

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

WOTJE ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS, ADDITIONAL
INFORMATION
AND
INDEPENDENT AUDITORS' REPORT**

PERIOD FROM OCTOBER 01, 2009 THROUGH SEPTEMBER 30, 2014



AUDIT No.: OAG 25/13-2400

June 01, 2016
Date

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

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WOTJE ATOLL LOCAL GOVERNMENT

Period from October 1, 2009 through September 30, 2014

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor Ota J. Kisino
Wotje Atoll Local Government
Republic of the Marshall Islands:

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Wotje Atoll Local Government (WALGOV), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2009 through September 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1 to the financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Because of inadequacies in the accounting records of WALGOV, we are unable to form an opinion regarding the amounts recorded as cash receipts and cash disbursements in the accompanying financial statement (stated at \$421,354 and \$347,824, respectively).

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this financial statement.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

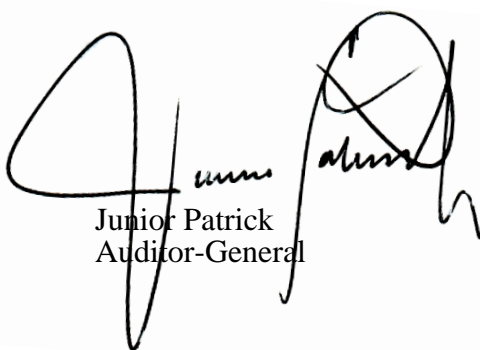
Other Information

The Combining Schedule of Cash Receipts and Disbursements on page 6 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the engagement to audit the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the other supplementary information in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2016 on our consideration of WALGOV’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 audit performed in accordance with *Government Auditing Standards* in considering WALGOV’s internal control over financial reporting and compliance.

June 1, 2016



Junior Patrick
Auditor-General

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements Period from October 1, 2009 through September 30, 2014

Cash receipts:

RepMar contributions	\$ 277,142
Government of Japan grant	82,539
Other revenue	27,189
Undeposited revenue	<u>34,484</u>
Total cash receipts	<u>421,354</u>

Cash disbursements:

ROC Fund (OIEDF) expenditures	153,486
Japan grant expenditures	82,539
Salary and wages	49,521
Grant In Aid expenditures	31,251
Supplies and materials	11,580
Liberation Day	7,501
Travel	3,823
Transportation	2,458
Entertainment	290
Other	<u>5,375</u>
Total cash disbursements	<u>347,824</u>

Excess of cash receipts over disbursements \$ 73,530

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

WOTJE ATOLL LOCAL GOVERNMENT

Notes to Financial Statement
Period from October 1, 2009 through September 30, 2014

(1) Basis of Accounting

The schedule of 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.

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

(2) Organization

WALGOV 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 WALGOV. WALGOV is governed by an elected mayor, council members and representatives.

(3) Cash

As of September 30, 2014, the carrying amount of WALGOV's total cash was \$197, which corresponds to the bank balance, and which is maintained in a local financial institution not subject to Federal Deposit Insurance Coverage (FDIC). WALGOV does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of WALGOV 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

WALGOV receives annual grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$16,296 from the Local Government Fund, which is distributed on a quarterly basis. This quarterly allotment is contingent upon WALGOV providing financial reports and supporting documents. For the period from October 1, 2009 through September 30, 2014, WALGOV received total grant funding of \$61,110 from RepMar. In addition, WALGOV also receives annual appropriation grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$100,000 from the Outer Islands Economic Development Fund (OIEDF) and administered by the Ministry of Finance. The disbursement of this grant fund is contingent upon WALGOV providing proposal application and approved Council resolution. For the period from October 1, 2009 through September 30, 2014, WALGOV received total funding from the OIEDF fund totaling \$153,486. Finally, WALGOV receives annual appropriation grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$10,000 from the Grant-in-Aid fund administered by the Ministry of Finance. The disbursement of this grant fund is contingent upon WALGOV providing community proposal and an approved resolution from Council. For the period from October 1, 2009 through September 30, 2014, WALGOV received a total of \$31,251 under this grant.

WOTJE ATOLL LOCAL GOVERNMENT

Notes to Financial Statement
Period from October 1, 2009 through September 30, 2014

(6) Related Party Transactions

During the period from October 1, 2009 through September 30, 2014, WALGOV purchased goods and services in the aggregate amount of \$73,619 from businesses on the island of Wotje Atoll owned by the Clerk of WALGOV.

WOTJE ATOLL LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
 Period from October 1, 2009 through September 30, 2014

