally, MLGOV receives annual appropriation grant funding from RepMar of \$10,000 from the Grant-in-Aid fund administered by Ministry of

MILELOK LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2007 through September 30, 2011

(5) RepMar Contributions (Continued)

Finance. The disbursement of this grant fund is contingent upon MLGOV providing community proposal and an approved resolution from Council. For the period from October 1, 2007 through September 30, 2011, MLGOV received a total of \$15,313 from RepMar under this grant.

(6) Other Contributions

On February 14, 2011, MLGOV received funding from the Embassy of Japan totaling \$105,000 for the purchase of a 34 foot Yamaha Boat.

MILELOK LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
Period from October 1, 2007 through September 30, 2011

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Cash receipts:					
Grant from Embassy of Japan	\$ -	\$ -	\$ -	\$ 105,000	\$ 105,000
RepMar contributions:					
Outer Island Development Fund (OIEDF)	-	-	24,690	71,104	95,794
Local Government Fund (LGF)	17,053	17,053	16,925	8,527	59,558
Grant-in-Aid	1,880	5,842	7,591	-	15,313
Mayor's salary	1,244	-	-	-	1,244
Local revenue	750	-	8,679	1,541	10,970
Unreported revenue	<u>(8,973)</u>	<u>15,588</u>	<u>6,320</u>	<u>16,450</u>	<u>29,385</u>
Total cash receipts	<u>11,954</u>	<u>38,483</u>	<u>64,205</u>	<u>202,622</u>	<u>317,264</u>
Disbursements:					
Grant from the Embassy of Japan	-	-	-	105,000	105,000
ROC Fund (OIEDF)	-	-	24,690	71,104	95,794
Salary	7,570	4,579	12,565	6,689	31,403
Grant-in-Aid	1,880	5,842	7,591	-	15,313
Transportation	-	-	3,929	1,718	5,647
Travel/Per-diem	60	60	1,047	550	1,717
Equipments	-	-	1,507	-	1,507
Mayor's salary	1,244	-	-	-	1,244
Allowance	-	175	50	100	325
Supplies and materials	-	-	35	-	35
Others	623	-	1,841	2,922	5,386
Unreported disbursements	<u>(3,677)</u>	<u>28,116</u>	<u>2,238</u>	<u>11,321</u>	<u>37,998</u>
Total disbursements	<u>7,700</u>	<u>38,772</u>	<u>55,493</u>	<u>199,404</u>	<u>301,369</u>
Net change in cash	<u>\$ 4,254</u>	<u>\$ (289)</u>	<u>\$ 8,712</u>	<u>\$ 3,218</u>	<u>\$ 15,895</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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

Mayor Tommy K. Leban
Milelok Local Government
Republic of the Marshall Islands:

We were engaged to audit the financial statement of Milelok Local Government (MLGOV) for the period from October 1, 2007 through September 30, 2011, and have issued our report thereon dated July 09, 2015. 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 MLGOV is responsible for establishing and maintaining effective internal control over financial reporting. In planning our audit, we considered MLGOV'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 MLGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MLGOV'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 33), 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. 1, Finding No.3, Finding No. 4, Finding No. 10, Finding No. 11, Finding*

No. 12, Finding No. 13, Finding No. 15, Finding No. 18, and Finding No. 19 to be material weaknesses.

Compliance and Other Matters

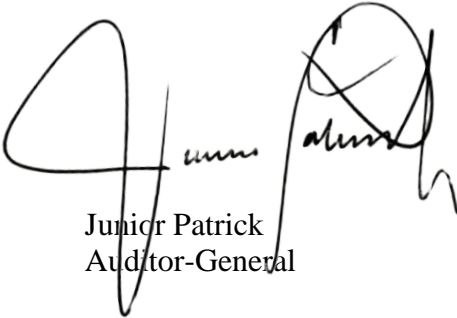
As part of obtaining reasonable assurance about whether MLGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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. 2, Finding No. 5, Finding No. 6, Finding No. 7, Finding No. 8, Finding No. 9, Finding No.14, Finding No.16, Finding No. 17, Finding No. 20, Finding No. 21, and Finding No. 22.*

Responses to Finding

We provided MLGOV, Ministry of Internal Affairs (MOIA), and the Ministry of Finance (MOF) with a copy of this report and gave them an opportunity to response to our findings, however, we did not receive a response from MLGOV and MOIA within the time allotted. We did receive a response from MOF which are described in the accompanying Schedule of Findings and Responses. We did not audit MOF's 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.

