

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

MAJURO ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2013



AUDIT No.: OAG 02/13-5131

January 28, 2019
Date

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

MAJURO ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2013



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor Ladie Jack
Majuro Atoll Local Government:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities and the general fund of the Majuro Atoll Local Government (MALGOV) as of and for the year ended September 30, 2013, which collectively comprise MALGOV's basic 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 matters 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 Disclaimers of Opinion

Because of inadequacies in the accounting records, detailed records regarding assets and liabilities of the governmental activities and the general fund, and underlying supporting documentation evidencing the validity of revenues and expenditures/expenses, have not been maintained and certain supporting data were not made available for our engagement. Therefore, we were not able to satisfy ourselves about the amount at which assets, liabilities, revenues and expenditures/expenses are recorded for the governmental activities and the general fund as of and for the year ended September 30, 2013.

Management has classified expenditures/expenses for the year ended September 30, 2013 in the accompanying statement of revenues, expenditures and changes in fund balance/statement of activities by object class. Classification of expenditures/expenses in the financial statements at a minimum by function is required by accounting principles generally accepted in the United States of America.

Disclaimer of Opinion

Because of the significance of the matters discussed 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 the financial statements referred to in the first paragraph.

Other Matters

Required Supplementary Information:

Management has omitted the Management’s Discussion and Analysis and the budgetary comparison schedule that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019, on our consideration of MALGOV’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of MALGOV’s 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 MALGOV’s internal control over financial reporting and compliance.

January 28, 2019



Atmija Jonathan
Assistant Auditor-General

MAJURO ATOLL LOCAL GOVERNMENT

Governmental Funds Balance Sheet/Statement of Net Position
September 30, 2013

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 342,735	\$ -	\$ 342,735
Receivables:			
Taxes	300,991	-	300,991
Employees	15,102	-	15,102
Other	19,412	-	19,412
	<u>335,505</u>	<u>-</u>	<u>335,505</u>
Less allowance for doubtful accounts	<u>(126,037)</u>	<u>-</u>	<u>(126,037)</u>
	209,468	-	209,468
Prepaid items	9,322	-	9,322
Other assets	2,200	-	2,200
Capital assets, net of accumulated depreciation	<u>-</u>	<u>443,174</u>	<u>443,174</u>
Total assets	<u>\$ 563,725</u>	<u>443,174</u>	<u>1,006,899</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 794,467	-	794,467
Accrued interest payable	-	86,830	86,830
Social security taxes payable	88,021	-	88,021
Withholding taxes payable	1,176,447	-	1,176,447
Other liabilities and accruals	170,446	-	170,446
Long-term liabilities:			
Due within one year	<u>-</u>	<u>185,782</u>	<u>185,782</u>
Total liabilities	<u>2,229,381</u>	<u>272,612</u>	<u>2,501,993</u>
Commitments and contingencies			
<u>FUND BALANCE/NET POSITION</u>			
Fund balance:			
Unassigned	<u>(1,665,656)</u>	<u>1,665,656</u>	<u>-</u>
Total fund balance	<u>(1,665,656)</u>	<u>1,665,656</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 563,725</u>		
Net position:			
Net investment in capital assets		443,174	443,174
Unrestricted		<u>(1,938,268)</u>	<u>(1,938,268)</u>
Total net position		<u>\$ (1,495,094)</u>	<u>\$ (1,495,094)</u>

See accompanying notes to financial statements.