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Cash receipts:						
RepMar contributions:						
ROC Fund (OIEDF)	\$ -	\$ 25,820	\$ 55,290	\$ 21,307	\$ 51,069	\$ 153,486
Local Government Fund (LGF)	12,222	12,222	8,148	16,296	12,222	61,110
Mayor salary	6,620	6,620	4,414	9,227	4,414	31,295
Grant-In-Aid	-	10,009	-	19,998	1,244	31,251
Government of Japan grant	82,539	-	-	-	-	82,539
Other revenue	2,281	5,017	5,214	9,556	5,121	27,189
Undeposited revenue	<u>14,696</u>	<u>3,734</u>	<u>(1,484)</u>	<u>12,813</u>	<u>4,725</u>	<u>34,484</u>
 Total cash receipts	 <u>118,358</u>	 <u>63,422</u>	 <u>71,582</u>	 <u>89,197</u>	 <u>78,795</u>	 <u>421,354</u>
 Cash disbursements:						
ROC Fund (OIEDF) expenditures	-	25,820	55,290	21,307	51,069	153,486
Japan grant expenditures	82,539	-	-	-	-	82,539
Salary and wages	6,885	13,315	6,141	13,682	9,498	49,521
Grant-In-Aid expenditures	-	10,009	-	19,998	1,244	31,251
Supplies and materials	111	4,574	-	4,022	2,873	11,580
Liberation Day	3,207	1,274	1,500	1,520	-	7,501
Travel	500	1,230	135	1,005	953	3,823
Transportation	169	446	-	1,672	171	2,458
Entertainment	-	200	-	90	-	290
Other	<u>400</u>	<u>-</u>	<u>1,000</u>	<u>2,270</u>	<u>1,705</u>	<u>5,375</u>
 Total cash disbursements	 <u>93,811</u>	 <u>56,868</u>	 <u>64,066</u>	 <u>65,566</u>	 <u>67,513</u>	 <u>347,824</u>
 Excess of cash receipts over disbursements	 <u>\$ 24,547</u>	 <u>\$ 6,554</u>	 <u>\$ 7,516</u>	 <u>\$ 23,631</u>	 <u>\$ 11,282</u>	 <u>\$ 73,530</u>

See Accompanying Independent Auditors' Report.



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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

Honorable Mayor Ota J. Kisino
Wotje Atoll Local Government
Republic of the Marshall Islands

We were engaged to audit, in accordance with the 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, the financial statement of Wotje Atoll Local Government (WALGOV), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2009 through September 30, 2014, and the related notes to the financial statement. We have issued our report thereon dated June 1, 2016, which 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

In planning our audit of the financial statement, we considered WALGOV's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of WALGOV's internal control. Accordingly, we do not express an opinion on the effectiveness of WALGOV's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. 2, Finding No. 3, Finding No. 4, Finding, No. 14, and Finding No. 16 which we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Finding No. 9, Finding No. 10, Finding No. 11, and Finding No. 17 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WALGOV's financial statement is 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. 3, Finding No. 5, Finding No. 6, Finding No. 7, Finding No. 8, Finding No. 9, Finding No. 10, Finding No. 12, Finding No. 13, and Finding No. 15.

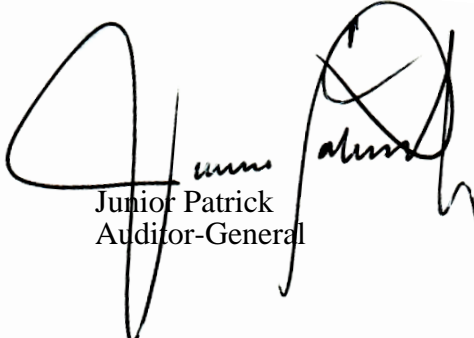
Responses to Findings

We provided WALGOV, Ministry of Internal Affairs (MOIA), and the Ministry of Finance (MOF) with a copy of this report and gave them an opportunity to respond to our findings, however, we did not receive a response from WALGOV within the time allocated. We did receive a response from MOF and MOIA which are described in the accompanying Schedule of Finding and Responses. We did not audit MOF and MOIA's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of WALGOV's internal control or on compliance. This report is an integral part of an engagement to audit in accordance with *Government Auditing Standards* in considering WALGOV's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 1, 2016.



Junior Patrick
Auditor-General

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2009 through September 30, 2014

Finding No. 1

Misappropriation of Grant Award

Criteria: Grant awards should be used properly and exclusively for the purpose for which they were awarded or granted.

Condition: For the period from October 1, 2009 through September 30, 2014, we noted a grant award for \$82,539 from the Government of Japan for construction of the Wotje Atoll Community Center. Specifically, we noted two payments per check nos. 825 and 862 in the amounts of \$40,000 and \$20,000, respectively, which were issued to a certain company for building materials for the WALGOV community center. Based on our review of the supporting invoices, they appear fictitious as totals were even numbers of \$40,000 and \$20,000 for various building materials of varying costs. Additionally, there was no receiving report or evidence of receipt of the items. We performed a site visit to the Atoll on January 17, 2015 to inspect this property and confirmed that it was not in existence. We also tried to locate the building materials if they were delivered and are still sitting around waiting to be used, again we did not find anything. During an interview with the Clerk of the Council, we were informed that only the other partner in the company who is deceased has knowledge of the funds.

Our further review of the matter disclosed that the funds initially solicited for the construction of the Wotje Community Center were instead used to purchase a boat owned by an individual and operated by the family members. We also noted that for the period from October 1, 2009 through September 30, 2014, no revenues from the boat were deposited into WALGOV's bank accounts.

Cause: The cause of the above condition is the lack of oversight by WALGOV administration to require that grant awards be used according to their intent and purpose to benefit the community of Wotje.

Effect: The effect of the above condition is the possible misappropriation of grant funds. Additionally, WALGOV may potentially be liable to return these funds to the grantor as the Council did not use the grant funds according to the signed grant agreement. Additionally, WALGOV may not be eligible for future grant assistance from the Government of Japan.

