

REPUBLIC OF THE MARSHALL ISLANDS

**OFFICE OF THE AUDITOR-GENERAL**

**AILUK ATOLL LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**PERIOD FROM OCTOBER 01, 2013 THROUGH SEPTEMBER 30, 2018**



AUDIT No.: OAG 9/16-2400

August 27, 2021  
Date

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

**AILUK ATOLL LOCAL GOVERNMENT**

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

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Ankit Typhoon  
Mayor  
Ailuk Atoll Local Government  
Republic of the Marshall Islands

### **Report on the Financial Statement**

We were engaged to audit the accompanying financial statement of the Ailuk Atoll Local Government (Ailuk 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 statement. This financial statement is the responsibility of the Ailuk Government.

#### ***Management's Responsibility for the Financial Statements***

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 on this financial statement.

#### ***Basis for Disclaimer of Opinion***

Because of inadequacies in the accounting records of the Ailuk 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 \$279,568 and \$278,506, 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 Ailuk 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**

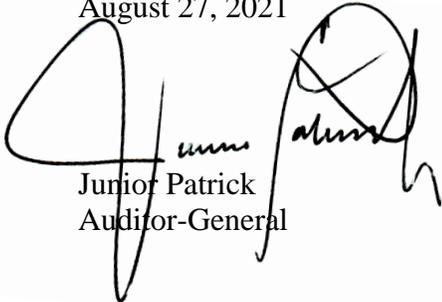
***Other Supplementary Information***

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 paragraph 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 August 27, 2021, on our consideration of the Ailuk 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 the Ailuk Government’s internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the Ailuk Government’s internal control over financial reporting and compliance.

August 27, 2021



Junior Patrick  
Auditor-General

**AILUK ATOLL LOCAL GOVERNMENT**  
Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

<b>Cash receipts:</b>	<u>Total</u>
RepMar Contribution	
Local Government Fund(LGF)	108,497
Grants from Donors:	
New Zealand Grant	23,601
Korean Grant	74,953
NTC Grant	29,039
RepMar Grant	17,350
Head Tax	246
Other revenue	19,204
Unreported/unidentified deposits	6,678
	<hr/>
<b>Total cash receipts</b>	<b>279,568</b>
	<hr/>
<b>Disbursements:</b>	
Grants Disbursements:	
New Zealand Grant	23,601
Korean Grant	74,953
NTC Grant	29,039
RepMar Grant	17,350
Salary and Wages	71,076
Travel	1,740
Tranportation	735
Entertainment	400
Fuel	1,092
Food	987
Insurance	2,253
Other Expense	20,696
Unreported/unidentified cash disbursements	34,584
	<hr/>
<b>Total disbursements</b>	<b>278,506</b>
	<hr/>
<b>Net change in cash</b>	<b>\$ 1,062</b>
	<hr/> <hr/>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

# AILUK ATOLL LOCAL GOVERNMENT

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

## (1) Organization

The Ailuk 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 Ailuk Government. Ailuk 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 Ailuk 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 Ailuk 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, 2018, the carrying amount of Ailuk Government's total cash was \$1,062, which corresponds to the bank balance, which is maintained at a local financial institution which is not subject to Federal Deposit Insurance Coverage (FDIC). Ailuk Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

## (4) Budget Process

The Constitution of Ailuk 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 Ailuk 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 Ailuk Government providing financial reports and supporting documents. For the period from October 1, 2013 through September 30, 2018, the Ailuk Government received \$108,497 from the LGF. Ailuk Government also received grant from the Republic of the Government of the Marshall Islands (GRMI) \$17,350 for Coconut Replanting Program, and from the Korean Grant a total of \$74,953 for Home Gardening and Reverse Osmosis Project from FY2015 and FY2017.

## **AILUK ATOLL LOCAL GOVERNMENT**

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

### (6) Other Contribution

Ailuk Government received \$29,039 for Traditional Handicraft Weaving in FY18 and Pandanus Production from National Training Center (NTC) and \$23, 601 for Canoe Renovation Project from New Zealand Embassy for FY14 and FY16.

