

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

KILI BIKINI LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2010



AUDIT No.: OAG 19/10-2400

December 27, 2017

Date

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

KILI BIKINI LOCAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2010

KILI BIKINI LOCAL GOVERNMENT

Year Ended September 30, 2010

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INDEPENDENT AUDITORS' REPORT

Mayor Anderson Jibas
Kili Bikini Local Government
Republic of the Marshall Islands:

We have audited the accompanying schedule of cash receipts and disbursements of the Kili Bikini Local Government (KBLGOV) for the year ended September 30, 2010. This financial statement is the responsibility of KBLGOV's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of 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 KBLGOV's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of inadequacies in KBLGOV accounting records, we were unable to form an opinion regarding the amount of cash disbursements in the accompanying schedule of cash receipts and disbursements.

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the receipts and disbursements of Kili Bikini Local Government accounting records maintained by the KBLGOV Trust Liaison and Support Office and is not intended to present fairly the financial position and results of operations of the Kili Bikini Local Government in conformity with accounting principles generally accepted in the United States of America.

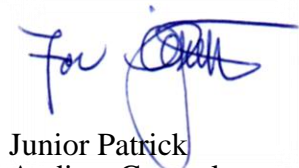
As discussed in Note 2 to the financial statement, the financial statement was prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had cash disbursements been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of Kili Bikini Local Government accounting records maintained by the KBLGOV Trust Liaison and Support Office for the year ended September 30, 2010, in accordance with the cash basis of accounting described in Note 2 to the financial statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2017, on our consideration of KBLGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The combining financial statement information on page 8 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of KBLGOV's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had cash disbursements been susceptible to satisfactory audit tests, the combining financial statement information is fairly stated, in all material respects, in relation to the financial statement as a whole.

December 27, 2017

A handwritten signature in blue ink, appearing to read "For [Signature]", is written over a faint rectangular stamp.

Junior Patrick
Auditor-General

KILI BIKINI LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements
Year Ended September 30, 2010

Cash receipts:

Distribution from Bikini Claims Trust Fund	\$	3,143,149
Rebates		161,942
Utility fees		38,160
Food revenues		23,993
RMI Local Government Fund		11,500
Deposit wholesaler		5,119
Miscellaneous		<u>3,621</u>
Total cash receipts		<u>3,387,484</u>

Cash disbursements:

Section 177 distribution payments		3,141,084
Per diem		91,996
Travel		37,097
Salary payments		33,133
Grant		12,067
Gift		7,335
Social Security		7,184
Housing		4,000
Car/auto		2,659
Food purchases		2,248
Bank Charges		1,475
Miscellaneous		<u>44,010</u>
Total cash disbursements		<u>3,384,288</u>

Net change in cash \$ 3,196

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

KILI BIKINI LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Year Ended September 30, 2010

(1) Organization

The Kili Bikini Local Government (KBLGOV) was established pursuant to Section 13(1) of the Local Government Act 1980, the Ordinance. KBLGOV is governed by an elected Mayor, council members, and representatives.

The accompanying financial statement relates solely to those accounting records maintained by the KBLGOV Trust Liaison and Support Office located on Majuro Atoll, and does not incorporate any accounts related to the Bikini Claims Trust Fund, the Bikini Resettlement Trust Fund, or any other departments or agencies of KBLGOV that may be accounted for outside of the KBLGOV Trust Liaison and Support Office.

