

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

LAE ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

PERIOD FROM OCTOBER 01, 2012 THROUGH SEPTEMBER 30, 2017



AUDIT No.: OAG 03/20-2400

January 28, 2022

Date

P.O. BOX 245
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REPUBLIC OF THE MARSHALL ISLANDS

LAE ATOLL LOCAL GOVERNMENT
Period October 1, 2012 through September 30, 2017

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INDEPENDENT AUDITORS' REPORT

Honorable Drile J. Kabua
Mayor
Lae Atoll Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Lae Atoll Local Government (Lae Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2012 through September 30, 2017, and the related notes to the financial statements. The financial statement is the responsibility of the Lae 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 statements 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 Lae 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 \$73,753 and \$73,633 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 Lae 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 28, 2022, on our consideration of the Lae 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 Lae 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 the Lae Government's internal control over financial reporting and compliance.

January 28, 2022


for Junior Patrick
Auditor-General

LAE ATOLL LOCAL GOVERNMENT
Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2017

	Total
Cash receipts:	
RepMar Contributions:	
Local Government Fund(LGF)	73,733
Unreported/unidentified deposits	20
Total cash receipts	73,753
 Cash Disbursements:	
Salary	49,016
Supplies & Materials	1,632
Equipments	800
Travel/Per Diem	300
Allowance & Sitting Fees	150
Other Expenses	6,512
Bank Charges	450
Unreported/unidentified cash disbursements	14,773
Total cash disbursements	73,633
Net change in cash	120

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

LAE ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements

Period from October 1, 2012 through September 30, 2017

(1) Organization

The Lae 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 Lae Government. The Lae 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 Lae 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 Lae Government is required to comply with accounting system requirements established by the Government of the Republic of the Marshall Islands (RepMar's) Ministry of Culture and Internal Affairs (MOCIA).

(3) Cash

As of September 30, 2017, the carrying amount of the Lae Government's total cash was \$120, which corresponds to the bank balance and which is maintained at a local financial institution which is not subject to Federal Deposit Insurance Coverage (FDIC). The Lae Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Lae 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 Lae 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 Lae Government providing financial reports and supporting documents. For the period from October 1, 2012 through September 30, 2017, the Lae Government received \$72,248 from the LGF. Together with the opening Cash Balance as at October 1, 2012: \$1,485, the total amount accessible for Lae Government for the period was \$73,733.

(6) Other financing sources and contributions

The Lae 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. The disbursement of this grant fund is contingent upon the Lae Government providing community proposal and an approved resolution from council.

LAE ATOLL LOCAL GOVERNMENT
Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2017

(6) Other financing sources and contributions (Continued)

For the period from October 1, 2012 through September 30, 2017, the Lae Government received a total of \$180,114 under this grant. In addition, the Lae 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 the Lae Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2017, the Lae Government received a total of \$44,708 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.

From October 22 to December 17, 2013, the Lae Government received funding from the Asian Development Bank (ADB) in the amount of \$9,352 for the purposes of purchasing wheelbarrows, police supply and payment for boat charter to cartage purchased items to Lae Atoll.

LAE ATOLL LOCAL GOVERNMENT
Combining Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2017

Cash Receipts:

	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>Total</u>
RepMar Contribution						
Local Government Fund (LGF)	18,382	14,011	13,780	13,780	13,780	73,733
Unreported/unidentified deposits	20	-	-	-	-	20
Total cash receipts	18,402	14,011	13,780	13,780	13,780	73,753

Cash Disbursements:

Salary	2,895	12,290	13,034	10,167	10,630	49,016
Supplies & Materials	899	292	-	-	441	1,632
Equipment	-	800	-	-	-	800
Travel/Per Diem	-	-	300	-	-	300
Allowance & Sitting Fees	-	-	150	-	-	150
Other Expenses	3,000	853	226	269	2,164	6,512
Bank Charges	35	110	105	121	79	450
Unreported/unidentified cash disbursements	11,472	(231)	(165)	3,351	346	14,773
Total disbursements	18,301	14,114	13,650	13,908	13,660	73,633
Net change in cash	101	(103)	130	(128)	120	120

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

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.7, Finding No. 8, and Finding No. 9* to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lae Government’s financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as, *Finding No. 10, Finding No.11, Finding No. 12, Finding No. 13, Finding No. 14, Finding No. 15, and Finding No. 16*, that we consider to be compliance weaknesses and other matters.