Recommendation: We recommend that WALGOV administration review the above matter and seek resolution or take legal proceedings to recover these funds.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Period from October 1, 2009 through September 30, 2014

Finding No.2

Unsupported Disbursements

Criteria: Disbursements out of WALGOV funds should represent actual obligations of the Council.

Condition: For the period from October 1, 2009 through September 30, 2014, we noted various payments for food items, supplies and materials, gasoline and cigarettes that indicated no evidence of receiving report or signature on invoices indicating that items were received by the Council. Additionally, on all of the disbursements tested, there is no justification in the supporting invoices or on the face of the check stubs indicating the reason and purpose of the purchases. We also noted travel expenditures that were not supported by tickets or invoices and the relevant travel vouchers. The following are examples of the various discrepancies found during the audit:

- We reviewed the bank statement noting that check no. 173 in the amount of \$1,000 was paid to a certain individual. We traced to the cash disbursement journal noting that check no. 173 was issued to a different payee and amount is \$100 instead of \$1,000. There is no copy of the check on file and there is no supporting document available to indicate the nature of the payment.
- Check no. 827 for \$400 was issued to a certain individual; however, we noted that check was not reported in the financial reports filed with the Ministry of Internal Affairs.
- The following checks were issued to a certain company on the island that is owned by one employee of WALGOV. Based on our examination of the supporting documents attached, we did not note a signature on the invoices to indicate the Council received the items such as canned meats, ramen, sugar, rice, flour, cigarettes, batteries, flashlight, and gasoline. There was also no justification on the invoices documenting the purpose of the purchases:

Date	Check #	Amount
7/28/2010	902	\$ 331
7/28/2010	901	419
9/23/2010	937	2,000
5/5/2011	1015	1,259
10/12/2011	1343	802
7/11/2012	1345	1,422
3/8/2013	1062	528
9/19/2013	1200	419
12/27/2013	1216	1,042
5/5/2014	1131	500
6/20/2014	1134	912
Total		\$ 9,634

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.2

Unsupported Disbursements, Continued

The following issues were further noted during our testing of the above disbursements.

1. Check no. 1015 was issued for various supplies including battery, flash light, canned meats, cigarette, donuts, soda and 2 kid's meal. The invoice appears questionable as it only lists the items on a blank sheet of paper with prices, quantities and description of the items and signed by the owner of the company, however, there is no justification evidenced on the document indicating purpose of the purchases and no signature evidencing receipt of the items by a representative of WALGOV.
 2. Check no. 1131 was issued for \$500 for May Day 2014 activities, however, we noted that date on the invoice is 9/25/2014. Invoice does not appear valid as the date of the invoice does not fall within the May period and the total of the invoice only adds up to \$463, an unexplained variance of \$37.
 3. Check nos. 1343, 1060, 203, 1273, and 1275 were issued for \$802.45, \$507.65, \$720, \$860, and \$306, respectively, however, check copies and invoices could not be located for these disbursements.
- Check no. 880 was issued to the Mayor for \$264 and is dated 7/21/2010 for airline ticket, however, there is no copy of the ticket on file. This check did not clear the bank due to insufficient fund and check no. 941 for \$294 was issued on 10/20/2010 for replacement. There is an additional return fee of \$30. We noted that payment is unsupported and listed in the cash disbursement journal as other expense when it was previously recorded as travel and allowance.
 - Check no. 904 was issued for \$228 to another company on the island for purchase of gasoline. There is no documentation as to what the gasoline was needed for and no signature as to who received the item.
 - Check no. 942 is payment to AMI totaling \$255 dated 10/22/2010 for return check no. 883 and return fee of \$30. No copy of ticket is noted on file. We noted that the expense is listed as others in the cash disbursement journal when it was previously recorded as travel and allowance.
 - Check no. 1019 for \$1,500 dated 5/30/2011 was issued to the Clerk for Liberation Day expenses; however, we did not note a report and invoices supporting the funds issued.
 - Check no. 1048 is for \$1,500 and dated 6/7/2012 and issued to the Clerk for Liberation Day activities. We noted that payment is supported by a report from three different committees, however, actual receipts evidencing purchases of the food items and other supplies was not on file. Additionally, we also noted purchase of cigarette.
 - Check no. 1377 was issued on 4/27/2012 to MEC for fuel totaling \$1,222; however, no copy of invoice is noted.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Period from October 1, 2009 through September 30, 2014

Finding No.2

Unsupported Disbursements, Continued

- Check no. 1160 was issued on 4/17/2013 to a certain individual for \$370 for purchase of fuel, however, there is no indication as to what the fuel was needed for and there was no signature on the invoice to certify that item was received by a WALGOV representative.
- Check nos. 1166 and 1167 were issued for \$500 and \$1,500 on 4/30/2013 and 6/3/2013, respectively, to a certain individual for May Day and Liberation Day activities, respectively. We did not note reports or invoices on file to support disbursement of funds.
- Check no. 1132 was issued to the Clerk on 5/19/14 for \$1,500 for Liberation Day activities, however, we noted the invoice is dated 9/25/2014, which is several months after the check was written and also Liberation Day for Wotje takes place in June.

