

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

LIKIEP LOCAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

PERIOD FROM OCTOBER 1, 2012 THROUGH SEPTEMBER 30, 2016



AUDIT No.: OAG 07/17-5130

August 7, 2019

Date

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

LIKIEP ATOLL LOCAL GOVERNMENT

Period from October 1, 2012 through September 30, 2016

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor Veronica Wase
Likiep Atoll Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Likiep Atoll Local Government (the Likiep Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2012 through September 30, 2016, and the related notes to the financial statement. This financial statement is the responsibility of the Likiep Government.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2 to this financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 matter 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 Disclaimer of Opinion

Because of inadequacies in the accounting records of the Likiep Government, we are unable to form an opinion regarding the amounts recorded as cash receipts and cash disbursements in the accompanying financial statement stated at \$173,328 and \$190,042, respectively.

Disclaimer of Opinion

Because of the significance of the matter described 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 this financial statement.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

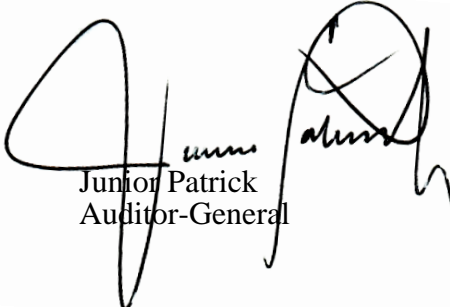
Other Supplementary Information

The Combining Schedule of Cash Receipts and Disbursements on page 6 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the engagement to audit 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 standards generally accepted in the United States of America. Because of the significance of the matter described in the Basis of Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the other supplementary information in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2019, on our consideration of the Likiep Government’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 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 internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit with *Government Auditing Standards* in considering the Likiep Government’s internal control over financial reporting and compliance.

August 7, 2019



Junior Patrick
Auditor-General

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2016

Cash receipts:		
RepMar contributions:		
ROC Fund (OIEDF)	\$	84,989
Local Government Fund (LGF)		42,735
Grant-In-Aid		11,692
Other revenue		1,235
Unreported/unidentified deposits		<u>32,677</u>
Total cash receipts		<u>173,328</u>
Cash disbursements:		
ROC Fund (OIEDF)		84,989
Salary and Wages		24,095
Grant-in-aid		11,692
Equipment/Repair		355
MIMA/Sitting Fee		9,480
Travel		3,400
Unreported/unidentified disbursements		<u>56,031</u>
Total cash disbursements		<u>190,042</u>
Net change in cash	\$	<u>(16,714)</u>

See Accompanying Notes to Financial Statement.

LIKIEP ATOLL LOCAL GOVERNMENT

Notes to Financial Statement
Period from October 1, 2012 through September 30, 2016

(1) Organization

The Likiep Atoll Local Government (the Likiep Government) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of the Likiep Government. The Likiep Government is governed by an elected mayor, council members and representatives.

(2) Basis of Accounting

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

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

(3) Cash

As of September 30, 2016, the carrying amount of the Likiep Government's total cash was overdrawn by \$100, which corresponds to the bank balance and which is maintained in a local financial institution that is not subject to Federal Deposit Insurance Coverage (FDIC). The Likiep Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Likiep Government states that "no taxes shall be imposed and no other revenues shall be raised and no money of the Local Government shall be expended, unless authorized by law".

LIKIEP ATOLL LOCAL GOVERNMENT

Notes to Financial Statement
Period from October 1, 2012 through September 30, 2016

(5) RepMar Contributions

The Likiep Government receives annual grant funding from RepMar's Local Government Fund (LGF), which is distributed on a quarterly basis. This quarterly allotment is contingent upon the Likiep Government providing financial reports and supporting documents. For the period from October 1, 2012 through September 30, 2016, the Likiep Government received \$42,735 from the LGF. The Likiep Government also receives annual appropriation grant funding from RepMar under the Outer Islands Economic Development Fund (OIEDF) administered by RepMar's Ministry of Finance, Banking and Postal Services. The disbursement of this grant fund is contingent upon the Likiep Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2016, the Likiep Government received a total of \$84,989 under this grant. Finally, the Likiep Government receives annual appropriation grant funding from RepMar under the Grant-in-Aid fund administered by RepMar's Ministry of Finance, Banking and Postal Services (Ministry of Finance). The disbursement of this grant fund is contingent upon the Likiep Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2016, the Likiep Government received a total of \$11,692 under this grant.