MAJURO ATOLL LOCAL GOVERNMENT

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended September 30, 2013

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Taxes:			
Sales tax	\$ 1,784,233	\$ -	\$ 1,784,233
Gasoline tax	704,024	-	704,024
Beer and liquor tax	361,376	-	361,376
Cigarette tax	22,077	-	22,077
Hotel tax	35,168	-	35,168
Grants	618,133	-	618,133
Business licenses	258,430	-	258,430
Interest	648	-	648
Other	142,308	-	142,308
Total revenues	3,926,397	-	3,926,397
Expenditures/expenses:			
Salaries and wages	1,669,292	-	1,669,292
Rent and land leases	76,221	-	76,221
Employees benefits	203,352	-	203,352
Travel and per diem	108,382	-	108,382
Vehicle maintenance	51,088	-	51,088
Entertainment	46,614	-	46,614
Donations	78,640	-	78,640
Gasoline and diesel	194,658	-	194,658
Utilities	75,988	-	75,988
Vehicles	286,545	(275,995)	10,550
Insurance	16,723	-	16,723
Interest and bank charges	-	11,075	11,075
Office supplies	217,609	(28,993)	188,616
Professional fees	49,172	-	49,172
Member's compensation	189,150	-	189,150
Vehicle rental	3,865	-	3,865
Capital improvement projects	700,722	-	700,722
Bank charges	1,319	-	1,319
Miscellaneous	226,158	-	226,158
Unallocated depreciation	-	170,264	170,264
Total expenditures/expenses	4,195,498	(123,649)	4,071,849
Deficiency of revenues under expenditures	(269,101)	269,101	
Changes in net position		(145,452)	(145,452)
Fund balance/net position:			
Beginning of the year	(1,396,555)	-	(1,349,642)
End of the year	\$ (1,665,656)	\$ -	\$ (1,495,094)

See accompanying notes to financial statements.

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(1) Reporting Entity

Majuro Atoll Local Government (MALGOV) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands (RepMar) and operates under the Constitution of the Majuro Atoll Local Government. MALGOV is governed by an elected mayor and a fifteen-member council.

(2) Summary of Significant Accounting Policies

The accompanying basic financial statements of MALGOV have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of MALGOV's accounting policies are described below.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been eliminated from these statements.

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation plus construction or improvement of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation. MALGOV has no restricted net position at September 30, 2013.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated (for example, internally restricted), to indicate that management does not consider them to be available for general operations. They often have resources that are imposed by management, but can be removed or modified.

Fund Financial Statements

MALGOV uses one governmental fund to report on its financial position and results of operations. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Fund Financial Statements, Continued

Separate financial statements are provided for governmental funds. MALGOV presents a balance sheet and a statement of revenues, expenditures and changes in fund balance for its governmental fund. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net position.

Adjustments required to reconcile total governmental fund balance to net position of governmental activities in the Statement of Net Position are as follows:

Total fund balance - governmental funds		\$ (1,665,656)
Add:		
Capital assets	2,454,665	
Accumulated depreciation	<u>(2,011,491)</u>	443,174
Less:		
Loan payable	(185,782)	
Accrued interest payable	<u>(86,830)</u>	<u>(272,612)</u>
Total net position - governmental activities		\$ <u>(1,495,094)</u>

Adjustments required to reconcile net change in total governmental fund balance to change in net position of governmental activities in the Statement of Activities are as follows:

Net change in fund balance - governmental funds	\$ (269,101)
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:

Capital outlays	304,988	
Depreciation expense	<u>(170,264)</u>	134,724

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Increase in accrued interest payable	<u>(11,075)</u>
Change in net position - governmental activities	\$ <u>(145,452)</u>

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of MALGOV and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, MALGOV considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation and other items that are not allocated to specific programs.

Unrestricted contributions and grants are recorded as revenue in the statement of revenues, expenditures, and changes in fund balance when received (in the case of contributions) or when approved by the grantor agency (in the case of grants).

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, MALGOV's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MALGOV does not have a deposit policy for custodial credit risk.

For purposes of the balance sheet/statement of net position, cash and cash equivalents is defined as cash on hand, and cash held in demand accounts. As of September 30, 2013, the carrying amount of the primary government's total cash and cash equivalents was \$342,735. Of the bank balance amount, \$292,890 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. MALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are primarily due from businesses and individuals residing on islands within the Majuro Atoll.

