

EBON ATOLL MUNICIPAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**PERIOD FROM OCTOBER 1, 2007
THROUGH SEPTEMBER 30, 2011**

EBON ATOLL MUNICIPAL GOVERNMENT

Period from October 1, 2007 through September 30, 2011

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INDEPENDENT AUDITORS' REPORT

Honorable Ione Debrum
Mayor
Ebon Atoll Municipal Government
Republic of the Marshall Islands

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

Because of inadequacies in EAMG's accounting records, we were unable to form an opinion regarding the amounts recorded as cash receipts and disbursements in the accompanying financial statement (stated at \$187,622 and \$107,341, respectively).

As described in Note 2, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

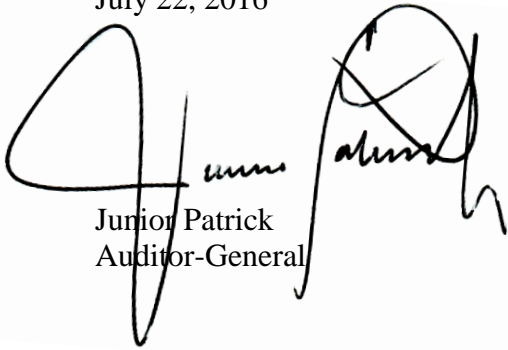
Because of the significance of the matter discussed in the second paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 22, 2016, on our consideration of EAMG'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 the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an engagement to audit financial statements in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement to audit.

The Other Supplementary Information, on page 6, is presented for the purpose of additional analysis and is not a required part of the basic financial statement of EAMG. This supplementary information is the responsibility of the management of EAMG. The additional information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Because of the significance of the matter discussed in the second

paragraph above, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the supplementary information in relation to the basic financial statement taken as a whole.

July 22, 2016



Junior Patrick
Auditor-General

EBON ATOLL MUNICIPAL GOVERNMENT

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

(1) Organization

Ebon Atoll Municipal Government (EAMG) 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 EAMG. EAMG is governed by an elect mayor, and 81 Council members.

(2) Basis of Accounting

The schedule of cash receipts and disbursements has been prepared on the cash basis of accounting. Receipts have been recognized when received in cash and disbursements have been recognized when cash is disbursed. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

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

(3) Cash

As of September 30, 2011, the carrying amount of EAMG's total cash was \$81, which corresponds to the bank balance, and which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. EAMG does not require collateralization of its cash deposit in excess of FDIC deposit limits.

(4) Budget Process

The Constitution of EAMG 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

EAMG receives annual grant funding from the Government of the Republic of the Marshall Islands (RepMar) of \$17,053 from the Local Government Fund, which is distributed on a quarterly basis. This quarterly allotment is contingent upon EAMG providing financial reports and supporting documents. For the period from October 1, 2007 through September 30, 2011, EAMG received total grant funding of \$63,945 from RepMar.

EBON ATOLL MUNICIPAL GOVERNMENT

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

(5) RepMar Contributions, Continued

In addition, EAMG received annual appropriation grant funding from RepMar of \$100,000 from the Outer Islands Economic Development Fund (OIEDF) administered by Ministry of Finance. The disbursement of this grant funding is contingent upon EAMG providing proposal application and approved Council resolution. For the period from October 1, 2007 through September 30, 2011, EAMG received a total of \$23,500 from RepMar under this appropriation. Finally, EAMG 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 the Ministry of Finance. The disbursement of this grant funding is contingent upon EAMG providing community proposal and an approved resolution from the Council. For the period from October 1, 2007 through September 30, 2011, EAMG received a total of \$17,585 under this appropriation.

(6) Other Contribution

On March 31, 2011, EAMG received funding from the Embassy of Japan totaling \$73,231 to install a solar unit on Enekoin Elementary School, Ebon Atoll. As of September 30, 2011, this project had yet to commence.

(7) Subsequent Events

On July 10, 2015, the Enekoin Elementary School solar project was completed at a total cost of \$52,633. Unexpended funds of \$20,598 were returned to the Embassy of Japan on January 6, 2016.



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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 Ione Debrum
Mayor
Ebon Atoll Municipal Government
Republic of the Marshall Islands

We were engaged to audit the financial statement of Ebon Atoll Municipal Government (EAMG) for the period from October 01, 2007 through September 30, 2011, and have issued our report thereon dated July 22, 2016. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statement due to inadequacies in the accounting records.

