

REPUBLIC OF THE MARSHALL ISLANDS  
**OFFICE OF THE AUDITOR-GENERAL**

**JABAT ISLAND LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2018**



**AUDIT No.: OAG 5/17-2400**

**January 29, 2020**  
**Date**

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

**JABAT ISLAND LOCAL GOVERNMENT**  
**Period from October 1, 2013 through 30 September 2018**

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**OFFICE OF THE AUDITOR-GENERAL**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Heinkey Lomwe  
Mayor  
Jabat Island Local Government  
Republic of the Marshall Islands

**Report on the Financial Statement**

We were engaged to audit the accompanying financial statement of the Jabat Island Local Government (Jabat Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2013 through September 30, 2018, and the related notes to the financial statements. The financial statement is the responsibility of Jabat 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 statements; 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 on this financial statement.

***Basis for Disclaimer of Opinion***

Because of inadequacies in the accounting records of Jabat 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 \$166,235 and \$167,662, 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 on the financial statement. Accordingly, we do not express an opinion on the accompanying financial statement of Jabat Government.

### ***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**

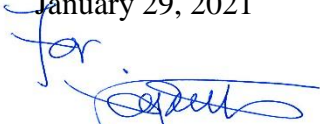
#### ***Other Supplementary Information***

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 section of our report, 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 January 29, 2021, on our consideration of Jabat 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 the effectiveness of Jabat Government's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jabat Government's internal control over financial reporting and compliance.

January 29, 2021

A handwritten signature in blue ink, appearing to read "for Junior Patrick".

Junior Patrick  
Auditor-General

**JABAT ISLAND LOCAL GOVERNMENT**

Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

	<u>Total</u>
Cash Receipts:	
Grant from Japan	93,500
RepMar Contribution	
Local Government Fund (LGF)	65,363
Council Fund	3,152
Other Revenue	4,500
Unreported/unidentified deposits	<u>(280)</u>
Total cash receipts	<u>166,235</u>
Disbursements:	
Grant from Japan	93,500
Salary and Wages	22,255
Sitting Fees	17,450
Council Operation	27,016
Other	328
Unreported/unidentified cash disbursements	<u>7,113</u>
Total disbursements	<u>167,662</u>
Net change in cash	<u><u>(1,427)</u></u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Notes to Schedule of Cash Receipts and Disbursements Period from October 1, 2013 through September 30, 2018**

#### **(1) Organization**

The Jabat Island Local Government (Jabat 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 Jabat Government. Jabat 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.

Jabat Government is not required to adopt fund basis accounting for local governments in conformity with standards promulgated by Governmental Accounting Standards Boards (GASB). However, Jabat 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 (Ministry of Internal Affairs).

#### **(3) Cash**

As of September 30, 2018, the carrying amount of Jabat Government's total cash was \$106, 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). Jabat Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

#### **(4) Budget Process**

The Constitution of Jabat 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**

Jabat 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 Jabat Government providing financial reports and supporting documents. For the period from October 1, 2013 through September 30, 2018, Jabat Government received \$65,363 from the LGF.

#### **(6) Other Contributions**

In 2016, Jabat Government received funding from the Embassy of Japan in the amount of \$93,500 for The Project for Improvement of Sea Transportation. The project has been completed and expenditures of the fund have been separately audited.

## **JABAT ISLAND LOCAL GOVERNMENT**

Notes to Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

### **(7) On-Behalf Payments**

Jabat Government is the beneficiary of annual appropriations from RepMar under the Outer Islands Economic Development Fund (OIEDF) administered and disbursed directly to vendors by RepMar's Ministry of Finance, Banking and Postal Services (Ministry of Finance). The disbursement of this grant fund is contingent upon Jabat Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, Jabat Government received a total of \$180,072 under this grant. In addition, Jabat Government is the beneficiary of annual appropriations from RepMar under the Grant-in-Aid fund administered and disbursed directly to vendors by RepMar's Ministry of Finance, Banking and Postal Services. The disbursement of this grant fund is contingent upon Jabat Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, Jabat Government received a total of \$41,684 under this grant. As these appropriations are disbursed directly by RepMar to vendors, such are not reflected as cash receipts and disbursements within the accompanying financial statement.

