

**REPUBLIC OF THE MARSHALL ISLANDS**  
**OFFICE OF THE AUDITOR-GENERAL**

**AUR ATOLL LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**PERIOD FROM OCTOBER 01, 2010 THROUGH SEPTEMBER 30, 2013**



**AUDIT No.:** OAG 17/13-9999

January 11, 2017  
Date

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

**AUR ATOLL LOCAL GOVERNMENT**

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**PERIOD FROM OCTOBER 1, 2010 THROUGH SEPTEMBER 30, 2013**

# AUR ATOLL LOCAL GOVERNMENT

Period from October 1, 2010 through September 30, 2013

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**OFFICE OF THE AUDITOR-GENERAL**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Clanson Peter  
Mayor  
Aur Atoll Local Government  
Republic of the Marshall Islands

**Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of Aur Atoll Local Government (AALGOV), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2010 through September 30, 2013, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 2 to these financial statements; 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 AALGOV, we are unable to form an opinion regarding the amounts recorded as cash receipts and cash disbursements in the accompanying financial statements (stated at \$232,054 and \$226,946, 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 2 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***

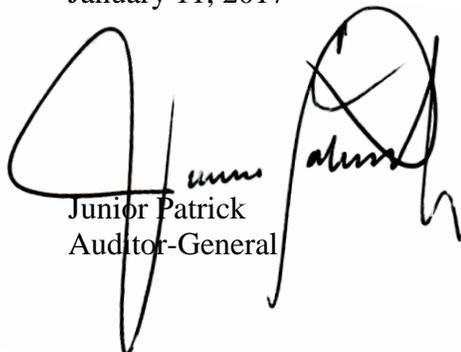
#### ***Other Information***

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 of 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 January 11, 2017 our consideration of AALGOV'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 AALGOV's internal control over financial reporting and compliance.

January 11, 2017



Junior Patrick  
Auditor-General

# AUR ATOLL LOCAL GOVERNMENT

## Schedule of Cash Receipts and Disbursements Period from October 1, 2010 through September 30, 2013

|   | <u>Total</u>        |
|---|---------------------|
| Cash receipts:                              |                     |
| Grant from Japan                            | \$ 106,000          |
| RepMar Contribution                         |                     |
| ROC Fund(OIEDF)                             | 44,815              |
| Local Government Fund(LGF)                  | 42,741              |
| Grant-In-Aid                                | 4,500               |
| Other revenue                               | 941                 |
| Undeposited revenue                         | 1,522               |
| Unreported/unidentified deposits            | <u>31,535</u>       |
| <br>Total cash receipts                     | <br><u>232,054</u>  |
| <br>Disbursements:                          |                     |
| Grant from Japan                            | 106,000             |
| ROC Fund (OIEDF)                            | 44,815              |
| Salary and Wages                            | 44,510              |
| Equipment                                   | 8,230               |
| Grant-in-aid                                | 4,500               |
| Transportation                              | 2,531               |
| Travel                                      | 500                 |
| Other                                       | 7,274               |
| Unreported/unidentified cash disbursements  | 8,586               |
| <br>Total cash disbursements                | <br><u>226,946</u>  |
| <br>Excess of cash over/under disbursements | <br><u>\$ 5,108</u> |

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

## AUR ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements  
Period from October 1, 2010 through September 30, 2013

### (1) Organization

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

### (2) 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.

AALGOV is not required to adopt fund basis accounting for local government in conformity with standards promulgated by Governmental Accounting Standards Boards (GASB). However, AALGOV 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, 2013, the carrying amount of AALGOV's total cash was \$121.40, which corresponds to the bank balance, which is maintained at a local financial institution which is not subject to Federal Deposit Insurance Coverage (FDIC). AALGOV does not require collateralization of its cash deposits in excess of FDIC depository limits.