Internal Control Over Financial Reporting

Management of EAMG is responsible for establishing and maintaining effective internal control over financial reporting. In planning our audit, we considered EAMG'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 EAMG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the local government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of Finding and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A *material weakness* is a control 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 Finding and

Responses as Finding No. 1, Finding No. 2, Finding No. 4 and Finding No. 5 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 and Finding No. 7 to be significant deficiencies.

Compliance and Other Matters

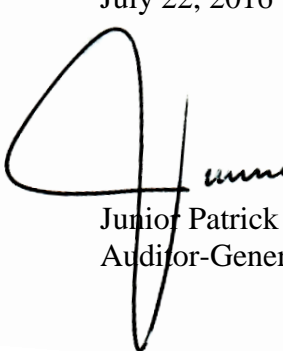
As part of obtaining reasonable assurance about whether EAMG's financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts, and grant agreement, noncompliance with which could have a direct and material effect on the 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 result of our test 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. 8 through Finding No. 15 and Finding No. 17.

Responses to Findings

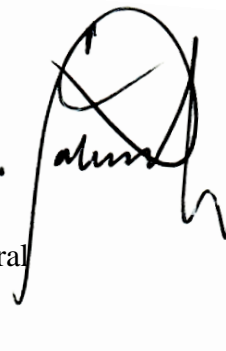
We provided EAMG, Ministry of Internal Affairs (MoIA), and the Ministry of Finance (MoF) with a copy of the report and gave them an opportunity to respond to our findings. We did receive a response from EAMG, MoIA, and MoF which are described in the accompanying schedule of Findings and Responses. We did not audit EAMG, MoIA, and MoF's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Council Members, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

July 22, 2016



Junior Patrick
Auditor-General



EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses Year From October 1, 2007 through September 30, 2011

Finding No. 1

Checks Issued to Cash

Criteria: Proper internal control over cash disbursements require that cash disbursements be issued directly to the payee and not be issued to cash.

Condition: During our examination of the financial reports of EAMG, we noted various checks that were issued to cash for sitting fees, salaries, airfare, per-diem, and refreshment. All of these checks were also not supported by invoices.

| Item No. | Date | Payee | Description | Check No. | Amount |
|----------|------------|-------------------------|--|-----------|--------|
| 1 | 7/15/2008 | Cash | No description | 1291 | 450 |
| 2 | 10/16/2008 | Cash | Round trip ticket | 1236 | 975 |
| 3 | 10/18/2008 | Not documented on check | Per Diem Ebeye/meeting with Ebon people on Ebeye | 1237 | 1,000 |
| 4 | 2/2/2009 | Cash | Round trip ticket refund | 2009 | 489 |
| 5 | 2/3/2009 | Cash | Sitting fee | 2004 | 975 |
| 6 | 2/3/2009 | Cash | Salary | 2005 | 1,785 |
| 7 | 5/17/2009 | Cash | One way ticket to Majuro for Mayor | 1539 | 163 |
| 8 | 5/17/2009 | Cash | Refreshment | 1540 | 450 |
| 9 | 7/10/2009 | Cash | Reimbursement | 1552 | 422 |
| 10 | 7/10/2009 | Cash | Refund Ticket | 1554 | 326 |
| 11 | 7/20/2010 | Cash | Sitting fee | 1609 | 975 |
| 12 | 10/14/2010 | Cash | Sitting fee | 1623 | 975 |
| 13 | 10/14/2010 | Cash | Refreshment | 1624 | 350 |
| 14 | 11/18/2010 | Cash | refreshment | 1597 | 350 |
| 15 | 11/18/2010 | Cash | Refund ticket | 1610 | 326 |
| 16 | 1/12/2011 | Cash | Sitting fee | 1636 | 1,000 |

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued Year From October 1, 2007 through September 30, 2011

Finding No. 1, Continued

Checks Issued to Cash

| | | | | | |
|--------------|-----------|------|---------------|------|------------------|
| 17 | 1/12/2011 | Cash | Refreshment | 1637 | 350 |
| 18 | 3/4/2011 | Cash | Salary | 1649 | 350 |
| 19 | 4/1/2011 | Cash | Sitting fee | 1650 | 1,000 |
| 20 | no date | Cash | Ticket refund | 1568 | 326 |
| 21 | no date | Cash | Refreshment | 1569 | 350 |
| 22 | no date | Cash | Sitting Fee | 1570 | 950 |
| Total | | | | | \$ 14,337 |

Cause: Per our interview with the current Mayor, checks were issued to cash so that they can be cashed on Majuro and the cash taken to Ebon to be paid to the respective payees due to the lack of cash on the island.