LIKIEP ATOLL LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Cash receipts:					
RepMar Contributions:					
ROC Fund (OIEDF)	\$ 2,284	\$ 35,892	\$ 34,633	\$ 12,180	\$ 84,989
Local Government Fund (LGF)	-	15,540	15,540	11,655	42,735
Grant-In-Aid	-	-	6,130	5,562	11,692
Other revenue	-	635	360	240	1,235
Unreported/unidentified deposits	<u>15,265</u>	<u>12,487</u>	<u>140</u>	<u>4,785</u>	<u>32,677</u>
 Total cash receipts	 <u>17,549</u>	 <u>64,554</u>	 <u>56,803</u>	 <u>34,422</u>	 <u>173,328</u>
Cash disbursements:					
OIEDF (ROC Fund)	2,284	35,892	34,633	12,180	84,989
Salary and Wages	-	9,515	7,290	7,290	24,095
Grant-in-aid	-	-	6,130	5,562	11,692
Equipment/Repair	-	200	155	-	355
MIMA/Sitting Fee	-	3,720	2,880	2,880	9,480
Travel	-	1,360	1,020	1,020	3,400
Unreported/unidentified disbursements	<u>15,829</u>	<u>12,635</u>	<u>16,218</u>	<u>11,349</u>	<u>56,031</u>
 Total cash disbursements	 <u>18,113</u>	 <u>63,322</u>	 <u>68,326</u>	 <u>40,281</u>	 <u>190,042</u>
 Net change in cash	 <u>\$ (564)</u>	 <u>\$ 1,232</u>	 <u>\$ (11,523)</u>	 <u>\$ (5,859)</u>	 <u>\$ (16,714)</u>

See Accompanying Independent Auditors' Report.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE ENGAGEMENT TO AUDIT THE FINANCIAL STATEMENT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor Veronica Wase
Likiep Atoll Local Government
Republic of the Marshall Islands

We were engaged to audit, in accordance with the 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, the financial statement of the Likiep Atoll Local Government (the Likiep Government) for the period from October 1, 2012 through September 30, 2016, and the related notes to the financial statement and have issued our report thereon dated August 7, 2019. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statement due to inadequacies in the accounting records.

Internal Control Over Financial Reporting

In planning the engagement to audit the financial statement, we considered the Likiep Government'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Likiep Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Likiep Government'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.

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 *Finding No. 1, Finding No. 2, Finding No. 4, Finding No. 7, and Finding No. 8* to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Likiep Government'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 engagement to 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 Responses as *Finding No. 3, Finding No. 5, Finding No. 6, Finding No. 9, Finding No. 10, Finding No. 11, and Finding No.12.*

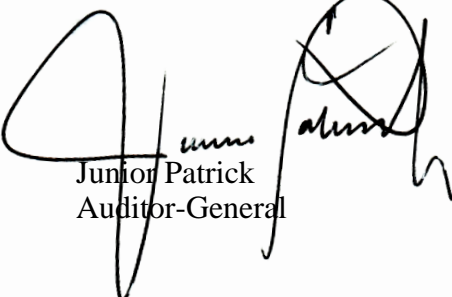
The Likiep Government's Response to Findings

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

Purpose of the 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 the 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.

August 7, 2019.



