

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

MALOELAP ATOLL LOCAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

PERIOD FROM OCTOBER 1, 2012 THROUGH SEPTEMBER 30, 2016



AUDIT No.: OAG 14/16-2400

August 9, 2019

Date

P.O. BOX 245
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REPUBLIC OF THE MARSHALL ISLANDS

MALOELAP ATOLL LOCAL GOVERNMENT

Period from October 1, 2012 through September 30, 2016

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INDEPENDENT AUDITORS' REPORT

Honorable Randall McKay
Mayor
Maloelap Atoll Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Maloelap Atoll Local Government (the Maloelap 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 Maloelap 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 Maloelap 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 \$238,744 and \$225,830, 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

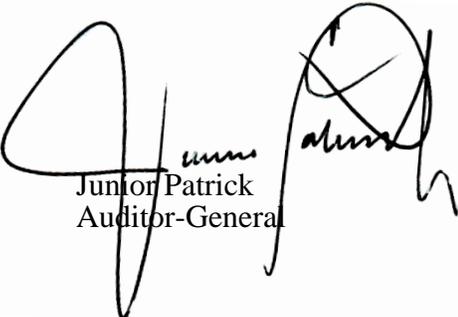
Other Supplementary Information

The Combining Schedule of Cash Receipts and Disbursements on page 5 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 ____, 2019, on our consideration of the Maloelap 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 Maloelap Government's internal control over financial reporting and compliance.

August 9, 2019



Junior Patrick
Auditor-General

MALOELAP ATOLL LOCAL GOVERNMENT

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

	<u>Total</u>
Cash receipts:	
RepMar Contribution	
ROC Fund(OIEDF)	122,910
Local Government Fund(LGF)	68,529
Grant-In-Aid	25,650
Business License	2,000
Other revenue	13,530
Unreported/unidentified deposits	<u>6,125</u>
Total cash receipts	<u>238,744</u>
Disbursements:	
ROC Fund (OIEDF)	122,910
Salary and Wages	45,586
Grant-in-aid	25,650
Equipment/Repair	820
MIMA/Sitting Fee	1,053
Travel	1,036
Cash	9,804
Fuel	598
Fodd	187
Other	2,274
Unreported/unidentified cash disbursements	15,913
Total disbursements	<u>225,830</u>
Net change in cash	<u><u>12,913</u></u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

MALOELAP ATOLL LOCAL GOVERNMENT

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

(1) Organization

The Maloelap Atoll Local Government (the Maloelap 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 Maloelap Government. The Maloelap 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 Maloelap 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 Maloelap 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 Maloelap Government's total cash was \$2,182, 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 Maloelap Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Maloelap 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".

(5) RepMar Contributions

The Maloelap 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 Maloelap Government providing financial reports and supporting documents. For the period from October 1, 2012 through September 30, 2016, the Maloelap Government received \$68,529 from the LGF. The Maloelap Government also receives annual appropriation grant funding from RepMar of \$122,910 under the Outer Islands Economic Development Fund (OIEDF) administered by RepMar's Ministry of Finance, Banking and Postal Services (Ministry of Finance). The disbursement of this grant fund is contingent upon Maloelap Government community proposal and an approved resolution from council. Finally Maloelap Government received a total of \$25,650 under the Grant-In-Aid grant from the RepMar during the period from October 1, 2012 through September 30, 2016.

