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Letter Report

We were scheduled to audit the financial statements of Milelok Local Government (MLGOV) for the fiscal years ended September 30, 2003 and 2004, respectively. Because of the major deficiencies and weaknesses in your Government's accounting system, we were unable to audit the government's financial statements for the periods stated above. Such financial statements are the responsibility of the government's management.

The major deficiencies and weaknesses are discussed in the paragraphs below:

Accounting System

MLGOV is not required to adopt fund basis accounting for local governments in conformity with standards promulgated by the Governmental Accounting Standards Boards (GASB). **However, MLGOV is required to comply with an accounting system established by the Ministry of Internal Affairs Financial Memoranda No. 1987-1.** Furthermore, Section 31 of the MLGOV Constitution states, in relevant parts, that the Executive Committee shall cause to be kept full and proper accounts and records of revenues, expenditure, 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.

1. MLGOV has failed to established and maintain an accounting system with related internal control and administrative controls that meets the accounting system requirements established by the Ministry of Internal Affairs Financial Memoranda No. 1987-1.
2. MLGOV has failed to maintain Cash Receipts and Cash Disbursements Journals.
3. MLGOV failed to report and maintain all copies of annual financial reports as required in the accounting system for local governments.

4. MLGOV failed to provide complete and accurate quarterly financial reports for all quarters in fiscal years 2003 and 2004, in accordance with the Local Government Financial Memoranda No. 1987-1 (B).
5. MLGOV failed to reconcile its bank accounts for the fiscal years under review.
6. MLGOV has failed to maintain proper accounting records such as, cash receipts, bank statements with related canceled checks and debit/credit memos, check vouchers, purchase orders, invoices, payroll registers, personnel actions, time sheets, travel expense reports, summary cards.
7. MLGOV has failed to maintain complete and signed minutes of Council meetings. The minutes are a primary means by which independent auditors can evaluate the local government's operations and should be signed to indicate evidence of approval.
8. MLGOV has not established policies and procedures to ensure proper control and accountability for fixed assets.

Violations of MLGOV Constitution and the Local Government Act

We noted three major violations of the MLGOV Constitution and the Local Government Act which are:

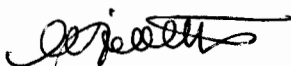
1. Section 27(1) of the MLGOV Constitution states that, no taxes shall be imposed and no other revenue shall be raised, and no money of the local government shall be expended, unless authorized by law.
 - a) MLGOV collected vessel entry permit fees, however neither they nor the Ministry of Internal Affairs were able to provide copies of the ordinances establishing these fees.
2. Section 29(1)(b) of the MLGOV Constitution states that, the Executive Committee shall cause to be introduced into the Council in respect of each financial year, an Appropriation Ordinance to make appropriations for expenditure, and may introduce additional supplementary estimates and Supplementary Appropriation Ordinance.
 - a) The Council failed to enact an Appropriation Ordinance to raise revenues or authorize expenditures for FY 2003.

3. Section 31(1) of the MLGOV Constitution states that, the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditure of the local government, assets of or under the control of the local government and liabilities of the local government.

- a) MLGOV failed to keep and maintain proper accounts and records of its financial activities for the fiscal years under review.

The deficiencies and weaknesses discussed above can be resolved very simply, by MLGOV taking immediate action to implement and maintain the “accounting system for local governments” established by the Ministry of Internal Affairs; by passing ordinances required by its constitution; by maintaining copies of all documentation authorizing expenditures for governmental operations, with appropriate recording of all transactions; and by proper maintenance of inventories of all fixed assets.

July 21, 2006



Atmita Jonathan
Acting Auditor-General

cc: HE President Kessai H. Note
Honorable Speaker Litokwa Tomeing
Honorable Rien Morris, Minister of Internal Affairs
Secretary Wilbur Allen, Ministry of Internal Affairs
Secretary Jefferson Barton, Ministry of Finance