Junior Patrick
Auditor-General

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2016

Finding No. 1

Local Noncompliance (Accounting System)

Criteria: All local governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the Ministry of Culture and Internal Affairs (Ministry of Internal Affairs). Included in the accounting system are forms developed to be used such as cash receipts and cash disbursements journals, personnel action, collection cards, purchase order, budget control worksheet, and several others for proper record keeping. Furthermore, Section 30 (1) of the Likiep Government Constitution states, in relevant parts, that the Executive Committee shall cause to be kept full and proper accounts and records of revenues, expenditures, assets and liabilities of the local government.

Condition: During the periods under audit, the Likiep Government did not adopt the accounting system established by the Ministry of Internal Affairs. The prescribed accounting forms described in the above criteria were not being utilized.

Cause: The cause of the above condition is the lack of adherence to established Policy by the Likiep Government and oversight by the Ministry of Internal Affairs and the Ministry of Finance requiring the Likiep Government to adopt and follow the accounting system established for all local governments.

Effect: The effect of the above condition is that the Likiep Government did not follow the Financial Memoranda No. 1987-1 which diminishes accountability over the government's Financial resources. It also resulted in the followings:

- Inability to perform an audit of a complete set of financial statements.
- Financial transactions not recorded properly into a general ledger.
- Inability to verify accuracy of revenues collected and reported.
- Inability to verify that expenses were properly authorized and paid as a result of lack of utilization of accounting forms.

Recommendation:

- 1) We recommend that the Likiep Government adopt and follow the accounting system established by the Ministry of Internal Affairs in order to improve accountability over its financial operations.
- 2) We further recommend that the Ministry of Internal Affairs and the Ministry of Finance require that the Likiep Government fully adopt and follow the accounting system.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 1, Continued

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 2

Revenues and Expenditures Under-Reported

Criteria: All revenues and expenditures should be properly accounted for and adequately supported and reported.

Condition: Based on our comparative and analytical review of the amounts reported in the quarterly financial reports for deposits and disbursements and amounts per the bank statements, we noted that revenues and expenses were under-reported as indicated in the Tables below.

Receipts:

Periods	Quarterly Reports	Bank Statements	Variance
FY 2013	\$ 275	\$15,540	\$(15,265)
FY 2014	15,900	28,387	(12,487)
FY 2015	15,900	16,040	(140)
FY 2016	11,895	16,860	(4,965)

Disbursements:

Periods	Quarterly Reports	Bank Statements	Variance
FY 2013	\$ 3,605	\$ 19,434	\$ (15,829)
FY 2014	11,190	23,825	(12,635)
FY 2015	11,190	27,408	(16,218)
FY 2016	11,345	22,694	(11,349)

Cause: The cause of the above is the lack of proper review of the quarterly financial reports by Ministry of Internal Affairs to ensure financial reports are accurate and complete.

Effect: The effect of the above is the inaccurate financial reporting and the possibility that revenues and expenditures were not properly accounted for by the Likiep Government.

Recommendation:

- 1) We recommend that the Likiep Government ensure all revenues and expenditures are properly reported in the quarterly financial reports.
- 2) We recommend that Ministry of Internal Affairs properly review the quarterly financial reports to ensure revenues and expenditures are properly accounted for and reported.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 2, Continued

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 3

Local Noncompliance (Quarterly Financial Reports)

Criteria: Financial Reports should be accurate and accompanied by underlying supporting documentations. Additionally, the Financial Memoranda No. 1987-1 Section I (B) requires that the financial reports must be filed by no later than 15th of January, April, July, and October each year.

Condition: Based on our examination of the Likiep Government's financial reports, the following discrepancies were noted:

1. All financial reports for FY 2013 were not available for examination.
2. No bank statements and cancelled checks were provided with the financial reports.
3. The financial report for 1st quarter FY2016 was missing from file.

Cause: The cause of the above condition is the lack of adherence to the Financial Memoranda No. 1987-1 by the Likiep Government and lack of consistency in the use of the Checklist that is required to be completed by the Officials of the Local Government Division when receiving the quarterly financial reports from a local government. The form provides for official acknowledgements and date received by and is required to be attached with the purchase requisition (PR) submitted to the Secretary of Ministry of Internal Affairs for approval before the PR is transmitted to the Ministry of Finance for payment. In addition, we observed a physical security weakness over Local Government files as files are accessible to anyone entering the Local Government Office.