In addition to the unsupported disbursements above, we also noted that the following checks were disbursed without the proper supporting documents such as check copies and invoices:

Check No.	Date	Amount
847	12/29/2009	\$ 400
840	12/30/2009	225
525	03/22/2010	268
879	7/13/2010	252
885	7/28/2010	200
909	8/18/2010	200
935	9/23/2010	200
969	12/09/2010	300
1352	11/03/2011	201
1353	11/04/2011	201
1060	03/08/2012	508
1425	04/18/2012	385
1428	08/13/2012	450
1444	08/20/2012	214
208	07/21/2013	250
1101	05/02/2014	200
Total		\$ 4,454

Cause: The cause of the above condition is the lack of established internal control procedures requiring proper review and monitoring by WALGOV over all accounting transactions of the local government.

Effect: The effect of the above condition is the possibility for misappropriation of public funds.

Recommendation: We recommend that the WALGOV ensure that all disbursements of the local government are properly supported and indicate review and approval as evidenced by signature on the invoices. We also recommend that the Ministry of Internal Affairs institute new policies regarding proper internal control over cash disbursements as may be necessary. Additionally, we also recommend that the Ministry of Finance also perform a thorough review of all quarterly reports to ensure that all cash disbursements are properly supported prior to release of LGF funds.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.2

Unsupported Disbursements, Continued

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees with recommendation. Ministry of Internal Affairs will strengthen the requirements of report submissions, and to have WALGOV in compliance with the policy before the release of funds.

Response from Ministry of Finance: The Ministry of Finance agrees with recommendation. Ministry of Finance will ensure that all necessary reporting requirements are adhered to before any release of LGF funds. Ministry of Finance will also strengthen collaboration with Internal to ensure that these reports are due.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Period from October 1, 2009 through September 30, 2014

Finding No. 3

Procurement Code

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government Contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchases. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service or construction item without competition when it is determined in writing that there is only one source for the required supplies, service, or construction item.

Condition: For the period from October 1, 2009 through September 30, 2014, we noted a payment of \$60,000 to a company for purchase of construction materials for Wotje City Hall which was not solicited through competitive bidding as required by the RMI Procurement Code. Additionally, we noted that most of the checks issued by WALGOV for purchase of food items, and materials and supplies were not supported by an adequate number of price quotes. The following is a list of checks issued to two separate companies on the island owned by one employee of the local government. All of these disbursements represent about 78% of WALGOV's total expenditures excluding salaries and wages, and these purchases appeared to be in violation of the Procurement Code as stated above:

Date	Check #	Amount
8/17/2009	825	\$ 40,000
3/19/2010	862	20,000
6/2/2010	173	1,000
7/28/2010	902	331
7/28/2010	901	419
9/23/2010	937	2,000
5/5/2011	1015	1,259
10/12/2011	1343	802
7/11/2012	1345	1,422
8/15/2012	1426	200
12/6/2012	1057	754
3/8/2013	1062	528
7/19/2013	203	720

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Period from October 1, 2009 through September 30, 2014

Finding No. 3

Procurement Code, Continued

Date	Check no.	Amount
7/19/2013	204	145
9/19/2013	1200	419
12/27/2013	1216	1,042
2/27/2014	1794	860
2/27/2014	1275	306
5/5/2014	1131	500
6/20/2014	1134	912
Total		\$ 73,619

Further, the checks highlighted in the Table above also appeared questionable as they were issued on the same day with accompanying invoices that are not signed to evidence receipt of goods, and also no supporting documentations on file was noted to justify the purchases.

Additionally, during our testing of OIEDF Fund expenditures, we noted that checks issued out of the Ministry of Finance on behalf of WALGOV did not contain an adequate number of price quotations as required by RMI Procurement Code:

Check No	Check Date	Check Amount	Descriptions
113022	12/30/2013	\$10,000	Honda engine 60hp
113022	12/30/2013	\$13,495	Aluminum Boat 18ft

Cause: The cause of the above condition is the lack of adherence with the Procurement Code.

Effect: The effect of the above condition is that WALGOV was not in compliance with the Procurement Code which resulted in two companies owned by an employee of WALGOV gaining majority of the business transactions of the Council.

Recommendation: We recommend that WALGOV comply with the Procurement Code as required and also recommend that the Ministry of Internal Affairs and the Ministry of Finance perform a thorough review of supporting documents provided for LGF, OIEDF and Grant-in-Aid prior to processing of payments to ensure that the Procurement Code is complied with.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from the Ministry of Internal Affairs: The Ministry of Internal Affairs is in total agreement. After the audit years, the Ministry of Internal Affairs has been working with all local governments to make sure they comply with the Procurement Code before submitting to Finance for processing of any purchase requisition.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 3

Procurement Code, Continued

Response from the Ministry of Finance: The Ministry of Finance agrees. The Ministry of Finance worked with Cabinet to rescind CM which waived the 3 quotation requirement. There will be no exception to the procurement Act moving forward. Furthermore, MOF will continue working with MOIA to ensure procurement Act is strictly complied with. However, just to note, 1st quarter of FY 2016 has been released to Local Government to enable them to do their inaugural ceremonies, as outgoing administration have not provided any reports.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 4

Revenues/Undeposited Cash Receipts

Criteria: The Accounting System established by the Republic of the Marshall Islands Ministry of Internal Affairs requires that cash receipts be issued for all monies received by all local governments.