Effect: The effect of the above condition is the risk that cash will be misappropriated as there are no signatures and date on the documents indicating who actually received the cash and when.

Recommendation: We recommend that disbursements be made directly to the payees, however, if EAMG must use cash, then we recommend that supporting documents be maintained for all cash disbursements. There should be documentation of who actually received the cash and the date received.

Auditee's Response and Corrective Action Plan: Agree with finding and will follow the recommendation.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

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.

Payment of sitting fee should be properly processed and distribution should be properly documented. The Roll Call Sheet should indicate date of meeting, names of Alabs who were present and their signature to indicate that they have received their \$15 sitting fee. Any funds left over should also be documented in the Roll Call sheet and the funds deposited back to the general fund.

Condition: During our testing of expenditures, we noted various checks that were paid as noted in the bank statements totaling \$88,621, however, we traced to financial reports filed with Ministry of Internal Affairs and the Ministry of Finance noting that these checks were not reported. One of these checks is check no. 101 for \$73,231 issued out of the EAMG bank account and put into another account. When the current Mayor got into office in November of 2012, the funds were given back to EAMG and were put back in the account for a solar project on the island, contribution from the Embassy of Japan.

Additionally, EAMG reported the following cash disbursements for the periods under audit, however, no copies of travel authorization, tickets, and invoices were provided.

| <u>Description</u> | <u>Amount</u> |
|------------------------|-----------------------|
| Travel | \$2,901 |
| Supplies and materials | 423 |
| Equipment | 200 |
| Transportation | 150 |
| Other expense | <u>4,575</u> |
| Total | <u>\$8,249</u> |

During the audit, we noted payments totaling \$8,275 that were issued to “Cash” related to sitting fee for the periods from October 1, 2007 through September 30, 2011. The roll call sheets were not properly documented to indicate who were present and who were absent. There is also no documentation as to who received their sitting fee and if there is any leftover from the distribution. EAMG also reports sitting fee together with salaries, however, these are budgeted separately.

Cause: The cause of the above condition is due to lack of adherence to established rules and procedures when purchasing goods and services. Additionally, there are no established rules and procedures for employees to follow when processing, paying and reporting sitting fees.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 2, Continued

Unsupported Disbursements

Effect: The effect of the above condition is that EAMG did not comply with rules and procedures as established for all local governments. Additionally, we are unable to verify how much of the \$8,275 indicated above were actually received by council members.

Recommendation: We recommend for EAMG to require that supporting documents are maintained for all cash disbursements. Internal control procedures should be established over the processing, paying and reporting of sitting fees. We further recommend that the Ministry of Internal Affairs and the Ministry of Finance require that local governments are accountable for monies that they received.

Auditee's Response and Corrective Action Plan: Agree with finding and will follow the recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs is in total agreement. To this date, it is required that disbursement of any of the Local Government fund should be documented and signed. Not in compliance will only result in not receiving the quarterly LGF.

Response from Ministry of Finance: Agree with finding. Local Governments are required to provide financial documentation for all transactions. MOF will work with MOIA to ensure this is complied with.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 3

Local Noncompliance (OIEDF Policy)

Criteria: EAMG is required to comply with the following policies and procedures to be eligible for OIEDF grant funding:

- Section III of the Outer Islands Economic Development Fund (OIEDF) Policy, states that the National Government is obligated under the Constitution, Appropriation Act, and the Local Government Act 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.
- 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.
- Section VI of the OIEDF Policy require that all proposals must be approved by Council Resolution or Ordinance and that the Mayor and Senator of each atoll must sign on the proposal signifying their consensus.

Condition: Check no. 89748 totaling \$23,500 was issued by the Ministry of Finance from the OIEDF fund for purchase of a pick-up truck with a justification that indicated that the vehicle is for Mayor's use on Majuro and also to transport Ebon people on Majuro. Additionally, we also noted only one price quote on file. A proposal, and Council Resolution or Ordinance were not available for examination.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs and the Ministry of Finance to ensure that funds paid out of the OIEDF Funds are used according to established rules and procedures that state that funds are to be used for projects that benefit the outer island community. Additionally, proper review to ensure compliance with Procurement Code and the OIEDF policy was not performed by both the Ministry of Internal Affairs and the Ministry of Finance.