July 9, 2015



Junior Patrick
Auditor-General

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses
Period from October 1, 2007 through September 30, 2011

Finding No. 1

Unauthorized Grant Refund

Criteria: Grant funds should be used properly and exclusively for the purchase of the products and/or services necessary for the execution of the Project.

Condition: We noted that MLGOV received a grant award from the Government of Japan in the amount of \$105,000 on February 14, 2011 to purchase a 34 ft boat for the purpose of improving transportation for the people of Mili Atoll. Based on our examination of the grant award, it appeared that the full cost of the 34ft boat was provided under the grant award of \$105,000. However, MLGOV committed \$40,000 from their OIEDF fund to pay for matching fund to purchase the 34ft boat which was paid by RMI Government Check No. 83439 on March 18, 2011 directly to supplier of the boat.

Based on our further examination, it appeared that the RMI Government paid \$40,000 on behalf of MLGOV as matching cost for a boat that was already purchased directly by the grantor. In addition, our audit also revealed that the \$40,000 appeared to have been refunded on March 22, 2011 to an individual and not RMI Government or MLGOV.

Cause: The cause of the above condition is the act of misleading and committing public funds as matching that are not required. We suspected also conspiracy among certain parties to advance self-interest. In addition, there is lack of proper review and oversight by both Ministry of Internal Affairs and Finance to ensure all payments made on behalf of MLGOV are legitimate.

Effect: The effect of the above condition is possible misuse of grant funds which we have communicated earlier to appropriate RMI authorities for further proceedings.

Recommendation: We recommend that the MLGOV work with RMI authorities responsible to review this matter to bring this matter to a resolution, and more importantly to recover all funds belonging to MLGOV. Furthermore, we recommend that Ministry of Internal Affairs and Finance thoroughly review all future proposals from MLGOV to ensure they are legitimate prior to approval.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance: The Ministry of Finance agrees with the finding. MOF will continue to ensure reporting requirements are sufficient prior to any release of funding. MOF will continue to work on ensuring strict compliance to the policies.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 2

Accounting System

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. Furthermore, Section 31 of MLGOV Constitution states, in relevant parts, that the Executive Committee shall cause to be kept full and proper accounts and records of revenues, expenditures, assets and liabilities of the local government. The accounts and records shall comply with any Local Government Financial Memoranda issued under Section 46(2) of the Local Government Act 1980.

Condition: MLGOV 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 requiring MLGOV to establish and adopt an accounting system.

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

- We were unable to perform an audit of a complete set of financial statements.
- Financial transactions not recorded properly into a general ledger.
- MLGOV did not report all of their disbursement checks in the quarterly financial reports, as such; we could not perform a budget to actual comparison of revenues and expenditures to test for compliance with budget ordinance.
- There is a total of \$10,969 in local revenues that are unsupported.
- We were also informed by the Treasurer and the new Mayor that there were other revenue collections relating to boat illegal entry, Tobe Mile charter fee and pick-up rental fee on Mili atoll that were reported in the financial report; however, no cash receipts were issued as support for these collections.

Recommendation: We recommend that MLGOV 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 require that MLGOV utilize the accounting system as mandated. We further recommend that the Ministry of Internal Affairs and the Ministry of Finance require that MLGOV comply with this requirement prior to release of Local Government Fund appropriations.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 2

Accounting System (Continued)

Response from Ministry of Finance: The Ministry of Finance agrees with the finding. MOF will continue to strengthen enforcement of laws and require that compliance to laws, regulations and policies are adhered to prior to releasing of funds.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 3

Missing Supporting Documents

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. Furthermore, the use of blank checks should be discontinued.