### (4) Budget Process

The Constitution of AALGOV 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

AALGOV receives annual grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$17,052 from the Local Government Fund (LGF), which is distributed on a quarterly basis. This quarterly allotment is contingent upon AALGOV providing financial reports and supporting documents. For the periods under audit, AALGOV received from the LGF a total of \$42,741. AALGOV also receives annual appropriation grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$44,815 under the Outer Islands Economic Development Fund (OIEDF) administered by Ministry of Finance. The disbursement of this grant fund is contingent upon AALGOV providing proposal application and approved council resolution. Finally, AALGOV 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 also administered by Ministry of Finance. The disbursement of this grant fund is contingent upon AALGOV providing

## **AUR ATOLL LOCAL GOVERNMENT**

Notes to Schedule of Cash Receipts and Disbursements  
Period from October 1, 2010 through September 30, 2013

### (5) RepMar Contributions, (Continued)

community proposal and an approved resolution from Council. For the period from October 1, 2010 through September 30, 2013, AALGOV received a total of \$4,500 under this grant.

### (6) Other Contributions

On March 31, 2011 AALGOV received funding from the Embassy of Japan totaling \$106,000 for construction of Aur Community Center.

## AUR ATOLL LOCAL GOVERNMENT

### Combining Schedule of Cash Receipts and Disbursements Period from October 1, 2010 through September 30, 2013

|  | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>Total</u> |
|--|-------------|-------------|-------------|--------------|
| Cash receipts:                             |             |             |             |              |
| Grant from Japan                           | \$ 106,000  | \$ -        | \$ -        | \$ 106,000   |
| RepMar Contribution                        |             |             |             |              |
| ROC Fund(OIEDF)                            | -           | 7,585       | 37,230      | 44,815       |
| Local Government Fund(LGF)                 | 15,542      | 15,542      | 11,657      | 42,741       |
| Grant-In-Aid                               | -           | 3,000       | 1,500       | 4,500        |
| Other revenue                              | -           | 650         | 291         | 941          |
| Undeposited revenue                        | 69          | 750         | 703         | 1,522        |
| Unreported/unidentified deposits           | 22,672      | 2,522       | 6,342       | 31,535       |
|  |             |             |             |              |
| Total cash receipts                        | 144,282     | 30,049      | 57,723      | 232,054      |
| Cash Disbursements:                        |             |             |             |              |
| Grant from Japan                           | 106,000     | -           | -           | 106,000      |
| OIEDF (ROC Fund)                           | -           | 7,585       | 37,230      | 44,815       |
| Salary and Wages                           | 17,775      | 14,279      | 12,455      | 44,510       |
| Equipment                                  | 7,124       | -           | 1,106       | 8,230        |
| Grant-in-aid                               | -           | 3,000       | 1,500       | 4,500        |
| Transportation                             | 1,091       | 1,187       | 253         | 2,531        |
| Travel                                     | -           | 500         | -           | 500          |
| Other                                      | 3,872       | 3,402       | -           | 7,274        |
| Unreported/unidentified cash disbursements | 3,957       | (3,319)     | 7,948       | 8,586        |
|  |             |             |             |              |
| Total cash disbursements                   | 139,819     | 26,635      | 60,493      | 226,946      |
|  |             |             |             |              |
| Excess of cash over/under disbursements    | \$ 4,463    | \$ 3,415    | \$ (2,770)  | \$ 5,108     |
|  |             |             |             |              |

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE ENGAGEMENT TO AUDIT FINANCIAL STATEMENT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARD**

Honorable Clanson Peter  
Mayor  
Aur 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 standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of Aur Atoll Local Government (AALGOV), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2010 through September 30, 2013, and related notes to the financial statement. We have issued our report dated January 11, 2017, 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, we considered AALGOV'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 AALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AALGOV'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 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 (pages 9 through 29), we identified certain deficiencies in internal control over financial reporting 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. 7, and Finding No. 11 to be material weaknesses.

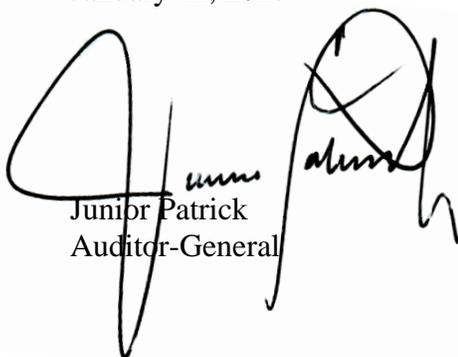
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of Findings and Responses as Finding No. 6, Finding No. 12, and Finding No. 16 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether AALGOV'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.4, Finding No. 5, Finding No. 8, Finding No. 9, Finding No. 10, Finding No. 13, Finding No. 14, and Finding No. 15.

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.