Effect: The effect of the above condition is non-compliance with the OIEDF Fund policies and procedures and the Procurement Code.

Recommendation: We recommend that EAMG, the Ministry of Internal Affairs, and the Ministry of Finance ensure compliance with the OIEDF Fund Policies and Procedures and the Procurement Code. Additionally, we recommend that these three entities work together to ensure that outer island

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No.3, continued

Local Noncompliance (OIEDF Policy)

development funds are used for development projects in the outer island to benefit the people on the island.

Auditee's Response and Corrective Action Plan: Agree with finding and will follow the recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees with this recommendation. Few years back the required three quotations was removed from the OIEDF Rules and Regulations as it was consider a constraint in expediting the process of the outer islands projects. It was the beginning of this year that this policy was put back in forces.

Response from Ministry of Finance: Agree with finding. MOF will work with MOIA to ensure this is complied with.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 4

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. The memoranda also indicated that the next quarterly allotment will not be released unless a financial report of the previous quarter is furnished by the local government.

Condition: We performed a detailed analysis of the financial statements and noted various discrepancies in all of the financial reports for the periods under audit as summarized below:

- Amounts reported in the quarterly financial reports do not match total amounts of checks issued.
- We also noted invoices were not provided to support total disbursements amounting to \$8,249 issued from the general fund as discussed in Finding No.1 above.
- Check no. 54200 issued out of the Ministry of Finance for 2nd Quarter 2008 LGF could not be located and we also tried to obtain a copy of the report from the Ministry of Internal Affairs Local Government Division, however, a copy could not be located.
- We noted one financial report where checks issued were not on file to support amounts reported in the financial report. Another instance was noted where checks issued did not tie to amounts reported.
- Check nos. 1511 and 1514 were issued on November 11, 2008 for \$385 to the same individual for salaries and wages, there was no explanation as to why two checks were issued.
- In our examination of 3rd quarter 2009 financial report, we noted check no. 2005 was issued for \$1,785 to pay several employees. On the same day, check nos. 2001 and 2008 were issued for \$385 each for payment of salary to two employees that were also paid as per check no. 2005 above. There is no explanation as to why the employees were paid twice on the same day.
- We also noted that the financial reports for the periods under audit were not documented to indicate when they were filed at the Ministry of Internal Affairs. Additionally, bank statements, and cancelled checks were also not filed with the financial reports.
- We were unable to obtain bank statements for the months of October 2009 to April 2010 from the bank.

Cause: The cause of the above condition is due to lack of proper review by the Ministry of Internal Affairs to ensure that EAMG provided all required supporting documents to the financial reports before passing them to the Ministry of Finance for payment. The Ministry of Finance also has a role to ensure that all required supporting documents are appropriate before issuing the payment.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 4, Continued

Financial Reports

Effect: The effect of the above condition is that various discrepancies in the financial reports were noted, and possibility of unauthorized payments. Additionally, we were unable to perform compliance testing related to filing date due to lack of documentation of when reports were filed at the Ministry of Internal Affairs.

As a result of missing bank statements, we were unable to verify actual deposits and funds used for the periods from October 2009 through April 2010.

Recommendation: We recommend that the Ministry of Internal Affairs and the Ministry of Finance perform a proper review of all financial reports to ensure that they comply with all reporting requirements and that all revenues and expenditures are properly supported prior to release of payment.

In addition, we recommend that Officials of the Local Government Division complete the required Checklist form every time the quarterly financial reports are received from the local governments to indicate review and certification.

Auditee's Response and Corrective Action Plan: Agreed with the finding and will follow the recommendation. However, in compliance with "Financial Memoranda No. 1987-1 Section I (B)" that requires financial reports from EAMG to file by no later than 15th of January, April, July, October, currently it is difficult to comply due to inconsistency release of the quarterly allotment, transportation etc.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees with the recommendation. The Ministry of Internal Affairs is still looking for other way to deal with this ongoing problem.

Response from Ministry of Finance: Agree with finding. The requests that come from MOIA, on behalf of Local Governments, include copies of checks and simple accounting of checks used for Local Government operations.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 5

Unreported Revenues and Expenditures

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 document the customer name, date, amount of cash received and the type of revenue collected.

