

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

WOTHO ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

PERIOD FROM OCTOBER 01, 2012 THROUGH SEPTEMBER 30, 2018



AUDIT No.: OAG 01/20-2400

September 16, 2022

Date

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REPUBLIC OF THE MARSHALL ISLANDS

WOTHO ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
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PERIOD FROM OCTOBER 1, 2012 THROUGH SEPTEMBER 30, 2018

WOTHO ATOLL LOCAL GOVERNMENT

Period from October 1, 2012 through September 30, 2018

TABLE OF CONTENT

	<u>Page No.</u>
1. FINANCIAL STATEMENT	
Independent Auditors' Report	1
Schedule of Cash Receipts and Disbursements	3
Notes to Schedule of Cash Receipts and Disbursements	4-5
2. OTHER SUPPLEMENTARY INFORMATION	
Combining Schedule of Cash Receipts and Disbursements	6
3. INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based upon the Engagement to Audit Financial Statements In Accordance with Government Auditing Standards	7
Schedule of Findings and Responses	9-33



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INDEPENDENT AUDITORS' REPORT

Honorable Kudo Kabua
Mayor
Wotho Atoll Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Wotho Atoll Local Government (Wotho Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2012 through September 30, 2018, and the related notes to the financial statement. This financial statement is the responsibility of the Wotho 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 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 these financial statements based on conducting an 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 Wotho 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 \$162,871 and \$162,825, 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 this financial statement.

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

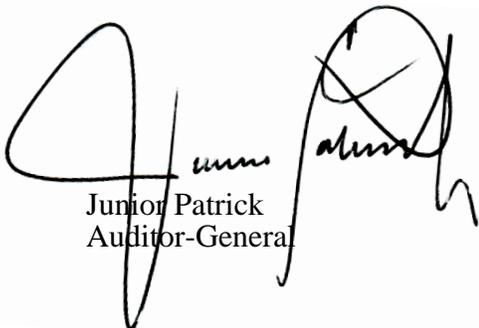
Other Supplementary Information

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 September 16, 2022, on our consideration of the Wotho 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 Wotho 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 Wotho Government’s internal control over financial reporting and compliance.

September 16, 2022



Junior Patrick
Auditor-General

Wotho Atoll Local Government

Schedule of Cash Receipts and Disbursements Period from October 1, 2012 through September 30, 2018

Cash receipts:

RepMar Contribution	
Local Government Fund(LGF)	\$ 78,216
Loan Proceeds	54,450
Unreported/unidentified deposits	<u>30,205</u>
 Total cash receipts	 <u>162,871</u>

Cash Disbursements:

Salaries	38,890
Equipment	250
Travel/Per Diem	3,340
Allowances	2,035
Supplies/Materials	5,365
Other Expenses	6,915
Transportation	1,380
Unreported/unidentified cash disb	<u>104,650</u>
 Total disbursements	 <u>162,825</u>
 Net change in cash	 <u>\$ 46</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

WOTHO ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2018

(1) Organization

The Wotho Local Government (Wotho 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 Wotho Government. The Wotho 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 Wotho 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 Wotho 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 (MOCIA).

(3) Cash

As of September 30, 2018, the carrying amount of the Wotho Government's total cash was \$46, 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 Wotho Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Wotho 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 Wotho 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 Wotho Government providing financial reports and supporting documents. For the period from October 1, 2012 through September 30, 2018, the Wotho Government received \$78,216 from the LGF.

WOTHO ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2018

(6) Other Financing Sources and Contributions

The Wotho 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 Wotho Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2018, the Wotho Government received a total of \$188,897 under this grant. In addition, the Wotho 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 Wotho Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2018, the Wotho Government received a total of \$49,894 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 Wotho Government received funding from the Asian Development Bank (ADB) in the amount of \$12,773 for the purposes of purchasing of fuel, boat charter, ground time, laptop, and training.

(7) Loan Proceeds

On October 1, 2015, The Wotho Government entered into a \$54,450 Boat Renovation Loan with the Bank of Marshall Islands at a 13.5% annually, with principal and interest due in 3 odd installments of \$10,000 on 10/20/2014, \$27,000 on 12/30/2015 and \$19,970.06 on 12/31/2015.