**AILUK ATOLL LOCAL GOVERNMENT**  
Combining Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

<b>Cash receipts:</b>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
RepMar Contribution						
Local Government Fund(LGF)	36,501	16,296	16,296	12,222	27,182	108,497
Grants from Donors						
New Zealand Grant	11,788	-	11,813	-	-	23,601
Korean Grant	-	56,215	-	18,738	-	74,953
NTC Grant	-	-	-	-	29,039	29,039
RepMar Grant	-	17,350	-	-	-	17,350
Head Tax	-	246.00	-	-	-	246
Other revenue	2,480	2,445	4,997	4,867	4,415	19,204
Unreported/unidentified deposits	1,228	78	638	1,934	2,800	6,678
Total cash receipts	<u>51,997</u>	<u>92,630</u>	<u>33,744</u>	<u>37,761</u>	<u>63,436</u>	<u>279,568</u>
<b>Disbursements:</b>						
Grants Disbursements:						
New Zealand Grant	11,788	-	11,813	-	-	23,601
Korean Grant	-	56,215	-	18,738	-	74,953
NTC Grant	-	-	-	-	29,039	29,039
RepMar Grant	-	17,350	-	-	-	17,350
Salary and Wages	12,408	11,136	12,084	11,106	24,342	71,076
Travel	-	-	-	1,740	-	1,740
Transportation	360	375	-	-	-	735
Entertainment	200	-	-	-	200	400
Fuel	-	-	-	-	1,092	1,092
Food	-	-	987	-	-	987
Insurance	486	814	701	-	252	2,253
Other Expense	1,792	2,311	7,537	3,237	5,819	20,696
Unreported/unidentified cash disbursements	18,113	1,473	2,135	7,038	5,825	34,584
Total disbursements	<u>45,147</u>	<u>89,674</u>	<u>35,257</u>	<u>41,859</u>	<u>66,569</u>	<u>278,506</u>
Net change in cash	<u>6,850</u>	<u>2,956</u>	<u>(1,513)</u>	<u>(4,098)</u>	<u>(3,133)</u>	<u>1,062</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



**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 Ankit Typhoon  
Mayor  
Ailuk 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 Ailuk Atoll Local Government (Ailuk 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 August 27, 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 the Ailuk 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 Ailuk Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ailuk Government's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as *Finding No. 1, 2, 3, 4, 5, and 8*, 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. 2, 5, 11, 12, and 15*.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Ailuk 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 *Finding No.1, 3, 4, 6, 7, 8, 9, 10, 13, and 14*, that we consider to be compliance weaknesses and other matters.

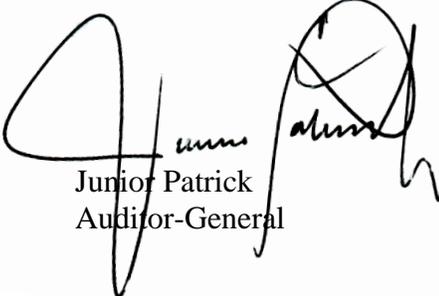
### **The Ailuk Government's Response to Findings**

The Ailuk Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Ailuk 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 27, 2021



Junior Patrick  
Auditor-General

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 1

### New Zealand Grant

Criteria: Ailuk Government agrees in the grant agreement to the following to use the North Pacific Development fund for Canoe Renovation Project Phase II as outlined in the North Pacific Development Fund Application Form (NPDF):

1. Agree not be used for any other purpose without the prior written consent of the New Zealand Embassy in Honolulu.
2. Will carry out with timeframe indicated in the application.
3. Will immediately return any NPDF money received if the project not go ahead.
4. Will have progress report and final report as requested using the template provided.
5. Will have receipts for all goods and services procured and include copies of these in the report documents.
6. Will have report available on request to public.
7. Will make available for inspection by the New Zealand Embassy (or its designated agent) files or record that may relate to the expenditure of the grant.
8. Will advise the New Zealand Embassy (or its designated agents) files or details, office holders, financial situations) should this occur before the grant has been fully expended or I returned the completion report.
9. Will acknowledge the financial support given all relevant publicity material, publications, annual reports and similar document relating to the funding.
10. Have read and understood these terms and conditions and accept that a breach of these may lead to the funds being returned to the New Zealand Embassy.