The KBLGOV Trust Liaison and Support Office is responsible for the day-to-day administration of KBLGOV operations on Majuro Atoll. The Trust Liaison and Support Office maintains several bank accounts in order to function in this capacity. These bank accounts are comprised of the following:

- Section 177 Distribution Account - accounts for the receipt and disbursement of quarterly distribution payments in accordance with Article II of the Agreement between the Government of the United States and the Government of the Republic of the Marshall Islands (RepMar) for Implementation of Section 177 of the Compact of Free Association (the Compact).
- Council Account - accounts for the receipts and disbursements of rebates receive from the Fund Manager, UBS. The Council is allowed to use a certain percentage of the Claims Trust Fund and the Resettlement Trust Fund to pay for the commission. The commission is set at a certain amount and once it has reached that amount, anything over that is remitted to the Council to be used for whatever the Council decides. The Council Account also receives funds from RepMar's Local Government Fund.
- Revenue Account - accounts for the receipts and disbursements of funds received from diver visits and other revenues deposited into the account such as payment of electricity and water from the U.S. Department of Energy who are stationed on Bikini Atoll.

In addition to the above accounts, KBLGOV maintains the following investment trust funds:

- Bikini Claims Trust Fund - accounts for funds received under Article II, Section 2, of the Agreement.
- Bikini Resettlement Trust Fund - accounts for United States Congress appropriations under United States Public Law 97-257 to assist in the resettlement of Kili Island by the people of Bikini.

These investment accounts are separately maintained by a trustee located in the United States of America.

KILI BIKINI LOCAL GOVERNMENT

Notes Schedule of Cash Receipts and Disbursements Year Ended September 30, 2010

(1) Organization, Continued

Bikini Claims Trust Fund:

The Bikini Distribution Authority (the Distribution Authority) was established pursuant to Section 177 of the Compact. The Distribution Authority was established to satisfy requirements of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Article III of the Agreement establishes KBLGOV as the Distribution Authority.

Section 177(c) of the Compact provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement. Pursuant to the Agreement, RepMar established the Nuclear Claims Trust Fund (NCTF) from which these distributions are made. The Distribution Authority is to receive \$75,000,000 from the NCTF, in payment of claims arising out of the Nuclear Testing Program for loss or damage to property and person of the people of Bikini, to be disbursed in quarterly amounts of \$1,250,000, commencing one calendar quarter after the effective date (October 21, 1986) of the Compact. These funds shall be distributed, placed in trust or otherwise invested as the Distribution Authority may determine consistent with the Agreement. Accordingly, the Distribution Authority established the Bikini Claims Trust Fund. Pursuant to the Bikini Claims Trust Fund agreement, the trustee, upon receipt of each quarterly payment, distributes 48% to the Distribution Authority, for distribution to the people of Bikini. These distributions are based on an approved distribution scheme. The remaining 52% is retained and added to the corpus of the Bikini Claims Trust Fund.

The trust agreement was amended on July 25, 2002 (retroactive to the quarter ended March 31, 2002) to allow for quarterly distributions to the Distribution Authority at the rate of 1.25% of the average market value of the Bikini Claims Trust Fund for the previous three fiscal years.

The trust agreement was further amended in August of 2005 to allow for a 3% distribution in lieu of the 1.25% quarterly distribution in the event of an unforeseen natural disaster or other similar circumstance to occur no more frequently than every three years, provided the value of the trust fund has increased as of the preceding fiscal year ends.

Bikini Resettlement Trust Fund:

The resettlement Trust Fund for the People of Bikini was established by the U.S. Congress under Public Law No. 97-257 on October 16, 1982 and a trust agreement approved by the people of Bikini and the Secretary of the Interior effective October 18, 1982. The trust agreement was amended on October 26, 1988 in order to comply with Public Law No. 100-446.

(2) Basis of Accounting

The KBLGOV Trust Liaison and Support Office's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Consequently, receipts are recognized when received and disbursements are recognized when paid. Noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

KILI BIKINI LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Year Ended September 30, 2010

(3) Budget Process

The Constitution of KBLGOV stated that “no taxes shall be imposed and no other revenue shall be raised, and no money of the Local government shall be expended unless authorized by Law.

(4) Cash

Custodial credit risk is the risk that in the event of a bank failure, KBLGOV’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. KBLGOV does not have a deposit policy for custodial credit risk.