# JABAT ISLAND LOCAL GOVERNMENT

## Combining Schedule of Cash Receipts and Disbursements Period from October 1, 2013 through September 30, 2018

### Cash Receipts:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Grant from Japan	-	-	93,500	-	-	93,500
RepMar Contribution						
Local Government Fund(LGF)	12,465	12,465	12,465	12,515	15,453	65,363
Council Fund	446	800	334	772	800	3,152
Other Revenue	-	-	-	4,500	-	4,500
Unreported/unidentified deposits	(280)	-	-	-	-	(280)
Total cash receipts	12,631	13,265	106,299	17,787	16,253	166,235

### Cash Disbursements:

Grant from Japan	-	-	93,500	-	-	93,500
Salary and Wages	2,260	4,520	4,865	5,380	5,230	22,255
Sitting Fees	2,550	3,900	3,000	4,000	4,000	17,450
Council Operation	1,510	4,783	4,860	8,232	7,631	27,016
Bank Charges	106	91	-	36	95	328
Unreported/unidentified cash disbursements	6,954	179	740	(146)	(614)	7,113
Total disbursements	13,380	13,473	106,965	17,502	16,342	167,662
Net change in cash	(749)	(208)	(666)	285	(89)	(1,427)

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 FINANCIAL STATEMENT IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARD**

Honorable Mayor Heinkey Lomwe  
Jabat Island 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 Jabat Island Local Government (Jabat Government) for the period from October 1, 2013 through September 30, 2018, and the related notes to the financial statement and have issued our report thereon dated January 29, 2021. 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 Jabat 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 Jabat Government's internal control. Accordingly, we do not express an opinion on the effectiveness of Jabat 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. 2, Finding No. 3, Finding No. 6, and Finding No. 12* that we consider 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 deficiency described in the accompanying schedule of Findings and Responses as *Finding No.5* to be significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Jabat Government's financial statements are 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.1, Finding No.4, Finding No.7, Finding No.8, Finding No.9, Finding No.10, Finding No.11, and Finding No.13*, that we consider to be compliance weaknesses and other matters.

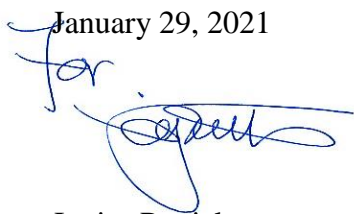
### **Jabat Government's Response to Findings**

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

January 29, 2021

A handwritten signature in blue ink, appearing to read 'Junior Patrick', is written over a horizontal line.

Junior Patrick  
Auditor-General

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### **Finding No. 1**

##### **Accounting System (Local Noncompliance)**

**Criteria:** All local governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the 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:** We found that Jabat Government did not adopt the local government accounting system established by the Ministry of Internal Affairs and the prescribed accounting forms described above were not utilized.

**Cause:** This is due to the lack of adherence to the established accounting system by Jabat Government. In addition, there is lack of oversight by the Ministry of Internal Affairs and Ministry of Finance in ensuring that Jabat Government adopts and follows the accounting system established for all local governments.

**Effect:** Non-Compliance by Jabat Government with the Financial Memoranda No. 1987-1 which resulted in the followings:

- Inability to perform an audit of a complete set of financial statements.
- Inadequate recording of financial transactions not recorded properly into a general ledger.
- Inaccurate verification of revenues collected and reported.
- Inaccurate verification of authorized expenses paid due to non-utilization of accounting forms.

##### **Recommendation:**

1. For Jabat Government to utilize the accounting system established for all local governments under the Ministry of Internal Affairs in order to improve accountability over its financial book keeping.
2. Strict oversight by the Ministry of Internal Affairs and Ministry of Finance in ensuring that Jabat Government adopt and implement the local government accounting system prior to release of the LGF fund.

##### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

##### **Response from Ministry of Culture and Internal Affairs**

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

##### **Response from Ministry of Finance**

No response was provided by Ministry of Finance to the finding and recommendation.

## JABAT ISLAND LOCAL GOVERNMENT

### Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2018.

#### Finding No. 2

##### Unsupported Disbursements

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to 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: During the periods covered by the audit, the followings were noted:

- We found that checks were issued to an Official of the local government to purchase goods and services for the Council rather than directly to the vendors. However, not all of these payments were supported by invoices or equivalent document, as such, we were unable to determine the nature or the authenticity of such payments. Additionally, for invoices that were provided, no references were made to the corresponding checks for ease of matching and reconciling, hence, we were unable to identify/verify what checks were used to pay what invoices. As indicated below, total of the checks issued is more than the total of the invoices available on file.

Periods	Total Checks Issued	Total Invoices on File	Variances
<b>FY2014</b>	\$ 2,900.00	\$ 1,231.00	(\$ 1,669.00)
<b>FY2015</b>	4,620.00	3,374.45	( 1,245.55)
<b>FY2016</b>	4,994.00	2,451.35	( 2,542.65)
<b>FY2017</b>	7,502.00	-0-	( 7,502.00)
<b>FY2018</b>	6,550.00	-0-	( 6,550.00)
<b>Total</b>	<b>\$26,566.00</b>	<b>\$ 7,056.80</b>	<b>(\$19,509.20)</b>

- We also noted that the following payments were issued directly to the vendors, however invoices were not provided.

Date	Check No.	Amount	Descriptions
<b>7/26/2016</b>	46	\$ 206.00	Truck repair
<b>1/10/2017</b>	24	100.00	Entertainment
<b>6/9/2017</b>	78	100.00	Foods for Council
<b>4/5/2018</b>	166	441.00	Team uniforms
<b>Total</b>		<b>\$ 847.00</b>	

- During FY2014, food stuffs were purchased totaling \$806, however, justification or the purpose for the purchases were not indicated, hence, we were unable to determine whether these items were for direct use or direct benefit of the community or the local government. Furthermore, the invoices did not bear the name of the vendor(s).
- As of September 30, 2018, salaries were paid in the amount of \$22,255 that were not supported by time sheets. Of this amount, four (4) payments totaling \$680 were made to an official, rather than directly to the payees. We were unable to locate documents that show payees' signatures as evidence of receipt of their payments for \$17,735 of the \$22,255.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### Finding No. 2, Continued

- As of September 30, 2018, sitting fees were paid in the amount of \$17,450. Of this amount eight (8) payments totaling \$1,200 were made to an official rather than directly to the payees. We were unable to locate documents that show payees' signatures as evidence of receipt of their payments for \$12,950 of the \$17,450.

Cause: This is due to the lack of adherence to the Local Government Financial Memoranda No. 1987-1 and lack of proper review of the financial reports by the Ministry of Internal Affairs and Ministry of Finance to ensure all disbursements are adequately supported. Additionally, internal controls surrounding local government accounting of transactions are inexistent.

Effect: This has resulted in non-compliance with the Local Government Financial Memoranda No. 1987-1 by Jabat Government and the inability to determine the authenticity and appropriateness of the disbursements made and the clear public purpose or benefits served.

#### Recommendation:

1. For Jabat Government to ensure all disbursements are supported by invoices or receipts and that these supporting documents are maintained on file for reference and audit purposes.
2. For Ministry of Internal Affairs and the Ministry of Finance to strictly review the quarterly financial reports and ensure that they are adequately supported by proper documentation as required by the Local Government Financial Memoranda 1987-1.

#### Auditee's Response and Corrective Action Plan:

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

#### Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

#### Response from Ministry of Finance

No response was provided by Ministry of Finance to the finding and recommendation.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### Finding No. 3

##### Revenue/Cash Receipts

Criteria: A proper system of internal control requires that collection of revenues be supported by cash receipts and be deposited intact in a timely manner. Additionally, the Local Government Accounting System established by the Ministry of Internal Affairs requires that cash receipts be issued for all monies collected, and if cash receipts are not available, utilize the collection cards.