(8) Related Party Transactions

During the period October 1, 2015 through September 20, 2018, the Wotho Government made certain payments for the benefits of certain members of council, this amounted to \$35,370 in sitting fees, \$18,655 an executive member of the council, and \$7,300 for other unsupported benefits.

WOTHO ATOLL LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2018

	<u>FY2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Cash Receipts:							
RepMar Contribution							
Local Government Fund(LGF)	\$ 9,352	\$ 12,476	\$ 12,469	\$ 12,461	\$ 12,547	\$ 18,911	\$ 78,216
Loan Proceeds	-	-	-	\$ 54,450	-	-	\$ 54,450
Unreported/unidentified deposits	<u>\$ 7,181</u>	<u>\$ 13,950</u>	<u>\$ (4)</u>	<u>\$ 12,113</u>	<u>\$ 80</u>	<u>\$ (3,115)</u>	<u>\$ 30,205</u>
 Total cash receipts	 <u>\$ 16,533</u>	 <u>\$ 26,426</u>	 <u>\$ 12,465</u>	 <u>\$ 79,024</u>	 <u>\$ 12,627</u>	 <u>\$ 15,796</u>	 <u>\$ 162,871</u>
 Cash Disbursements:							
Salaries	\$ 1,590	\$ 4,520	\$ 8,220	\$ 5,925	\$ 7,590	\$ 11,045	\$ 38,890
Equipment	-	-	-	\$ 250	-	-	\$ 250
Travel/Per Diem	\$ 183	\$ 209	\$ 1,168	\$ 950	\$ 271	\$ 559	\$ 3,340
Allowances	-	-	-	\$ 450	\$ 450	\$ 1,135	\$ 2,035
Supplies/Materials	-	-	-	\$ 2,295	\$ 2,545	\$ 525	\$ 5,365
Other Expenses	-	-	\$ 1,750	\$ 1,920	,845	\$ 1,400	\$ 6,915
Transportations	-	-	-	-	-	\$ 1,380	\$ 1,380
Unreported/unidentified cash disbursements	<u>\$ 15,465</u>	<u>\$ 23,892</u>	<u>\$ 7,647</u>	<u>\$ 56,347</u>	<u>\$ 1,124</u>	<u>\$ 175</u>	<u>\$ 104,650</u>
 Total disbursements	 <u>\$ 17,238</u>	 <u>\$ 28,621</u>	 <u>\$ 18,785</u>	 <u>\$ 68,137</u>	 <u>\$ 13,825</u>	 <u>\$ 16,219</u>	 <u>\$ 162,825</u>
 Net change in cash	 <u>\$ (705)</u>	 <u>\$ (2,195)</u>	 <u>\$ (6,320)</u>	 <u>\$ 10,887</u>	 <u>\$ (1,198)</u>	 <u>\$ (423)</u>	 <u>\$ 46</u>

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 Kudo Kabua
Mayor
Wotho 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 Wotho Local Government (Wotho Government) for the period from October 1, 2012 through September 30, 2018, and the related notes to the financial statement and have issued our report thereon dated September 16, 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 Wotho 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 Wotho Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wotho Government's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as *Finding No. 6, Finding No. 11, Finding No. 13, Finding No. 14 and Finding No. 15* that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wotho 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, Finding No.9, Finding No.10, and Finding No. 12.*

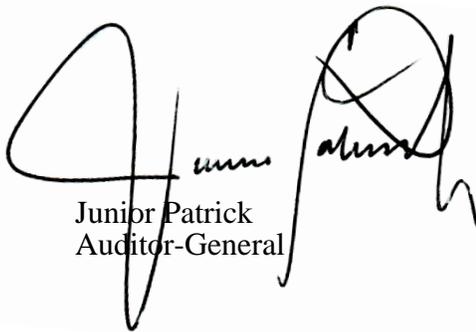
The Wotho Government’s Response to Findings

The Wotho Government responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Wotho Government responses were not subject 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 16, 2022



Junior Patrick
Auditor-General

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.1

Loan Agreement (Local Noncompliance)

Criteria: Per Loan Agreement Section 1 *Purpose*; At the request of the Borrower, the Bank will loan the money for the purpose of **BOAT RENOVATION PROJECT**. All expenditures of the loan money should be for the purpose of the loan.