MALOELAP ATOLL LOCAL GOVERNMENT

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

	2013	2014	2015	2016	Total
Cash receipts:					
RepMar Contribution					-
ROC Fund(OIEDF)	\$ 11,387	28,747	24,492	58,284	\$ 122,910
Local Government Fund(LGF)	9,804	19,607	19,608	19,510	68,529
Grant-In-Aid	-	6,425	8,695	10,530	25,650
Business License	-	-	-	2,000	2,000
Other revenue	9,096	1,336	828	2,270	13,530
Unreported/unidentified deposits	9,802	(86)	(804)	(2,788)	6,125
Total cash receipts	40,089	56,030	52,819	89,806	238,744
Disbursements:					
OIEDF (ROC Fund)	11,387	28,747	24,492	58,284	122,910
Salary and Wages	8,651	13,910	9,265	13,760	45,586
Grant-in-aid	-	6,425	8,695	10,530	25,650
Equipment/Repair	349	290	78	103	820
MIMA/Sitting Fee	591	-	171	291	1,053
Travel	-	586	-	450	1,036
Cash	8,879	490	100	335	9,804
Fuel	30	198	155	215	598
Food	-	87	100	-	187
Other	130	585	105	1,454	2,274
Unreported/unidentified cash disbursements	10,049	695	1,135	4,033	15,913
Total disbursements	40,066	52,013	44,296	89,455	225,830
Net change in cash	\$ 23	4,017	8,523	350	\$ 12,913

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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INDEPENDENT AUDITORS' 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 Randall McKay
Maloelap 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 Maloelap 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 ____, 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 Maloelap 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 Maloelap Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Maloelap Government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as *Finding No. 4, Finding No.6, Finding No.11, Finding No.12, and Finding No.14* to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as *Finding No.1* to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Maloelap 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.2, Finding No.3, Finding No.5, Finding No.7, Finding No.8, Finding No.9, Finding No.10, Finding No.13 and Finding No.15.*

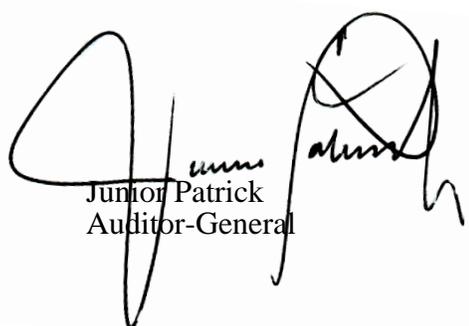
Maloelap Government's Response to Findings

The Maloelap Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Maloelap 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 9, 2019.



Junior Patrick
Auditor-General

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 1

Local Non-Compliance (Outer Islands Economic Development Fund OIEDF)

Criteria: It is the intention of the National Government to improve living standard in the outer islands. It is therefore the policy of the National Government to make funding available on a yearly basis under the Outer Islands Economic Development Fund (OIEDF) to local governments for projects that will improve the standard of living in the outer islands.

Condition: Check No.133887 dated 12/31/15 in the amount of \$28,750 was issued to a local vendor for purchase of 115 Solar Flash Lights for the benefits of Copra producers across Maloelap Atoll communities.

During our sight visit, we were informed by certain residents in the Maloelap community that several household did not receive their share of the flashlights. The claim by the residents was confirmed by certain members of the Council also that not all household and Copra producers across Maloelap communities received their share of the flashlights. As there was no distribution list for solar flashlights maintained on file, we were unable to determine if the lights were distributed in accordance with the intended purpose.

In addition, we noted during our sight visit most of the lights received were damaged and needs repairs.



MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 1, Continued

Local Non-Compliance (Outer Islands Economic Development Fund OIEDF)

Cause: The cause of the above condition is the lack of monitoring by the Ministry of Internal Affairs to require that proposals approved be only for projects that benefit the community on Maloelap Atoll in accordance with the National Policy. Additionally, there is also lack of monitoring to require that projects be completed as initially planned and full benefits and value of monies are realized.

Effect: The effect of the above condition is possible abuse of public resources and the community on Maloelap Atoll does not receive full benefits.