January 11, 2017



Junior Patrick  
Auditor-General

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 1

#### Possible Misappropriation of Grant Fund

Criteria: Relevant sections in the Grant Contract between the Embassy of Japan and the AALGOV indicates the followings:

Section C: recipient will use the grant properly and exclusively for the purchase of the products and/or services necessary for the execution of the Project and not to use such products and/or services purchased with the grant for purposes other than the execution of the Project.

Section D: AALGOV will provide interim progress reports on a monthly basis, and a project completion report. The report should include a clear accounting report of the allocation and disbursement of the grant.

Section E: requires the project to be completed within one year after contract date.

Section G: requires AALGOV to keep accounting documents that verify how the grant was spent for at least one year after the completion of the Project.

Section J: indicates that the receiver recognizes that the donor reserves the right to claim a refund of the grant in case grant was not used according to its purpose.

Additionally, the Grant-in-Aid Policy requires that a community project must benefit at least 10 to 20 people in the immediate community.

Condition: Grant funds received from Japan Grassroot grant, and RepMar OIEDF and Grant-in-Aid funds for certain projects appeared to have been misappropriated based on the following:

1. Grant funds totaling \$106,000 received from the Japan Grass Root grant for a community center appeared to have not been fully used for construction of the project and therefore additional funds from OIEDF were required to complete the project:
  - a. In March 2011, AALGOV received the above funds and deposited them into their account at Bank of Guam. The funds were withdrawn five months (during April 2011 to August 2011) after receipt, however, the project was not completed within one year as specified in the grant agreement. Our discussion with the grantor in September 2014 revealed that the project was not complete when they inquired with the local government. We have knowledge that the project was completed sometime in September 2015, about five years later. Additionally, supporting invoices for purchase of materials were also not made available for examination.
  - b. During September 2011, the Council met and approved Resolution No. 11-07 to request additional funding of \$3,000 from the ROC OIEDF grant to complete the community hall.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 1, (Continued) Possible Misappropriation of Grant Funds

- c. We also noted check no. 105573 for \$5,280 issued out of the Ministry of Finance (MOF) to Aur Atoll Local Government for trainer/trainee for the terminal building project as well as the community center; it is not clear the amounts going to each of these projects based on documentation examined.
  - d. We traveled to the atoll in February 2016 and physically sighted the community center however, without a blue print or the supporting documentation for materials purchased, we were unable to determine if the size of the building equates to the value of the grant of \$106,000.
2. Grant-in-aid funds also appeared to have been misappropriated based on our examination of RepMar check no. 101913 issued on October 22, 2012 for a seawall project totaling \$1,500 for the Tobal Youth. We went to the atoll to sight the project and we could not find it anywhere. We inquired with the current Mayor and he indicated that he has no knowledge of the seawall. We came back to Majuro and started interviewing Ministry of Internal Affairs (MOIA) staff who appeared to have initiated the proposal and application. Based on our interviews, one of the employees of MOIA indicated to us that the seawall belonged to her and it was built in Delap, Majuro and not on Tobal Aur. We went to sight the seawall noting that it has been broken down by tidal waves, as such, we cannot determine if the 375 8" blocks purchased with the funds indicated above were actually used to build the seawall or another project.
  3. We also examined check no. 100605 issued from RepMar on September 17, 2012 for an outboard engine costing \$3,000. During our site visit, we could not locate the item on the atoll. We were informed that the engine was brought to Majuro for repair, however, its where about is unknown.

Cause: The causes of the above conditions are the lack of adherence to grant agreement and lack of proper review and scrutiny of grant-in-aid applications and proposals by responsible staff at the Ministry of Internal Affairs.

Effect: The effect of the above conditions is the possible misappropriation of grant funds. It appeared that funds from the OIEDF and Grant-in-aid were used to complete the Aur Community Center which was fully funded by the Government of Japan as indicated above. Additionally, the AALGOV may be held liable to refund the Embassy of Japan the full cost of the project and may not be eligible for future grants or contributions from the Embassy of Japan. Furthermore, AALGOV awarded Grant-in-Aid funds to a project and a boat engine that did not benefit the community.

### Recommendation:

- 1) In the future, AALGOV and the Ministry of Internal Affairs should ensure grant funds are used in accordance with their intended purposes to benefit the residents of the community. Other funds of AALGOV should not be used to fund projects that were fully funded.