Condition: During our examination of 23 disbursements, we noted that checks were issued for purchase of goods and services in which we did not find copies of invoices or receipts as evidence for these purchases. We were informed that the common practice for cash disbursements is for the Treasurer to sign a blank check and give it to the Mayor or his acting to purchase goods or services without requiring that receipts or invoices be returned for filing and for monitoring how much was spent on a particular purchase and for what purpose. We were informed by the Treasurer and the current Mayor that such practice is still being used with the current administration. Hence, the following expenditures were unsupported:

Check #	Date	Amount
124	3/24/2008	\$ 453
125	6/25/2008	170
152	7/10/2008	175
176	7/29/2008	5,500
237	11/5/2008	1,000
341	10/2/2009	265
429	2/03/2010	957
430	2/03/2010	363
437	2/22/2010	417
443	3/01/2010	460
445	3/02/2010	1,500
448	3/04/2010	521
450	3/22/2010	314
82	5/12/2010	503
602	7/23/2010	200
605	7/26/2010	200
633	9/25/2010	300
76	6/27/2011	419
473	7/20/2011	570
Total		\$14,287

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

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

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 3, Continued

Missing Supporting Documents

Recommendation: We recommend for MLGOV to require that valid invoices be obtained and maintained on file as support for payment of goods and services. We further recommend that the Ministry of Internal Affairs and the Ministry of Finance require that local governments are made accountable for monies that they received from the national government. Grants should be suspended if there is lack of accountability for public funds. Additionally, the Ministry of Finance should require that checks and invoices be maintained on file to support funds disbursed from the Grant-in-Aid Fund.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance: Ministry of Finance agrees with the finding. MOF will continue to strengthen enforcement of its policies not to release payments without proper documentations provided from grantees or local governments.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 4

Cash Receipts

Criteria: A proper system of internal control requires that collection of revenues be supported by cash receipts and deposited 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: For the period October 1, 2007 through September 30, 2011, MLGOV reported \$13,619 in local and other revenues; however there was no evidence that cash receipts were issued or that cash receipts journal was maintained as support for the collection. We were also informed during discussions with the Treasurer and the Mayor that there were receipt forms given to the executive members to use when collecting fees on Mili Atoll but they never used them.

Cause: The cause of the above condition is due to 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.

Recommendation: We recommend that MLGOV issue official cash receipts to customers when collecting business licenses, boat permit entry fee, pick-up truck rental fee, and other revenues as a measure for transparency and accountability. Additionally, these collections should be accounted for through a cash receipts journal and deposited 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. We further recommend that the Ministry of Internal Affairs perform a thorough review of the financial reports to require that all revenues and expenditures are properly supported prior to release of their funds.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance: Ministry of Finance agrees with the finding. MOF will continue to strengthen enforcement of its policies not to release payment without proper documentations provided from grantees or local governments.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 5

Local Noncompliance

Criteria: The Ministry of Internal Affairs Local Government Act of 1980 states 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 which stated that elections of the Council shall be conducted in every 4th calendar year.

Condition: We scrutinized the Constitution of MLGOV noting that the term of the Council members shall be for two years while the Constitution of the Republic of the Marshall Islands states that elections take place every four years.

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 noncompliance with the Local Government Act as well as the Constitution of the Republic of the Marshall Islands.

Recommendation: We recommend for MLGOV Council to amend the Constitution of MLGOV to comply with the Local Government Act and the Constitution of the Republic of the Marshall Islands.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 6

Income Tax Liabilities

Criteria: Section 131 of the Social Security Tax Act indicates that every employer, including every self-employed worker, shall submit a report to the Administrator no later than the tenth (10th) day after the end of each quarter a report of wages and salaries paid by him and the contributions due from him. For RMI Income taxes, the employer is required to file taxes 14 days after the end of each pay period.

Condition: MLGOV reported a total of \$36,335 in salaries for which no income taxes were withheld and remitted to the respective entities.

Cause: The cause of the above condition is that MLGOV feels that the salary being paid to its employees is very low.

