

December 27, 2018

Mayor Hirata Kabua
Kwajalein Atoll Local Government
Republic of the Marshall Islands

Dear Mayor Kabua:

In planning and performing our audit of the statement of net assets of the governmental activities and the governmental funds balance sheet for the general fund of the Kwajalein Atoll Local Government (KALGOV) as of September 30, 2015 and on which we have issued our report dated December 27, 2018, 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, we considered KALGOV'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 KALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KALGOV'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 audit, we identified, and included in the attached Appendix I, deficiencies related to KALGOV's internal control over financial reporting and other matters as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to KALGOV, also dated December 27, 2018 on our consideration of KALGOV'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 definition of a deficiency is also set forth in the attached Appendix I.

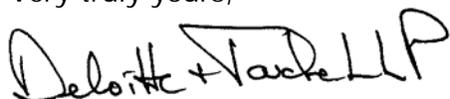
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of management, the Council, 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 the suggestions.

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

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KALGOV's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention:

(1) Expenditures / Disbursements

Our examination of expenditures noted the following exceptions:

1. Check # 7610 in the amount of \$1,573 for NTA billings included a \$221 payment for an officer's home internet billing at home, which was not supported by underlying authoritative documentation.
2. Check # 8297 in the amount of \$5,000 for payment to the Mayor as contribution for his brother's funeral which was not supported by underlying authoritative documentation.
3. Check # 131 in the amount of \$7,392 for fuel purchases indicated that actual fuel withdrawals from the fuel vendor occurred prior to approval of the purchase requisition.
4. Check #s 7503, 7514, 7558, 7897 and 26669 in the amounts of \$333, \$5,000, \$1,000, \$1,612 and \$5,000, respectively, for Mayoral funeral expenditures were incurred without consideration as to budgetary limits.

We recommend that management maintain and adequately file supporting documentation to support disbursements.

(2) Bank Deposits

License fee revenue collections on December 15, 2014 were not deposited until December 19, 2014, a delay of four working days.

We recommend that management timely deposit revenue collections.

(3) Revenues

Our examination of revenues noted the following exceptions:

1. In October 2014, KALGOV received a \$20,000 grant from the Republic of China (Taiwan). No grant agreement stipulating terms and conditions was available on file for examination.
2. CR # 6702 for \$10,000 lacked description and nature of amount collected.

We recommend that management maintain and adequately file supporting documentation to support receipts.

(4) Payroll

KALGOV's liaison officer, a nonmanagerial position, based in Majuro does not maintain a timesheet or its equivalent for proper payroll monitoring and processing.

We recommend that management consider establishment of alternative procedures to monitor and document working hours.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

(5) Capital Assets

Our examination of capital assets noted the following exceptions:

1. KALGOV purchased and installed LED streetlights amounting to \$20,000. Capitalization of this asset did not occur. Accordingly, an adjustment was recorded during the audit process.
2. KALGOV traded a vehicle originally purchased at \$30,463 and with net book value of \$15,232. It acquired a used pick up truck valued at \$21,000 resulting in a cash payment of \$7,000 and a loss on trade in of \$1,232. Documentation of Council approval, formal invoice and competitive procurement was not available on file for examination.
3. Check # 7609 amounting to \$24,547 for vehicle purchase was not evidenced by vendor invoice. Furthermore, sighting of asset indicated that the vehicle was no longer in KALGOV's custody. Instead, the vehicle was transferred to the former City Manager. Documentation supporting approval of transfer was not on file available for examination.
4. Check # 103 amounting to \$3,550 for purchase of four laptop computers was not evidenced by vendor invoice. Furthermore, sighting of assets indicated that three laptop units were no longer in KALGOV's custody and the sighted unit was not tagged with unique identification details.

We recommend that management maintain and adequately file supporting documentation to support capital asset acquisitions and disposals.

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.

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

KALGOV's management is responsible for the overall accuracy of the financial statements 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.