At September 30, 2010, the carrying amount of KBLGOV’s total cash was \$52,754, which corresponds to the bank balance. Of the bank balance amount, \$36,488 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$36,488 were FDIC insured. The remaining bank deposits of \$16,266 are maintained in a financial institution not subject to depository insurance. KBLGOV 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.

(5) Distribution from the Bikini Claims Trust Fund

Distributions to the people of Bikini, on a per capita basis, are based on a distribution scheme approved by KBLGOV. During the year ended September 30, 2010, the following distributions were made from the Bikini Claims Trust Fund for the purpose of funding quarterly distribution payments to the people of Bikini:

1.25% distribution from corpus:	
November 28, 2009	\$ 797,405
February 28, 2010	753,170
May 28, 2010	814,721
August 28, 2010	<u>777,853</u>
	<u>\$ 3,143,149</u>

(6) Bikini Claims Trust Fund

At September 30, 2010, the fair market value of investments available for future distributions maintained by the Bikini Claims Trust Fund are as follows:

Equity securities	\$ 55,222,359
Partnerships	484,365
Money market funds	419,224
Other	<u>49,997</u>
	<u>\$ 56,175,945</u>

KILI BIKINI LOCAL GOVERNMENT

Notes Schedule of Cash Receipts and Disbursements
Year Ended September 30, 2010

(7) Bikini Resettlement Trust Fund

At September 30, 2010, the fair market value of investments maintained by the Bikini Resettlement Trust Fund are as follows:

Equity securities	\$ 80,220,874
Debt securities	567,053
Money market funds	1,237,383
Other	<u>28,188</u>
	<u>\$ 82,053,498</u>

(8) Long-term Debt

In 1997 and 1998, KBLGOV entered into promissory notes of \$8,000,000 and \$1,250,000, respectively. As security, distributable income from the Bikini Resettlement Trust Fund was pledged to secure repayment of the notes. In 2001, these notes were refinanced into one note and an additional \$1,000,000 was borrowed. The outstanding balance on this new consolidated note as of September 30, 2010, was \$5,469,603.

(9) Subsequent Event

On January 17, 2011, the Council of KBLGOV obtained a short-term loan from Bank of the Marshall Islands in the amount of \$850,000 for the purpose of advance funding a special distribution to the people of Bikini.

KILI BIKINI LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
Year Ended September 30, 2010

	Section 177 Distribution <u>Account</u>	Council <u>Account</u>	Revenue <u>Account</u>	<u>Total</u>
Cash receipts:				
Distribution from Bikini Claims Trust Fund	\$ 3,143,149	\$ -	\$ -	\$ 3,143,149
Rebates	-	161,942	-	161,942
Utility fees	-	-	38,160	38,160
Deposit wholesaler	-	-	5,119	5,119
Food revenues	-	23,993	-	23,993
RMI Local Government Fund	-	11,500	-	11,500
Miscellaneous	<u>1,181</u>	<u>2,070</u>	<u>370</u>	<u>3,621</u>
Total cash receipts	<u>3,144,330</u>	<u>199,505</u>	<u>43,649</u>	<u>3,387,484</u>
Cash disbursements:				
Section 177 distribution payments	3,141,084	-	-	3,141,084
Per diem	-	91,996	-	91,996
Travel	-	34,351	2,746	37,097
Salary payments	-	-	33,133	33,133
Grant	-	12,067	-	12,067
Housing	-	-	4,000	4,000
Social security	-	-	7,184	7,184
Car/auto	-	-	2,659	2,659
Food purchases	-	2,248	-	2,248
Bank charges	1,364	-	111	1,475
Gift	-	7,335	-	7,335
Miscellaneous	<u>-</u>	<u>41,982</u>	<u>2,028</u>	<u>44,010</u>
Total cash disbursements	<u>3,142,448</u>	<u>189,979</u>	<u>51,861</u>	<u>3,384,288</u>
Net change in cash	<u>\$ 1,882</u>	<u>\$ 9,526</u>	<u>\$ (8,212)</u>	<u>\$ 3,196</u>

