



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR GENERAL
POST OFFICE BOX 245
MAJURO, MARSHALL ISLANDS 96960

Telephone:
Auditor General: 625-3192
Staff: 625-3390
Facsimile: 625-5135

Mayor Amos MacQuinn
Namorik Alele Local Government
Republic of the Marshall Islands

Letter Report

We were scheduled to audit the financial statements of Namorik Alele Local Government (NALGOV) for the fiscal years ended September 30, 2004 and 2005 (as of June 30, 2005), 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

NALGOV is not required to adopt fund basis accounting for local governments in conformity with standards promulgated by the Governmental Accounting Standards Boards (GASB). **However, NALGOV 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 NALGOV 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. NALGOV 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. NALGOV has failed to maintain Cash Receipts and Cash Disbursements Journals.
3. NALGOV failed to report and maintain all copies of annual financial reports as required in the accounting system for local governments.

4. NALGOV failed to provide complete and accurate quarterly financial reports in accordance with the Local Government Financial Memoranda No. 1987-1 (B).
5. NALGOV failed to reconcile its bank accounts for the fiscal years under review.
6. NALGOV has failed to maintain proper and complete accounting records such as, cash receipts, bank statements with related cancelled checks and debit/credit memos, purchase orders, invoices, payroll registers, personnel actions, time sheets, travel expense reports, summary cards, etc.
7. NALGOV failed to maintain complete records of council meeting minutes. The minutes are a primary means by which independent auditors can evaluate the local government's operations.
8. NALGOV failed to comply with the Local Government Tax and Fees Act 1989, which states in relevant part, that every Local Government Council shall, at the end of each quarter, submit to the Secretary of Finance, through the Secretary of Internal Affairs, a list of names of all businesses licensed under any ordinance of the Council.
9. NALGOV has not established policies and procedures to ensure proper control and accountability for fixed assets.

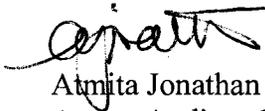
Violations of NALGOV Constitution and the Local Government Act

We noted one major violation of the NALGOV Constitution and the Local Government Act which is:

1. Section 31(1) of the NALGOV 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". Further, Section 31(2)(a) states that, "the accounts and records shall comply with any Local Government Financial Memoranda issued under Section 46(2) of the Local Government Act 1980".
 - a) NALGOV failed to comply with its Constitution and the Local Government Act.

The deficiencies and weaknesses discussed above can be resolved very simply, by NALGOV 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



Amrita 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