Recommendation: We recommend that Maloelap Government require that funds be disbursed out of the OIEDF ROC Funds for projects that will benefit and/or improve the standard of living on the island. Additionally, we recommend that the Ministry of Culture and Internal Affairs (Ministry of Internal Affairs) Local Government Division review proposals to require that they will benefit the community in the outer islands, and monitor projects during implementation to require that they be completed as planned.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

Response from Ministry of Internal Affairs

Ministry of Internal Affairs agreed with our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 2

Local Non-Compliance (Unsupported Disbursements)

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

Condition: During our examination of the quarterly financial reports for the periods under audit, we noted operating expenses of Maloelap Government that were not supported by invoices or receipts as indicated below:

		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Expense					
	Travel	-	586	-	450
	Food	-	87	-	100
	Fuel	30	198	155	215
	MIMA(fee)	400	-	55	200
	Meeting	191	-	116	91
	Equipment	50	160	-	103
	Cash	8,879	490	100	335
	Repair	299	130	78	-
	Others	130	585	105	1,454
Total		<u>9,979</u>	<u>2,236</u>	<u>609</u>	<u>2,948</u>

Additionally, during our examination of Maloelap Government disbursements, we noted Check No.1685 dated 8/8/13 totaling \$8,729 was issued out for cash; however we were unable to determine what the payment was for as there were no supporting documents included in the report.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1. Additionally, there is a lack of proper review of the financial reports by the Ministry of Internal Affairs and the Ministry of Finance.

Effect: The effect of the above condition is that Maloelap Government did not comply with the Local Government Financial Memoranda No. 1987-1 and inability to determine the appropriateness of total spending of \$15,772 from Maloelap Government accounts.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 2, Continued

Local Non-Compliance (Unsupported Disbursements)

Recommendation:

- 1) We recommend that Maloelap Government ensure invoices or receipts support all disbursements and that these supporting documents are maintained on file for future reference and audit purposes.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance review the quarterly reports to ensure they are supported by proper documentation. Any quarterly reports without the underlying supporting documentations as proof of expenses incurred should be returned to the Local Government.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

Response from Ministry of Internal Affairs

Ministry of Internal Affairs agreed with our findings and recommendations.

Response from Ministry of Finance

The Ministry of Finance (MOF) agrees that documents should be kept properly, however, MOF would like to emphasize that the responsibility to ensure that all documents are kept should be the responsibility of each Local Government and the Ministry of Internal Affairs' Local Government Office as the oversight entity. The Ministry of Finance, as the Comptroller of the Government, reviews financial reports but does not have the capacity to go through all invoices and receipts for ALL Local Government on top of all other subsidy recipients.

Auditors' comments to Response by the Ministry of Finance

We reiterate our recommendation that the Ministry of Finance should review all disbursements to ensure they are accompanied by underlying supporting documentations as proof of expenses incurred and to prevent misappropriation of public funds in accordance with Financial Management Act (P.L. 1990).

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 3

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 Culture and Internal Affairs requires that cash receipts be issued for all monies received by all local governments.

Condition: During the fiscal years ended September 30, 2013 to 2016, Maloelap Government received \$15,530 in other revenue. However, there were no cash receipts issued to the customer to support the cash collection. As such, we could not determine how much was collected or the source of the revenue to what was the actual collection for the Fiscal years under audit.

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 utilization of the cash receipts journal.

Effect: The effect of the above condition is the possibility for misappropriation of local revenues and other collections. We also issued disclaimer of opinion on the cash receipts due in part because of our inability to test the accuracy of cash collection.

Recommendation: We recommend that Maloelap Local Government issue cash receipt to customer when collecting fees and other revenues as required by the Ministry of Internal Affairs’ accounting system. In addition, copies of ordinances enacted to be kept and maintained at the Office of the Local Government in secure place.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendation.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 4

Local Non-Compliance (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.

Condition: During the periods under audit, Maloelap 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 utilized.

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

Effect: The effect of the above condition is that Maloelap Atoll Local Government did not follow the Financial Memoranda No. 1987-1 that 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 authorized and paid because of lack of utilization of accounting forms.

