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December 27, 2017

Honorable Anderson Jibas  
Mayor  
Kili/Bikini Local Government

Dear Mayor Jibas:

In planning and performing our audit of the financial statement of the Kili/Bikini Local Government (KBLGOV) for the year ended September 30, 2011, (on which we have issued our report dated December 27, 2017), 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 KBLGOV'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 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 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 KBLGOV's internal control over financial reporting and other matters for the year ended September 30, 2011 that we wish to bring to your attention.

We have also issued a separate report to you, also 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 agreement and other matters.

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

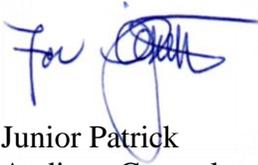
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

Very truly yours,

A handwritten signature in blue ink, appearing to read "Junior Patrick", is written over a faint, light-colored rectangular stamp or watermark.

Junior Patrick  
Auditor- General

## SECTION I- CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KBLGOV's internal control over financial reporting for the year ended September 30, 2011 that we wish to bring to your attention:

### **(1) Cash Receipts**

During the year ended September 30, 2011, we noted that KBLGOV collected and deposited \$8,260 in total local revenues excluding trustee rebates and grants, however, there was no evidence that cash receipts were issued as support for revenues collected. We were informed by the Liaison Officer that cash receipts were not issued as many of the transactions were received through wire transfers.

We recommend that KBLGOV issue official cash receipts to customers when collecting business fees and other revenues for transparency and accountability.

### **(2) Council Minutes**

During our examination, the following Council minutes we not signed:

- October 5, 2010
- October 6, 2010
- February 15, 2011
- March 9, 2011

We recommend that Clerk ensures that meeting minutes are signed as to their accuracy. We also recommend that the Mayor also be involved in reviewing and certifying the completeness and accuracy of the minutes.

### **(3) Inaccurate Financial Statement Reports**

During our audit, we noted that numbers provided in the trial balance did not tie to the general ledger. The trial balances provided for our examination were prepared manually and not printed directly from the Quicken accounting system.

We recommend that the Executive Committee get involve with periodic review of the financial statements to ensure proper accounts and records are maintained. This review should be evident by the signature of those involved.

### **(4) Cancelled Checks**

During our examination, we noted that Bank of Guam cancelled checks were not maintained on file for reference as the bank does not return these checks to customers.

We recommend that KBLGOV establish internal control policies and procedures requiring cancelled checks to be maintained and safeguarded for reference and for audit purposes

**SECTION I- CONTROL DEFICIENCIES,**

**(5) Fixed Assets**

The KBLGOV does not maintain a fixed assets register and assets are also not tagged. No inventory of fixed assets was performed during the year ended September 30, 2011.

We recommend that KBLGOV establish policies and procedures over the safeguarding of fixed assets from loss, damage or theft.

**(6) Standard Accounting Forms**

The KBLGOV did not utilize the above accounting forms during the year ended September 30, 2011. We were informed by the Liaison Officer, who is in charge of the accounting and recording of the transactions that in order for a check to be processed, he only needs a signed request letter from the Mayor.

We recommend that KBLGOV establish policies and procedures requiring the use of these standard accounting forms in order to streamline purchases and travel and to ensure that only authorized expenditures approved in the budget are incurred.

**(7) Accounting Policies and Procedures Manual**

KBLGOV has not establish an accounting policy manual to guide employees in their daily activities.

We recommend that KBLGOV establish an accounting policies manual that would guide employees in handling the daily accounting transactions.

**(8) Local Government Fund (LGF) Financial Reports**

KBLGOV receives \$15,332 on an annual basis from the Ministry of Finance for its share of the LGF. For the year ended September 30, 2011, KBLGOV only received \$11,500 from the LGF Fund.

We recommend that KBLGOV ensures that financial reports are submitted in a timely manner in order to receive the full payments from the LGF fund each quarter.

**(9) Food Program Distribution Report**

During our testing of twenty-four (24) expenditures of the Food program, we were unable to ascertain that food was distributed properly to the people as distribution reports were not made available for our examination for June 2011 and August 2011.

We recommend that KBLGOV ensures that Food distribution reports are maintained on file to evidence distribution of food to the people.

**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**

KBLGOV'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.