Condition: During the period from October 1, 2009 through September 30, 2014, WALGOV reported total revenues of \$119,595 from LGF fund, Mayor's salary, and local taxes; however, there were no cash receipts issued to the customers to support cash collections. The cash receipts journal being utilized did not consistently document the customer names, and dates of collections. As such, we could not determine the completeness of the revenues reported above. We also noted that out of the \$119,595 that was reported above, only \$85,111 was actually deposited in the bank account, an undeposited difference of \$34,484.

We also traced checks issued out of the Ministry of Finance on June 11, 2010 from the LGF fund noting that check no. 75725 for \$4,074 was not deposited to WALGOV's bank account. We inquired with the Ministry of Finance if this check cleared their bank and was informed that it never cleared the bank. Per discussion with the accounting staff, we were informed that this check had remained outstanding until it was eventually written off.

Cause: The cause of the above condition is lack of adherence with the Local Government Accounting System requiring the issuance of cash receipts and the utilization of the cash receipts journal. Additionally, there is a lack of established internal control procedures requiring that the Executive Council review collections prior to deposit and after deposit to ensure that collections are deposited intact in a timely manner.

Furthermore, the Ministry of Finance did not perform their reconciliation correctly and investigate the reason why checks are long outstanding.

Effect: The effect of the above condition is the possibility for misappropriation of local revenues and other collections. We have also issued a disclaimer of opinion on the cash receipts due in part to our inability to test the accuracy and completeness of cash collections.

Due to lack of timely and accurate reconciliation on the part of the Ministry of Finance, we are unable to confirm what actually happened to check no. 75725 above.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 4

Revenues/Undeposited Cash Receipts, Continued

Recommendation: We recommend that WALGOV issue official cash receipts to customers when collecting fees and other revenues as required by the Ministry of Internal Affairs' Accounting Procedures. Additionally, we recommend that the Mayor and Executive Council review collections prior to and after each deposit and require that collections be deposited intact in a timely manner.

We further recommend that the Ministry of Finance perform timely bank reconciliations and require investigation of long outstanding checks.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from the Ministry of Finance: The Ministry of Finance agrees. MOF will work on ensuring that timely bank reconciliations are done accurately.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 5

ROC (OIEDF) Grant

Criteria: The National Government is obligated to provide financial assistance to the local governments to improve living standards in the outer islands. It is therefore 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. 94859 for \$24,950 was issued by the Ministry of Finance for the purchase of a Wingles pickup on February 13, 2012. The vehicle is located on Majuro and being used in Majuro and is not benefiting the community on Wotje Atoll.

Additionally, we also noted a payment also issued out of the Ministry of Finance per RepMar check no. 101902 on 10/22/12 in the amount of \$12,551 for building materials for construction of a Call Center on Wodmej, Wotje Atoll. During our site visit on January 17, 2015, we noted that the Call Center complex appears small.



Photo of Call Center on Wotje Atoll

Cause: The cause of the above condition is the lack of monitoring by the Ministry of Internal Affairs to require that proposals approved are only for projects that benefit the community on Wotje Atoll in accordance with the National Policy. Additionally, there is also lack of monitoring to require that projects be completed as initially planned and full benefits and value of monies are realized.

Effect: The effect of the above condition is possible abuse of public resources and full benefits are not received by the community on Wotje Atoll.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 5

ROC (OIEDF) Grant, Continued

Recommendation: We recommend that WALGOV require that funds be disbursed out of the OIEDF ROC Funds for projects that will benefit and/or improve the standard of living on the island. Additionally, we recommend that the Ministry of Internal Affairs Local Government Division review proposals to require that they will benefit the community in the outer islands, and monitor projects during implementation to require that they are completed as planned. Specifically, we recommend that the RMI Project Management Unit be engaged to provide assistance with design and monitoring involving construction projects.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from the Ministry of Internal Affairs: The Ministry of Internal Affairs agrees with this recommendation. The only constraint in doing assessment and monitoring of projects in the outer islands is the lack of funding. We can only rely on images of finished products submitted by each local government.

Response from the Ministry of Finance: No recommendation provided for MOF, but MOF will ensure that Grants are released based on the grant requirements and priorities.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 6

Grant-In-Aid

Criteria: The Community applying for Grant-In-Aid must acknowledge responsibility for projects and be willing to reimburse the RMI Government for any sums received through Grant-In-Aid which are not expended for the purpose stated in the Grant-In-Aid agreement.

Condition: During our examination of Grant-In-Aid disbursements, we noted that WALGOV received a total of \$20,000 (\$10,009 in 10/19/2011 and \$10,000 in 10/22/12) worth of building materials such as lumber, aluminum roofing, and plywood for construction of a church on Wotje Atoll.

We performed a site visit to the Atoll and the church site on January 17, 2015 and noted that the above building materials have not been received and used in the project. Per our discussion with an Assistant Pastor from the church, he informed us that he does not know where the building materials are and claimed that the Mayor told him that the Council has borrowed the materials and will return them with funds from the ROC OIEDF grant. We did not note in the Council Minutes any decision to use these materials for other purposes or projects. Below is a photo of the church taken during our site visit.

