

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

ARNO ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

PERIOD FROM OCTOBER 01, 2013 THROUGH SEPTEMBER 30, 2017



AUDIT No.: OAG 17/11-2400

September 20, 2022

Date

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

ARNO ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENT
AND
INDEPENDENT AUDITORS' REPORT**

PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2017

ARNO ATOLL LOCAL GOVERNMENT

Period from October 1, 2013 through September 30, 2017

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INDEPENDENT AUDITORS' REPORT

Honorable Bernard Chong-Gum
Mayor
Arno Atoll Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Arno Atoll Local Government (Arno Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2013 through September 30, 2017, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2 to this financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statement.

Basis for Disclaimer of Opinion

Because of inadequacies in the accounting records of the Arno Government whereby certain records and supporting data were not available for our audit, we were unable to obtain sufficient appropriate audit evidence regarding the amounts recorded as cash receipts and cash disbursements in the accompanying financial statement stated at \$168,204 and \$161,611 respectively. Furthermore, we were unable to obtain written representations from management of the Arno Government as required by auditing standards generally accepted in the United States of America.

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 financial statement of Arno 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 for Disclaimer of Opinion” paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the other supplementary information in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022, on our consideration of the Arno 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 Arno Government’s internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit with *Government Auditing Standards* in considering the Arno Government’s internal control over financial reporting and compliance.

September 20, 2022


for Junior Patrick
Auditor-General

ARNO ATOLL LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements Period from October 1, 2013 through September 30, 2017

	<u>Total</u>
Cash receipts:	
RepMar Contribution	
Local Government Fund(LGF)	78,038
Fees	374
Business License	3,600
Vehicle Collection	2,000
Boat Service	915
Unreported/unidentified deposits	83,277
	<u>168,204</u>
Total cash receipts	168,204
Disbursements:	
Salary	32,201
Supplies & Materials	6,000
Equipment	6,000
Transportations	8,600
Allowances	1,500
Others	8,236
Unreported/unidentified cash disbursements	99,074
	<u>161,611</u>
Total cash disbursements	161,611
Net change in cash	6,593

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

ARNO ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2013 through September 30, 2017

(1) Organization

The Arno Government was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of the Arno Government. The Arno 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 Arno 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 Arno 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, 2017, the carrying amount of the Arno Government's total cash was \$6,593 which corresponds to the bank balance and which is maintained in a local financial institution that is not subject to Federal Deposit Insurance Coverage (FDIC). The Arno Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Arno 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 Arno 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 Arno Government providing financial reports and supporting documents. For the period from October 1, 2013 through September 30, 2017, the Arno Government received \$78,061 from the LGF. Together with the opening cash balance as at October 1, 2013: (\$23), the total amount accessible to Arno Government for the periods under audit was \$78,038.

ARNO ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2013 through September 30, 2017

(6) Other Financing Sources and Contributions

The Arno 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 Arno Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2017, the Arno Government received a total of \$277,102 under this grant. In addition, the Arno 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 Arno Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2017, the Arno Government received a total of \$31,153 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.

The Arno Government received funding from the Asian Development Bank (ADB) in the amount of \$94,081 for the purposes of purchasing of fuel, boat charter, ground time, laptop, and training.

(7) Related Party Transactions

During the period October 1, 2015 through September 20, 2018, the Arno Government made certain payments for the benefits of certain members of council directly, this amounted to \$32,806 in sitting fees.

ARNO ATOLL LOCAL GOVERNMENT
Combining Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Cash receipts:					
RepMar Contribution					
Local Government Fund(LGF)	19,933	14,723	19,631	23,751	78,038
Fees	-	374	-	-	374
Business License	-	-	-	3,600	3,600
Vehicle Collection	-	-	-	2,000	2,000
Boat Service	-	15	-	900	915
Unreported/unidentified deposits	24,192	16,680	25,534	16,871	83,277
Total cash receipts	44,125	31,792	45,165	47,122	168,204
Disbursements:					
Salary	4,964	2,915	9,816	14,506	32,201
Supplies & Materials	-	2,500	-	3,500	6,000
Equipment	-	1,000	-	5,000	6,000
Transportations	-	-	-	8,600	8,600
Allowances	-	1,500	-	-	1,500
Others	-	234	4,908	3,094	8,236
Unreported/unidentified cash disbursements	13,886	36,772	29,937	18,479	99,074
Total disbursements	18,850	44,921	44,661	53,179	161,611
Net change in cash	25,275	(13,129)	504	(6,057)	6,593