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Receivables, Continued

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense. MALGOV believes the allowance amounting to \$126,037 at September 30, 2013, is adequate to absorb currently estimated bad debts in the account balance.

Capital Assets

Capital assets, which consist of vehicles, furniture and fixtures, and other equipment, are reported in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the date of donation. Title to the land on which MALGOV's facilities are located is held in the name of the landowner. Fair market rental value related to this property has not been assessed or recorded.

MALGOV has not developed a capitalization policy. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the statement of activities.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MALGOV has no items that qualify for reporting in this category.

Compensated Absences

It is MALGOV's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation leave benefits and a portion of sick leave benefits is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability as of September 30, 2013 is not available.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MALGOV has no items that qualify for reporting in this category.

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Fund Equity

Fund balance classifications are based on the extent to which MALGOV is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Amounts are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

MALGOV has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of MALGOV is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

New Accounting Standards

During fiscal year 2013, MALGOV implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MALGOV.

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MALGOV.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of MALGOV.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of MALGOV.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Estimated Useful Lives</u>	<u>October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2013</u>
Depreciable capital assets:					
Leasehold improvements	5 years	\$ 13,011	\$ -	\$ -	\$ 13,011
Vehicles	3 - 7 years	1,604,880	275,995	-	1,880,875
Furniture and fixtures	2 - 5 years	55,154	2,120	-	57,274
Other equipment	6 years	<u>476,632</u>	<u>26,873</u>	<u>-</u>	<u>503,505</u>
		2,149,677	304,988	-	2,454,665
Less accumulated depreciation		<u>(1,841,227)</u>	<u>(170,264)</u>	<u>-</u>	<u>(2,011,491)</u>
		<u>\$ 308,450</u>	<u>\$ 134,724</u>	<u>\$ -</u>	<u>\$ 443,174</u>

MAJURO ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2013

(4) Withholding Taxes Payable

At September 30, 2013, MALGOV was liable for withholding taxes payable to the Republic of the Marshall Islands (RepMar) in the amount of \$1,176,447. No repayment schedule with RepMar exists and thus the entire \$1,176,447 has been reflected as a current liability in the accompanying financial statements.

(5) Note Payable

Note payable to the Marshall Islands Development Bank (MIDB) in the original amount of \$208,524, interest at 6.5% per annum, collateralized by certain motor vehicles, an assignment of quarterly allotments from RepMar and an assignment of sales taxes.

\$ 185,782

The above note payable was originally due on July 15, 1998. Management of MALGOV have agreed with MIDB for repayment to commence in January, 2002; however, the terms of this agreement have not been documented. No changes occurred during the year ended September 30, 2013 in liabilities reported as part of MALGOV's long-term liabilities in the statement of net position.

(6) Contingencies

MALGOV is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. MALGOV has elected not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, MALGOV believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred for the past three years.

MALGOV has incurred a significant cumulative operating deficit at September 30, 2013 and may not be able to meet its liabilities in the ordinary course of business. The continuation of MALGOV's operations is dependent upon future fiscal budgetary management and improvement in tax collections.

(7) Commitments

MALGOV has entered into various land lease agreements with landowners. Under the terms of the land lease agreements, MALGOV is obligated to pay annual rents between \$186 and \$11,650 on the remaining years between one and twenty-four years.

(8) Subsequent Event

In August 2014, MALGOV entered into a \$360,000 loan agreement with a bank for the purpose of funding certain operational activities.

MAJURO ATOLL LOCAL GOVERNMENT

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2013



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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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**

The Honorable Mayor Ladie Jack
Majuro Atoll Local Government:

We were engaged to audit the financial statements of the governmental activities and the General Fund of the Majuro Atoll Local Government (MALGOV) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise MALGOV's basic financial statements. Our report dated January 28, 2019, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the respective financial statements of the governmental activities and the general fund due to: 1) our inability to determine the propriety of assets, liabilities, revenues and expenditures/expenses recorded for the governmental activities and the general fund; and 2) the classification of expenditures/expenses in the financial statements by object class.