Recommendation:

1. We recommend that Maloelap Local 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 Maloelap Government fully adopt and follow the accounting system.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

Response from Ministry of Internal Affairs

Ministry of Internal Affairs agreed with our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Local Non-Compliance (Accounting System), Continued

Response from Ministry of Finance

Moving forward, Ministry of Finance will ensure that the aforementioned forms provide by Ministry of Internal Affairs are accompanied with future payment requests.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 5

Local Non-Compliance (Financial Report)

Criteria: The Financial Memoranda of 1987-1 states that the next quarterly allotment will not be released unless the local government furnishes a financial report of the previous quarter.

Condition: Listed below are the quarters Maloelap Government did not provide financial report for:

- 1st quarter FY2015: total loss of revenue, \$4,902
- 2nd quarter FY2015: total loss of revenue, \$4,902
- 3rd quarter of FY2015: total loss of revenue, \$4,902

Additionally, Check No.107908 and Check No.110166 were issued to Maloelap Local Government for 3rd and 4th quarter, however, we were unable to locate these checks and related quarterly financial reports and supporting documents such as invoices, receipts and other relevant supporting documents.

Cause: The cause of the above condition is due to lack of coordination by Maloelap Government to fulfill their responsibilities as required under the Local Government Financial Memoranda 1987-1.

Effect: The effect of the above condition is that Maloelap Government did not comply with their financial reporting requirement and inability to claim funding of \$14,706 allocated for those Quarters.

Recommendation: We recommend that Maloelap Government comply with the reporting requirements as established under the Local Government Financial Memoranda of 1987-1 in order for them to receive the full funding awarded each year.

Auditee Response and Corrective Action Plan:

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 6

Bank Reconciliation

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

Condition: Maloelap Government did not reconcile its bank account for the entire periods under review. Maloelap Government relied on the bank to indicate what checks have been cleared and what deposits have been made into their bank account.

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

Effect: The effect of the above condition is that Maleolap Local Government may not be able to detect financial errors and/or fraud in a timely manner.

Recommendation:

1. We recommend that Maloelap Government ensure that bank reconciliations are performed on a regular basis.
2. We recommend that Ministry of Internal Affairs and the Ministry of Finance require that Maloelap Government perform its bank reconciliation on a regular basis and require such monthly bank reconciliations to be part of the quarterly financial reports.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

Response from Ministry of Internal Affairs

Ministry of Internal Affairs agreed with our findings and recommendations.

Response from Ministry of Finance

Monitoring of bank reconciliation should be the responsibility of the Local Government. Alluding to MOF's response to Finding No.4, it is sufficient that MOF reviews said forms which should provide assurance.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 7

Local Non-Compliance (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 Culture and Internal Affairs and the Ministry of Finance Banking and Postal Service by Maloelap Atoll Local Government for the entire periods covered by this audit.

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

Effect: The effect of the above condition is that Maloelap Government did not comply with the requirements of the Local Government Act.

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

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 8

Local Non-Compliance (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, date of purchase, its location and who has custody of the fixed assets. Additionally, Maloelap Government is required to file a report of property and equipment at the Local Government Affairs Division under Ministry of Internal Affairs that was purchased under ROC fund (OIEDF).

Condition: Maloelap Government received a total of \$68,125 from the OIEDF fund that was used to purchase assets such as boat, motor engines, lawn tractor and solar lights. However, a fixed assets register was not maintained for all fixed assets acquired during the entire period covered by this audit.

Cause: The cause of the above condition is the lack adherence to fixed assets requirements and oversight to ensure Maloelap 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 Maloelap Government to 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 Maloelap Government ownership.
2. We recommend the Ministry of Internal Affairs to work with Maloelap Government to ensure a fixed asset register is maintained for all assets purchased.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

Response from Ministry of Internal Affairs

Ministry of Internal Affairs agreed with our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 9

Non-Compliance (Procurement)

Criteria: Section IV subsection B states that all purchasing and procurement of goods and services shall follow the Procurement Code and relevant policies, with due consideration to expediency and accountability. The Procurement and Supply Office will be responsible for establishing a streamlined process to accommodate small purchases. 3 price quotes requirement for such purchase will be cleared through a database established within Procurement and Supply Office with a price validity period of six month.