## **AUR ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 1, (Continued)

#### Possible Misappropriation of Grant Funds

- 2) The Ministry of Internal Affairs should properly review and scrutinize grant-in-aid applications and proposals to ensure only applicants and projects that meet the grant requirements are approved. Additionally, the Ministry of Internal Affairs should look into the matter regarding the seawall project as it appears that three (3) of its staff were involved in the release of funds to pay for this project knowing that it was not appropriate based on grant requirements.

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

Response from the Ministry of Internal Affairs: See Appendix A.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 2

#### Unsupported Disbursements

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.

Condition: During our examination of the quarterly financial reports for the periods under audit, we noted that disbursements for council operating expenses were not supported by invoices or receipts as indicated below:

| Periods      | Transportation | Travel     | Equipment    | Others       | Total           |
|--------------|----------------|------------|--------------|--------------|-----------------|
| FY 2011      | 1,091          | 0          | 7,124        | 3,872        | \$12,087        |
| FY 2012      | 1,187          | 500        |              | 3,402        | 5,087           |
| FY 2013      | 127            | 0          | 553          | 0            | 680             |
| <b>TOTAL</b> | <b>2,402</b>   | <b>500</b> | <b>7,677</b> | <b>7,274</b> | <b>\$17,856</b> |

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1. Additionally, there is a lack of proper review of the financial reports by the Ministry of Internal Affairs and the Ministry of Finance.

Effect: The effect of the above condition is that AALGOV did not comply with the Local Government Financial Memoranda No. 1987-1 and possible questioned cost in the amount of \$17,856.

#### Recommendation:

- 1) We recommend that AALGOV ensure all disbursements are supported by invoices or receipts and that these supporting documents are maintained on file for future reference and audit purposes.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance review the quarterly reports to ensure they are supported by proper documentation. Anything with no supporting document should be returned and Ministry of Finance to decide the best way to resolve unsupported items. One solution could be to pay only items that have the proper support.

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

Response from Ministry of Internal Affairs: See Appendix A.

Response from the Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Period from October 1, 2010 through September 30, 2013

#### Finding No. 3

##### Revenues/Cash Receipts

Criteria: A proper system of internal control requires that collection of revenues be supported by cash receipts and be deposited intact 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: The following exceptions were noted:

1. Rental fees collected from renting a vehicle on Majuro were not issued with cash receipts and were not deposited in the Council's bank account. It was indicated that the monies collected from the rental fees were used to cover maintenance cost of the vehicle.
2. It was also noted that AALGOV reported a total of \$2,462 in local revenues in their quarterly financial reports, however, these revenues were also not supported by cash receipts. We have been unable to determine whether these revenues were used in the daily operation of AALGOV due to lack of proper accounting records.

In addition, taxes withheld from employee salaries for head taxes and other unidentified taxes were also not issued with cash receipts and were not included as revenue item in AALGOV's budget ordinance. The table below indicates total amounts withheld from employees and not accounted for and not reported to the Ministry of Internal Affairs.

| Periods | 1st Quarter   | 2nd Quarter   | 3rd Quarter   | 4th Quarter   | Totals          |
|---------|---------------|---------------|---------------|---------------|-----------------|
| FY 2011 | 482.20        | 174.55        | 207.60        | 167.30        | <b>1,031.65</b> |
| FY 2012 | 240.79        | 144.60        | 173.60        | 532.34        | <b>1,091.33</b> |
| FY2013  | 150.00        | 102.54        | 102.54        | 0.00          | <b>355.08</b>   |
| Total   | <b>872.99</b> | <b>421.69</b> | <b>483.74</b> | <b>699.64</b> | <b>2,478.06</b> |

Cause: The cause of the above condition is the lack of adherence to the established accounting system for local governments and lack of proper review of the financial reports by the Ministry of Internal Affairs to ensure all revenues are properly accounted for, cash receipts are issued for all fees collected and that these fees are deposited intact in a timely manner and reported to the Ministry of Internal Affairs in the quarterly financial reports.