Internal Control Over Financial Reporting

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

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2013-1 through 2013-8 and 2013-11 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MALGOV'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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2013-9 and 2013-10.

MALGOV's Response to Findings

MALGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MALGOV's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

January 28, 2019



Atmita Jonathan
Assistant Auditor-General

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Year Ended September 30, 2013

Finding No. 2013-1

Council Ordinances and Minutes of Meetings

Criteria: Council ordinances, resolutions and minutes of Council meetings are a primary means by which regulatory agencies document the administration of MALGOV operations.

Condition: Complete set of Council ordinances, resolutions or minutes of Council meetings together with the underlying supporting schedules referenced in the annual appropriation ordinance were not available.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to documentation of Council ordinances, resolutions and minutes of Council meetings.

Effect: The effect of the above condition is possibility that directives of the Council are not properly disclosed or recorded in the financial statements.

Recommendation: We recommend that the MALGOV Council require that all ordinances, resolutions and minutes of Council meetings be retained and be formally documented by the Council Clerk and approved by the Mayor.

Prior Year Status: The lack of retention of Council ordinances, resolutions or minutes of Council meetings was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-2

Bank Reconciliations

Criteria: Bank reconciliations should be performed in a timely manner, be initialed by the preparer, and be independently reviewed.

Condition: As of September 30, 2013, monthly bank reconciliations were not provided for the following general ledger accounts:

1010	BOG-GENERAL FUND 1005017128	\$	(20,896)
1011	BOG-GRANT FUND 1005-019713	\$	5,873
1021	BOH-0039-00TIS5	\$	(151)
1023	SOH-SPECIAL ED. FUND 39-013533	\$	15
1032	BOM-PILOT SCHOOL FUND 005057	\$	150
1034	BOM-8819503379-MAJURO DAY	\$	11,254
1035	BOG-TCD AC#0405-057625	\$	45,000
1036	BOG- SAVING 0205-195289	\$	42,443
1038	BOM - MALGOV RESERVED ACCOUNT	\$	1,000
1039	MAJURO DAY -881-95-0448-4	\$	(2,348)
1040	MALG-RECD GRANT	\$	18,539
1041	Japanese Grant - Woja Project	\$	90,000
1042	BOG - India Grant	\$	100,000

Furthermore, the following September 2013 general ledger bank reconciliations included invalid reconciling items:

1012	BOG-PAYROLL 1005-035598	\$	(1,967,488)
1030	BOM-COPRA FUND 950012	\$	31,941
1031	BOM-GENERAL FUND 005442	\$	(292,917)

Audit adjustments were proposed to remove the invalid reconciling items.

Cause: The cause of the above condition is the lack of policies and procedures requiring the timely performance and independent review of bank reconciliations.

Effect: The effect of the above condition is potential misstatement of cash accounts and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring the timely performance and independent review of bank reconciliations.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-2, Continued

Prior Year Status: The lack of bank reconciliations being performed in a timely manner, being initialed by the preparer, and being independently reviewed was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-3

Receivables

Criteria: General ledger receivable accounts should be supported by underlying subsidiary ledgers. Furthermore, revenues should be recorded in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities.

Condition: As of September 30, 2013, supporting subsidiary ledgers were not provided for the following general ledger receivable accounts:

1110	ACCOUNT RECEIVABLE	\$	100,075
1112	ACCOUNT RECEIVABLE-EMPLOYEES	\$	14,518
1115	ACCOUNT RECEIVABLE-RETURNED CHK	\$	19,412

Furthermore, September 2013 receipts for sales and gasoline taxes of \$135,392 and \$65,524, respectively, received in October 2013 were not recognized as taxes receivable as of September 30, 2013. Audit adjustments were proposed to correctly recognize tax revenue in the correct accounting period.