See Accompanying Independent Auditors' Report.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mayor Anderson Jibas
Kili Bikini Local Government
Republic of the Marshall Islands:

We have audited the financial statement of the Kili Bikini Local Government (KBLGOV) for the year ended September 30, 2010, and have issued our report thereon dated December 27, 2017, which report was qualified with respect to the inadequacy of accounting records over cash disbursements. Except as discussed in the preceding sentence, we conducted our 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered KBLGOV's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of KBLGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KBLGOV'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-001, 2010-002, 2010-005 and 2010-006 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KBLGOV's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-003 and 2010-004.

KBLGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit KBLGOV's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Council members, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

December 27, 2017



Junior Patrick
Auditor-General



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Mayor Anderson Jibas
Kili Bikini Local Government
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Kili Bikini Local Government (KBLGOV) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2010. KBLGOV's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of KBLGOV's management. Our responsibility is to express an opinion on KBLGOV's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KBLGOV's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of KBLGOV's compliance with those requirements.

In our opinion, KBLGOV complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

The management of KBLGOV is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered KBLGOV's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KBLGOV's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statement of KBLGOV for the year ended September 30, 2010, and have issued our report thereon dated December 27, 2017, which report was qualified with respect to the inadequacy of accounting records over cash disbursements. Our audit was performed for the purpose of forming an opinion on the financial statement taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statement. This schedule is the responsibility of the management of KBLGOV. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

This report is intended solely for the information and use of management, the Council members, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

December 27, 2017



Junior Patrick
Auditor-General

KILI BIKINI LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards Year Ended September 30, 2010

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Prior Year Fund Carried Over October 1, 2009</u>	<u>Net Earnings on Funds</u>	<u>Federal Expenditures</u>	<u>Available Funds September 30, 2010</u>
	<u>U.S. Department of the Interior</u>				
	Funds passed through the Republic of the Marshall Islands:				
15.875	The Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association	<u>\$ 54,473,297</u>	<u>\$ 4,841,457</u>	<u>\$ 3,143,149</u>	<u>\$ 56,171,605</u>

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$56,171,605 remains invested in the

Bikini Claims Trust Fund, a permanent fund of KBLGOV. Funds expended during the year ended September 30, 2010, are represented by transfers out to the Bikini Distribution Authority of \$3,143,149 for distributions.

See accompanying notes to schedule of expenditures of federal awards.

KILI BIKINI LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2010

(1) Scope of Audit

The Kili Bikini Local Government (KBLGOV) is a governmental entity governed by its own Constitution. All significant operations of KBLGOV are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as KBLGOV's cognizant agency for the Single Audit.

CFDA # 15.875: Section 177 of the Compact of Free Association (the Compact)

KBLGOV is the sub recipient of funds received through Section 177 of the Compact of Free Association from the Republic of the Marshall Islands (RepMar). These funds must be distributed in accordance with the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Marshall Islands, dated July 31, 1986. It has been determined these funds are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be expended in compliance with local laws and regulations and Compact intent.

(2) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the cash basis of accounting, consistent with the manner in which KBLGOV maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. The information in the Schedule of expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

Indirect Cost Allocation

KBLGOV has not entered into an approved indirect cost negotiation agreement covering fiscal year 2010. KBLGOV did not charge federal programs for indirect costs during fiscal year 2010.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs Year Ended September 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified that are not considered to be material weakness(es)? | None reported |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|---|---------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified that are not considered to be material weakness(es)? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. KBLGOV's one major program is as follows: | |

<u>CFDA #</u>	<u>Name of Federal Program</u>
15.875	Economic, Social and Political Development of the Territories and the Freely Associated States: Section 177 of the Compact of Free Association

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. KBLGOV qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>
2010-001	Distributions
2010-002	Segregation of Duties
2010-003	Budget and Appropriations
2010-004	RMI Procurement Code
2010-005	Documentation and File Maintenance
2010-006	Bank Reconciliations

Section III - Federal Award Findings and Questioned Costs

No federal award findings are reported for the year ended September 30, 2010.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-001
Area: Distributions

Criteria: KBLGOV has a responsibility requiring that Section 177 distribution payments be paid to eligible recipients.