Effect: The effect of the above condition is that the Likiep Government was not in compliance with the reporting requirements established under the Financial Memoranda 1987-1. Additionally, we are unable to perform test procedures to compare budgeted amounts to actual expenditures due to missing financial information.

Recommendation:

- 1) We recommend that the Likiep Government adheres to reporting requirements as dictated in the Financial Memoranda No. 1987-1.
- 2) We recommend that the Ministry of Internal Affairs address these compliance issues with the Likiep Government on a regular basis. We specifically recommend that the Local Government Division complete the required Checklist every time the quarterly financial reports are received from the local government to indicate review and certification. In addition, we recommend that Local Government Division addresses security and safety of Local Government files.
- 3) We recommend that the Ministry of Finance should thoroughly review the Likiep Government reports to ensure proper supporting documentation prior to release of payment to the Likiep Government.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 3, Continued

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 4

Bank Reconciliation

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

Condition: The Likiep Government did not reconcile its bank account for the entire periods under review.

Cause: The cause of the above condition is the lack of oversight by the Likiep Government to ensure that bank reconciliations are performed on a regular basis.

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

Recommendation:

- 1) We recommend that the Likiep Government reconcile its bank account on a regular basis.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance require that the Likiep Government perform its bank reconciliation on a regular basis and require the monthly bank reconciliation to be provided with the financial reports.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 5

Local Noncompliance (Fixed Assets)

Criteria: The Local Government Accounting system requires that a local government should maintain a record of its fixed assets. Such register should document the type of assets acquired, costs of the assets, date of acquisition, location of the assets, and who has custody of the fixed assets. Additionally, the Likiep Government is required to file a report of property and equipment at the Local Government Affairs Division under the Ministry of Internal Affairs that was purchased under ROC fund (OIEDF).

Condition: The Likiep Government purchased several fixed assets during the periods under audit from the OIEDF fund and Grant-in-aid such as truck, Generators, outboard motor and engines, High Back Chairs, solar panels totaling \$128,378, however, a fixed asset register was not maintained for these items.

Cause: The cause of the above condition is lack of monitoring and oversight to ensure the Likiep Government maintains a complete list of its fixed assets.

Effect: The effect of the above condition is the lack of compliance with established policies and procedures and possibility for misappropriation and misuse of public assets that may not be detected and corrected in a timely manner.

Recommendation:

- 1) We recommend the Likiep Government ensure all fixed assets acquired are recorded in a fixed assets register and that these assets are tagged and allocated a unique identification number to indicate the Likiep Government ownership.
- 2) We recommend the Ministry of Internal Affairs to work with the Likiep Government to ensure a fixed assets register is maintained for all assets purchased.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 6

Local Noncompliance – Income Taxes, Health Fund and Social Security Taxes

Criteria: The Income Tax Act of 1989 states that income tax shall be collected at a rate of eight percent (8%) upon the first \$10,400, to be prorated at \$200 per week, or \$866.67 per month, and twelve percent (12%) upon the amount over \$10,400, as prorated by pay period, of all wages and salaries received by every employee, except as provided in subsections (2) and (3) of this Section. Every employer is required to deduct and withhold the tax imposed and shall pay such tax to the Secretary of Finance.

The Social Security Tax Act of 1990, states that a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. The worker's contributions to the Fund shall be collected by the employer of the worker, by deducting the amount of the contributions due from the worker's earnings, and the employer shall remit the same to the Administration along with the employer's contributions.

The Marshall Health Fund Act of 2002 requires every employer to pay 3.5% of their covered earnings to the Health Fund. It also requires that every employer shall remit the same to the Administration along with the employer's contributions.

Condition: For the periods under audit, the Likiep Government paid a total of \$47,180 in salaries and wages, however; no taxes were withheld for Income Tax, Social Security Tax, and Health Fund Tax and remitted to respective entities.