Condition: We identified two deposits (\$11,788 dated 12/18/13 and \$11,813 dated 6/6/2016) that were directly debited into the Ailuk Governments bank account 881-95-0002-9 at Bank of Marshall Islands (BOMI) by New Zealand Embassy, North Pacific Development Fund for Canoe Renovation Project totaling a value of \$23,600. Enquiries with Ailuk Government revealed that they did not have any supporting evidence on hand to support the transaction.

Our enquiries with the other stakeholders involved (MOFA - Ministry of Foreign Affairs and Ministry of Finance -Ministry of Finance Banking and Postal Services, and DIDA - Division of Development International Assistant) shed light into one of the deposits only, \$11,813 dated 6/6/2016. This was provided to us by MOFA together with all relevant supporting acquittals relating to the project.

However we could not ascertain the accountability of the first project deposit - \$11,788 dated 12/18/13 with all the stakeholders relating to the Canoe Renovation Project.

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 1 (Continued)

Cause: The cause of above condition is failure to maintain accounting records, agreements, project proposals and acquittals that could potentially lead to noncompliance to the Grant Agreement.

Effect: The effect of the above condition creates a possibility that there could have been misuse and misappropriation of project funds for non-project purposes. The potential for questionable spending could be the totality of the first deposit of \$11,788 by Ailuk Government.

### Recommendation:

We recommend that:

1. Ailuk Government takes responsibility when it comes to maintaining paperwork and filing of relevant project funding that it engages in.
2. Respective stakeholders and government departments maintain vital project agreements and acquittals properly and safely so as to ensure that a paper trail exist for auditing purposes.

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

The current Mayor verbally agrees to the finding and recommendation.

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

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance, Banking and Postal Services (Ministry of Finance)

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

## AILUK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses Period from October 1, 2013 through September 30, 2018

#### Finding No. 2

#### Check Issue to Cash

Criteria: Proper internal control over cash disbursements require that cash disbursements be issued by checks. All check payments made must have met all required internal controls surrounding it.

Condition: Our review of Ailuk Governments Bank Statement revealed that there were cash checks issued to the totality of \$60,853. Apart from this, there were cash withdrawals amounting to \$1,500 which had no supporting documents. In addition, these payments were not included in the Reports submitted to Ministry of Finance when it comes to quarterly acquittals. Therefore, we were unable to determine the nature of these cash payments and checks.

<b>Item No.</b>	<b>Date Posted by bank</b>	<b>Check No.</b>	<b>Payee</b>	<b>Amount</b>
1	2/11/2014	6175	Cash	1,110
2	2/25/2014	1679	Cash	4,205
3	3/26/2014	1690	Cash	4,127
4	4/3/2014	1691	Cash	1,000
5	4/9/2014	1696	Cash	1,040
6	5/19/2014	1697	Cash	500
7	5/19/2014	1698	Cash	1,040
8	6/27/2014	1706	Cash	69
9	7/10/2014	1741	Cash	1,216
10	11/18/2014	1743	Cash	3,876
11	2/6/2015	1749	Cash	3,884
12	2/27/2015	1754	Cash	200
13	4/27/2015	1762	Cash	3,626
14	9/17/2015	1776	Cash	11,690
14	10/27/2015	1782	Cash	2,555
16	11/13/2015	1784	Cash	2,555
17	11/26/2015	1786	Cash	4,000
18	3/28/2016	withdraw	cash	1,500
19	11/30/2016	1850	Cash	3,705
20	1/26/2017	1866	Cash	3,730
21	2/19/2018	1835	Cash	5,225
				<b>\$ 60,853</b>

## AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

### Finding No. 2 (Continued)

#### Condition (Continued):

Our audit also revealed checks that were reported to Ministry of Finance that did not have any supporting documentation on file totaling to: \$14,022:

<b>Item No.</b>	<b>Date</b>	<b>Check No.</b>	<b>Payee</b>	<b>Amount</b>
1	8/1/2014	1731	Cash	3,998
2	7/27/2015	1773	Cash	3,626
3	10/27/2015	1781	Cash	3,698
4	3/24/2016	1798	Cash	1,500
5	3/20/2018	1833	Cash	100
6	3/26/2018	1838	Cash	100
7	4/4/2018	1881	Cash	1,000
				<b>\$14,022</b>

Cause: The cause of the above condition is lack implementation, monitoring and adherence to the policies and procedures in place regarding cash disbursements.

Effect: This can lead to inappropriate use of cash from the Local Government Funds allocated to Ailuk Government account.

#### Recommendation:

We recommend the following:

1. The Ailuk Government refrains from issuing cash checks and cash withdrawals without proper supporting documentation. All payments be made by checks with proper paperwork required, and attached to the payment vouchers.
2. Ministry of Internal Affairs and Ministry of Finance ensure that local governments are adhering to proper policies and procedures when it comes to accounting for payments.

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

The current Mayor verbally agrees to the finding and recommendation.

## **AILUK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

### Finding No. 2 (Continued)

#### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

#### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 3

### Cash Receipts (Local Noncompliance)

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, a cash receipts journal should be maintained that indicates the cash receipts being issued in a sequential manner and documents the customer name, date, amount of cash received and the type of revenue collected.

Condition: During our review, we noted that there were other revenues received by the Ailuk Government that did not have any corresponding receipts. These amounted to \$17,889 throughout the audit periods reviewed. We were unable to find any receipts to explain the sources of other revenue that was recorded by Ailuk Government in their quarterly reports to Ministry of Finance.

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: The effect of the above condition is the possibility for misappropriation of public funds. Additionally, there is no audit trail to determine how much local revenues were collected.

### Recommendation:

- 1) We recommend that the Ailuk Government issue official cash receipts to customers when collecting local revenues 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.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance properly review the financial reports to ensure all supporting documents are provided to support amounts reported.

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 4

### 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: During the periods under audit, the Ailuk 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: This is due to lack of adherence to established policy by the Ailuk Government and lack of oversight by the Ministry of Internal Affairs and Ministry of Finance requiring Ailuk Government to adopt and follow the accounting system established for all local governments.

Effect: The effect of the above condition is that Ailuk 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 the Ailuk Government comply and follow the accounting system established for all local governments by the Ministry of Internal Affairs in order to improve accountability over its financial operation.
2. We further recommend that the Ministry of Internal Affairs and Ministry of Finance require that Ailuk Government comply with the accounting system for local governments as stipulated in the Financial Memoranda No. 1987-1 prior to release of Local Government Fund appropriations.

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 4 Continued

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 5

### Bank Reconciliation

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

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

Cause: The effect of the above condition is that the Ailuk Government may not be able to detect financial reporting irregularities caused by fraud or error in a timely manner.

Effect: Unreconciled Bank accounts could lead to confusion over cash balances in Ailuk Governments books and that of the banks. It also creates an opportunity for fraud during the years under review. When there is no reconciliation performed, the chances of getting away with fraud is very high.

### Recommendation:

- 1) We recommend that the Ailuk Government take necessary steps to reconcile its bank account on a regular basis.
  
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance require and assist Ailuk 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 current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 6

### Business Listing (Local Noncompliance)

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

Condition We did not note any business listing filed with the Ministry of Internal Affairs and the Ministry of Finance by the Ailuk Government 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 Ailuk Government is compliant with this provision requiring that a business listing be filed as part of the financial report.