Cause: The cause of the above condition is the lack of policies and procedures requiring general ledger receivable accounts be supported by subsidiary ledgers and tax revenues be recognized in accordance with governmental GAAP.

Effect: The effect of the above condition is potential misstatement of receivable and related revenue accounts and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring general ledger receivable accounts be supported by subsidiary ledgers and tax revenues be recognized in accordance with governmental GAAP.

Prior Year Status: The lack of policies and procedures requiring general ledger receivable accounts being supported by subsidiary ledgers and tax revenues being recognized in accordance with governmental GAAP was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-4

Capital Assets

Criteria: Capital asset activities should be recorded in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities and be supported by an underlying capital asset register.

Condition: During the year ended September 30, 2013, capital asset activities were not recorded by MALGOV as required by GAAP. Furthermore, capital assets were not reconciled to and supported by a detailed capital asset register. Audit adjustments were proposed to correct capital asset balances and to recognize capital asset activities.

Cause: The cause of the above condition is the lack of policies and procedures requiring capital asset activities be recorded in accordance with GAAP and be supported by an underlying capital asset register.

Effect: The effect of the above condition is potential misstatement of capital asset balances and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring capital asset activities be recorded in accordance with GAAP and be supported by an underlying capital asset register.

Prior Year Status: The lack of policies and procedures requiring capital asset activities being recorded in accordance with GAAP and being supported by an underlying capital asset register was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-5

Payables

Criteria: General ledger liability accounts should be supported by underlying subsidiary ledgers.

Condition: As of September 30, 2013, a supporting subsidiary ledger was not provided for the following general ledger liability account:

2000	ACCOUNTS PAYABLE	\$ (687,479)
------	------------------	--------------

Furthermore, other liabilities of \$170,446 representing various payroll related accruals and allotment balances were not supported by underlying subsidiary ledgers.

Cause: The cause of the above condition is the lack of policies and procedures requiring general ledger liability accounts be supported by subsidiary ledgers.

Effect: The effect of the above condition is potential misstatement of payable balances and related expenditure accounts and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring general ledger liability accounts be supported by subsidiary ledgers.

Prior Year Status: The lack of policies and procedures requiring general ledger liability accounts being supported by subsidiary ledgers was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-6

Capital Grants

Criteria: Adequate internal control policies should be adopted and established to facilitate reliable and relevant accounting records over the disposition of grants and contributions restricted for capital purposes.

Condition: During the year ended September 30, 2013, MALGOV received \$613,133 from the Republic of the Marshall Islands for ROC funded capital improvement projects. Documentation was inadequately maintained over revenue and expenditure accounting records to facilitate the disposition of this grant and the recordation, where applicable, of capital assets. MALGOV expended \$392,452 under A/C # 5300 Majuro Development Projects, which included a \$100,000 wire transfer advance payment that was not adequately supported by documentation ascertaining the nature of the transaction.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures for filing and maintaining accounting records over the disposition of capital grants and contributions.

Effect: The effect of the above condition is a potential inability to support the authenticity and correctness of recorded revenue and capital expenditure transactions and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that management establish and implement appropriate internal control policies and procedures that facilitate efficient filing and maintenance of accounting records over the disposition of capital grants and contributions.

Prior Year Status: The lack of adequate internal control policies and procedures for filing and maintaining accounting records over the disposition of capital grants and contributions was reported as a finding in the audit of MALGOV for fiscal year 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-7

Financial Reporting

Criteria: GAAP requires classification of expenditures/expenses in the financial statements be classified at a minimum by function.

Condition: For the year ended September 30, 2013, MALGOV classified expenditures/expenses in the statement of revenues, expenditures and changes in fund balance/statement of activities by object class.

Cause: The cause of the above condition is inadequate financial statement chart of accounts that facilitates the classification of expenditures/expenses at a minimum by function.