Effect: The effect of the above condition is noncompliance with provisions of the Social Security Tax Act and the RMI Income Tax Acts.

Recommendation: We recommend that MLGOV ensure compliance with the above provisions of the Social Security and Income Tax Act.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 7

Local Noncompliance

Criteria: The Financial Memoranda No. 1987-1 Section I (B) (2), 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: MLGOV did not provide financial reports for the first quarter of FY 2009, however the local government received \$4,231. It was also noted that Ministry of Finance check no. 68759 dated 9/30/2009 for the second through fourth quarters of FY 2009 totaling \$12,821.48 appeared to have been advanced as the financial reports related to these periods were filed subsequently in April 2010.

Cause: The cause of the above condition is the lack of adherence to the Financial Memoranda No. 1987-1 and lack of oversight by both Ministry of Internal Affairs and Ministry of Finance to ensure compliance requirements are met.

Effect: The effect of the above condition is that we were unable to test compliance requirements related to reporting as stated in the Financial Memoranda No. 1987-1.

Recommendation: We recommend that MLGOV provide quarterly financial reports be to the Ministry of Internal Affairs in order to comply with the Financial Memoranda 1987-1. In addition, we recommend that the Ministry of Internal Affairs work with the local government to ensure compliance with reporting requirements stipulated under the Financial Memoranda No.1987-1.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 8

Local Noncompliance

Criteria: Section V (a, b, c, d, and f) of the grant-in-aid Policy requires that: A community project must benefit 10 families or 20 people in the immediate community. All Grant-In-Aid applications for local government shares must be completed and arrive at the Local Government Affairs Office no later than the last Friday of the month of June, at 5:00 p.m. A proposal will accompany the Grant-In-Aid application outlining the purpose of the project, the beneficiaries of the project, the plans for implementation and, if appropriate, completion date and who will maintain the facility or equipment. Local governments applying for Grant-In-Aid is required to pass a resolution which summarizes the purpose and intent of the project they are applied for, and which should accompany the proposal and application.

Condition: During our testing of Grant-In-Aid expenditures, we noted the following discrepancies:

1. A completed application form with a proposal and Council resolution was not on file. Additionally, evidence was not apparent indicating when the application was filed at the Ministry of Internal Affairs for the following disbursements:

<u>Check No.</u>	<u>Amount</u>	<u>Project</u>
60206	\$ 4,783	Renovation of Mili UCC Church
68304	<u>2,988</u>	Building Material for Mili UCC Church
	<u>\$ 7,771</u>	

2. During our site visit, the conditions of the buildings appeared to have not been renovated.
3. We were unable to perform testing for check no. 78431 dated September 10, 2010 for \$7,591 issued out of the Ministry of Finance under the Grant-in-Aid fund, as supporting documents were not available for examination.

Cause: The cause of the above condition is the lack of adherence to established rules and regulations under the Grant-In-Aid policy. Additionally, there is a lack of review by the Ministry of Internal Affairs and the Ministry of Finance to require that application requirements are met and attached to support disbursement of funds.

Effect: The effect of the above condition is noncompliance with rules and regulations as established for all local governments under the Grant-In-Aid policy. Additionally, we cannot determine if the projects were properly approved by Council in the absence of the required documentation.

Recommendation: We recommend that MLGOV comply with requirements established under the Grant-In-Aid Policy. Additionally, Ministry of Internal Affairs and Ministry of Finance should require that no funds are released unless a completed application form has been filed.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 8

Local Noncompliance, Continued

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance: Ministry of Finance agrees with the finding. MOF will continue to strengthen enforcement of its policies not to release payments without proper documentations provided from grantees or local governments.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 9

Local Noncompliance

Criteria: Section 203 of the Local Government Tax and Fees Act of 1989 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 require that prior to acceptance of the financial reports that a business listing is provided as part of the required financial reports.

Effect: The effect of the above condition is that MLGOV was not in compliance with the reporting requirements of the Local Government Act.