Condition: During our examination, we noted the following:

- On October 1, 2015, Wotho Government obtained a loan from a local bank for the purposes of renovating the Council's vessel (MS Wotho) for \$55,000. The loan fund was credited to the Council's Local Government Fund (LGF) bank account.
- A letter from Ministry of Culture & Internal Affairs (MOCIA) dated June 26, 2015 supported the loan application for the purpose of re-furbishing and dry docking works on the vessel. The support letter also stated that, \$35,000 from the OIEDF and \$10,000 from Grant in Aid Fund in the next Fiscal Year be earmarked for the repayment of the loan.
- On October 6, 2015, the LGF bank account was debited for \$54,450 and utilized 30,000 to open a new bank account named Wotho Development Authority (WDA). \$7,300 were unsupported payments made to public officials that facilitated the loan requirements, \$4,000 transferred to WDA, and \$9,143 were unsupported payment to various vendors.
- From inception of the WDA bank account to the time of closure around September 2016, total disbursements made was \$62,224 as listed below, of which \$33,939 were unsupported cash payments, therefore, we were unable to determine whether they were related to the purpose of the loan.

\$ 3,300	Loan payment
5,000	Transferred to the LGF bank account.
1,550	Unsupported payment for hotel charges
3,850	Unsupported payments to staffs.
4,520	Unsupported payments to various local vendors
12,065	Appear to be related to the purpose of the loan, however, supporting document were not provided, hence, unable to determine the nature and the appropriateness of such
33,939	Unsupported cash payments
\$62,224	Total

- Additionally, Management did not keep records of payments and supporting documents of loan monies used. It has also allegedly paid off public servants that had helped or supported the loan application. The management has also grossly mishandled funds that were borrowed for a specific purpose but used it for other reasons other than that of which they applied for.
- Furthermore, Wotho Government was not able to pay off the loan balance therefore, the bank re-possessed the vessel and sold it to a local vendor to recover the unpaid amount. The RMI Government contributed \$25,000 towards the repayment of the loan.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.1, Continued

Cause: The cause of the above condition is lack of proper review of the Council's financial reports by the Executive Committee.

Effect: The effect of the above condition is that there is a lack of clear public purpose or benefit served to the people of Wotho. It also causes disrepute towards the Wotho Government when it comes to future ambitions of partnering with potential donors. The end result is that the funds were not used for the boat renovation project that was intended to benefit the Wotho community. In addition, there appeared to be mismanagement of public funds that have been referred for detail investigation.

Recommendation:

1. We recommend that MOCIA & Ministry of Finance, Banking & Postal Services (MOFBPS) to ensure proper procedures are followed when it comes to loans by local governments
2. We recommend that MOFBPS & MOCIA to ensure proper acquittals are done for all loans that they support for local governments.
3. We recommend that Wotho Local Government to ensure that proper acquittals and accurate book keeping are done in order to fully track how monies/funding are expended.
4. We recommend that appropriate measures be taken to recover any monies that have been taken illegitimately from the Wotho Government to avail those for its operational needs to restore donor/partner trust..

Auditee's Response and Corrective Action Plan:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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:

The Ministry of Finance acknowledges and accepts the finding. The Ministry will ensure that all loan requirements are being followed and payments are properly supported.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.2

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 MOCIA. Included in the accounting system are forms developed to be used such as cash receipts and cash disbursements journals, personnel action, collection cards, purchase order, budget control worksheet, and several others for proper record keeping.

Condition: From our review of the audited periods, we found that Wotho 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 Wotho Government. In addition, there is a lack of oversight by MOCIA and MOFBPS; in ensuring that Wotho Government adopts and follows the accounting system established for all local governments.

Effect: The effect of the above condition is non-compliance by Wotho 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 the Wotho Government take steps to fully utilize the accounting system established for all local governments under the MOCIA in order to improve accountability over its financial bookkeeping.
2. We recommend that the MOCIA take steps to ensure that local governments are adopting and using the required accounting system.
3. We also recommend that MOFBPS ensures that Wotho Government is adhering to the requirements of accounting as described in the Financial Memoranda No. 1987 – 1 during its quarterly acquittals.

Auditee's Response and Corrective Action Plan:

The current administration acknowledges and accepts the finding. Currently, Wotho Local Government complies with its own manual accounting. A revision over the Local Government Act and its accounting system is strongly recommended for updated amendments.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.2. Continued

correct current and past deficiencies.