Effect: The effect of the above condition is the presentation of financial statements not in accordance with GAAP.

Recommendation: We recommend that management establish financial statement chart of accounts that facilitate the classification of expenditures/expenses at a minimum by function.

Prior Year Status: The lack of classification of expenditures/expenses in the financial statements by function was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-8

Documentation and File Maintenance

Criteria: Adequate internal control policies should be adopted and established to facilitate reliable and relevant accounting records.

Condition: For the year ended September 30, 2013, documentation was inadequately maintained over revenue and expenditure accounting records.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures for filing and maintaining accounting records.

Effect: The effect of the above condition is a potential inability to support the authenticity and correctness of recorded revenue and expenditure transactions and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that management establish and implement appropriate internal control policies and procedures that facilitate efficient filing and maintenance of accounting records.

Prior Year Status: The lack of establishing and implementing appropriate internal control policies and procedures facilitating efficient filing and maintenance of accounting records was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-9

RMI Procurement Code

Criteria: Section 118 (2) of 44 MIRC Chapter 1 of the RMI Procurement Code states that no contract for the services of legal counsel may be awarded without the approval of the Attorney-General.

Condition: During the year ended September 30, 2013, MALGOV incurred professional services for independent legal counsel. No approval was provided by MALGOV to indicate that these services were approved by the Attorney-General.

Cause: The cause of the above condition is the lack of adequate controls over the procurement of legal services in accordance with the RMI Procurement Code.

Effect: The effect of the above condition is potential noncompliance with the RMI Procurement Code regarding authority to contract for certain services.

Recommendation: We recommend that management comply with the RMI Procurement Code and obtain written approval of the Attorney-General for contracts for the services of independent legal counsel.

Prior Year Status: The lack of compliance with the RMI Procurement Code in obtaining written approval of the Attorney-General for contracts for the services of independent legal counsel was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-10

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MALGOV filed and paid income taxes withheld for the year ended September 30, 2013 in a manner inconsistent with the criteria. As of September 30, 2013, MALGOV was liable for income taxes withheld in the amount of \$1,176,447, which included unremitted income taxes withheld from prior years.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with the RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The lack of compliance with the RepMar Income Tax Act of 1989, as amended, was reported as a finding in the audits of MALGOV for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2013

Finding No. 2013-11

Payroll and Benefits

Criteria: Executive salaries and related allowances should be made in accordance with established authorized ordinances.

Condition: During the year ended September 30, 2013, salaries paid to an official appeared to be inconsistent with the appropriation ordinance resulting in a potential \$17,786 overpayment. Furthermore, allowances paid appeared to be inconsistent with the appropriation ordinance resulting in a potential \$7,000 overpayment. Documentation was inadequately maintained to support these payroll and benefit payments.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures requiring the filing and maintenance of accounting records to support underlying payroll and related benefit payments.

Effect: The effect of the above condition is a potential inability to support the authenticity and correctness of recorded payroll and related benefit payments.

Recommendation: We recommend that management establish and implement appropriate internal control policies and procedures that facilitate efficient filing and maintenance of accounting records over payroll and related benefit payments.

Prior Year Status: The lack of establishing and implementing appropriate internal control policies and procedures facilitating efficient filing and maintenance of accounting records to support underlying payroll and related benefit payments was reported as a finding in the audit of MALGOV for fiscal year 2012.

Auditee Response and Corrective Action Plan: See APPENDIX I.

Auditor's Response to Auditee's Response: See APPENDIX II.