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

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

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

## Schedule of Findings and Responses Period from October 1, 2013 through September 30, 2018

### Finding No. 7

#### Unreported Expenditure and Revenue (Local Noncompliance)

**Criteria:** Section 5(1) of the Constitution of Ailuk 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 control of the local government and liabilities of the local government. Furthermore, good internal control dictates that all revenues and expenditures are properly accounted for and adequately supported.

**Condition:** Our review of quarterly financial reports for deposits, disbursements, and amounts per the bank statements, has noted that revenues and expenditures were under reported by \$6,678 and \$34, 584 respectively. This indicates that it was not accounted for appropriately.

Table 1 Understated revenue could indicate hidden receipts with questionable intentions.

<b>Receipts:</b>	<b>Per Bank Statement (BOMI)</b>	<b>Per above</b>	<b>Under Reported</b>
<b>2014</b>	31,792.15	30,563.95	1,228.20
<b>2015</b>	92,630.54	92,552.84	77.70
<b>2016</b>	33,744.00	33,105.61	638.39
<b>2017</b>	37,760.90	35,827.11	1,933.79
<b>2018</b>	63,435.79	60,635.69	2,800.10
			<b>\$6,678.18</b>

Table 2 Understated expenses could indicate hidden expenditures/disbursements from reporting.

<b>Disbursements:</b>	<b>Per Bank Statement (BOMI)</b>	<b>Per above</b>	<b>Under reported</b>
<b>2014</b>	49,577.17	31,464.17	18,113.00
<b>2015</b>	84,236.30	82,763.30	1,473.00
<b>2016</b>	31,444.71	29,309.71	2,135.00
<b>2017</b>	46,078.22	39,040.22	7,038.00
<b>2018</b>	66,158.42	60,333.42	5,825.00
			<b>\$34,584.00</b>

## **AILUK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

### Finding No. 7 (Continued)

Cause: The Executive committee did fully not perform their duties diligently under the constitution.

Effect: Non-Compliance by the Ailuk Government with the provisions of their constitution. Understated revenues and expenses in reporting may give rise to unknown and unauthorized transaction.

### Recommendation:

1. For the Ailuk Government executive committee to keep full and proper accounts and records of revenue and expenditures.
2. For Ministry of Internal Affairs and Ministry of Finance to ensure that governments reporting is submitted and reviewed timely before next disbursements are made.

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

## Schedule of Findings and Responses Period from October 1, 2013 through September 30, 2018

### Finding No. 8

#### Unsupported Disbursement

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to prove 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 our examination of the quarterly financial reports for the periods under audit, we noted that disbursements for council operating expenses were not supported by invoices, receipts, copies of tickets, and other related supporting documentation as indicated below:

<b>Expense</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>
<b>Entertainment</b>	200			200	
<b>Food Stuffs</b>			493		100
<b>Insurance</b>	486	813	701		252
<b>Others</b>	795	573	2,343	962	2,175
	<b><u>\$ 1,481</u></b>	<b><u>\$ 1386</u></b>	<b><u>\$ 3,537</u></b>	<b><u>\$ 1,162</u></b>	<b><u>\$ 2,527</u></b>

We also noted check number: 1807 amounting to \$182.11 to Marshall Islands Shipping Corporations (MISC) for freight, whereas the MISC invoice amount was \$18.21.

Cause: This is due to 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 Ministry of Finance over invoices and checks. Internal controls surrounding government accounting of transaction are inexistent.

Effect: Ailuk Government becomes noncompliant with the Local Government Financial Memoranda No. 1987-1. There are also possible losses to overpayment of vendors due to lack of review and overview.

#### Recommendation:

- 1) That Ailuk Government ensure all disbursements are supported by invoices or receipts and that these supporting documents are maintained on file for reference and audit purposes.
  
