

September 20, 2022

Mayor Tobin Kaiko
Utrök Atoll Local Government
Republic of the Marshall Islands

Dear Mayor Kaiko:

In planning and performing our audit of the financial statements of the Claims Trust Fund and planning our engagement to audit the financial statements of the governmental activities, the General Fund and the Local Distribution Authority Fund of the Utrök Atoll Local Government (UALGOV) for the year ended September 30, 2015, which collectively comprise UALGOV's basic financial statements and on which we have issued our report dated September 20, 2022, 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, we considered UALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to UALGOV's internal control over financial reporting and other matters as of September 30, 2015, that we wish to bring to your attention.

We have also issued a separate report to UALGOV, also dated September 20, 2022, on our consideration of UALGOV'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 definition of a deficiency is also set forth in the attached Appendix I.

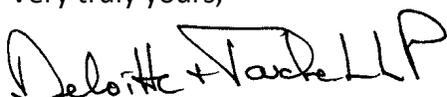
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Council, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of UALGOV for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving UALGOV's internal control over financial reporting as of September 30, 2015, that we wish to bring to your attention:

1. Adequacy of Documents

The following documentation could not be provided:

- a. Check #s 28456, 30284, 30776, 11094 and 11754.
- b. Of twenty-four (24) General Fund non-payroll expenditures tested, the following exceptions were noted:
 - i. Three items aggregating \$3,250 (check #s 11757, 12549 and 12678) are not supported by underlying vendor invoices, supplier statements and/or related contracts.
 - ii. Two session allowances aggregating \$24,512 (check #s 11496 and 11491) were remitted to financial institutions/other third parties other than the designated recipient; however, the approved assignment/loan forms were not on file.

We recommend management establish internal control policies and procedures requiring check disbursements and underlying supporting documentation such as vendor invoices and allotment authorization forms be adequately safeguarded and filed.

2. Investment Management Fees

During the year ended September 30, 2015, investment management fees of \$48,825 were deducted from UALGOV's investment accounts. Although fees can be traced to the investment statements, a supporting calculation from the investment manager was not obtained and independent recalculations were not performed. We recommend management perform independent checks and obtain supporting computations from the investment manager, as necessary, to verify the accuracy of fees paid.

3. Journal Entries

We noted instances of recorded journal entries without documented journal vouchers. Further, these journal entries lacked a preparer and a reviewer signature that evidenced independent review prior to posting. We recommend adequate review and approval of journal entries occur. Also, we recommend preparation and timely filing of journal vouchers.

4. Legal Agreement Renewal

An agreement with a legal advisor expired on December 1, 2014, and the renewed contract was not available. We recommend management require timely contract renewals.

5. Session Allowance

Three items aggregating \$3,267 pertain to fiscal year 2016 session allowances that were paid in advance. There is no written policy governing such advances. We recommend management establish internal control policies and procedures over advances.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. Segregation of Duties

One of the main objectives of internal control is to safeguard assets. An effective means to a of primary objective of internal control is to safeguard assets. An effective means to achieving this objective is to segregate accounting duties such that an individual who has access to assets (e.g., cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records supporting those assets. UALGOV's current level of staffing limits the number of personnel available for accounting duties. Appropriate segregation of duties may not be practical which results in a weakness in internal controls specifically in the roles of the Fiscal Officer who has access to assets, has approving authority for disbursements, and has full access to accounting records. To mitigate this weakness, a critical element in UALGOV's internal control system is the involvement of management in day-to-day operations and the review of accounting activities and financial reports.

We encourage the involvement of management on a continuing basis and thorough reviews of accounting activities and financial reports as a means to maintain effective internal control until a more structured control environment becomes cost effective.

2. Accounting and Internal Control Policies and Procedures

UALGOV does not currently have a formal accounting policies and procedures manual. A comprehensive accounting policies and procedures manual should be readily accessible to accounting personnel to assist in accounting policies being followed and consistently applied. This manual would also benefit the entity when there is turnover of key personnel. Thoroughly documented policies and procedures can reduce the learning period for new employees and provide management with increased assurance that accounting policies and procedures are understood and are consistently followed.

The objectives of an accounting policies and procedures handbook are to document the accounting systems and processes, thus minimizing disruption caused by growth or turnover, and to assist new employees in their job performance. We recommend management consider adopting an accounting manual to govern the financial reporting process and other significant business cycles within the entity such as expenditures, revenue and payroll cycles.

3. Fixed Assets

UALGOV does not currently utilize fixed asset disposal forms. We recommend fixed asset disposals be supported by approved disposal forms to memorialize transactions.

4. RMI Procurement Code

Of \$47,911 in capital asset additions, we noted non-federal program expenditures of \$37,911 that did not evidence adequate compliance with either formal or informal procurement procedures. In addition, we noted one non-federal program expenditure (Check # 11757 for \$3,000) that did not evidence adequate compliance with either formal or informal procurement procedures. We recommend management comply with requisite procurement standards. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

UALGOV's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.