Condition: Distribution payments appeared to be collected without proper authorization and checks issued directly to banks were not evidenced by supporting allotment authorization forms. For sixty-one distribution payments tested, the checks were collected by individuals other than the designated payee. No documentation was maintained on file evidencing authorization for banks or individuals other than the designated payee to collect distribution checks. Furthermore, we noted two children whose distribution payments were claimed by their father's side of the family for more than 14 years. The children did not appear to have benefitted from these payments as they apparently were living with their mother. Finally, we noted two individuals receiving distribution payments even though they are separated from their Bikinian spouse.

Cause: The cause of the above condition is the lack of established internal control policies over the distribution of Section 177 benefit payments.

Effect: The effect of the above condition is the potential for unauthorized receipt by recipients of Section 177 benefit payments.

Recommendation: We recommend that KBLGOV establish internal control procedures over the payment and distribution of Section 177 payments requiring that eligible individuals be paid and benefit from distribution payments. Furthermore, we recommend that KBLGOV perform eligibility checks on an annual basis; for instance, the head of household should be required to provide doctor's records or school records that would prove that the children claimed are part of the household. Also for the spouse, a utility bill or other documents could prove that the spouse has the same address and therefore are still living together.

Prior Year Status: The lack of internal control procedures over the payment and distribution of Section 177 payments was reported as a finding in the prior year Single Audit as item 2009-001.

Auditee's Response and Corrective Action Plan:

KBE established a committee for the distribution and payments of 177 payments to be paid to the eligible recipients. The said committee prepared a policies and list down the required documentations from each recipient. A separate log book also has been established to monitor for the release of check payment and required them to sign in the logbook.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-002
Area: Segregation of Duties

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

Condition: During the year ended September 30, 2010, we noted that there was no segregation of duties at KBLGOV as there is only one person in charge of processing and recording transactions and also has custody of the checks and is also a signatory on the bank accounts.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring that there is segregation of duties of the accounting functions.

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

Recommendation: We recommend that KBLGOV establish policies and procedures segregating accounting functions to guard against misappropriation of assets.

Prior Year Status: The lack of segregation of duties was reported as a finding in the prior year Single Audit as item 2009-002.

Auditee's Response and Corrective Action Plan:

We will make sure that all funds to be released or paid have been authorized first by the Mayor and the Executive Director of Finance. Once approved, the City Manager or the Chief Finance Officer (now) prepares the check and records the disbursement in our computerized accounting system (QuickBooks). The check was being signed by two (2) signatories out of our four (4) check signatories.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-003
Area: Budget and Appropriations

Criteria: Section 27(1) of the KBLGOV Constitution indicates that there shall be no revenues raised or money expended unless authorized by law. Additionally, Section 29(1)(a) states “The Executive Committee shall cause to be introduced into the Council in respect of each fiscal year a set of budget estimates of revenue and expenditure”.

Condition: During the year ended September 30, 2010, we noted that actual expenditures exceeded budget amounts by \$3,277,807. Furthermore, it was noted that Section 177 distribution income and expenditures, which is estimated to be more than \$3 million annually, and revenues from the RMI Local Government Fund, which are estimated to be \$15,000 annually, were not budgeted and appropriated.

Cause: The cause of the above condition is that KBLGOV did not budget and appropriate for all revenues received and expended.

Effect: The effect of the above condition is noncompliance with the KBLGOV Constitution.

Recommendation: We recommend that KBLGOV require compliance with the Constitution by budgeting and appropriating all expected revenues and expenditures.

Prior Year Status: The lack of compliance with the KBLGOV Constitution regarding budget estimates was reported as a finding in the prior year Single Audit as item 2009-003.