The Lae Government’s Response to Findings

The Lae Government responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Lae Government responses were not subjected to the auditing procedures applied in the engagement to audit the financial statement and, according, 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 28 ,2022


for Junior Patrick
Auditor-General

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No. 1

Accounting System

Criteria: All Local Governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the Ministry of Culture and Internal Affairs (MOCIA). Furthermore, Section 31 of Lae Government Constitution states that the Executive Committee shall cause to be kept full and proper accounts and records of revenues, expenditures, assets and liabilities of the local government.

Included in the Accounting system are forms developed to be used such as cash receipt and cash disbursement journals, collection cards for each tax payer, summary sheet for the clerk to record taxes received daily, fines and rentals record, payroll register, stipends and casual employment pay sheet, personnel action form, travel expense report, and purchase order form for proper record keeping.

Condition: We found that Lae Government did not adopt the accounting system established by the MOCIA and accounting forms as described in the above criteria were not utilized.

Cause: The cause of the above condition is due to the lack of adherence to the established accounting system by Lae Government. In addition, there is lack of oversight by the MOCIA and Ministry of Finance, Banking & Postal Services (MOFBPS) in ensuring that Lae Government adopts and follows the accounting system in place.

Effect: The effect of the above condition is noncompliance by Lae Government with the Accounting Standards and 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: We recommend that Lae Government utilize the accounting system established for all local governments under MOCIA in order to improve accountability over its financial bookkeeping. We also recommend that the MOCIA and MOFBPS strictly oversee and ensure that Lae Government adopts and implement the local government accounting system prior to release of its Local Government Fund.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2017.

Finding no.1 (Continued)

Response from the MOFBPS:

MOFBPS provided a written communication agreeing to our findings and recommendations (See Appendix I).

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

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 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 the periods under audit, we have identified the following disbursements for council operation that were not supported by invoices, receipts, copies of tickets, and other related supporting documentation:

Date	Check no.	Description	Amount
04/08/2013	120	Liberation Day Activity	\$3,000
08/07/2013	165	Laptop & Food Staff	\$1,000
10/18/2013	168	Diesel	\$60
11/11/2013	169	Food Staff (council)	\$243
02/19/2015	226	Travel	\$300
08/05/2015	235	Not indicated	\$119
10/21/2015	238	Reimbursement (Auto Registration)	\$45
04/14/2016	251	Food (liberation day)	\$717
05/04/2017	282	Reimbursement (Sports Uniform)	\$2,000
Total			\$7,484

Cause: The cause of the above condition 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 MOCIA and MOFBPS to ensure all disbursements are adequately supported. Additionally, internal controls surrounding local government accounting of transactions are inexistent.

Effect: The effect of the above condition is non-compliance with the Local Government Financial Memoranda No. 1987-1 by Lae Government and the inability to determine the authenticity and appropriateness of the disbursements made and the clear public purpose or benefits served.

Recommendation: We recommend that the Lae Government ensure all disbursements are supported by invoices or receipts and are maintained on file for reference and audit purposes. We also recommend that the MOCIA and the MOFBPS strictly review the quarterly financial reports and ensure that they are adequately supported by proper documentation as required by the Local Government Financial Memoranda No. 1987-1.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No formal response was provided to us for inclusion in this final report.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2017.

Finding no.2 (Continued)

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from the MOFBPS:

MOFBPS provided a written communication agreeing to our findings and recommendations (See Appendix I).

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No. 3

Checks Issued to Cash

Criteria: Proper Internal Control over cash disbursements requires that disbursements be issued directly to the payee and not be issued to cash.

Condition: We have identified numerous checks that were issued to cash for sitting fees, salaries, airfare, per-diem, and refreshment. All of these checks were also not supported by the appropriate documentations to support each expense incurred.