Recommendation: We recommend that MLGOV comply with Section 203 of the Local Government Tax and Fees Act of 1989. Furthermore, we recommend that the Ministry of Internal Affairs and the Ministry of Finance require that all local governments are aware of what their financial and reporting requirements are and to require 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's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance: Ministry of Finance agrees with the finding. MOF will continue to strengthen enforcement of its policies not to release payments without proper documentations provided from grantees or local governments. Additionally, MOIA and MOF will extend invitation to local government to take part in the National Gov't. fiscal officers association meetings to review and remind financial and reporting requirements for them to adhere to.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 10

Bank Reconciliations

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

Condition: MLGOV's financial records were not properly reconciled to those of the bank. We noted that MLGOV 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 MLGOV to ensure that bank reconciliations are performed on a regular basis.

Effect: The effect of the above condition is that MLGOV 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 MLGOV require that bank reconciliations are performed on a regular basis.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 11

Checks Not Issued in Sequential Manner

Criteria: All checks must be issued in a sequential manner in order to ensure that all disbursements are proper and accounted for.

Condition: We noted that checks were not issued in a sequential manner. For instance:

- Check numbers 602-635 were issued in July 2010
- Check number 695 was issued in February 2011
- Check numbers 454-475 were issued in July 2011

Cause: The cause of the above condition is the lack of established internal control procedures to require that checks are issued in a sequential manner. Furthermore, the Council used counter checks and different check stocks.

Effect: The effect of the above condition is possible misuse of funds and the possibility that not all disbursements were accounted for.

Recommendation: We recommend that MLGOV require that checks be issued in a sequential manner and that use of counter checks should be discontinued.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 12

Missing Checks and Bank Records

Criteria: Proper accounting procedures require that all accounting records be maintained and available for management reference.

Condition: The following exceptions were noted:

- More than 100 checks were missing and were not accounted for on bank statements or available check registers. Additionally, voided checks were not kept on file; therefore we were unable to determine if the missing checks were voided.
- Bank statements and related bank paid checks for October to December 2007, January to March 2008, November and December 2008, November and December 2009, February 2010, and January to September 2011 were missing and not locatable.

Cause: The cause of the above condition is the lack of policies and procedures regarding the maintenance of pertinent documents such as check copies, check stubs, voided checks, bank statements and bank cancelled checks.

Effect: The effect of the above condition is incomplete financial information and accountability over the financial resources is greatly diminished and increases the risk that potential errors and irregularities may occur and not be detected and corrected in a timely manner.

Recommendation: We recommend that MLGOV ensure all accounting records such as bank statements, bank cancelled checks, and voided checks are maintained on file for examination purposes.

Auditee Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 13

Segregation of Duties

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 Treasurer, the Mayor or Acting Mayor and the Executive Members have custody of the checks and they are also authorized signatories. The Treasurer and the Executive Members are also collecting business license fees and other fees. The Treasurer is responsible for keeping records of the Council and prepares the financial reports to the Ministry of Internal Affairs.

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

Effect: The effect of the above condition is the susceptibility for misuse of public funds and intentional financial misstatement.

Recommendation: We recommend that the Council establish internal control procedures and regulations to require that there is segregation of duties at MLGOV.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 14

Local Government Accounting System

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: MLGOV did not utilize any of these forms during the periods ended September 30, 2008 to September 30, 2011. We found two payments for per diem in the total amounts of \$400 (Ck. #602 - \$200 and Ck. #605 - \$200) that we did not note a travel authorization form, travel claim voucher form, trip report and other required travel documents. In addition, payments for salaries and wages in the amount of \$11,290 were made to police officers and other employees of the local government for which no personnel actions were made.

Cause: The cause of the above condition is the lack of adherence to the requirements of the Local Government Accounting system.

Effect: The effect of the above condition is noncompliance with the requirements of the Local Government Accounting System, as such, the propriety of these expenditures is not determinable.

Recommendation: We recommend that MLGOV utilize travel authorization forms as support for travel expenses incurred and require approved personnel actions be kept and maintained for all employees of the local government to comply with the requirement of the Local Government Accounting System. We further recommend that the Ministry of Internal Affairs require that MLGOV comply with the requirements contained in the Local Government Accounting System.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 15

Unauthorized Expenditures

Criteria: Budget ordinances passed by the Council of MLGOV do not authorize the purchase of alcoholic beverages.