Cause: The cause of the above condition is the lack of adherence with the Income Tax Act, the Social Security Tax Act and the Health Fund Tax Act.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002.

Recommendation: We recommend that Likiep Government comply with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 7

Local Revenues/Cash Receipts

Criteria: Pursuant to the Local Government Act 1980, Section 106, Power to make ordinances states “(a) A Local Government may make ordinance for the area in respect of which it has jurisdiction, provided that such ordinances are not inconsistent with any Act”; and (b) “an ordinance may provide for the levying of taxes and for the appropriation of funds for local purposes.” The Accounting System established by the Republic of the Marshall Islands Ministry of Internal Affairs requires that cash receipts be issued for all monies received by all local governments.

Condition: The Likiep Government Financial Reports disclosed that local revenues were generated totaling \$1,235, however, we were unable to obtain copies of ordinances enacted to support the type of tax fee collected. In addition, we were unable to see copies of receipts issued for tax collection for those locally-generated revenues.

Cause: The cause of the above condition is the lack of adherence with the Local Government Accounting System requiring the issuance of cash receipts and the utilization of the cash receipts journal.

Effect: The effect of the above condition is noncompliance with the documentation requirement established in the Accounting System for Local Government. In addition, there is a possibility for misappropriation of local revenues and other collections which may not be detected and corrected in a timely manner. We have also issued a disclaimer of opinion on the cash receipts due in part because of our inability to test the accuracy of cash collections.

Recommendation: We recommend that the Likiep Government issue official cash receipts to customers when collecting fees and other revenues as required by the accounting system established for Local Governments.

Auditee’s Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 8

Outer Islands Economic Development Fund (ROC Fund)

Criteria: Section VII (E) of the OIEDF Policy require that a local government, at the end of the fiscal year, will report the money used in an annual financial report. The financial report must include receipts for all purchases made under the OIEDF as well as communications to include management and operations of the projects.

Condition: The Likiep Government did not prepare and submit annual financial reports for the funding it received from the OIEDF totaling \$84,988 during the entire periods under audit from FY 2013 through FY 2016.

Cause: The cause of the above condition is the lack of adherence to OIEDF Policy by the Likiep Government. Additionally, there is a lack oversight by the Ministry of Internal Affairs to ensure the Likiep Government comply with this financial reporting requirement.

Effect: The effect of the above condition is the Likiep Government was not in compliance with financial requirements as promulgated in the OIEDF rules and procedures.

Recommendation: We recommend that the Likiep Government comply with the financial reporting requirements as set forth in the OIEDF rules and procedures. Additionally, we recommend that the Ministry of Internal Affairs require that new projects be put on hold unless reporting requirements have been fulfilled for previous projects.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 9

Local Noncompliance (Lack of proper Supporting Documentations)

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices as proof that actual payment was made. Additionally, accountability and good governance require that supporting documents for all transactions be filed and maintained for all public funds.

Condition: The following disbursements were made by the Likiep Government without the required documentation to support expenses incurred and paid.

(1) Local Government Fund (LGF)

- \$24,095 was paid for salaries without timesheets as proof of hours worked.
- \$9,480 was paid for sitting fees without roll call sheet as proof of council members attendance.
- \$355 for supplies and materials with no invoices to support food and supplies purchased.
- \$9,400 for Travel which were not supported by copy of tickets and departure fees to verify that travel did take place.

(2) Outer Islands Economic Development Fund (OIEDF) – There were no supporting documents for the seven (7) checks under the OIEDF with a total of \$17,478.

- Check 110137 for \$1,484 to Marshall Islands ENV. Co. with no supporting documents at all to what the check was for.
- Check 121943 for \$7,550 for a Yamaha Outboard which did not have some of the required documentation such as two (2) price quotations, no resolution or ordinance and no picture of item attached as required to be part of the proposal.
- Check 121983 for \$1,382 for materials and supplies but there were no two (2) price quotations and no Resolutions or Ordinances attached.
- Check 124070 for \$92 paid for material and supplies but there were no supporting documents except for the copy of check voucher.
- Check 124709 to Majuro Ace Hardware but no supporting documents so we cannot verify what was purchased.
- Check 125760 to Marshall Islands Shipping but no supporting documents and cannot verify what the check was for.
- Check 135343 for \$5,103 with no resolution or ordinance.