Condition: During the periods covered by the audit, Jabat Government reported in their quarterly financial reports \$7,652 in local revenues, however, these revenues were not supported by cash receipts. As such, we could not determine how much was actually collected and the sources.

Cause: This is due to the lack of adherence to the Local Government Accounting System requiring the issuance of cash receipts and utilization of the cash receipts journal.

Effect: There is a possibility for misappropriation of local revenues. Additionally, there is no audit trail to determine how much local revenues were collected.

Recommendation: For Jabat Government to issue official cash receipts to customers, or utilize the collection cards when collecting the required fees and taxes on the island as a measure for transparency and accountability. These collections should be accounted for through a cash receipts journal and deposited in a timely manner.

##### Auditee's Response and Corrective Action Plan:

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

## JABAT ISLAND LOCAL GOVERNMENT

### Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2018.

#### Finding No. 4

##### Procurement Code (Local Noncompliance)

Criteria: All local governments receiving funds from the RMI Government are required to adhere to the RMI procurement code. The Ministry of Finance has established that at least three (3) price quotations are required to be obtained for all purchases of \$500 and above.

Condition: The following disbursements were made for which the 3-price quotations requirement was not followed.

Date	Check No.	Amount	Description
2/9/2015	1177	550.00	Council operation - check voucher not on file
2/23/2015	1179	650.00	Council operation
4/17/2015	1197	500.00	Council operation
4/20/2015	1199	600.00	Council operation
4/27/2015	1200	500.00	Council operation
11/2/2015	1237	1,000.00	Council operation - 2016 inauguration expenses
4/8/2016	1249	500.00	Council operation
4/19/2016	14	500.00	Council operation
7/15/2016	44	500.00	Council operation - check voucher not on file
2/7/2017	46	500.00	Council operation
4/26/2017	64	772.00	Council operation
5/19/2017	73	500.00	Council operation
6/13/2017	79	1,200.00	Council operation
6/18/2017	80	500.00	Youth program
7/17/2017	83	700.00	Council operation for DRD
10/25/2017	109	1,000.00	Council operation - check voucher not on file
1/22/2018	143	800.00	Council operation
1/29/2018	160	650.00	Council operation
4/9/2018	186	1,000.00	Council operation
8/6/2018	188	500.00	Council operation - check voucher not on file
		<b>13,422.00</b>	

Cause: Lack of internal control policies and procedures requiring the documentation of the procurement process to ensure compliance with the RMI Procurement Code.

Effect: Jabat Government was noncompliant with the RMI Procurement Code. Additionally, the money saved could have been used for other needs of the Council.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

**Period from October 1, 2013 through September 30, 2018.**

#### **Finding No. 4, Continued**

**Recommendation:** For Jabat Government to ensure supporting documentation is adequate to comply with the RMI Procurement Code. Supporting documentation should indicate the history of procurement, including the rationale for and method of procurement and basis for the selected price.

#### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.



## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### Finding No.5

##### Bank Reconciliation

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

Condition: Monthly bank reconciliation were not performed throughout the entire periods cover by the audit. Jabat Government relied on the bank to indicate what checks have been cleared and what deposits have been made into their bank accounts.

Cause: This is due to the lack of oversight by the Council and the Ministry of Internal Affairs to ensure bank reconciliations are performed on a regular basis.

Effect: Jabat Government may not be able to detect financial reporting irregularities caused by fraud or errors in a timely manner.

##### Recommendation:

1. For Jabat Government to reconcile its bank account on a regular basis.
2. For the Ministry of Internal Affairs and the Ministry of Finance to require Jabat Government to perform bank reconciliation on a regular basis and require those monthly bank reconciliations to be provided with the quarterly financial reports.

##### Auditee's Response and Corrective Action Plan:

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

##### Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

##### Response from Ministry of Finance

No response was provided by Ministry of Finance to the finding and recommendation.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### **Finding No. 6**

##### **Financial Reports (Local Noncompliance)**

**Criteria:** Financial reports should be accurate and accompanied by underlying supporting documentations. Additionally, the Local Government Financial Memoranda No. 1987-1, Section I (B) states that, a local government must submit a quarterly financial report to the secretary of the Ministry of Internal Affairs by no later than the 15th of January, April, July and October.