Condition: We examined the quarterly reports submitted to the Ministry of Internal Affairs and the Ministry of Finance and noted that there were no local revenues reported, however during our site visit to Ebon Atoll, we noted that cash receipts were issued for local revenues collected in the amount of \$2,169 for the periods under audit, however, such were not reported. We were informed that the collections were used for operations on the island; however, the related expenses were also not reported.

Cause: The cause of the above condition is lack of adherence to established rules and procedures outlined in the Financial Memoranda No. 1987-1.

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

Recommendation: We recommend that EAMG issue official cash receipts to customers when collecting business licenses, boat permit entry fee, pick-up truck rental fee, and other revenues as a measure for transparency and accountability. Additionally, these collections should be accounted for through a cash receipts journal and deposited in a timely manner. Furthermore, we recommend that the Ministry of Internal Affairs and the Ministry of Finance review the financial reports to make sure that all supporting documents are attached and that they tie to the report.

Auditee's Response and Corrective Action Plan: I agree and will follow the recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees. The particular finding has come up in almost all audits.

Response from Ministry of Finance: Agree with finding. MOF will work with MOIA to ensure this is complied with.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 6

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 Mayor and the Treasurer both have responsibility over collection and disbursement of funds of EAMG as they are signatories on the account; the Treasurer prepares the quarterly financial reports which are signed both by the Mayor and Treasurer.

Cause: The cause of the above condition is lack of established internal control procedures to ensure that there is segregation of duties at EAMG.

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

Recommendation: We recommend that the Ministry of Internal Affairs and Finance institute internal control rules and regulations to ensure that there is segregation of duties at EAMG.

Auditee's Response and Corrective Action Plan: I fully agree with segregation of duties. For the record and information there are other causes, with the current administration, the Mayor is doing the financials record keeping and reporting and other paper works required of the council, because the capacity of the staff is limited.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs will take the recommendation.

Response from Ministry of Finance: Agree with finding. MOF will work with MOIA to ensure basic and proper training is given to emphasize on internal control rules and regulation.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 7

Bank Reconciliation

Criteria: Bank reconciliation is important and should be done properly to reconcile local government records to those of the bank in order to prevent fraud and errors.

Condition: We noted that bank account was not reconciled during the entire periods under review to ensure all checks are accounted for and clear by bank in a timely manner.

Cause: EAMG staff lacks the knowledge in reconciling bank account.

Effect: The effect of the above condition is that EAMG may not be able to detect fraud or errors in a timely manner if they do not perform bank reconciliations on a regular basis.

Recommendation: We recommend that EAMG should reconcile the bank account on a monthly basis to ensure all transactions are properly accounted for. Management should ensure responsible staff is properly trained.

Auditee's Response and Corrective Action Plan: I agree. Currently the EAMG perform bank reconciliation regularly.

Response from Ministry of Finance: Agree with finding. MOF will work with MOIA to ensure this is complied with.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 8

Checks Not Issued In Sequential Order

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

Condition: Our review of checks issued disclosed some checks that were not issued sequentially during the period under review.

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 EAMG establish policies and procedures requiring that checks be issued in a sequential order.

Auditee's Response and Corrective Action Plan: I agree and will do my best to follow the recommendation.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 9

Local Noncompliance

Criteria: The Financial Memoranda No. 1987-1 Section I(B)(2), states in relevant parts, that the next quarterly allotment will not be released unless a financial report of the previous quarter is furnished by the local government.

Condition: It appears that EAMG did not provide financial reports on time as they only received 3 quarters worth of LGF for the fiscal years FY2010 and FY2011 totaling \$25,578, a loss of revenues for both fiscal years totaling \$8,526.

Cause: The cause of the above condition is due to lack of efforts put forth by the EAMG administration to ensure that financial reports are provided on time in order to receive the next quarterly funding.

Effect: The effect of the above condition is that EAMG had to cease its operation for some time during these periods as we noted no activities in their bank statement.

Recommendation: We recommend that EAMG provide financial reports to the Ministry of Internal Affairs on a timely basis in order to receive their next funding.

Auditee's Response and Corrective Action Plan: Agree with the finding and will follow the recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees and has already taken steps to correct this oversight.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 10

Budget

Criteria: The Constitution of EAMG requires that no monies of the local government shall be expended without a budget appropriation ordinance. Additionally, budget worksheets should be calculated properly.