Condition: We noted that check no. 651 for \$205 was issued for reimbursement of 5 cases of beer purchased for Mili's sport team.

Cause: The cause of the above condition is the lack of adherence with approved budget ordinance.

Effect: The effect of the above condition is noncompliance with budget ordinances and possible questioned costs in the amount of \$205.

Recommendation: We recommend that MLGOV adhere to approved budget ordinances.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 16

Local Noncompliance

Criteria: The Financial Memoranda No. 1987-1 Section I(B) requires that the financial report must be filed by no later than 15th of January, April, July and October.

Condition: We noted that the quarterly financial reports were not filed by the specific dates, time lag ranges from one to five months. We also noted that the financial reports did not indicate when the reports were filed at the Ministry of Internal Affairs, except for the financial report for the third and fourth quarters of FY 2009.

Cause: The cause of the above condition is lack of adherence to the Financial Memoranda No. 1987-1 and lack of consistent use of the checklist that is required to be completed by the Officials of the Local Government Division when receiving necessary documents from a local government. The form provides for official acknowledgments and date received by and is required to be attached with the purchase requisition (PR) submitted to the Secretary of the Ministry of Internal Affairs for approval before the PR is transmitted to the Ministry of Finance for payment.

Effect: The effect of the above condition is noncompliance with the Financial Memoranda No. 1987-1. In addition, late reporting resulted in late receipt of Local Government Fund Grant.

Recommendation: We recommend that MLGOV file required quarterly financial reports by the dates stipulated under the Financial Memoranda 1987-1. In addition, we recommend that Officials of the Local Government Division complete the required Checklist form every time the quarterly financial reports are received from the local governments to indicate review and certification.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 17

Fixed Assets

Criteria: The Local Government Accounting System requires that a local government maintain a record of its fixed assets. Such register should document the description of assets, date of purchase, its location and who has custody of the fixed asset. Additionally, MLGOV is required to file a report of property and equipment at the Local Government Division under Ministry of Internal Affairs that was purchased under ROC Fund (OIEDF).

Condition: MLGOV received a total of \$95,794 from the OIEDF fund, which was used to purchase a vehicle, a fiber glass boat with a Suzuki engine, 2 stroke engine generators, and various gardening tools; however, a fixed asset register was not maintained.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures to require proper control of and accountability for fixed assets.

Effect: The effect of the above condition is the possibility for misappropriation of public assets. Additionally, due to lack of records, if a new administration were to take over control of the local government, they would not know what assets belong to the Council and who has possession of them.

Recommendation: We recommend that MLGOV comply with policy on accounting for fixed assets stipulated under the Local Government Accounting System. Furthermore, we recommend the Ministry of Internal Affairs work with local governments to require compliance with rules and regulations established in the Local Government Accounting System as well as the OIEDF. We further recommend that all assets belonging to the MLGOV be assigned identification numbers to indicate ownership and prevent conflict.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 18

Misuse of Public Assets

Criteria: It is the policy of the National Government to make available funding under the OIEDF to local governments for projects that will improve the standard of living in the outer islands.

Condition: Check No. 89173 for \$7,679 was issued by the Ministry of Finance for the purchase of a 14 foot fiber glass boat and one Suzuki 15 HP Stroke Long outboard engine. Based on inquiry with the current Administration, it was indicated that they do not know the whereabouts of the boat; however, the outboard engine is currently being used by one Councilman on Majuro.

Cause: The cause of the above condition is the lack of oversight by the MLGOV administration to require that assets of the local government are used according to their intent and purpose, being to improve the standard of living on Mili Atoll.

Effect: The effect of the above condition is possible misuse of public assets.

Recommendation: We recommend that the current administration compile a list of all fixed assets and require that assets of the local government are returned to their rightful place to improve the living standards on the atoll.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 19

Unreported Revenues/Unidentified Revenue

Criteria: Section 30(1) of the Constitution of MLGOV requires that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditures of the local government, and assets and liabilities of the local government.