**Condition:** Review of the quarterly financial reports filed with the Ministry of Internal Affairs and the Ministry of Finance disclosed the followings.

- Filing and receiving dates of the quarterly financial reports were not documented by Officials of the Local Government Office to ensure compliance with the reporting requirement stipulated under the Local Government Financial Memoranda 1987-1.
- Bank statements were not provided with the financial reports
- Not all check vouchers were provided with the quarterly financial reports. In some instances, the check stubs were provided, however, it was noted that check numbers were duplicated. For instance, ck#1 to ck#61 were issued in FY2016 and in also FY2017 with different payees and different amounts.
- First & Third quarter financial reports and the related supporting documentation for FY2014 could not be located for examination.
- First quarter financial report for FY2018 in the amount of \$4,644.61 was supported by the bank statements for the months of October to December 2017, however total disbursements per these statements were \$4,155, a variance of \$489.61. Additionally, the whole amount of \$4,644.61 was reported as salaries, rather than as separate expense line items for proper account classification.

**Cause:** Lack of adherence to the Local Government Financial Memoranda 1987-1 by Jabat Government and lack of utilization of the “Checklist” that is required to be completed by Officials of the Local Government Office when receiving the quarterly financial reports from a local government. The checklist provides for official acknowledgements of the financial reports with dates received and is required to be attached with the purchase requisition (PR) submitted to the Secretary of the Ministry of Internal Affairs for review and approval before the PR is transmitted to the Ministry of Finance for payment. In addition, we observed a physical security weakness over the Local Government filing system as files are accessible to anyone entering the Local Government Office.

**Effect:** Non-compliance with the Local Government Financial Memoranda 1987-1 and inability to determine whether all payments have been properly accounted for.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

**Period from October 1, 2013 through September 30, 2018.**

#### **Finding No. 6, Continued**

#### **Recommendation:**

1. For Jabat Government to strictly comply with the reporting requirements as dictated in the Local Government Financial Memoranda No. 1987-1.
2. For the Local Government Office within the Ministry of Internal Affairs to ensure financial reports they are accurate, complete and adequately supported. Additionally, the required checklist should be completed in a consistent manner to monitor compliance with the Local Government Financial Memoranda No. 1987-1.

#### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

#### **Response from Ministry of Culture and Internal Affairs**

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

## JABAT ISLAND LOCAL GOVERNMENT

### Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2018.

#### Finding No. 7

##### Revenues and Expenditures Under Reported

Criteria: Section 31 of the Constitution of Jabat Government states 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. Furthermore, good internal control dictates that all revenues and expenditures be properly accounted for and adequately supported.

Condition: Review of the amounts reported in the quarterly financial reports for deposits and disbursements and amounts per the bank statements indicated that revenues and expenditures were under reported by \$280 and \$7,113, respectively as detailed in the tables below. This indicates that revenues and expenditures were not properly accounted for.

##### Receipts:

Fiscal Year	Per Bank Statement	Per Financial Report	Variance
FY2014	\$12,931	\$13,211	\$(280)
FY2015	13,265	13,265	-0-
FY2016	12,799	12,799	-0-
FY2017	17,787	17,787	-0-
FY2018	16,253	16,253	-0-
Totals	\$73,035	\$73,315	\$(280)

##### Disbursements:

Fiscal Year	Per Bank Statement	Per Financial Report	Variance
FY2014	\$13,380	\$6,426	\$(6,954)
FY2015	13,473	13,294	(179)
FY2016	13,465	12,725	(740)
FY2017	17,502	17,648	146
FY2018	16,341	16,955	614
Totals	\$73,035	\$73,315	\$(7,113)

Cause: The Executive Committee did not perform their duties diligently as required under the Jabat Government's Constitution. Additionally, there is lack of proper review of the quarterly financial reports by the Ministry of Internal Affairs and Ministry of Finance to ensure financial reports are accurate and complete.