Auditee’s Response and Corrective Action Plan:

Our Fiscal year budget (October to September) was being prepared annually. The proposed budget has been reviewed and approved by the Mayor and Council. Once approved, this was being monitored by our Accounting department. Any exceeded amount in one item will be reprogrammed but subject to the approval of the Mayor and Council.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-004
Area: RMI Procurement Code

Criteria: RepMar’s Procurement Code states the following:

{a}. Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

{b}. Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

{c}. Section 128 - a contract may be awarded for a supply, service or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of forty-five (45) disbursements from the Council Account, supporting documentation was inadequate to evidence the procurement process for the following items:

Check No.	Date	Description	Amount
No ck #	12/3/2009	MiscExp	\$ 22,563
No ck #	12/3/2009	Food	\$ 1,430
8703	3/17/2010	Food	\$ 766
8758	4/20/2010	MiscExp:12th UBS rebate exp	\$ 5,000
8818	6/9/2010	Matching fund	\$ 2,500
8850	7/2/2010	Supplies:13th UBS rebate exp	\$ 5,252
8867	8/21/2010	Doc#679871 ejit school/house repair	\$ 1,425
8868	8/21/2010	Doc#679912 ejit school/ house repair	\$ 776
8869	8/21/2010	Doc#679909 ejit school/ house repair	\$ 889
8873	8/17/2010	in#825 ejit school/house repair	\$ 375
8847	7/1/2010	Food	\$ 504

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with applicable procurement requirements.

Effect: The effect of the above condition is noncompliance with the RMI Procurement Code.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-004, Continued
Area: RMI Procurement Code

Recommendation: We recommend that KBLGOV require that documentation be adequate to comply with the RMI Procurement Code. Specifically, documentation should indicate the history of procurement, including the rationale for contractor selection.

Prior Year Status: The lack of compliance with the RMI Procurement Code was reported as a finding in the prior year Single Audit as item 2009-004.

Auditee's Response and Corrective Action Plan:

KBE established a policy and procedure for the Procurement. This is being implemented with a quotations and a Purchase Order being approved by the Mayor and Executive for Finance.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-005
Area: Documentation and File Maintenance

Criteria: The Local Government Financial Memoranda No.1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to proof actual payments made.

Condition: Of forty-six (46) disbursements from the Council Account, no check copies were on file. Furthermore, the following items totaling \$87,434 were not supported by vendor invoices:

Check No.	Date	Amount	Discrepancies
8646	10/27/2009	\$ 1,800	No invoice on file
8647	10/27/2009	\$ 1,150	No invoice on file
8648	10/27/2009	\$ 1,150	No invoice on file
8649	10/27/2009	\$ 800	No invoice on file
8660	10/27/2009	\$ 1,150	No invoice on file
8661	10/27/2009	\$ 800	No invoice on file
8662	10/27/2009	\$ 800	No invoice on file
8663	10/27/2009	\$ 700	No invoice on file
8664	10/27/2009	\$ 800	No invoice on file
8665	10/27/2009	\$ 800	No invoice on file
No ck #	12/3/2009	\$ 22,563	No invoice on file
8703	3/17/2010	\$ 766	No invoice on file
8758	4/20/2010	\$ 5,000	No invoice on file
No ck #	4/21/2010	\$ 11,289	No invoice on file
8761	4/27/2010	\$ 1,700	No invoice on file
8762	5/9/2010	\$ 1,700	No invoice on file
8765	5/8/2010	\$ 300	No invoice on file
8782	5/8/2010	\$ 1,700	No invoice on file
8783	5/8/2010	\$ 1,700	No invoice on file
8784	5/8/2010	\$ 1,700	No invoice on file
8816	6/2/2010	\$ 2,620	No invoice on file
8817	6/2/2010	\$ 2,882	No invoice on file
8818	6/9/2010	\$ 2,500	No invoice on file
8819	6/9/2010	\$ 1,872	No invoice on file
8844	6/9/2010	\$ 1,000	No invoice on file
8850	7/2/2010	\$ 5,252	No invoice on file
8852	7/10/2010	\$ 1,900	No invoice on file