MAJURO ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings
Year Ended September 30, 2013

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Responses section of this report

APPENDIX I: Auditee Response and Corrective Plan



MAJURO ATOLL LOCAL GOVERNMENT
Office of the Mayor
P. O. BOX 796
MAJURO, MARSHALL ISLANDS
TEL: (692) 625-8186/4142 FAX: (692) 625-5714
Email: ladienjack@gmail.com

January 28, 2019

Mr. Junior Patrick, Auditor-General
Office of the Auditor General
P.O. Box 245
Majuro, Republic of the Marshall Islands 96960



Dear Mr. Junior Patrick:

I am pleased to inform your good office that we are in receipt of Majuro Atoll Local Government's Audit Reports for the years, 2009,2010, 2011, 2012, 2013 and 2014 and I do praise and appreciate the good work done by your Office on this matter. We do understand that these audits, as conducted by Independent Auditors, were basically focused on MALGOOV's Financial Statements as provided, as well as on Internal Control and on Compliance in accordance with the Government Auditing Standards.

The current Executive Committee has reviewed these audits and the findings associated with them and has decided that corrective measures to all the repeated findings need to be considered a top priority for immediate action, and during the course of action all administrative and fiscal policies and procedures must to be complied with or established on all audit findings as one step forward to correct most of the findings. Also, a new post for compliance and internal control has been considered by the Executive Committee to oversee compliance and internal control on policies and procedures of all administrative and fiscal works.

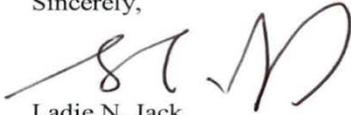
The Executive Committee has also reviewed the transitions of the audits for the years in review and has decided to express its concern regarding the gap between the auditing years and the actual undertaking of their audits, which has really made a big impact on repeated findings for all these years audited. Auditing these six years above was just done in late 2018, if audit was conducted consistently year by year, repeated findings would have not been a case as reflected on the audit reports, as corrective actions on findings would have been made soon after each audit. MALGOV does recommend consistent yearly audit after all.

In closing, the most part of our review on these audits was FINDING NO. 2014-11. My administration considered this as a work of fraud. As it appeared as a finding in your audit report for the year 2014, we believe fraudulence has been committed here twice. One on

\$100,000 promissory note with an Ohio Corporation, and the other one was on \$360,000 and its portion of \$293,900 payment to a Washington D.C. lobbyist firm. We all need to find out how this loan money was used and who really benefited from it. We strongly recommend the Office of the Auditor General and the Office of the Attorney General to do a thorough investigation and make a fraud case for all people connected or associated in this finding.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. N. Jack', written in a cursive style.

Ladie N. Jack
Mayor, Majuro Atoll Local Government

APPENDIX II: Auditors' Response to Auditees' Response



REPUBLIC OF THE MARSHALL ISLANDS OFFICE OF THE AUDITOR-GENERAL

P.O. Box 245

Majuro, Republic of the Marshall Islands 96960

Email Address: patrjun@gmail.com Web www.rmioag.com

Telephone:
Auditor-General: (692) 625-3192
Staff: (692) 625-3390
Facsimile: (692) 625-5135
Fraud Hotline:
Telephone: (692) 625-1155
Facsimile: (692) 625-1156

Auditors' Response to Comments by MALGOV

We commend MALGOV for taking corrective measures to address the audit findings and recommendations throughout our reports on internal control and on compliance. We also acknowledge the comments by MALGOV regarding the need to have more timely and consistent audit and wish to advise that plans have been made to bring the audits of MALGOV to current. In addition, we wish to point out also that absence of an audit does not relieve management of its responsibility: (1) to prepare and fairly present financial statements in accordance with generally accepted accounting principles; and (2) to design, implement, and maintain internal control over financial reporting and for efficiency and effectiveness of operations. The routine monitoring by management is imperative to ensure that bank accounts are reconciled on a regular basis, that expenditures are properly documented and classified, that proper accounting and internal control over fixed assets is maintained, and other accounting issues highlighted throughout our reports, is a management function. Fully depending on the Office of the Auditor-General (OAG) to fulfill a management responsibility is not our role. In fact, depending on OAG to fulfill management's responsibility impairs the ability of OAG to carry out its mandate in an independent and impartial manner. Accordingly, we consider that it is the responsibility of MALGOV management to actively pursue our recommendations.