(3) Grant In Aid (GIA)

- Check 129425 for \$1,419 issued to Island Radio for the purchase of Keyboard and a PA System and no supporting documents such as Council Minute approving this purchase.
- Check 143172 for \$776 was issued to MJCC from Grant-In-Aid Fund without the application and council resolution as evidence of approval of proposal by the Likiep council.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs to ensure the Likiep Government maintain supporting documents for every disbursements. In addition, old files were not available for review because they have been moved to a container near Procurement and Supply Office.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 9, Continued

Local Noncompliance (Lack of proper Supporting Documentations)

Effect: The effect of the above condition is the possibility of unauthorized disbursements and no evidence to support these disbursements. In addition, the Likiep Government was not in compliance with the Local Government Financial Memorandum No. 1987-1.

Recommendation: We recommend that the Likiep Government adhere to compliance requirements as set forth in the OIEDF rules and procedures

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 10

Local Noncompliance (Business Listing)

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

Condition: We did not note any business listing filed with the Ministry of Internal Affairs and the Ministry of Finance by the Likiep Government for the entire periods under review.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs to require that a business listing is provided by the Likiep Government as part of the quarterly reporting package.

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

Recommendation: We recommend that the Likiep Government comply with Section 203 of the Local Government Tax Fees Act of 1989.

Auditee's Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 11

Local Noncompliance (Budget Ordinances)

Criteria: Section 29, (1) & (2) of the Likiep Local Government Constitution states “the Executive Committee will be responsible to bring forward to the Council each Financial Year (a) a budget estimates of funds to be used, and (b) an Ordinance appropriate detailing how the money for the council is to be used and also have the authority to make additional Ordinance for Supplementary Funds”.

Condition: We were able to obtain budget ordinances of the Likiep Government for Fiscal Year 2014 and FY 2016. However, we were unable to obtain the budget ordinances of the Government for FY 2013 and FY 2015.

Cause: The cause of the above condition is the lack of proper maintenance and security of files at the Local Government Division within the Ministry of Internal Affairs.

Effect: The effect of the above condition is that important information were missing and the inability to verify that Likiep Council had approved the expenses during FY 2013 and FY 2015.

Recommendation: We recommend that the Likiep Government should also maintain copies of Ordinances passed by Council for safekeeping and future references.

Auditee’s Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

LIKIEP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 12

Local Non-Compliance (Three (3) Price Quotes)

Criteria: Pursuant to the Ministry of Finance, Banking and Postal Services Manual of Standard Operating Procedures (SOP) Part II – Internal Operating Procedures 10.1 states “For all ROC and General Fund PRs, if a total purchase exceeds \$500, then three (3) price quotations must be provided”.

Condition: We noted that Check No. 129245 for \$1,419 have three (3) price quotations from local vendors and a fourth quotation with no vendor name and no amount on it. It appears that the three (3) quotes were provided just to justify the 3 price quotations requirement because our inquiry with two of the vendors disclosed that they do not sell those kinds of merchandise bought with Check No. 129245.

Cause: The cause of the above condition is the lack of scrutiny of documents attached by the Local Government Division within the Ministry of Internal Affairs and the Ministry of Finance.

Effect: The effect of the above condition noncompliance with the 3 price quotation requirements stipulated in the SOP.

Recommendation: We recommend that the Local Government Division at the Ministry of Internal Affairs review application and request for payment to ensure compliance established procedures. In addition, the Ministry of Finance should also review all incoming requests from the Ministry of Internal Affairs to ensure compliance with established policies and procedures.

Auditee’s Response and Corrective Action Plan:

Likiep Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs agreed with our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

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

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