Date	Check no.	Payee	Description	Amount
10/18/2012	25	Cash	Not indicated	\$180
11/23/2012	26	Cash	Not indicated	\$50
12/31/2012	103	Cash	Not indicated	\$800
02/04/2013	113	Cash	Not indicated	\$10
04/08/2013	122	Cash	Not indicated	\$150
05/30/2013	147	Cash	Not indicated	\$1,810
06/14/2013	152	Cash	Reimbursement	\$130
07/08/2013	138	Cash	Not indicated	\$1,090
07/08/2013	139	Cash	Salary	\$430
07/10/2013	135	Cash	Gas	\$20
07/10/2013	144	Cash	Not Indicated	\$60
07/15/2013	145	Cash	Office Supplies	\$100
07/18/2013	154	Cash	Salary	\$350
07/31/2013	161	Cash	Salary	\$1,440
11/26/2013	180	Cash	Council Operation	\$300
12/2/2013	182	Cash	Salary	\$1,500
3/24/2014	194	Cash	Salary	\$720
5/28/2014	202	Cash	Salary	\$2,540
7/31/2014	207	Cash	Salary	\$2,800
11/12/2014	217	Cash	Salary	\$2,670
2/09/2015	224	Cash	Salary	\$2,490
3/12/2015	231	Cash	Salary	\$3,000
7/15/2015	234	Cash	Salary	\$3,120
12/29/2014	220	Cash	Salary	\$150
8/21/2015	237	Cash	Not Indicated	\$70
12/10/2015	241	Cash	Not Indicated	\$2,390
1/28/2016	243	Cash	Salary	\$3,490
7/21/2016	260	Cash	Not Indicated	\$1,910
7/29/2016	264	Cash	Not Indicated	\$610
3/2/2016	246	Cash	Salary	\$150
3/4/2016	244	Cash	Salary	\$150
11/21/2016	272	Cash	Salary	\$2,990
8/09/2017	294	Cash	Not Indicated	\$2,430
TOTAL				\$40,100

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding no.3 (Continued)

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures in governing cash disbursements.

Effect: As a result, proper accountability over Lae Government's financial resources is greatly diminished and the possibility that cash could be misappropriated which may not have been detected and corrected in a timely manner.

Recommendation: We recommend that the Lae Government cease the practice of writing checks to cash and issue checks directly to the appropriate payee. In the event checks have to be issued to cash, then relevant and appropriate supporting documentation should be maintained for accountability purposes. We also recommend that the MOCIA put in place strict oversight procedures and take responsibility for local government affairs.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No. 4

Financial Reports

Criteria: Financial Reports should be accurate and accompanied by proper documentation. Additionally, Local Government Financial Memoranda No. 1987-1, Section 1 (B) states, a local government must submit a quarterly financial report to the secretary of the MOCIA by no later than the 15th of January, April, July, and October.

Condition: Based on our review of the quarterly financial reports filed with the MOCIA and MOFBPS, we have disclosed the following;

- 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 No. 1987-1.
- Bank Statements were not provided with the financial reports.
- There were missing quarterly reports and its supporting documents (meeting minutes, check copies, ordinances, resolution, invoices and receipts) for the following:
 - *FY2013 – 1st & 2nd quarterly report*
 - *FY2016 – 2nd quarterly report.*
- Not all checks vouchers were provided and attached with the quarterly financial reports.
- Not all quarterly reports were submitted on time to the MOCIA and MOFBPS.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by Lae Government. Also, there is a lack of consistency in utilizing the checklist that is required to be completed by the MOCIA when receiving the quarterly financial reports from the local government. The form provides for official acknowledgements and date received by and is required to be attached with the purchase requisition submitted to the Secretary of the MOCIA for approval before transmitted to the MOFBPS for payment. In addition, there is a lack of review by the MOCIA and MOFBPS to ensure financial reports submitted are accurate, complete and properly supported prior to payment of the Local Government Fund.

Effect: Non-compliance with the reporting requirements lead to a missing file for 1st & 2nd quarterly reports for FY2013 and 2nd quarterly report for FY2016. In addition, lack of review from MOCIA and MOFBPS leads to inaccurate and unreliable financial reports.

Recommendation: We recommend that the Lae Government comply with the reporting requirements as dictated in the Financial Memoranda No. 1987-1. We also recommend that the MOCIA address these compliance issues with Lae Government on a regular basis. Review the reports thoroughly and ensure they are accurate, complete and properly supported. In addition, the Officials at local government division should complete the required checklist form quarterly from the local governments in order to indicate review and certification. Further, we recommend that the MOFBPS thoroughly review these reports and ensure accurate and reliable proper supporting documentation are provided before releasing the fund.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding no.4 (Continued)

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in the final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from the MOFBPS:

MOFBPS provided a written communication agreeing to our findings and recommendations (See Appendix I).

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No. 5

Fixed Assets

Criteria: Under the Local Government Act 1980 (PL 1981-2, Section 46(2) (b), every local government is required to file a report of properties in their possession.