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-005, Continued
Area: Documentation and File Maintenance

Condition, Continued:

Check No.	Date	Amount	Discrepancies
8853	7/10/2010	\$ 2,000	No invoice on file
8854	7/10/2010	\$ 1,000	No invoice on file
8855	7/10/2010	\$ 1,000	No invoice on file
8863	8/7/2010	\$ 2,000	No invoice on file
8866	8/11/2010	\$ 250	No invoice on file
8867	8/21/2010	\$ 1,425	No invoice on file
8868	8/21/2010	\$ 776	No invoice on file
8869	8/21/2010	\$ 889	No invoice on file

Of sixteen (16) disbursements from the Revenue Account, the following items totaling \$18,316 were not supported by vendor files/check copies:

Check No.	Date	Amount	Discrepancies
2501	10/1/2009	\$ 1,120	No vendor file
2502	10/1/2009	\$ 1,693	No vendor file
2503	10/1/2009	\$ 500	No vendor file
2505	10/6/2009	\$ 3,372	No vendor file
2526	7/1/2010	\$ 1,740	No check copy on file
2529	8/1/2010	\$ 810	No check copy on file
2691	11/2/2009	\$ 750	No vendor file
2693	11/2/2009	\$ 349	No vendor file
2693	11/2/2009	\$ 349	No vendor file
2704	1/8/2010	\$ 1,932	No check copy on file
2706	1/29/2010	\$ 349	No vendor file
2725	4/5/2010	\$ 1,740	No check copy on file
2744	7/5/2010	\$ 1,512	No check copy on file
2758	9/6/2010	\$ 1,000	No check copy on file
2759	9/6/2010	\$ 1,000	No check copy on file
2764	9/20/2010	\$ 100	No check copy on file

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-005, Continued
Area: Documentation and File Maintenance

Cause: The cause of the above condition is that the new management was unable to locate the supporting documents.

Effect: The effect of the above condition is that we were unable to verify the propriety of the above disbursements. An opinion qualification on cash disbursements results.

Recommendation: We recommend that management require that checks and supporting invoices be properly maintained on file for reference and for audit purposes.

Prior Year Status: The lack of supporting vendor files/vendor invoices/check copies was reported as a finding in the prior year Single Audit as item 2009-005.

Auditee's Response and Corrective Action Plan:

We will make sure now that all accounting documents (checks, invoices and others) were properly filed by vendors and check numbers. In addition, we will make sure that all receipts and invoices are attached in the released and paid check.

KILI BIKINI LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-006
Area: Bank Reconciliations

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

Condition: No monthly bank reconciliations were available for the year ended September 30, 2010 for each of KBLGOV's bank accounts. (Sec. 177 bank account, Council bank account, Revenue bank account and USDA Food bank account). Per discussion with the Liaison Officer, he indicated that he did perform the bank reconciliations; however, he may have forgotten to print the reconciliation report for file.

Additionally, the 177 bank reconciliation did not tie to the general ledger by \$1,291 and we were unable to determine the difference.

Cause: The cause of the above condition is the lack of oversight by the Executive members and the Mayor to ensure that bank reconciliations are properly performed and filed.

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

Recommendation: We recommend that KBLGOV ensures that monthly bank reconciliations are performed and filed on a regular basis.

Prior Year Status: The lack of internal controls over the performance of bank reconciliations was reported as a finding in the prior year Single Audit as item 2009-006.

Auditee's Response and Corrective Action Plan:

KBE Accounting department are responsible for the bank reconciliations of all bank accounts. This should be done on a monthly basis.

Overall, a KBE financial management manual (policies and procedures) was being prepared and this will be implemented the soonest once approved by the Mayor and Council.

KILI BIKINI LOCAL GOVERNMENT

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report.

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

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