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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

Honorable Mayor Bernard Chong-Gum
Arno 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 Arno Atoll Local Government (Arno Government) for the period from October 1, 2013 through September 30, 2017, and the related notes to the financial statement and have issued our report thereon dated September 20, 2022. 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 Arno 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 Arno Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arno 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 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. 6, Finding No. 10, Finding No. 11, and Finding No. 12, that we consider to be material weaknesses.*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arno 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. 1, Finding No. 2, Finding No. 3, Finding No. 4, Finding No. 5, Finding No. 7, Finding No.8, and Finding No.9.*

The Arno Government's Response to Findings

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

September 20, 2022


for Junior Patrick
Auditor-General

ARNO ATOLL LOCAL GOVERNMENT
Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2017

Finding No.1

Account 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 Culture & Internal Affairs (MOCIA). Included in the accounting system are forms developed to be used such as cash receipts and cash disbursements journals, personnel actions collection cards, purchase orders budget control worksheets, and several others for proper record keeping.

Condition: We found that Arno Government did not adopt the local government accounting system established by the MOCIA and the prescribed accounting forms described above were not utilized.

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

Effect: The effect of the above condition is non-compliance by Arno Government with the Financial Memoranda No. 1987-1 which resulted in the followings:

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

Recommendation:

1. We recommend that Arno Government utilize the accounting system established for all local governments by MOCIA in order to improve accountability over its financial operations.
2. We recommend that the MOCIA and MOFBPS ensure that Arno Government adopts and implement the local government accounting system prior to the release of the LGF fund

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from 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 MOFBPS:

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's accounting system.

ARNO ATOLL LOCAL GOVERNMENT
 Schedule of Findings and Responses
 Period from October 1, 2013 through September 30, 2017

Finding No.2

Revenues and Expenditures Under Reported (Local Noncompliance)

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

Condition: Based on our review of the amounts reported in the quarterly financial reports for revenues and disbursements and amounts per the bank statements indicated that revenues and expenditures were under reported by \$83,277 and \$99,074, respectively as detailed in the tables below. This indicates that revenues and expenditures were not properly accounted for.

Receipts:

Fiscal	Per Bank	Per Financial Report	Variance
FY2014	\$ 44,148	\$ 19,956	\$ 24,192
FY2015	31,793	15,112	16,681
FY2016	45,165	19,631	25,534
FY2017	47,122	30,251	16,871
Total	\$ 168,228	\$ 84,950	\$ 83,277

Disbursements:

Fiscal	Per Bank	Per Financial Report	Variance
FY2014	\$ 18,850	\$ 4,964	\$ 13,886
FY2015	57,794	21,020	36,722
FY2016	44,660	14,724	29,936
FY2017	53,178	34,700	18,478
Total	\$ 174,482	\$ 75,408	\$ 99,074

Cause: The cause of the above condition is the Executive Committee did not perform their duties diligently as required under the Arno Government’s Constitution and lack of proper review of the quarterly financial reports by MOCIA and MOFBPS to ensure financial reports are complete and accurate.

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

ARNO ATOLL LOCAL GOVERNMENT
Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2017

Finding No.2. Continued

Recommendation:

1. We recommend that the Mayor and Executive Committee Members of Arno Government keep full and proper accounts and records of all their revenues and expenditures.
2. We recommend also that the MOCIA ensure that the Mayor and Executive Committee Members receive proper training and guidance on how to properly record and report revenues and expenditures.

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

ARNO ATOLL LOCAL GOVERNMENT
 Schedule of Findings and Responses
 Period from October 1, 2013 through September 30, 2017

Finding No.3

Procurement Code (Local Noncompliance)

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

Condition: We found that Arno 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.