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.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 3, (Continued)

#### Revenues/Cash Receipts

#### Recommendation:

- 1) We recommend that AALGOV issue official cash receipts to customers when collecting local revenues on the island as a measure for transparency and accountability. These collections should be accounted for through a cash receipts journal and deposited in a timely manner.
- 2) We recommend that the collections from the vehicle rental on Majuro and head taxes withheld from employees be accounted for and deposited into AALGOV's bank accounts and included in the quarterly financial reports.
- 3) We recommend that the Ministry of Internal Affairs and the Ministry of Finance properly review the financial reports to ensure all supporting documents are provided to support amounts reported.

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

Response from Ministry of Internal Affairs: See Appendix A.

Response from Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 4

#### 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. Included in the accounting system are forms developed to be used such as cash receipts and cash disbursements journals, personnel action, collection cards, purchase order, budget control worksheet, and several others for proper record keeping. Furthermore, Section 30(1) of AALGOV 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.

Condition: During the periods under audit, AALGOV did not adopt the accounting system established by the Ministry of Internal Affairs. The prescribed accounting forms described in the above criteria were not utilized.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs and the Ministry of Finance requiring AALGOV to completely adopt the accounting system established for all local governments.

Effect: The effect of the above condition is that AALGOV 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 resulting in a disclaimer of opinion on the financial statements.
- Financial transactions not recorded properly into a general ledger.
- We are unable to verify how much local revenues may have been misappropriated.
- We were unable to verify that transactions were properly authorized and paid as a result of lack of utilization of accounting forms.

#### Recommendation:

- 1) We recommend that AALGOV utilize the accounting system established by the Ministry of Internal Affairs in order to comply with the Financial Memoranda No. 1987-1.
- 2) We further recommend that the Ministry of Internal Affairs and the Ministry of Finance require that AALGOV fully adopt the accounting system.

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

Response from Ministry of Internal Affairs: See Appendix A.

Response from Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 5

#### Financial Reports

Criteria: Financial Reports should be accurate and supported by proper documents. Additionally, the Financial Memoranda No. 1987-1 Section I (B) requires that the financial reports must be filed by no later than 15th of January, April, July and October each year.

Condition: Based on our examination of AALGOV's financial reports, the following discrepancies were noted:

1. All financial reports were not signed by the Ministry of Internal Affairs to certify that all reporting requirements have been complied with and to indicate date of filing.
2. No bank statements and cancelled checks were provided with the financial reports.
3. The financial report for 1<sup>st</sup> quarter FY2011 reported check nos. 01 to 036 and we noted that these same checks were reported again in the 2<sup>nd</sup> quarter FY2011.
4. Financial reports for FY2011 2<sup>nd</sup> quarter, and FY2012 2<sup>nd</sup> QTR were not provided, only copies of cash disbursement journal and the supporting check copies were available.
5. The 3<sup>rd</sup> quarter FY2011 financial report and supporting documents were resubmitted in the 4<sup>th</sup> quarter FY2011 report.
6. Our review of the 3<sup>rd</sup> QTR FY2012 financial report indicated that two financial reports were filed with different numbers reported and reports were not signed and dated by the Mayor and the Clerk of AALGOV.
7. The 4<sup>th</sup> quarter report and all supporting documents are barely legible. We cannot make out information such as the payee and amount on seven of the check vouchers.
8. The 3<sup>rd</sup> quarter cash disbursement journal for FY2013 2<sup>nd</sup> quarter financial report is the same one that was submitted in the previous quarter.
9. The 4<sup>th</sup> quarter 2013 report does not appear to have been properly filled out as expenditures were left blank, and payroll register was not available on file, although, payroll check vouchers were provided.

Cause: The cause of the above condition is the lack of review and oversight by the Ministry of Internal Affairs and the Ministry of Finance and lack of consistency in using the Checklist that is required to be completed by the Officials of the Local Government Division when receiving the quarterly financial reports from a local government. The form provides for official acknowledgements 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.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 5 (Continued)

#### Financial Reports

Effect: The effect of the above condition is that AALGOV was not in compliance with the financial established reporting requirements. Due to lack of review on the part of the Ministry of Internal Affairs and the Ministry of Finance, AALGOV keeps providing financial reports that are inaccurate, not properly supported and filed reports that were submitted in previous quarters. Additionally, we are unable to perform test procedures to compare budgeted amounts to actual expenditures due to missing financial reports as stated above.