Condition: As part of our audit procedures, we compared budget to actual expenses and noted the following issues:

- The FY2008 budget ordinance did not match detail report; total budget approved was \$25,876 while detail total was \$26,684, a difference of \$808.
- No Other Expense was budgeted, however, EAMG reported \$2,230, \$1,695 and \$350 for FY2008, FY2009, FY2010, respectively.
- For FY2010 and FY2011, actual salaries and sitting fee expenditures were over budget by \$1,385 and \$1,810, respectively.

Cause: The cause of the above condition is lack of adherence to the EAMG Constitution.

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

Recommendation: We recommend that EAMG spent funds in accordance with their Appropriation Ordinance. We further recommend that budget worksheet be properly calculated.

Auditee Response and Corrective Action Plan: Agree and will follow the recommendation.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 11

Local Government Accounting System

Criteria: All local governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the Ministry of Internal Affairs. Furthermore, Section 31 of EAMG Constitution states, in relevant parts, that the Executive Committee shall cause to be kept full and proper accounts and records of revenues, expenditures, assets and liabilities of the local government. The accounts and records shall comply with any Local Government Financial Memoranda issued under Section 46(2) of the Local Government Act 1980. The accounting system also states that each local government shall utilize personnel action, travel advance, purchase order and budget control worksheet as part of their record keeping.

Condition: EAMG did not adopt the system established by Ministry of Internal Affairs or any accounting system at all and accounting forms as 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 EAMG to adopt the accounting system established for all local governments or other accounting system.

Effect: The effect of the above condition is that EAMG 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 of EAMG.
- Financial transactions not recorded properly into a general ledger.
- EAMG did not record and report local revenues and their related expenditures which leaves room for misappropriation of funds.
- We were unable to verify that transactions were properly authorized and paid as a result of lack of utilization of accounting forms.
- We were unable to verify that travel and per diem reported of \$2,901 for the periods under audit were properly authorized and paid.

Recommendation: We recommend that EAMG utilize the accounting system established by the Ministry of Internal Affairs in order to comply with the Financial Memoranda No. 1987-1. We further recommend that the Ministry of Internal Affairs and the Ministry of Finance require that EAMG comply with this requirement prior to release of Local Government Fund appropriations. Additionally, we recommend that accounting forms be used as evidence that transactions were properly authorized and paid.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 11

Local Government Accounting System, Continued

Auditee's Response and Corrective Action Plan: Agree with the finding and will try my best to follow the recommendation. But if I may, request hands on training with the new EAMG clerk and treasurer including the Mayor.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees. The Ministry realized that the local government do need to have their accounting system in place.

Response from Ministry of Finance: Agree with finding. MOF will work with MOIA to ensure this is complied with.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses
Year From October 1, 2007 through September 30, 2011

Finding No. 12

Business Listing

Criteria: Section 203 of the Local Government Taxes and Fees Act of 1989 requires that at the end of each quarter, every Local Government Council shall provide to the Secretary of Finance, through the Secretary of Internal Affairs, a list of names of all businesses licensed under its jurisdiction.

Condition: We did not note any business listing filed with the Ministry of Internal Affairs and the Ministry of Finance.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs to require that prior to acceptance of the financial reports that a business listing is provided as part of the required financial reports.

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

Recommendation: We recommend that EAMG comply with Section 203 of the Local Government Tax and Fees Act of 1989. Furthermore, we recommend that the Ministry of Internal Affairs and the Ministry of Finance require that all local governments are aware of what their financial and reporting requirements are and to require that they comply with these requirements. Additionally, we recommend that prior to acceptance of the quarterly financial reports from each local government, the Ministry of Internal Affairs review the financial report using a checklist that lists what documents are required to be included in the financial report.

Auditee's Response and Corrective Action Plan: Agree with the finding and will follow the recommendation.

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

Response from Ministry of Finance: Agree with finding. MOF will work with MOIA to better monitoring and enforcement of financial reporting requirements for any further drawdown.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 13

Meeting

Criteria: Section 9 of the EAMG Constitution states that meetings of the Council shall be held at least once in every month of the calendar year.

Condition: We noted during our audit that the above provision of the EAMG Constitution is not consistent with common practice and understanding of the Council. We noted that the Council usually budgets for sitting fee for four (4) times per year indicating quarterly meeting rather than monthly.