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:

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's accounting system.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.3

Check Procedures (Local Noncompliance)

Criteria: Proper internal control over disbursements requires that disbursements should be made directly to the designated payee by check. Proper Internal Control over cash disbursements require checks be issued and reported sequentially.

Condition: We have found that there were various cash payments for salaries and other expenses in the amount of \$54,973 during FY2013-FY2018. There were no indication of the payees signing as evidence of receipt of their cash payments. Furthermore, \$48,823 were not reported to the MOFBPS. Details of these cash payments are listed on the respective table below.

Table I: Cash Check payments that were not reported to MOF

Years	Number of Checks	Total Amount	Payee
2013	22	\$ 13,570	Cash
2014	27	3,375	Cash
2015	19	8,900	Cash
2016	39	12,728	Cash
2017	13	6,300	Cash
2018	9	3,950	Cash
Total:		\$ 48,823	

Table II: Payments for salaries where not all the log sheets were provided on file.

Item	Date	Check #	Amount	Payee
1	7/20/2015	54	\$ 700	Cash
2	7/24/2014	50	250	Cash
3	2/3/2016	505	2,000	Cash
4	4/13/2015	240	1,500	Cash
Total:			\$ 4,450	

Table III: Payments that were made to Cash but there were no supporting invoices.

Item	Date	Check #	Amount	Payee
1	12/8/2015	501	\$ 1,000	Cash
2	8/21/2018	85	100	Cash
3	4/20/2015	16	150	Cash
4	4/16/2015	29	450	Cash
Total:			\$ 1,700.00	

Cause: The cause of the above condition is due to the lack of adequate internal control policies in place and monitored procedures in relation to the governing of check - cash disbursements.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.3, Continued

Effect: Due to the above condition, proper accountability and control over Wotho Government's finances has greatly diminished and it also poses a greater risk of the possibility that cash could be misappropriated and may not have been detected and corrected in a timely manner.

Recommendation:

1. We recommend that the Wotho Government cease the practice of writing cash checks and issuing checks directly to the appropriate vendors. In the event checks have to be issued to cash, then relevant and appropriate supporting documentation should be maintained for accountability purposes. In addition, checks are to be sequentially issued out as well so that there is a correlation between the audit trail and local government operations.
2. We also recommend that the MOCIA put in place strict oversight policies and procedures in the governing of local government finances.

Auditee's Response and Corrective Action Plan:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit. A new bank account was established at the beginning of the current administration's term in 2020 and all checks are directly issued to council members, employees, or vendors.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.4

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, Wotho Government collected and deposited into the LGF bank account \$25,145 in unidentified revenues. These revenues were not supported by cash receipts or collection cards. As such, we could not determine how much was actually collected and the sources. There were no revenue deposits for the years, 2015, 2017, and 2018.

Years	Total Amount
2013	\$ 4,082
2014	13,950
2016	7,113
Total	\$ 25,145

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.

Effect: The effect of the above condition is a possibility for unaccounted local revenues. Additionally, there is no paper trail to determine how much local revenues were collected in the respective years.

Recommendation:

We recommend that Wotho 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:

The current administration acknowledges the finding, but does not accept as we were not familiar with the events during the scope of audit.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.5

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 Wotho Government did not provide any price quotation for all payments where price quotations are mandatory. For instance, the following payments were made from Local Government Fund (LGF) in which the 3 price quotations requirement was not adhered.

Date	Check #	Amount	Description
9/30/2015	48	4,000.00	Check voucher were not maintained on file and we could not determine whether 3 price quotations requirement was followed.
10/5/2015	47	3,000.00	
8/17/2016	457	2,500.00	
10/6/2015	405	1,000.00	
10/7/2015	407	1,000.00	
10/8/2015	408	708.00	
1/23/2018	768	600.00	
		12,808.00	

Cause: The cause of the above condition is the lack of proper oversight and monitoring by the executive committee, MOCIA and MOFBPS to ensure Wotho Government complies with the RMI Procurement Code Policy.

Effect: The effect of the above condition is Wotho Government was noncompliant with the RMI Procurement Code.

Recommendation:

We recommend that the Wotho Government ensure appropriate documentation is maintained to indicate compliance with the RMI Procurement Code. Supporting documentation should indicate the history of procurement, including the rational for and method of procurement and the basis for the selected price.