- 2) We recommend that the Ministry of Internal Affairs and Ministry of Finance review the quarterly reports to ensure they are supported by proper documentation. Anything with no supporting document should be returned and Ministry of Finance to decide the best way to resolve unsupported items. One solution could

## **AILUK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

### Finding No. 8 (Continued)

be to pay only items that have the proper supporting documents.

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 9

### RMI 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: We noted that Ailuk Government issued 2 checks that were above the threshold and needed to have 3 price quotations intact. These were check numbers: 1774 and 1798 amounting to \$500 and \$1,500 respectively.

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

Effect: Ailuk Government was noncompliant with the RMI Procurement Code.

### Recommendation:

1. For Ailuk Government to ensure supporting documentation is adequate to comply with the RMI Procurement Code.
2. For the Procurement office and Local Governments to work together in ensuring that all purchases are in line with the RMI Procurement Act. Supporting documentation should indicate the history of procurement, including the rational for and method of procurement and basis for the selected price.

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

### Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 10

### 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: Ailuk 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 Ailuk 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 current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 11

### Checks Not Issued in Sequential order

Criteria: Proper internal control over cash disbursements require checks be issued in a sequential manner.

Condition: Our examination of checks issued revealed that it was not issued sequentially during the period under audit.

Cause: This is due to the lack of adherence to the internal control procedures requiring that checks be issued in a sequential order.

Effect: This could lead to incorrect recording of payments, and creates an opportunity for misuse of checks.

Recommendation: For Ailuk Government establish and ensure that policies and procedures requiring that checks be issued in a sequential order.

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

# AILUK ATOLL 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 \$71,076 were paid to council members and employees that included a clerk, police officers, tax collector, farmer, boat operator, fisheries officer and NTA operator. In the absence of these documents, we are unable to determine whether employees paid are in fact employees of Ailuk 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 Ailuk Government and that copies are maintained on file.

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

The current Mayor verbally agrees to the finding and recommendation.

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 13

### 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: We performed a detailed analysis of the financial reports and noted the following discrepancies:

- All financial reports were not signed by the Ministry of Internal Affairs to certify that all reporting requirements have been complied with and to indicate date of filing.
- Bank statements were not provided with the financial reports.
- There were missing quarterly reports and its supporting documents (meeting minutes, check copies, ordinances, resolutions, invoices and receipts) for the following quarters:
  - FY2014 3<sup>rd</sup> quarter
  - FY2015 1<sup>st</sup> quarter
- There were inconsistencies with regards to expenditure acquittals when compared to transactions identified from the bank statements.

- For instance, here are some issues in the financial report for FY14,

Quarters	Expenditure Reported	Actuals Verified	Variance
1	5,589.69	5,512.23	77.46
1	4,205.00	4,217.00	12.00
2	4,505.00	200.00	4,305.00
4	4,045.16	4,972.54	927.38

- Issues in financial report for FY2015

Quarters	Expenditure Reported	Actuals Verified	Variance
2	5,000	4,802.73	197.21
3	4,460.26	4,655.26	195.00

- Issues in financial report for FY2016

Quarters	Expenditure Reported	Actuals Verified	Variance
1	4,863.53	4,861.47	2.06
2	8,059.67	6,559.75	1,499.92

## AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

### Finding No. 13 (Continued)

- Issues in financial report for FY2017

Quarters	Expenditure Reported	Actuals Verified	Variance
1	4,879.45	1,167.46	3,711.99
2	6,384.94	2,529.94	3,855.00
3	4,819.03	576.00	4,243.03
4	6,019.33	1,166.87	4,852.46

- Issues in financial report for FY2018

Quarters	Expenditure Reported	Actuals Verified	Variance
2	5,255.00	-	5,255.00
3	8,582.67	8,948.65	365.98
4	7,692.43	2,371.21	5,321.22

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

Effect: Ailuk Government is non-compliant with the reporting requirements of Local governments and thereby diminishing accountability over its financial operation.