Item	Date	Check #	Amount	Description
1	02/10/2014	256	\$ 918	Not indicated
2	02/11/2014	251	505	Not indicated
3	03/03/2014	304	2,155	Not indicated
4	06/26/2014	292	1,000	Not indicated
5	10/02/2014	392	25,000	Not indicated
6	10/03/2014	314	1,492	Not indicated
7	02/09/2015	416	4,200	1st quarter meeting
8	05/04/2015	419	1,208	Not indicated
9	05/07/2015	460	1,400	Not indicated
10	08/24/2015	480	2,000	4th quarter meeting
11	08/27/2015	487	6,166	City Hall
12	12/15/2015	495	2,500	Quarter meeting
13	12/15/2015	496	700	Unable to determine
14	03/11/2016	557	12,706	Council hall building
15	03/15/2016	556	9,907	Not indicated
16	03/27/2017	697	29,271	City Hall
Total			\$ 101,128	

Cause: The cause of the above condition is the lack of proper oversight monitoring and enforcement by MOCIA & MOFBPS to ensure Arno Government complies with the RMI Procurement Code Policy

Effect: The effect of the above condition is Arno Government was noncompliant with the RMI Procurement Code. Additionally, there was no assurance in getting the best value for the monies spent and monies could have been utilized for other needs of the people of Arno.

Recommendation: We recommend that the Arno Government ensure supporting documentation is adequate to comply with the RMI Procurement Code. Supporting documentation should indicate the history of procurement, including the rationale for and method of procurement and the basis for the se

ARNO ATOLL LOCAL GOVERNMENT
Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2017

Finding No.3. Continued.
selected price.

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

ARNO ATOLL LOCAL GOVERNMENT
Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2017

Finding No.4

Revenue/Cash Receipts (Local Noncompliance)

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

Condition: During the periods covered by the audit, Arno Government reported in their quarterly financial reports \$6,889 in local revenues, however, these revenues were not supported by cash receipts. As such, we could not ascertain how much was actually earned, collected, and its various sources.

Cause: The cause of the above conditions is the lack of adherence to the Local Government Accounting System requiring the issuance of cash receipts and utilization of the cash receipts journal to accurately account for its revenue.

Effect: The effect of the above condition is a possibility for the misappropriation of local revenues. Additionally, there is no audit trail to determine how much local revenues were actually earned compared to the collection.

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

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

ARNO ATOLL LOCAL GOVERNMENT
 Schedule of Findings and Responses
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Finding No.5

Unsupported Disbursement (Local Noncompliance)

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, and other related supporting documentation as indicated below:

Item	Date	Check #	Amount	Description
1	11/19/2013	175	190.00	Arno women uniforms
2	02/11/2014	251	504.93	Not indicated
3	02/10/2014	256	918.17	Not indicated
4	06/23/2014	261	100.00	Not indicated
5	06/26/2014	292	1,000.00	Not indicated
6	03/03/2014	304	2,155.00	Not indicated
7	10/03/2014	314	1,492.28	Not indicated
8	10/09/2014	348	337.05	Not indicated
9	10/08/2014	349	187.00	Not indicated
10	10/02/2014	392	25,000.00	Not indicated
11	10/07/2014	393	465.00	Not indicated
12	10/07/2014	394	165.00	Not indicated
13	10/21/2014	398	358.40	Not indicated
14	10/23/2014	399	163.50	Not indicated
15	10/23/2014	400	300.00	Not indicated
16	10/30/2014	401	336.00	Not indicated
17	02/09/2015	416	4,200.00	1st quarter meeting
18	05/04/2015	419	1,208.00	Not indicated
19	05/07/2015	460	1,400.00	Not indicated
20	08/24/2015	480	2,000.00	4th quarter meeting
21	08/27/2015	487	6,166.12	City Hall
22	12/16/2015	494	500.00	Quarter meeting
23	12/15/2015	495	2,500.00	Quarter meeting
24	12/15/2015	496	700.00	Unable to determine
25	03/15/2016	556	9,906.81	Not indicated
26	03/11/2016	557	12,706.07	Council hall building
27	4/11/2016	566	497.00	Kwaj Surplus

ARNO ATOLL LOCAL GOVERNMENT
 Schedule of Findings and Responses
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Finding No.5. Continued

28	5/4/2016	592	343.60	Not indicated
29	5/3/2016	594	220.00	Not indicated
30	5/4/2016	600	225.00	WHO doctor trip
31	8/29/2016	645	500.00	Reimbursement for food
32	12/29/2016	677	179.50	Q-Leg for Christmas
33	2/23/2017	693	290.00	Gas for solar freezer
34	3/27/2017	697	29,270.88	City Hall
			106,485.31	

Cause: The cause of this condition 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 MOCIA and MOFBPS over invoices and checks. Internal controls surrounding government accounting of transaction are inexistent.