Condition: During our examination of Outer Islands Economic Development Fund (OIEDF) and Grant in Aid (GIA) fund, we noted seven non-payroll expenditures totaling \$56,137 were not provided with price quotations as evidence to the procurement process.

The following are listed below:

Check Date	Check No.	Description	Amount
3/17/2014	115250	Yamaha Engine-MOIA(Kaben)	14,450
5/23/2014	117418	Power chain saw	6,783
6/11/2014	117925	Fuel/MOIA Maloelap	3,265
6/20/2014	118181	Gasoline/Maloelap	808
9/11/2015	130433	Mower/Tractor/Tremor-MOIA	4,349
9/21/2015	130684	Materials/Supplies(Solar light unit)	6,193
10/26/2015	131677	Yamaha Outboard	7,600
11/1/2013	111690	Buiding Materials(UCC Kaben)	1,463
11/1/2013	111695	Building Materials(UCC Kaben)	1,994
8/10/2016	141244	Building materials(UCC Tarawa)	9,232
Total			56,137

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 9, Continued

Non-Compliance (Procurement)

Cause: The cause of the above condition is the lack of adequate internal control policies and procedure requiring the documentation of procurement procedures to ensure compliance with RepMar procurement code.

Effect: The effect of the above condition is not getting the best value for money for money spent. Also, the RepMar government could have saved \$56,137 if the lower price quote had been chosen as noted above in the condition.

Recommendation: We recommend that Maloelap Government comply with RepMar Procurement Code. In addition, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the company selection or rejection and the basis for the selected price.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 10

Non-Compliance (Outer Island Economic Development Fund)

Criteria: Per OIEDF Policy Section VI:

- All proposals must be approved by the Council Resolution or Ordinance.
- The Mayor and Senators must sign and approve the proposal.

Condition: Per our expenditure testing of the Outer Island Development Fund, we noted three checks were issued out; however, there were no resolution attached to support the payments. Checks are listed below:

Check Date	Check No.	Description	Amount
5/23/2014	117418	Power chain saw	\$ 6,783
9/11/2015	130433	Mower/Tractor/Tremor-MOIA	4,349
12/31/2015	133867	Solar Fish	<u>28,750</u>
		Total	<u>\$ 39,882</u>

In addition, we also noted purchased made in which there were no signatures from the Mayor and the Senator. Checks are listed below:

Check Date	Check No.	Description	Amount
6/11/2014	117925	Fuel/MOIA Maloelap	3,265
9/11/2015	130438	Monthly fees/Maloelap	9,420
9/11/2015	130433	Mower/Tractor/Tremor-MOIA	4,349
9/21/2015	130684	Materials/Supplies(Solar light unit)	6,193
12/30/2015	133800	Diesel/Maloelap	6,240
		Total	<u>\$ 29,467</u>

Cause: The cause of the above condition is lack of oversight by the Ministry of Internal Affairs to ensure all applications are provided with necessary documents that comply with the OIEDF policy.

Effect: The effect of the above condition is non-compliance with the OIEDF Policy.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 10, Continued

Non-Compliance (Outer Island Economic Development Fund)

Recommendation: We recommend that Ministry of Internal Affairs and Maloelap Local Government ensure all necessary documents be provided.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

Response from Ministry of Internal Affairs

Ministry of Internal Affairs agreed with our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 11

Unreported Expenditure

Criteria: Section 31(1) of the Constitution of Maloelap Government requires that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditure of the local government, assets of or under the local government and liabilities of the local government.

Condition: Of the total reported of \$75,804 noted for the periods ended October 1, 2012 to September 30, 2016, Maloelap Government had withdrawn \$91,717 as withdrawal, a difference of \$15,913.