#### Recommendation:

- 1) We recommend that AALGOV adheres to reporting requirements as dictated in the Financial Memoranda No. 1987-1.
- 2) We recommend that the Ministry of Internal affairs address these compliance issues with AALGOV on a regular basis to resolve them. Officials of the Local Government Division should complete the required Checklist form every time the quarterly financial reports are received from the local government to indicate review and certification.
- 3) We recommend that the Ministry of Finance should thoroughly review these reports to ensure proper supporting documentation are provided prior to making payment.

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

Response from Ministry of Internal Affairs: See Appendix A.

Response from Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 6

#### Bank Reconciliation

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

Condition: AALGOV did not reconcile its bank account for the entire periods under review.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs and the Ministry of Finance requiring that bank reconciliations be performed on regular basis.

Effect: The effect of the above condition is that AALGOV may not be able to detect fraud in a timely manner if they do not perform bank reconciliations timely and accurately.

#### Recommendation:

- 1) We recommend that AALGOV reconcile its bank account on a regular basis.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance should require AALGOV to perform bank reconciliation on a regular basis and require the monthly bank reconciliation to be provided with the financial reports.

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

Response from Ministry of Internal Affairs: See Appendix A.

Response from Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 7

#### 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, AALGOV 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: AALGOV purchased several fixed assets during the periods under audit from the OIEDF fund, Grant-in-aid, and Japan Grass Root grant totaling \$135,003, such as a diesel truck, call center, an outboard motor and a city hall, however, a fixed asset register was not maintained for these items.

Cause: The cause of the above condition is lack of adherence to established policies and procedures to ensure 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 that may not be detected and corrected in a timely manner.

#### Recommendation:

- 1) We recommend AALGOV ensure all fixed assets acquired are recorded in a fixed assets register and that these assets are tagged and allocated a unique identification number to indicate AALGOV ownership.
- 2) We recommend the Ministry of Internal Affairs to work with AALGOV to ensure a fixed assets register is maintained for all assets purchased.

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

Response from the Ministry of Internal Affairs: See Appendix A.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 8

#### Business Listing

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 by AALGOV.

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 AALGOV was not in compliance with the reporting requirements of the Local Government Tax and Fees Act.

Recommendation: We recommend that AALGOV comply with Section 203 of the Local Government Tax and Fees Act of 1989.

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

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 9

#### Outer Islands Economic Development Fund (OIEDF)

Criteria: The OIEDF Policy Section VI states the eligibility requirements of the fund as follows:

- All projects must be self-sustaining and established solely for the cumulative benefit of the community.
- All proposals must be clear and specific in their intentions to use the OIEDF for community development purposes.
- Proposals must contain a plan, who will benefit, who will manage the project, a blue print or picture.
- Proposals must be approved by Council resolution or ordinance.
- The Mayor and Senators of each Atoll must approve the proposal.
- A land lease agreement must be secured with a term not less than 50 years.

Section III of the ROC Fund (OIEDF) policy stated that under the Constitution, Appropriation Act, and the Local Government Act, 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 the Local Governments.

Condition: The following disbursements from the Ministry of Finance related to the OIEDF Fund were noted:

- Check no. 96338 dated 4/11/2012 for \$6,053 relates to payment for building materials to extend the Aur Airport terminal, which did not have a land lease agreement and blue print on file.
- Check no. 107125 dated 5/10/2013 for \$12,000 relates to payment for a Call Center which was not supported by a Council resolution or ordinance.
- Check no. 107730 dated 6/12/2013 for \$19,950 relates to payment for a diesel truck for use on Majuro Atoll and not on Aur Atoll. Although the proposal for the truck was signed by both the Mayor and Senator, no resolution or ordinance was noted on file to indicate approval by the Council.

Cause: The cause of the above condition is the lack of adherence to the OIEDF policy. Additionally, there appears to be override of the AALGOV Council as noted in the above condition.

Effect: The effect of the above condition is non-compliance with the OIEDF Policy.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 9 (Continued)

#### Outer Islands Economic Development Fund (OIEDF Policy)

#### Recommendation:

- 1) We recommend that AALGOV comply with requirements of the OIEDF Policy.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance ensure that all purchases involving development funds are disbursed according to their intend and purposes to develop the standard of living in the outer islands.

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

Response from the Ministry of Internal Affairs: See Appendix A.