Effect: The effect of the above condition is that Arno Government did not comply with the Local Government Financial Memoranda No. 1987-1 and our inability to determine the appropriateness of the total spending of \$106,485 from the Arno Government accounts.

Recommendation:

1. We recommend that Arno 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 MOCIA and MOFBPS 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.

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from 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 MOFBPS:

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

ARNO ATOLL LOCAL GOVERNMENT
Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2017

Finding No.6

Bank Reconciliation

Criteria: The Local Government Financial Memoranda No. 1987-1 requires all local governments to perform bank reconciliations regularly to detect fraud and error.

Condition: Based on our review, we found that Arno Government did not reconcile its cash at the bank for the entire period under review. The Arno 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 Arno Government may not be able to detect potential financial errors and/ or fraud in a timely manner.

Recommendation:

1. We recommend that the Executive Committee of Arno Government ensures that the bank reconciliations are prepared monthly.
2. We recommend that MOCIA ensure that Arno 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

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

ARNO ATOLL LOCAL GOVERNMENT
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Finding No.7

Financial reports discrepancies (Noncompliance)

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

Condition: Quarterly financial reports submitted did not accurately represent disbursements for each year. The total LGF disbursed to the local government for the periods under audit was \$78,061, however, the total reported to MOF was \$62,536. Additionally, we were unable to locate 3 quarterly financial reports for FY2014, FY2015, and 1 quarter of FY2018. The unreported amount totaled \$15,525.

We also noted the following discrepancies in the quarterly financial reports filed with the MOCIA and the MOFBPS. We noted the following general observations:

- Non-existent checklist. The checklist provides for official acknowledgements of the financial reports with dates received and is required to be attached with the purchase requisition (PR) submitted to the Secretary of the MOCIA for review and approval before the PR is transmitted to the MOFBPS for payment.
- We observed a physical security weakness over the Local Government filing system as files are accessible to anyone entering the Local Government Office.
- Some bank statements were not located on file with the quarterly reports.
- The quarterly financial reports were not documented to indicate when they were filed at the MOCIA. Below are details of inaccuracies that we have identified
- *Salaries & Sitting Fees*
 - There were no Salaries & Sitting Fees reported for FY2014, 2nd quarter report, FY2015, 2nd, 3rd, & 4th quarters, FY2016, and 1st, 3rd & 4th quarters for FY2017.
 - 4th quarter of FY2014 the LGF quarter report was incomplete as the financial statement was missing on file. We were able to locate 35 checks issued for payments for salaries with a total amount of \$3,130.
 - 3rd quarter of FY2015 also the LGF quarter was provided, however the quarterly financial statement was not reported on file. We were able to locate checks issued out, \$460 for salaries.
 - 1st quarter of FY2016 the local government reported \$4,908 as total expenditure for salaries, however the supporting documents for the quarterly report indicate that the total amount that was issued out for salaries was \$2,115, a variance of \$2,7930.
 - 2nd quarter of FY2016 the local government reported \$4,908 as total expenditures for salaries, however, supporting documents indicated the total expense for salaries was \$1,280, a variance of \$3,628.
 - 3rd quarter of FY2016 we identified \$4,275 for salaries that was not reported in the quarterly financial statement.
 - 1st quarter of FY2017 also the LGF quarter was provided, however the quarterly financial statement was not reported on file. We were able to locate the supporting documents that indicates \$5,000 was for salaries.