Fiscal Years	Per Bank	Per Report	Variance
2013	28,679	18,630	10,049
2014	22,201	21,506	695
2015	20,196	19,060	1,135
2016	20,641	16,608	4,033
	<u>\$ 91,717</u>	<u>\$ 75,804</u>	<u>\$ 15,913</u>

Cause: The cause of the above condition is the lack of oversight by the Executive Committee to ensure all accounts and records are kept for future references.

Effect: The effect of the above condition is that Maloelap Government did not comply with provisions of their constitution.

Recommendation: We recommend for Maloelap Government’s Executive Committee to keep full and proper accounts and records of revenue and expenditures.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 12

Unreported Revenue

Criteria: Section 31(1) of the Constitution of Maloelap Government requires that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditure of the local government, assets of or under the local government and liabilities of the local government.

Condition: Of the total report of \$84,059 noted for the periods ended October 1, 2012 to September 30, 2016, Maloelap Government only deposited \$90,184 as revenue, a difference of \$6,125.

Fiscal Years	Per Bank	Per Report	Variance
2013	28,702	18,900	9,802
2014	20,858	20,943	(86)
2015	19,632	20,435	(804)
2016	20,992	23,780	(2,788)
	<u>\$ 90,184</u>	<u>\$ 84,059</u>	<u>\$ 6,125</u>

Cause: The cause of the above condition is the lack of oversight by Executive Committee to ensure all accounts and record are properly kept for future references.

Effect: The effect of the above condition is that Maloelap Government did not comply with provisions of their constitution.

Recommendation: We recommend for Maloelap Government’s executive committee to keep full and proper accounts and records of revenue and expenditures.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 13

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 tax 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 subsection (2) of 93) 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, Maloelap Government paid a total of \$45,586 in salaries and wages; however, no taxes were withheld for Income Taxes, Social Security Taxes and Health Fund Tax and remitted for tax purposes.

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 in future, Maloelap 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 Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 14

Council Meeting Minutes

Criteria: The Constitution of Maloelap Government requires that Council meet at least once every two months. Meeting minutes should represent minutes of meetings that actually took place during each quarter.

Additionally, resolutions and ordinances approved during these meetings should be attached to the minutes when filed at the Ministry of Internal Affairs.

Condition: During our examination of Council minutes, we noted there were no meeting minutes for 3rd quarter of FY2013, 1st quarter of FY2015 and 4th quarter of FY2016. We also noted that minutes of meeting of 4th quarter of FY2013 was also provided in 2nd quarter of 2014 Financial Report.

Additionally, we also noted various instances where council approves resolutions and ordinances, however, these documents were not attached to the minutes and filed at the Ministry of Internal Affairs and the Ministry of Finance.

Cause: The cause of the above condition is that Maloelap Government does not meet on a quarterly basis as required and had to provide minutes of the previous quarter to fulfill reporting requirements.

Effect: The effect of the above condition is that Maloelap Government did not comply with the condition.

Recommendation: We recommend that the Council meet on a regular basis as required by the Maloelap Government Constitution. Additionally, we recommend that minutes filed with financial reports represent meetings of the Council that took place during the quarter being reported and that resolutions and ordinances approved during these meetings should also be attached to the minutes.

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

MALOELAP ATOLL LOCAL GOVERNMENT

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

Finding No. 15

Local Non-Compliance (Budget Ordinances)

Criteria: The Constitution of Maloelap Government requires that no monies of the local government shall be expended without a budget appropriation ordinance.

Condition: We were able to obtain budget ordinances of the Maloelap Local Government for Fiscal Year 2014. However, we were unable to obtain the budget ordinances of the Government for FY2013, FY2015 and FY2016.

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 Culture and Internal Affairs.

Effect: The effect of the above condition is that important information were missing and inability to verify that the expenses during FY2013, FY2015 and FY2016 were approved by the Maloelap Government.

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

Auditee Response and Corrective Action Plan

Maloelap Government agreed to our findings and recommendations.

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