### Recommendation:

1. We recommend that the Ailuk Government adheres to reporting requirements as dictated in the Financial Memoranda No. 1987-1.
2. We recommend that the Ministry of Finance and Ministry of Internal Affairs should thoroughly review the quarterly reports that are submitted by the Ailuk Government to ensure all required supporting documentation are provided prior to making payment.

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

The current Mayor verbally agrees to the finding and recommendation.

### Response from Ministry of Internal Affairs

Ministry of Internal Affairs provided a written communication agreeing to our findings and recommendations (See Appendix I).

**AILUK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

Finding No. 13 (Continued)

Response from Ministry of Finance

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

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 14

### Budget

Criteria: Article V of Section 3 (1) and (2) of the Ailuk Government Constitution states “the Executive Committee shall cause to be introduced into the council in respect of each financial year (a) a set of budget estimates of revenue and expenditure and (b) an Appropriation Ordinance to make appropriations for expenditure, and may introduce additional supplementary estimates and Supplementary Appropriation Ordinances.”

Condition: Our examination noted that:

- Budget Ordinance for FY2015 and FY2016 was not on file for examination.
- Budget Ordinance no. 2016-1 was filed in 1<sup>st</sup> quarter FY2017 also filed in 2<sup>nd</sup> quarter FY2017.

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

Recommendation: For Ailuk 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..

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

The current Mayor verbally agrees to the finding and recommendation.

# AILUK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses  
Period from October 1, 2013 through September 30, 2018

## Finding No. 15

### Segregation of Duties

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

Condition: The Mayor is a signatory on the account and also prepared the quarterly report. Our examination noted that the Mayor appeared to be on all the checks and all the quarterly report.

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 which may not be detected and corrected in a timely manner.

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

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

The current Mayor verbally agrees to the finding and recommendation.



*Republic of the Marshall Islands*

**MINISTRY OF CULTURAL AND INTERNAL AFFAIRS**

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*Office of the Secretary*

August 23, 2021

Mr. Junior Patrick  
Auditor General  
Office of the Auditor General  
Republic of the Marshall Islands

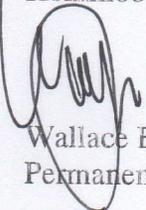
Iakwe Auditor General,

Leta in ao ej iwoj nan kalikkar ke emoj ao loe leta eo am im ear jeje ilo August 13, 2021, ekopa report eo ikkijien bwonbwon eo ear komman nan Ailuk Atoll Local Government, im ekopa bar leta ko ruo am nan Acting Mayor Kaist Jibas jen Lae Atoll im Mayor Lee Bejang jen Lib Island Local Government.

Elikin ao wate report in, ij erra ippen office ne am ikkijien kabilok kein nan kajjion boprae ak kabojrak jorren kein einwot an kemlet ilo report in. Elap ao erra ippam im ej aikuij in bok jikin kio wot juon ien an CIA im MOFBPS jijet ippen dron nan lale im kajejjet wawen kadriwojlok quarterly ajeej eo an juon local government bwe elane ejjelok report innem ejjab aikuij in komman kolla.

Einwot ao kar ba imaanlok ilo juon iaan leta ko ao waj nan office ne am, ke ministry in an CIA enaaj kar bukwoj juon an Fiscal/Accountant Officer nan office eo an Local Government nan an aini im kepooji report kein kajjojo elaptata wawen an driwoj dreton money ko an kajjojo local government im wawen kojjerbali. Dri-gerbal in emoj an dreton ilo budget eo an CIA FY 22 im jej kio jerbale contract eo an bwe en jino jermal.

Kommool tata.

  
Wallace E. Peter  
Permanent Secretary

Cc : Chief of Local Government

Telephone: (692) 625-8240/ 8718 Fax: (692) 625-5353 Email: [mocia@mintamh](mailto:mocia@mintamh) Website: [www.rmimocia.com](http://www.rmimocia.com)

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