Condition: Based on our test of Expenditures, we noted that the Lae Government did not file a report or a listing of all Fixed Assets bought and are in their possession as stipulated under the Local Government Act of 1980 during the period audited.

Cause: This is due to the lack of oversight by MOCIA in making sure these reports that are submitted by Lae Government are accurate and complies with appropriate documentation standards.

Effect: The effect of the above condition is the possibility for misappropriation of assets which may not be detected and corrected in a timely manner.

Recommendation: We recommend that Lae Government must comply with the Local Government Act of 1980 and submit report or listing of all fixed assets bought under the name of the Local Government Office.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No. 6

Procurement Code Violation

Criteria: All Local Governments who receive funds from the RMI Government are required to adhere to the RMI Procurement Code Policies established by the MOFBPS for small purchases \$.01-25,000.

- i. Procurement \$.01 to \$500 under General Fund requires a minimum of 1 quotation only.
- ii. \$500 to \$25,000 for General Fund requires a minimum of 3 valid and relevant quotations.
- iii. For all other funds, \$.01 to \$24,999.99 requires a minimum of 3 valid and relevant quotations.

Condition: We found that Lae Government did not provide any price quotation for all payments where price quotations are mandatory. For instance, the following payments were made for the Local Government Fund (LGF) for which the 3 price quotations requirement was not followed.

Date	Check no.	Description	Amount
4/8/2013	120	Lae Liberation Day	\$3,000
8/7/2013	165	Laptop & food staff	\$1,000
3/24/2014	192	Unjustified purpose	\$1,170
4/14/2016	251	Food (liberation day)	\$717
5/4/2017	282	Reimbursement (uniform)	\$2,000
Total			\$7,887

Cause: The cause of the above condition is the lack of proper oversight, monitoring and enforcement to ensure Lae Government comply with the RMI Procurement Code Policy.

Effect: The effect of the above condition is noncompliance with the Procurement Code by Lae Government and there is no assurance whether the Local Government is getting the best value for money spent.

Recommendation: We recommend that the Lae Government strictly comply with the Procurement Policy in order to get the best value for its money. We recommend also that the MOCIA and MOFBPS ensure that Lae Government complies with the procurement code prior for approval and disbursements of funds.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2017.

Finding no.6 (Continued)

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from the MOFBPS:

MOFBPS provided a written communication agreeing to our findings and recommendations (See Appendix I).

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.7

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 asset to guard against misuse.

Condition: The Clerk, who has custody of the checks is an authorized signatory, also prepares the financial reports of Lae Government.

Cause: The cause of the above condition is the lack of established internal control procedures requiring that the person issuing checks and in charge of all of the financial transactions of Lae Government is not a signatory on the checks.

Effect: The effect of the above condition is an increased possibility for misuse of local government funds which may not be detected and corrected in a timely manner.

Recommendation: We recommend that the MOCIA and MOFBPS establish appropriate internal control regulations requiring that there be segregation of duties at Lae Local Government

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from the MOFBPS:

MOFBPS provided a written communication agreeing to our findings and recommendations (See Appendix I).

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2017.

Finding No.8

Checks Issued and Reported not in Sequential Order.

Criteria: Proper Internal Control over cash disbursements require checks be issued and reported in sequential manner.

Condition: During the period under audit, we found that checks issued and reported by Lae Government were not in sequential order.

Cause: This is due to lack of established internal control procedures requiring that checks should be issued and reported in a sequential order.

Effect: When checks are not in sequential order, it could give rise to instances of duplication or written fraudulently due to the fact that it takes time for the checks to be presented at the bank.

Recommendation: We recommend that Lae Government establishes and ensures proper policies and procedures requiring checks to be issued and reported in a sequential order.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.9

Revenues and Expenditures

Criteria: Section 31(1) of the Constitution of Lae Government requires that the Executive Committee cause to be kept full and proper accounts and records of revenues and expenditures of the local government, assets and liabilities under the control of the local government. Furthermore, good internal control dictates that all revenues and expenditures are properly accounted for and adequately supported.

Condition: Based on our review of the quarterly financial reports for revenues and disbursements, we have found that revenue and expenditure for Lae Government were under-reported by \$20 and \$14,773 respectively. We were unable to determine whether parts of these disbursements totaling \$14,773, was reported to MOFBPS due to missing quarterly reports and related supporting documentation.