Condition: Of the total deposit of \$101,155 noted for the periods ended September 30, 2008 to September 30, 2011, MLGOV only reported \$71,770 as revenues in the financial reports, a difference of \$29,384 in unreported revenues is noted.

Additionally, we also noted a deposit of \$4,978 that was reported in the financial report for the second quarter FY 2010.

Cause: The cause of the above condition is that the Executive Committee did not perform their duties diligently under the MLGOV Constitution.

Effect: The effect of the above condition is that MLGOV did not comply with provisions of MLGOV Constitution.

Recommendation: We recommend for MLGOV's Executive Committee to keep full and proper accounts and records of revenues and expenditures.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 20

Sitting Fee Advance

Criteria: Section II of the MLGOV Constitution states that meetings shall be held at least once every three months on such days and times fixed by the Council, by resolution or by default of the Mayor by notice in accordance with rules and procedures of the Council. Sitting fees are therefore paid only when a member attended a meeting.

Condition: We noted that there were two meetings that took place in FY 2008, three in FY 2009, three in FY 2010, and one in FY 2011; therefore, sitting fees for FY 2008, FY 2009, FY 2010 and FY 2011 should be \$3,970, \$5,955, \$5,955 and \$1,985, respectively, while actual amounts paid were \$5,555, \$5,560, \$8,665, and \$6,535, respectively, resulting in an overpayment of \$8,450. We inquired about these overpayments with the Clerk/Treasurer and were informed that this was due to advance payments made to the Executive Members, Council members, and Iroij or Chief.

Cause: The cause of the above condition is the lack of established rules and regulations over the payment of sitting fees.

Effect: The effect of the above condition is overpayment of sitting fees and unauthorized expenditures.

Recommendation: We recommend that MLGOV establish policies and procedures over the payment of sitting fees and require that these expenditures are only paid after a member has attended a meeting.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 21

Council Minutes

Criteria: The Constitution of MLGOV requires the Council to hold a meeting at least once every three (3) months of the calendar. In addition, the minutes, which are a primary means by which independent auditors can evaluate the local government's operation, should be kept in a systematic filing system.

Condition: Council minutes for the following periods were not on file and were not made available:

- First and third quarters of FY 2009
- Second and third quarters of FY 2010
- First, third and fourth quarters of FY 2011

Accordingly, we cannot determine whether meetings were held during these periods; however, we have noted that disbursements in the amount of \$26,315 related to sitting fees have been made.

Cause: The cause of the above condition is the lack of compliance with the MLGOV Constitution and lack of policies and procedures covering the maintenance of Council minutes.

Effect: The effect of the above condition is the possibility that directives of the Council are not properly disclosed or recorded in the financial reports of MLGOV.

Recommendation: We recommend that MLGOV maintain a copy of all Council meeting minutes on file. We further recommend that Ministry of Internal Affairs and Ministry of Finance require all local governments to comply with this requirement prior to release of the quarterly disbursement.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance: Ministry of Finance did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Schedules of Findings and Responses, Continued
Period from October 1, 2007 through September 30, 2011

Finding No. 22

Unreported Expenditures

Criteria: Section 30(1) of the Constitution of MLGOV requires that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditures of the local government, and assets and liabilities of the local government.

Condition: Of the total expenditures of MLGOV of \$91,786, only \$53,787 was reported to the Ministry of Internal Affairs resulting in an unreported difference of \$37,998.

Cause: The cause of the above condition is that the Executive Committee appeared to have neglected their duties in making sure that proper accounts and records of revenues and expenditures of the local government are maintained.

Effect: The effect of the above condition is noncompliance with provisions of the Constitution of MLGOV.

Recommendation: We recommend that MLGOV require compliance with the above provision.

Auditee's Response and Corrective Action Plan: MLGOV did not provide a response to our finding and recommendation.

MILELOK LOCAL GOVERNMENT

Unresolved Prior Year Findings
Period from October 1, 2007 through September 30, 2011

There are no unresolved audit findings from prior year audits of MLGOV.

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