Photo of church funded by Grant-In-Aid



Cause: The cause of the above condition is that the Council of WALGOV did not carry out their responsibility by making sure that the building materials purchased for this project were delivered to the project site and used according to approved proposal. Additionally, the Local Government Affairs Office and Grand-In-Aid Project Officer did not carry out their responsibility to oversee and require that all projects funded in part through the Grant-In-Aid funds be completed as approved.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 6

Grant-In-Aid, Continued

Effect: The effect of the above condition is possibility for misappropriation of public assets. Additionally, WALGOV may have to reimburse back the RMI Government for the full cost of the project as stipulated under the Grant-In-Aid policy.

Recommendation: We recommend that WALGOV comply with requirements established under the Grant-In-Aid policy. We further recommend that the Ministry of Internal Affairs' Local Government Affairs Office work with WALGOV to require the project be completed, or if necessary, seek legal assistance to recover the funds.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from the Ministry of Internal Affairs: As the similar case in Finding 5, the Ministry of Internal Affairs agrees with the recommendation. The Ministry of Internal Affairs is still looking for other ways to deal with this ongoing problem. We do collaborative outreach programs with other ministries, SOEs, and NGOs, just so we can visit the outer islands to monitor on ongoing projects.

Response from the Ministry of Finance: No recommendation for MOF, but MOF agrees with finding and will ensure grants are disbursed for eligible projects under the Grant-In-Aid.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.7

Appropriation Ordinance

Criteria: The Constitution of WALGOV requires that no monies of the local government shall be expended without a budget appropriation ordinance.

Condition: We did not note a budget ordinance on file for the fiscal year ended September 30, 2012. Additionally, WALGOV exceeded their approved budget by a total of \$69,525 for the periods ended FY2010, FY2011, FY2013 and FY2014 as noted below:

FY 2010

Account Description	Actual	Budgeted	Variance
Wotje liberation day	\$ 3,981	\$ 2,000	\$ (1,981)
Materials and supplies	62,338	2,000	(60,338)
Other expense	400	-	(400)
Total	\$ 66,719	\$ 4,000	\$ (62,719)

FY 2011

Account Description	Actual	Budgeted	Variance
Other	1,000	-	(1,000)
Total	\$ 1,000	-	\$ (1,000)

FY 2013

Account Description	Actual	Budgeted	Variance
Materials and supplies	\$ 4,679	\$ 2,850	\$ (1,829)
Other	2,270	-	(2,270)
Total	\$ 6,949	\$ 2,850	\$ (4,099)

FY 2014

Account Description	Actual	Budgeted	Variance
Other	\$ 1,707	-	\$ (1,707)
Total	\$ 1,707	-	\$ (1,707)

Cause: The cause of the above condition is lack of adherence to WALGOV's Constitution.

Effect: The effect of the above condition is that WALGOV was not in compliance with its Constitution and possibility of unauthorized expenditures.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.7

Appropriation Ordinance, Continued

Recommendation: We recommend that WALGOV comply with their Constitution and also require that an appropriation ordinance be submitted each year to the Ministry of Internal Affairs with the financial reports for reference and audit purposes.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Period from October 1, 2009 through September 30, 2014

Finding No. 8

Financial Reports

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. It also 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: Financial reports filed by WALGOV were late and did not reflect transactions of the previous quarter. For the period from October 1, 2009 through September 30, 2014, WALGOV only filed 3 quarterly financial reports with the Ministry of Internal Affairs (MOIA) therefore, only received 3 quarters from the Local Government Fund (LGF) each year, a total loss of revenue of \$20,374.

We also noted discrepancies in the quarterly reports filed with the Ministry of Internal Affairs and the Ministry of Finance.

FY 2009		Issues Noted
4th QTR	<ul style="list-style-type: none"> Council collects departure tax from passengers on a weekly basis, however, no departure revenues reported. 	

FY 2010		Issues Noted
1st QTR	<ul style="list-style-type: none"> Council collects departure tax from passengers on a weekly basis, however, no departure revenues were reported. 	
4th QTR	<ul style="list-style-type: none"> 5 checks were already reported in previous quarters. Cash disbursement journal totaled \$5,458 while the financial report amount was \$5,308, a difference of \$150. 	

FY2011		Issues Noted
1st QTR	<ul style="list-style-type: none"> Reported transactions for 2 quarters which indicated that quarterly reports were not filed on time. 	
2nd QTR	<ul style="list-style-type: none"> Cash receipts journal does not document the names of the customers and the date cash was collected, rather, the journal only indicated the type of tax paid. Cash disbursement journal totaling \$5,014.45 is not supported by copies of checks and invoices. 	
3rd QTR	<ul style="list-style-type: none"> Cash disbursement journal reported a total of \$5,890 checks issued, however, the financial report indicated a total of \$6,090, a difference of \$200. There were also no copies of checks and invoices noted on file. Minutes of meeting of the Council dated June 15, 2011 did not document issues discussed during the meeting except for Roll Call. 	