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Finding No.7 Continued:

- 2nd quarter of FY2017 the local government reported \$3,600 for salaries, however our review of the supporting documents provided \$4,485 was for salaries a variance of \$825.
- *Payments to Vendors*
 - 3rd quarter of FY2015 also the LGF quarter was provided, however the quarterly financial statement was not reported on file. We were able to locate checks issued out \$4,300 for vendors.
 - 1st quarter of FY2017 also the LGF quarter was provided, however the quarterly financial statement was not reported on file. We were able to locate the supporting documents that indicate \$638 for vendors.
 - 2nd quarter of FY2017 the local government failed to report in the quarterly financial statement that checks were issued out to vendors for the total amount of \$29,750
 - 1st quarter of FY2016 we were able to locate two checks issued out to vendors with the total amount of \$8,166 that was not reported in the quarterly financial statement.
 - 2nd quarter of FY2016 we were able to locate three checks issued out to three vendors for the total amount of \$3,700 that was not reported in the financial quarterly statement.
- *Other expenditures*
 - 3rd quarter of FY2016 the local government reported \$4,908 as total expenditure for others, however according to the supporting documents, \$596 was for others, a variance of \$4,311.
 - 1st quarter of FY2017 also the LGF quarter was provided, however the quarterly financial statement was not reported on file. We were able to locate the supporting documents that indicate \$600 for land lease, and \$638 for vendors.
 - 2nd quarter of FY2017 the local government failed to report in the quarterly financial statement that checks worth \$800 for land lease.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by Arno 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 dates received and is required to be attached with the purchase requisition submitted to the Secretary of the MOCIA for approval before being 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: The effect of the above condition is that there is non-compliance with the Local Government Financial Memoranda 1987-1 and the inability to determine whether all payments have been properly accounted for. It also creates a difficult audit trail when it comes to proper bookkeeping.

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Finding No.7 Continued:

Recommendation:

1. We recommend that the Arno Government comply with the reporting requirements as dictated in the Financial Memoranda No. 1987-1.
2. We recommend that the MOCIA address these compliance issues with Arno 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.
3. We also recommend that the MOFBPS thoroughly review these reports and ensure accurate and reliable proper supporting documentation are provided before releasing the fund.

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from 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 MOFBPS:

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented. All payment requests are returned back to the Local Government office at MoCIA if such supporting documents are not attached.

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Finding No.8

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

Criteria: The Income Tax Act of 1989 states that income tax shall be collected 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 Arno Government paid a total of \$32,201 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 to the Income Tax Act, the Social Security Tax Act and the Health Fund Tax Act.

Effect: The effect of the above condition is non-compliance 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: We recommend that the Arno 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

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

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Finding No.9

Business Listing (Local Noncompliance)

Criteria: Section 203 of the Local Government Tax and Fees Act of 1989 requires that at the end of each quarter, every Local Government Council shall provide to the Secretary of Finance, through the Secretary of Internal Affairs, a list of names of all businesses licensed under its jurisdiction.

Condition: We did not find any business listing filed by Arno Government with the MOCIA for the entire period covered by this audit.

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

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

Recommendation: We recommend that the Arno 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 they comply with the requirements of the Local Government Tax and Fees Act of 1989.

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

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Finding No.10

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: We found that personnel files and time sheets were not being maintained, however, salaries in the amount of \$32,201 were paid to council employees that included a clerk, police officers, and field workers. In the absence of these documents, we are unable to determine whether employees paid are in fact employees of Arno Government.

Cause: This cause of the above condition is due to the lack of internal control policies and procedures regarding human resources management of personnel files and time sheets.

Effect: The effect of the above condition is the inability to determine the appropriateness and completeness of the compensations paid out and whether they were properly authorized.

Recommendation: We recommend that the Arno Government establish and implement internal control policies and procedures requiring that personnel files are established for all employees of Arno Government and that copies are maintained on file.

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

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Finding No. 11

Fixed Assets

Criteria: Under the Local Government Act 1980 (PL 1981-2, Section 146(2) (b), every local government is required to file a report of properties in its possession.

Condition: Based on our test of Expenditures, we noted that the Arno 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 Arno Government are accurate and comply with appropriate documentation standards.

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

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

Auditee's Response and Corrective Action Plan

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

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Finding No.12

Checks Issued and Reported not in Sequential Order.

Criteria: Proper Internal Control over cash disbursements require checks to be issued and reported sequentially.

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

Cause: This is due to a 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 Arno 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

No response was provided by the Arno Government to the finding and recommendation.

Response from MOCIA:

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

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