Auditee's Response and Corrective Action Plan:

The current administration acknowledges and accepts the findings.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.6

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 Wotho Government did not reconcile its cash at the bank for the entire period under review. The Wotho 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 Wotho 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 Wotho Government ensures that the bank reconciliations are prepared monthly.
2. We recommend that MOCIA monitors and reviews the bank reconciliation on a regular basis and provide these with the quarterly financial reports as part of its submissions to MOFBPS.

Auditee's Response and Corrective Action Plan:

The current administration acknowledges and accepts the finding. The issue is currently being implemented as manual reconciliation is being done.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.7

Incomplete Quarterly Financial Reports (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 \$78,216, however, total reported to MOF was \$71,893. Additionally, we were unable to locate 2 quarterly financial reports for FY2013, therefore only received 2 quarters from the LGF, a total loss of revenue of \$6,233.

We also noted the following discrepancies in the quarterly financial reports filed with the MOCIA and the MOFBPS. 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. In addition, we observed a physical security weakness in the Local Government filing system as files are accessible to anyone entering the Local Government Office.

- Some bank statements were located on file with the quarterly reports.
- The quarterly financial reports were not documented to indicate when they were filed at the MOCIA.
- There was no indication that Salaries & Sitting Fees for FY2013, 2014 and 2015 were received by the beneficiaries as there was no evidence of their signatures in the government distribution list. Below are details of inaccuracies that we have identified:
 - Salaries & Wages Expense
 - 1st & 2nd quarter of FY2013 financial report and the related supporting documentation were not filed for examination.
 - 1st quarter of FY2014 it was recorded in the financial quarterly report that the total amount was \$1,270, however the total of the supporting check vouches provided with the report was \$2,130, a variance of \$860.
 - 4th quarter of FY2014, \$1,980 was recorded as salary, however the total check vouchers for salaries was recorded was \$1,450, a variance of \$530.
 - 2nd quarter of FY2015, \$2,485 was recorded as salary, however there was only one supporting documentation amounting to \$1,300. Variance - \$1,185.
 - Salaries reported to MOF for 1st quarter of FY2016 financial report was \$1,375, however, the total of the supporting check vouchers provided with the report was \$700, a variance of \$675.
 - 2nd quarter of FY2017 financial report was \$3,000, however there was no supporting documentation for this in the quarterly report.
 - 4th quarter of 2015, reported salaries on quarterly report was \$640, the supporting documents provided amounted to \$2,390. Variance of \$1,750.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.7, Continued

- Travel/Per-diem Expense
 - 3rd quarter FY14, there were Travel expenses of \$209, however there were no supporting documentation attached on file.
 - 4th quarter FY14, Travel expenses of \$168 had no supporting documentation. In addition, a payment of \$500 was paid to a vendor for shipping services, this was not captured in the quarterly reports.
 - 2nd & 3rd quarter FY15 indicated Travelling/per-diem expenses of \$500, however there were no supporting documentation on file.
 - 4th quarter FY2017, financial report amounts to \$250 however there was no supporting documentation on file.
- Allowance Expense
 - 4th quarter FY2015 quarterly reports had \$250, however there were no supporting documents attached on file.
- Material Supplies Expense
 - 1st quarter FY2016, financial report amounts to \$945, however supporting documents only amounted to \$400, variance of \$545
 - 3rd quarter FY2016, financial report amounts to \$1,350 however supporting documents indicated a cash check of the same amount with no further supporting evidences, hence we cannot conclude if there were material supplies bought.
 - 1st quarter FY2017, financial report amounts to \$2,300 however there was no supporting documentation on file.
 - 3rd quarter FY2017, financial report amounts to \$245 however there was no supporting documentation on file.
 - 4th quarter FY2017, financial report amounts to \$525 however there was no supporting documentation on file.
- Transportation Expense
 - 1st quarter FY2018, financial report amounts to \$570 however there was no supporting documentation on file.
 - 4th quarter FY2018, financial report amounts to \$360 however supporting documentation on file amounted to \$410, variance of \$50.
- Other expenses Expense
 - 4th quarter FY2015, financial report amounts to \$1,750 however were only able to identify supporting documents amounting to \$284, variance of \$1,466
 - 1st quarter FY2016, financial report amounts to \$170 however supporting documentation on file amounted to \$1,115, variance of \$945.
 - 4th quarter FY2016, financial report amounts to \$1,715 however there was no supporting documentation on file.
 - 3rd quarter FY2017, financial report amounts to \$130 however there was no supporting documentation on file.
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WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.7, Continued