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
 Period from October 1, 2009 through September 30, 2014

Finding No. 8

Financial Reports, Continued

FY2012	
2nd QTR	<ul style="list-style-type: none"> Total revenues reported equaled \$3,075, however, based on our recalculation, total collection is \$4,124.15, an unexplained shortage of \$1,049 is noted. Amounts reported in the financial report do not tie to numbers provided in the supporting cash receipts journal and the cash disbursements journal. Minutes of meeting of the council dated June 5, 2012 did not document any discussions that took place, only documented the roll call, raising the question as to whether meeting actually took place.
3rd QTR	<ul style="list-style-type: none"> Financial reports filed were related to transactions that occurred in February through May 2012, which we noted were already submitted in the previous quarter.
4th QTR	<ul style="list-style-type: none"> 4th quarter 2012 was supported by documents that were already provided in the 2nd quarter financial report
FY2013	
2nd QTR	<ul style="list-style-type: none"> Cash receipts journal did not indicate the dates revenues were received and also did not document customer names. Disbursement journal total indicated \$10,457, however, based on our recalculation, actual total is \$9,856, a difference of \$601. Minutes of meetings were poorly document as we noted that the only item documented was the roll call and nothing else which raises a question as to whether the council meeting actually took place.
3rd QTR	<ul style="list-style-type: none"> Supported by the same documents as provided in the 2nd quarter 2013.

Additionally, during our testing of expenditures, we noted that check no. 976 was issued on 5/5/2011 for \$500 and reported in the 2nd quarter FY2011 financial report; however, we noted that a copy of the check was filed in the 3rd quarter financial report FY2011 and a copy of the invoice was missing.

Cause: The cause of the above condition is due to lack of due diligence by WALGOV requiring that they provide financial reports of the previous quarter that are complete and accurate to show how much local revenues were received and the total funds expended each quarter. There is also lack of a thorough review by the Ministry of Internal Affairs Local Government Division requiring that financial reports be submitted providing a true and complete picture of all transactions undertaken by WALGOV. The Ministry of Finance also does not scrutinize the supporting documents requiring that funds disbursed be properly accounted for prior to acceptance of the financial reports and eventual payment of the LGF.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 8

Financial Reports, Continued

Effect: The effect of the above condition is that WALGOV did not comply with the financial reporting requirements and therefore lost funding for five quarters during FY 2010 to FY 2014 in the aggregate amount of \$20,374 from the LGF. There is also a possibility that cash collections and disbursements were misappropriated.

Recommendation: We recommend that WALGOV comply with the reporting requirements as established under the Local Government Financial Memoranda of 1987-1 in order to receive the full funding awarded each year. Additionally, we recommend that the Ministry of Internal Affairs and the Ministry of Finance perform a thorough review of the financial reports to ensure their accuracy and completeness to ensure that LGF funds previously disbursed were properly supported and accounted for.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees. All reports will be scrutinized before submission.

Response from Ministry of Finance: The Ministry of Finance agrees. MOF will work with IA to ensure Local Governments understand the reporting requirements and provided there reports periodically and on time, prior to any release of funds. MOF further recommends for a joint training for the Local Governments to ensure they understand the type of financial reporting required.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 9

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 worksheets as part of their record keeping.

Condition: WALGOV did not utilize any of these forms during the period from October 1, 2009 through September 30, 2014.

Cause: The cause of the above condition is the lack of adherence to these compliance requirements.

Effect: The effect of the above condition is that we could not determine the propriety of many of the expenditures as they were not supported by the forms as specified in the above condition; and noncompliance with the requirements of the Local Government Accounting System.

Recommendation: We recommend that WALGOV utilize the above forms as support for expenditures incurred and to comply with the requirements of the Local Government Accounting System. Additionally, we recommend that the Ministry of Internal Affairs' Local Government Office require that the Accounting System be used by WALGOV as stipulated under the Ministry's policy.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 10

Fixed Assets

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

Condition: WALGOV received a total of \$85,946 during the period from October 1, 2009 through September 30, 2014 from the ROC Fund (OIEDF) that was used to purchase two vehicles (pick-up), 1 Honda Engine 60Hp, 1 Aluminum boat 18ft and building materials; however, a fixed assets register was not maintained during this period.

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

Effect: The effect of the above condition is the lack of compliance with established policies and procedures and possibility for misappropriation and misuse of public assets.

Recommendation: We recommend the Ministry of Internal Affairs work with the 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 be allocated a unique identification number to indicate WALGOV ownership.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from the Ministry of Internal Affairs: The Ministry of Internal Affairs will take the recommendation. This will make much easier to keep track of all local governments fixed assets.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 11

Bank Reconciliation

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

Condition: WALGOV did not reconcile its bank account during the period from October 1, 2009 through September 30, 2014.

Cause: The cause of the above condition is the lack of policies and procedures requiring that bank reconciliations be performed on a monthly basis.

Effect: The effect of the above condition is the possibility that errors or frauds may not be detected in a timely manner.

Recommendation: We recommend that WALGOV require that bank reconciliations be performed on a monthly basis.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.12

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 by WALGOV 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 requiring that prior to acceptance of the financial reports that a business listing is provided as part of the financial report.

Effect: The effect of the above condition is that WALGOV was not in compliance with the requirements of the Local Government Tax and Fees Act of 1989.