In response to MALGOV's comments in relation to Audit Finding No. 2014-11, OAG will review this finding and take action as appropriate.

MAJURO ATOLL LOCAL GOVERNMENT

INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT

YEAR ENDED SEPTEMBER 30, 2013

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

P.O. Box 245

Majuro, Republic of the Marshall Islands 96960

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January 28, 2019

Honorable Ladie Jack
Mayor
Majuro Atoll Local Government

Dear Mr. Jack:

In planning the engagement to audit the financial statements of the Majuro Atoll Local Government (MALGOV) as of September 30, 2013, (on which we have issued our report dated January 28, 2109), we considered MALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MALGOV'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. However, in connection with our engagement, we identified, and included in the attached Appendix I, deficiencies related to MALGOV's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Council, also dated January 28, 2019, on our consideration of MALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Council, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of these suggestions.

We wish to thank the staff and management of MALGOV for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Atmita Jonathan', written over a horizontal line.

Atmita Jonathan
Assistant Auditor-General

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MALGOV's internal control over financial reporting for the year ended September 30, 2013 that we wish to bring to your attention:

(1) Cash Receipts Documentation

Our examination of the cash receipts file for FY 2013 noted the following exceptions:

- Cash receipts not issued sequentially
- No copies of deposit slips filed
- No copy of business licenses available at the time of field work for examination
- Collection sheets or transmittal forms are not verified and signed off by Accountant, Treasurer and Executive Director of Finance
- Sales Tax Report not signed by both payee and tax collector officer

We recommend that the Finance department require proper cash receipts documentation be maintained and filed such as filing of deposit slips, business licenses, collection sheets and transmittal forms, and Sales Tax Reports. In addition all cash receipts should be issued sequentially.

(2) Payroll

Our examination of salaries and wages paid to the Mayor and Council Members did not appear to be consistent with the pay rates authorized per Ordinance No. 02-2004. In addition, we noted certain payroll disbursements for PPE April 20, 2013 where the pay rates did not agree to the approved employee Personnel Action Forms. Furthermore, we noted that payroll disbursements were not supported by time sheets.

We recommend that management require that pay rates applied be in accordance with rates authorized per Ordinance No. 02-2004 and the employee Personnel Action Forms. Furthermore, we recommend that all pertinent documentation associated with payroll disbursements be maintained on file.

(3) Expenditures

Our examination of the expenditures disclosed twenty five (25) disbursements totaling \$229,903 that were not supported by invoices or other pertinent documentation. In addition, no documentation was maintained on file evidencing the procurement process. Furthermore, we noted disbursements for legal services totaling \$18,557 for which no contract agreement was on file.

We recommend that management require that all pertinent documentation associated with vendor payments be maintained on file. Furthermore, we recommend that management document the procurement process consistent with RepMar's Procurement Code.

APPENDIX I, CONTINUED

(4) Land Leases

Our examination of land leases noted that certain leases were expired; however, no renewals of such leases were made available. Furthermore, certain land leases were not properly executed by all relevant parties.

We recommend that management require that land leases be renewed upon expiration and be properly executed by all relevant parties.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A deficiency 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MALGOV's management is responsible for the overall accuracy of the financial statement and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

HOTLINE

Telephone Line (692) 625-1155

*[The Hotline is a telephone line available Monday through Sunday and you can call us anytime of the day.
Calls to this number are anonymous and non-traceable]*

You may also contact us by writing to:

Facsimile (Fax) (692) 625-1156

[Messages to our fax machine are also anonymous and non-traceable]

OR

Office of the Auditor-General

P.O. Box 245

Majuro, MH 96960

[If you do not want to reveal your identity, do not disclose a return address]

OR

Fill out the Complaint Form from our website www.rmioag.com