Response from the Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 10

#### Procurement Code

Criteria: ROC Fund (OIEDF) Policy Section IV subsection B states that all purchasing and procurement of goods and services shall follow the Procurement Code and relevant policies. Additionally, all Local Governments receiving funds from the RMI Government are required to adhere to the Procurement Code. The Ministry of Finance has established that at least 3 price quotes are required to be obtained and the vendor who provided the lowest price will be selected.

Condition: The following conditions were noted:

1. Check No. 100605 was issued out of the Ministry of Finance for purchase of an outboard motor costing \$3,000. Based on our examination of the price quotes, the highest price quote was chosen when there was a vendor who coded a lower price of \$2,450.
2. We also noted \$7,677 reported under equipment for wheel barrows, and lawn mowers purchased with AALGOV's general fund, however, such also did not adhere to the Procurement Code.
3. Check No. 105573 issued out of the Ministry of Finance for \$5,280 under the ROC Fund (OIEDF) was for cost of trainer working on the airport terminal on Aur. We did not note price quotes obtained for this service.

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

Effect: The effect of the above condition is non-compliance with the Procurement Code. Additionally, the RepMar government could have saved \$550 if the lower price quote had been chosen as noted above in condition 1 above.

#### Recommendation:

- 1) We recommend that AALGOV comply with the Procurement Code in order to for RepMar to get the best value for its money.
- 2) We recommend the Ministry of Internal Affairs and the Ministry of Finance to ensure that local governments comply with the Procurement Code prior to approval and disbursement of funds.

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

Response from Ministry of Internal Affairs: See Appendix A.

Response from Ministry of Finance: See Appendix B.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 11

#### 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 assets to guard against misuse.

Condition: The Mayor has custody of the checks and he is also a signatory on the account. His signature is the only one that appeared on all of the checks that we noted on file. We were informed during our interview with the Mayor that he and the Clerk writes checks.

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

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

Recommendation: We recommend that AALGOV ensure that there is segregation of duties in their operations.

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

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 12

#### Checks Not Issued In Sequential Order

Criteria: Proper internal control over cash disbursement require checks be issued in a sequential manner.

Condition: Our examination of checks issued during the periods under audit disclosed that checks were not issued in a sequential order and that not all checks were pre-numbered, many of them are counter checks with duplicate numbers.

Cause: The cause of the above condition is the lack of internal control procedures requiring that checks be issued in a sequential order.

Effect: The effect of the above condition is possibility for issuance of unauthorized disbursements.

Recommendation: We recommend that AALGOV establish policies and procedures requiring the issuing of checks in a sequential order.

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

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 13

#### Grant-in-Aid (GIA)

Criteria: Requirement for eligibility of the Grant-in-Aid as described in Section V as follows:

- A community project must benefit at least 10 to 20 people in the immediate community.
- All applications must be complete 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, who will benefit from the project, plans for implementation, and if appropriate, completion date and who will maintain the facility or equipment.
- Local Governments applying for Grant-in-Aid are required to pass a resolution summarizing the purpose of the project.
- Community groups applying for Grant-in-Aid are also required to receive council recognition.
- Prior to initiation of any project to be financed through Grant-in-Aid, the community will show land use right for the estimated life of the project.
- And the community applying must acknowledge responsibility for projects.

Condition: The following exceptions were noted during our examination of projects funded under the grant-in-aid fund:

- The application form for the seawall project was not stamped by the Ministry of Internal Affairs to indicate when it was filed.
- We did not note a land use right agreement on file for the seawall project. Other non-compliance issues related to this item are reported in finding no. 1.
- The grant-in-aid application to purchase an outboard engine costing \$3,000 was filed at the Ministry of Internal Affairs on 7/8/2012, about a week after the deadline.

Cause: The cause of the above condition is lack of adherence with the Grant-in-Aid policy.

Effect: The effect of the above condition is non-compliance with requirements of the Grant-in-Aid policy.

Recommendation: We recommend that in the future, AALGOV and Ministry of Internal Affairs should comply with the requirements of the Grant-in-Aid policy.

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

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

### Finding No. 14

#### Council Meeting Minutes

Criteria: The Constitution of AALGOV requires that Council meet at least once in two months. Meeting minutes should represent minutes of meetings that actually took place during each quarter. Additionally, resolutions and ordinances approved during these meetings should be attached to the minutes when filed at the Ministry of Internal Affairs.