Effect: Non-compliance by Jabat Government with the provisions of its constitution. Understated revenues and expenses in reporting may give rise to unknown and unauthorized transactions.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

**Period from October 1, 2013 through September 30, 2018.**

#### **Finding No. 7, Continued**

#### **Recommendation:**

For Ministry of Internal Affairs and Ministry of Finance to thoroughly review the quarterly financial reports to ensure accuracy and completeness. They must also ensure that all disbursements made are properly accounted for.

1. For the Executive Committee to review the quarterly financial reports to ensure proper accounts and records of revenues and expenditures.
2. For the Ministry of Internal Affairs and Ministry of Finance to thoroughly review the quarterly financial reports to ensure accuracy and completeness. They must also ensure that all monies received and all disbursements made have been properly accounted for.

#### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

#### **Response from Ministry of Culture and Internal Affairs**

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

#### **Response from Ministry of Finance**

No response was provided by Ministry of Finance to the finding and recommendation.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### Finding No. 8

##### Income Taxes, Social Security and Health Fund Taxes (Local Noncompliance)

Criteria: The Income Tax Act of 1989 states that income tax shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employee. Every employer required to deduct and withhold the tax imposed shall be liable for the payment 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: Jabat Government did not withhold income taxes, social security taxes and health fund taxes for wages paid to its employees.

Cause: This is due to the lack of adherence with the Income Tax Act, the Social Security Tax Act and the Health Fund Tax Act.

Effect: A non-compliance issue with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002. Penalties can arise for non-compliance to such Acts.

Recommendation: For Jabat Government to strictly 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:

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### **Finding No. 9**

##### **Business Listing (Local Noncompliance)**

**Criteria:** Section 203 of the Local Government Tax and Fees Act of 1989 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 find any business listing filed by Jabat Government with the Ministry of Internal Affairs and the Ministry of Finance for the entire periods covered by this audit.

**Cause:** This is due to the lack of adherence, review and oversight by the Ministry of Internal Affairs and the Ministry of Finance in ensuring that Jabat Government is compliant with this provision requiring that a business listing be filed as part of the financial report.

**Effect:** Jabat Government is not compliant with the reporting requirements of the Local Government Tax and Act of 1989.

**Recommendation:** For Jabat Government to strictly comply with Section 203 of the Local Government Tax Fees Act of 1989.

##### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

## JABAT ISLAND LOCAL GOVERNMENT

### Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2018.

#### Finding No.10

##### Budgets (Local Noncompliance)

Criteria: Annual appropriation lists both expenditures and revenues, which should be in balance. Furthermore, Section 25(1) states, “no taxes shall be imposed and no other revenue shall be raised, and no money of the local government shall be expended, unless authorized by law”.

Condition: Review of the Budget Ordinances for the periods covered by the audit disclosed the followings:

- The Budget Ordinance for FY2014 approving total anticipated revenue of \$79,115.08 appeared to be incomplete as it did not include the projected expenditures for the period.
- There were two (2) set of budgets for FY2016 with different amounts that were approved by Ordinance No. 005-15 for \$24,002.88 and Ordinance No. 006-16 for \$23,839.15. However, the budget approved under Ordinance No. 006-16 show total projected expenditures of \$9,380, which appeared incomplete as this amount relate only to sitting fees and staff salaries and did not include council operating expenses.
- Budget Ordinance for FY2017 was not balanced as projected expenditures totaled \$21,480 was less than projected revenues of \$24,109.66 by \$2,629.66.

Furthermore, per our comparative analysis of the actual expenditures versus budgeted expenditures, the followings were noted:

<u>Periods</u>	<u>Expense Account</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
FY 2014	Council operation	\$1,510	*	(\$1,510)
FY 2015	Council operation	\$4,783	\$2,611	(\$2,172)
FY 2016	Council operation	\$4,860	\$2,583	(\$2,277)
FY 2017	Council operation	\$8,232	\$1,600	(\$6,632)
FY 2018	Council operation	<u>\$7,631</u>	<u>\$7,600</u>	<u>(\$ 31)</u>
		\$27,016	\$14,394	(\$12,622)

\*Approved budget undeterminable – refer comments on the first bullet point

Cause: Lack of adherence to the Constitution and lack of review and monitoring by the Council to ensure expenditures are incurred in accordance with the approved budget.