Receipts:

Periods	Bank Statements	Financial Summary Report	Under Reported
FY2013	\$16,917	\$16,897	\$20
Total	\$72,268	\$72,017	\$20

Disbursements:

Periods	Bank Statements	Financial Summary Report	Under Reported
FY2013	\$18,265	\$6,794	\$11,472
FY2014	\$14,004	\$14,235	(\$231)
FY2015	\$13,545	\$13,710	(\$165)
FY2016	\$13,786	\$10,436	\$3,351
FY2017	\$13,581	\$13,235	\$346
Total	\$73,181	\$58,410	\$14,773

Cause: The cause of the above condition is the lack of oversight by the Executive Committee to ensure proper records-keeping and reporting of Lae Government's revenues and expenditures during the period.

Effect: The effect of the above condition is that executive committee of Lae Government did not comply with Section 31(1) of the Constitution. In addition, lack of proper financial reporting greatly diminishes accountability over Lae Government funds and increases the possibility for unauthorized transactions to occur which may not be detected and corrected in a timely manner.

Recommendation: We recommend that the Mayor and Executive Committee Members of Lae Government keep full and proper accounts and records of all their revenues and expenditures. We recommend also that the MOCIA ensure that the Mayor and Executive Committee Members received proper training on how to properly record and report revenues and expenditures.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding no.9 (Continued)

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.10

Bank Reconciliation

Criteria: The Local Government Financial Memoranda No. 1987-1 indicates that all local governments require bank reconciliation to be performed and filed on a regular basis to detect fraud and error.

Condition: Based on our review, we found that Lae Government did not reconcile its cash at bank for the entire period under review. The Lae Government relied on the bank to indicate what checks have been cleared and what deposits have been made into their bank account.

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

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

Recommendation: We recommend that the Executive Committee of Lae Government ensures that the bank reconciliations are prepared monthly. In addition, we recommend that MOCIA ensure that Lae Government is performing its bank reconciliation on a regular basis and provide these with the quarterly financial reports.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.11

Income Taxes, Social Security and Health Fund Taxes.

Criteria: The Income Tax Act of 1989 states that income tax shall be collected at a tax rate of eight percent (8%) upon the first \$10,400, to be prorated at \$200 per week, or \$866.67 per month, and twelve percent (12%) upon the amount over \$10,400, as prorated by pay period of all wages and salaries received by every employee, except as provided in subsection (2) of 93) of this section. Every employer is required to deduct and withhold the tax imposed and shall pay such tax to the Secretary of Finance.

The Social Security Tax Act of 1990, states that a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. This increased in the Social Security Amendment 2016 by an additional 1% for January 1 2017. 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: Based on our review, we found that Lae Government paid a total of \$49,016 in salaries and wages, however, no taxes were withheld for Income Tax, Social Security and Health Fund Taxes.

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

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

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

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.12

Business Listing

Criteria: Section 203 of the Local Government Tax and Fees Act of 1989 requires, 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 Lae Government with the MOCIA for the entire periods covered by this audit.

Cause: The cause of the above condition is the lack of proper oversight by the MOCIA to require that Lae Government provides a business listing as part of its reporting package.

Effect: The effect of the above condition is that Lae Government did not comply with a requirement of the Local Government Tax and Fees Act of 1989.

Recommendation: We recommend that the Lae Government strictly comply with Section 203 of the Local Government Tax and Fees Act of 1989. We also recommend that the MOCIA, as the administrator, requires that the Lae Government comply with the requirements of the Local Government Tax and Fees Act of 1989.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.13

Personnel Action Form

Criteria: In accordance with the Accounting Procedures for Local Government it requires that when a Local Government hires an employee the council is in effect entering into a contract with that employee. While it is not necessary to have a written contract it is important that certain information be committed to writing and both parties have a copy.

Condition: We found that the Lae Government hired a carpenter and NTA operator under council operation without personnel action form in place. Hence, with the absence of these employment documentations, we were unable to determine whether employees paid are in fact related to the operation of the Lae Government.

Cause: The cause of the above condition is lack of adherence from Lae Government to follow established Accounting Procedures and lack of internal control policies regarding personnel action form.

Effect: This leads to the inability in determining the appropriateness of the compensations paid, statutory deductions, and whether they were properly authorized and paid accordingly.