Condition: During our examination of Council minutes, we noted that minutes of meeting of March 11, 2011 provided in the 2<sup>nd</sup> quarter FY2011 financial report were provided again in the 3<sup>rd</sup> quarter FY2011. The minutes of meetings of February 5, 2013 were provided in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter financial reports for FY2013.

We also noted various instances where council approves resolutions and ordinances, however, these documents were not attached to the minutes and filed at the Ministry of Internal Affairs and the Ministry of Finance.

Cause: The cause of the above condition is that AALGOV does not meet on a quarterly basis as required and had to provide minutes of the previous quarter to fulfill reporting requirements.

Effect: The effect of the above condition is due to the Council not holding meetings as required.

Recommendation: We recommend that the Council meet on a regular basis as required by the AALGOV Constitution. Additionally, we recommend that minutes filed with financial reports represent meetings of the Council that took place during the quarter being reported and that resolutions and ordinances approved during these meetings should also be attached to the minutes.

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

## AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2010 through September 30, 2013

### Finding No. 15

#### Local Noncompliance – Income Taxes, Health Fund and Social Security Taxes

Criteria: The Income Tax Act of 1989 states that income tax shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employee. Every employer required to deduct and withhold the tax imposed shall be liable for the payment and shall pay such tax to the Secretary of Finance.

The Social Security Tax Act of 1990, states that a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. The worker's contributions to the Fund shall be collected by the employer of the worker, by deducting the amount of the contributions due from the worker's earnings, and the employer shall remit the same to the Administration along with the employer's contributions. Every employer who is required to deduct the worker's contributions is liable for their payment to the Administration and shall be indemnified by the Administration against any claim or demand by any worker for the amount of such payment.

The Marshall Health Fund Act of 2002 requires every employer to pay 3.5% of their covered earnings to the Health Fund. It also requires that every employer shall remit the same to the Administration along with the employer's contributions.

Condition: For the periods under audit, AALGOV paid a total of \$40,540 in salaries and wages, however, no taxes were withheld for Income Taxes, Social Security Taxes and Health Fund Taxes.

Cause: The cause of the above condition is the lack of adherence with the Income Tax Act, the Social Security Tax Act and the Health Fund Tax Act.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002.

Recommendation: We recommend that in future, AALGOV comply with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002.

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

## AUR ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Period from October 1, 2010 through September 30, 2013

#### Finding No. 16

#### Revenues and Expenditures Under Reported

Criteria: All revenues and expenditures should be properly accounted for and adequately supported.

Condition: Based on our comparative and analytical review of the amounts reported in the quarterly financial reports for deposits and disbursements and amounts per the bank statements, we have noted that revenues and expenditures were under reported, except for expenditures reported in FY2012 were over reported as indicated below.

#### Receipts:

| Periods | Quarterly Reports | Bank Statements | Variance    |
|---------|-------------------|-----------------|-------------|
| FY 2011 | \$15,611          | \$144,282       | \$(128,671) |
| FY 2012 | 16,942            | 19,464          | (2,522)     |
| FY 2013 | 12,650            | 18,992          | (6,342)     |

#### Disbursements:

| Periods | Quarterly Reports | Bank Statements | Variance    |
|---------|-------------------|-----------------|-------------|
| FY 2011 | \$29,862          | \$139,819       | \$(109,957) |
| FY 2012 | 19,368            | 16,049          | 3,319       |
| FY 2013 | 9,165             | 21,763          | (12,598)    |

Based on our review and examination, we have also noted several payments totaling \$13,326 that were cleared by the bank, however, they were not reported in the quarterly financial statements.

Cause: The cause of the above is the lack of proper review and scrutiny of the quarterly financial reports when received by Ministry of Internal Affairs to ensure reports are accurate and that the required documents to support the reports are provided.

Effect: The effect of the above is the possibility of misstatement of the financial records for AALGOV.

#### Recommendation:

- 1) We recommend that AALGOV ensure all revenues and expenditures are properly reported in the quarterly financial reports.
- 2) We recommend that Ministry of Internal Affairs properly review the quarterly financial reports to ensure revenues and expenditures are properly accounted for.

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

**AUR ATOLL LOCAL GOVERNMENT**

Unresolved Prior Year Findings  
Period from October 1, 2010 through September 30, 2013

There are no unresolved findings as this is a first audit of AALGOV.

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