Effect: Non-compliance with the Constitution; expenditures were incurred in excess of the authorized amounts and possible questioned cost. Additionally, we were unable to verify that expenses during FY2014 were approved by the Council.

Recommendation: For Jabat Government to establish and implement appropriate policies and procedures regarding a balance budget. Additionally, the Council should review the quarterly financial reports against the budget to ensure expenditures are not exceeding the approved amounts.



## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

**Period from October 1, 2013 through September 30, 2018.**

#### **Finding No. 10, Continued**

##### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### **Finding No. 11**

##### **Council Minutes (Local Noncompliance)**

**Criteria:** The Constitution of Jabat Government requires that council meets at least once every three months. Meeting minutes are primary means by which independent auditors can evaluate the local government's operation. Additionally, the minutes must be provided with the quarterly financial reports when filed with the Ministry of Internal Affairs.

**Condition:** Review of the Council meeting minutes revealed that the third quarter FY2014 Council meeting minutes was not available on file. Additionally, Council meeting minutes dated October 10, 2013 could not be located. Per a memo to the Ministry of Internal Affairs, the minutes of October 10, 2013, the Council has approved the change to the FY2014 proposal for a pickup truck.

**Cause:** This is due to the lack of policies and procedures regarding maintenance of Council meeting minutes.

**Effect:** Inability to determine whether there were any significant financial issues discussed in the absence of the council meeting minutes, and the possibility that directives of the council were not properly disclosed or recorded in the financial reports.

**Recommendation:** For Jabat Council to establish and implement policies and procedures regarding the maintenance of Council meeting minutes.

##### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### **Finding No. 12**

##### **Personnel Files**

**Criteria:** Personnel files should be maintained in order to have evidence that a person receiving salaries/compensations was actually hired. A personnel file should include an approved personnel action form, job descriptions that clearly define duties and responsibilities, and other related documents.

**Condition:** Personnel files and time sheets were not being maintained, however, salaries in the amount of \$22,255 were paid to council employees that included a clerk, police officers, a public prosecutor, maintenance crews and boat operator crews. In the absence of these documents, we are unable to determine whether employees paid are in fact employees of Jabat Government.

**Cause:** Lack of internal control policies and procedures regarding personnel files and time sheets.

**Effect:** Inability to determine the appropriateness of the compensations paid and whether they were properly authorized.

**Recommendation:** For the Council to establish and implement internal control policies and procedures requiring that personnel files are established for all employees of Jabat Government and that copies are maintained on file.

##### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

## **JABAT ISLAND LOCAL GOVERNMENT**

### **Schedule of Findings and Responses**

Period from October 1, 2013 through September 30, 2018.

#### **Finding No. 13**

##### **Segregation of Duties**

**Criteria:** Segregation of duties is an internal control concept in which individuals do not have responsibility for all accounting transactions. The record keeping or authorization function should be separated from the physical custody of the assets to safeguard against misuse.

**Condition:** The former Clerk of the Council has custody of the checks and was an authorized signatory on the checks. This Clerk was also responsible to prepare the quarterly financial report to the Ministry of Internal Affairs and Ministry of Finance. All checks selected for examination were counter signed by the former Clerk.

**Cause:** Lack of internal control policies and procedures requiring that the person issuing checks and in charge of all of the financial transactions is not a signatory on the checks.

**Effect:** Possibility for misuse of local government funds.

**Recommendation:** For Jabat Government to establish and implement internal control policies and procedures regarding segregation of duties.

##### **Auditee's Response and Corrective Action Plan:**

The Jabat Government has verbally agreed to our findings. No formal written communication was provided to us within the legal time frame for their right to reply.

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