Recommendation: We recommend that the Lae Government maintains and implement formal employment documentations for any personnel engaged by the government to clearly state the scope of works and services that the employees will provide. Additionally, copies are also maintained on file for accountability purposes and audit trails.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.14

Salary Advanced

Criteria: Salaries should only be paid when earned and due.

Condition: Based on our review of Salaries for FY2013 to FY2017, we found that Lae Government issued numerous checks totaling \$1,020 to council members and the clerk for salary in advance.

Cause: The cause of the above condition is the approval of salary in advance before the actual payday by the Lae Local Government.

Effect: The effect of the above condition is that Lae Government paid salaries for works that have yet to be performed. There is a risk that Lae Government may not receive the paid services in the event council members and clerk become sick or simply leave the job.

Recommendation: We recommend that the Lae Government ensure that council members and clerk are paid only when salaries have been earned and due.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2017.

Finding No.15

Unjustified Payments

Criteria: Proper internal control over cash disbursements require that check disbursements be issued with clear and relevant purpose.

Condition: We identified that check #192 totaling \$1,170 was issued to a local Store for salary. This payment was made on the 24th March, 2014. There were no justifications as to why salary was paid to a local store.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures in governing cash disbursements for Lae Local Government.

Effect: This poses a risk of misappropriation of the public funds. It creates an environment in which public office holders can override internal controls and casually make payments to anybody without any the need of having proper paperwork in place.

Recommendation: We recommend that the Lae Government make disbursements directly to the payees and if it must use cash, then relevant supporting documents be maintained and filed. We also recommend that the MOCIA put in place appropriate controls and oversight over local government affairs to ensure proper accountability over public funds is maintained

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

LAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2017.

Finding No.16

Council Meetings

Criteria: Section 102 of the Local Government (Amendment) Act 2016 indicates that the constitution of every local government shall provide for a meeting of the Council at least once every three (3) months.

Condition: During our examination, we are unable to locate any council minutes for the 4th Quarter, FY2014, 1st, 2nd & 4th Quarter, FY2015, and 1st, 2nd & 3rd Quarter, FY2016.

Cause: The cause of the above condition is the lack of adherence with Section 102 of the Local Government (Amendment) Act 2016 by the Administration of Lae Local Government.

Effect: Non-compliance to quarterly meetings could lead to non-performance of Local Governments. This also leads to a culture of loosened oversight and negligence of duties by the Lae Government administration.

Recommendation: We recommend that the Lae Government to review and comply with the Local Government (Amendment) Act 2016.

Auditee's Response and Corrective Action Plan:

The Lae Government has verbally agreed to our findings. No written response was provided to us for inclusion in this final report.



Office of the Secretary

Ministry of Finance, Banking, & Postal Services
Government of the Republic of the Marshall Islands

January 26, 2022

Junior Patrick
Auditor-General
Office of the Auditor-General
Republic of the Marshall Islands

Dear Mr. Patrick,

We have reviewed the draft report delivered to the Ministry of Finance on January 12, 2022. Attached are our responses to these findings.

We extend our sincere gratitude for the audit and will work closely with our staff to resolve these constructive issues.

Sincerely,

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

Patrick Langrine
Secretary of Finance

The Ministry of Finance's responses to the recommendations of Lae Local Government audit

Finding No. 1: Accounting System

The Ministry of Finance acknowledges and accepts the finding. Ways forward, the Ministry strongly encourages the Ministry of Cultural and Internal Affairs to ensure that all Local Governments adopt the forms developed by MOCIA accounting system.

Finding No. 2: Unsupported Disbursements

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented and all current documentations are properly on file. All payment requests are returned back to the Local Government office at the Ministry of Culture and Internal Affairs if such supporting documents are not attached with the request.

Finding No. 4: Financial Reports

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented and all current financial reports and supporting documentation are properly on file. Furthermore, all requests for quarterly LGFs are returned back to the Local Government office at the Ministry of Culture and Internal Affairs if such supporting documents are not attached with the request.

Finding No. 6: Procurement Code Violation

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented. All purchase requests are returned back to the Local Government office at the Ministry of Culture and Internal Affairs if supporting documents such as 3 price quotations are not attached with the request. Furthermore, the Ministry will work closely with MOCIA to conduct a procurement training, especially with newly elected Mayors, to avoid future findings.

Finding No. 7: Segregation of Duties

The Ministry of Finance acknowledges the finding, although it is the responsibility of MOCIA to ensure prior to submitting payment requests that segregation of individual duties within each local government is established.

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