Recommendation: We recommend that WALGOV comply with this requirement. Additionally, the Ministry of Internal Affairs Local Government Division should require that WALGOV comply with this reporting requirement.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees and will correct the oversight on its part.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.13

OIEDF (ROC Fund)

Criteria: The rules and procedures of the OIEDF, Section VII (E) require that a local government, at the end of the fiscal year, will report the money used in an annual financial report. The financial report must include receipts of all purchases under the OIEDF as well as communications to include management and operation of the projects.

Condition: For the period from October 1, 2009 through September 30, 2014, we noted that there were no annual financial reports filed on projects paid from the OIEDF fund totaling \$153,486.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs and Ministry of Finance to require that WALGOV comply with this reporting requirement.

Effect: The effect of the above condition is that WALGOV was not in compliance with reporting requirements as promulgated by the OIEDF rules and procedures.

Recommendation: We recommend that WALGOV adhere to compliance requirements as set forth in the OIEDF rules and procedures. Additionally, we recommend that the Ministry of Internal Affairs and the Ministry of Finance consider that funds for new projects be put on hold unless reporting requirements have been fulfilled for previous projects.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees. The Ministry will make sure that WALGOV adhere to compliance requirements set forth in the OIEDF rules and procedures.

Response from Ministry of Finance: The Ministry of Finance agrees with recommendation. Ministry of Finance will ensure that all necessary reporting requirements are adhere to before any release of OIEDF funds. Ministry of Finance will also strengthen collaboration with Internal Affairs to ensure that these reports are provided as required.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No.14

Segregation of Duties

Criteria: Segregation of duties is an internal control concept in which individuals do not have responsibility for all accounting transactions. The recordkeeping or authorization function should be separated from the physical custody of the asset to guard against misuse.

Condition: The Clerk has custody of the checks and is an authorized signatory on the checks. The Clerk also prepares the financial reports to the Ministry of Internal Affairs.

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

Effect: The effect of the above condition is the susceptibility for misuse of public funds.

Recommendation: We recommend that the Council establish internal control rules and regulations requiring that there be segregation of duties at WALGOV.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 15

Council Meetings and Minutes

Criteria: Section 10 of WALGOV's Constitution requires that the Council meet once every three months. In addition, Council meeting minutes should document adequately the proceedings of the Council, such as important decisions that were approved and who was responsible for carrying them out.

Condition: For the period from October 1, 2009 through September 30, 2014, we noted that the Council did not carry out four meetings annually, as required. Specifically, as we noted three meetings were held in FY 2010 and FY 2011, and one meeting was held in FY 2012, 2013, and 2014. We also noted that minutes were poorly documented. For instance, we noted that many of the minutes only contained the agenda and roll call and did not contain records of decisions made by the Council. Furthermore, the minutes of April 27, 2010 stated that there were three communications discussed that were attached; however, we did not note any attachment.

Cause: The cause of the above condition is the lack of adherence to WALGOV's Constitution.

Effect: The effect of the above condition is that WALGOV was not in compliance with its Constitution. Additionally, important decisions of the Council were not documented properly, leaving no record of what was approved and when it was approved.

Recommendation: We recommend that WALGOV comply with the provisions of their Constitution requiring the Council to meet once every three months. Additionally, the Council should document clearly the issues that were discussed and the decisions that were approved for future reference.

Auditee Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 16

Salary Advance

Criteria: Salaries should only be paid when due.

Condition: During our testing of cash disbursements, we noted that the Clerk was approved a total of \$800 for salaries based on annual appropriations approved by the Council. In FY2011 and FY2012, the Clerk was paid a total of \$1,000 and \$1,100, respectively, resulting in overpayments of \$200, and \$300, respectively. There are no records to indicate whether these advances were paid back to WALGOV.

Cause: The cause of the above condition is due to approval to advance salary to the Clerk by the Administration.

Effect: The effect of the above condition is that WALGOV appeared to have overpaid the Clerk a total of \$500.

Recommendation: We recommend that the Council and Executive members require employee salaries be paid when due. Additionally, we recommend that WALGOV collect these overpayments from the Clerk.

Auditee's Response: WALGOV did not provide a response to our finding and recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2009 through September 30, 2014

Finding No. 17

Cancelled Checks

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that cancelled checks be maintained on file to support checks issued.

Condition: WALGOV did not file cancelled checks at the Ministry of Internal Affairs or the Ministry of Finance for the period from October 1, 2009 through September 30, 2014.

Cause: The cause of the above condition is the lack of adherence with the Local Government Financial Memoranda No. 1987-1.

Effect: The effect of the above condition is noncompliance with Local Government Financial Memoranda No. 1987-1. Additionally, in the absence of the bank cancelled checks, we were unable to determine whether payees actually acknowledge receipt of their payments by endorsed paid checks, or whether checks issued were signed by appropriate and authorized signatories.

Recommendation: We recommend that WALGOV comply with the Local Government Financial Memoranda No. 1987-1. We also recommend that the Ministry of Internal Affairs review all reports and require that all compliance requirements be filed and maintained for future reference.

Auditee Response:

Response from the Ministry of Internal Affairs: The Ministry of Internal Affairs agrees and takes the recommendation.

WOTJE ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings
Period from October 1, 2009 through September 30, 2014

There no unresolved audit findings from prior year audits of Wotje Atoll Local Government.

**Prevent Fraud, Waste and Abuse in the collection and
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