Cause: The cause of the above condition is inconsistencies in the Constitution of EAMG to common knowledge and practice of the Council.

Effect: The effect of the above condition is that EAMG was not in compliance with the provision of their Constitution requiring meetings to be held every month.

Recommendation: We recommend that EAMG review their Constitution and make amendments or comply with the current provision by holding monthly meetings of the Council.

Auditee and Corrective Action Plan: The council made amendment in the constitution and one of the amendment to amend from monthly meeting to quarterly meeting.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 14

Local Non-Compliance

Criteria: Section V subsections A, B, C, D, E and F of the revised Grant In-Aid Requirements states:

1. Ensure that community project benefit at least ten or twenty people in the immediate community.
2. All Grant-in-Aid application for local government shares must be complete and arrive at the Local Government Affairs Office not later than the last Friday of the month of June, at 5:00 p.m.
3. Ensure there is a proposal along with the application.
4. A resolution is required to be passed by Government which summarizes the purpose and intent of the grant-In-Aid project being applied.
5. Prior to the initiation of any project to be financed through grant-in-aid, the Community will show title or legal use right to the land on which the facility is to be located. This right must be guaranteed for at least the estimated life of the facility.

Condition: We noted a total of \$17,585 worth of building materials purchased from the grant-in-aid fund for the periods from FY2009 through FY2011 for which we did not note compliance with the above criteria.

Cause: The cause of the above condition is the lack of adherence to the requirements of the Grant-In-Aid policy.

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

Recommendation: We recommend that the Government comply with the requirement of the Grant In-Aid Policy. We further recommend that the Ministry of Internal Affairs and the Ministry of Finance ensure that all requirements of the grant-in-aid are complied with.

Auditee's Response and Corrective Action Plan: I agree and fully support the recommendation.

Response from Ministry of Internal Affairs: The Ministry of Internal Affairs agrees and has complied with the Grant-in-Aid requirements.

Response from Ministry of Finance: Agree with finding. MOF will continue to work with MOIA to strengthen its roles to ensure policies are adhered to.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 15

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, EAMG 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: EAMG received a total of \$23,500 from the OIEDF fund that was used to purchase one pickup truck, however, a fixed assets register was not maintained for this asset or other assets of the Council.

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.

Recommendation: We recommend the Ministry of Internal Affairs to work with EAMG to ensure compliance with rules and regulations established in the Local Government Accounting system as well as the OIEDF. We further recommend that all assets be tagged and allocated a unique identification number to indicate EAMG ownership.

Auditee's Response and Corrective Action Plan: I agree with the finding and will work closely with Ministry of Internal Affairs and to ensure that all EAMG's property are tag.

Response from the Ministry of Internal Affairs: One step the Ministry of Internal Affairs has taken is in assisting the local governments to put seals in the local government assets. For next year, the office will be going to the outer islands to do assessment and inventory.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 16

Name of Government

Criteria: Section 1 of the Constitution of Ebon Atoll indicates that the name of the Government is Ebon Atoll Municipal Government.

Condition: The name use on the Bank of Guam account is Ebon Atoll Local Government and we could not find any documents on file that indicated the name change.

Cause: The cause of the above condition is the lack of adherence with EAMG Constitution.

Effect: The effect of the above condition is that EAMG may be denied access to their bank account.

Recommendation: We recommend that EAMG use the official name as stated in the Constitution to avoid future conflicts.

Auditee Response and Corrective Action Plan: Constitution amendment change name from EAMG to EALG.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

Finding No. 17

Local Noncompliance – Income Tax and Social Security Tax

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.

Condition: EAMG did not withhold income taxes and social security taxes for wages paid to the employees.

Cause: The cause of the above condition is the lack of adherence with the Income Tax Act of 1989 and the Social Security Act of 1990.

Effect: The cause of the above condition is noncompliance with Income Tax Act of 1989 and the Social Security Tax Act of 1990.

Recommendation: We recommend EAMG to comply with the Income Tax Act of 1989 and the Social Security Act of 1990.

Auditee Response and Corrective Action Plan: I agree with the finding. For the record and information the new administration (EALG) currently comply with the Social Security Tax. But the Income Tax, if I may, request for the outer islands employee to exempt from the Income Tax.

EBON ATOLL MUNICIPAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year From October 1, 2007 through September 30, 2011

There are no unresolved prior year findings as this is the first time audit of EAMG.