- 4th quarter FY2017, financial report amounts to \$350 however there was no supporting documentation on file.
- 3rd quarter FY2018, financial report amounts to \$700 however there was no supporting documentation on file.
- 4th quarter FY2018, financial report amounts to \$350 however supporting documentation on file amounted to \$200, variance of \$150.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by Wotho 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: The effect of the above condition is non-compliance with the Local Government Financial Memoranda 1987-1 and the inability to determine whether all payments have been properly accounted for.

Recommendation:

1. We recommend that the Wotho 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 Wotho Government on a regular basis. Review the reports thoroughly and ensure they are accurate, complete and properly supported. In addition, the Officials at the local government division should complete the required checklist form quarterly from the local governments in order to indicate review and certification.
3. We 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:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit. Wotho Local Government currently complies with the submission requirements of quarterly financial reports.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.7, continued.

earlier that it would provide its comments.

Response from the 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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2018

Finding No.8

Revenues and Expenditures Under Reported (Local Noncompliance)

Criteria: Section 30 of the Constitution of Wotho 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 revenues and disbursements and amounts per the bank statements indicated that revenues and expenditures were under reported by \$30,205 and \$104,150 respectively as detailed in the tables below. This indicates that revenues and expenditures were not properly accounted for.

Receipts:

Fiscal Year	Per Bank Statement	Per Financial	Variance
FY2013	\$16,533	\$9,352	\$7,181
FY2014	26,426	12,476	13,950
FY2015	12,465	12,469	(4)
FY2016	79,024	66,911	12,113
FY2017	12,627	12,547	80
FY2018	15,795	18,911	(3,115)
Totals	\$146,338	\$78,216	\$30,205

Disbursements:

Fiscal Year	Per Bank Statement	Per Financial Report	Variance
FY2013	\$17,238	\$1,773	\$15,465
FY2014	28,621	4,729	23,892
FY2015	17,035	9,388	7,647
FY2016	76,321	20,424	55,897
FY2017	13,825	12,701	1,124
FY2018	16,219	16,094	125
Totals	\$152,021	\$65,109	\$(104,150)

Cause: The cause of the above condition is the lack of oversight by the Executive Committee for the respective years ended did not perform their duties diligently as required under the Wotho Government's Constitution.

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

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.8. Continued

Recommendation:

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

Auditee's Response and Corrective Action Plan:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Period from October 1, 2012 through September 30, 2018

Finding No.9

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 Wotho Government paid a total of \$38,890 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 a non-compliance issue with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002. Penalties can arise for non-compliance to such Acts.

Recommendation:

We recommend that the Wotho 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 current administration acknowledges and accepts the finding. With the salaries and wages being lower than minimum wage per quarter, Wotho Local Government does not deduct taxes from each council member and employee. The Salary of \$200 or less every 3 months does not support your average cost of living.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.10

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 Wotho 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 Wotho Government provides a business listing be provided by the Wotho Government as part of its reporting package.

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

Recommendation:

1. We recommend that the Wotho Government comply with Section 203 of the Local Government Tax and Fees Act of 1989.
2. We 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:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit. Wotho Atoll currently has 3 businesses on Island and the Local Government has issued business licenses to each to operate at no cost in order to attract more businesses to establish on the Island.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.11

Budget

Criteria: Annual appropriation lists both expenditures and revenues, which should be in balance. Furthermore, Section 26(1) of the Wotho Government Constitution states, “no taxes shall be imposed and no other revenue shall be raised, and no money of the local government shall be expended, unless authorized by law”.

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

- The Budget Ordinance for FY2013 was not available on file.
- Noted that the Budget Ordinance for FY2014 effective date was October 1, 2013, which is the same effective date for the FY2015 Budget Ordinance. Noted also that the same ordinance number of 2013-01 was used for these two budget ordinances, although they were passed and approved on different dates.
- The FY2016 budget ordinance is not balanced as the anticipated revenues are \$222,020.83 while the anticipated expenditures are \$233,731.85, a variance of \$11,711.02.
- Noted also that the effective dates for the FY2017 and the FY2018 budgets are October 1, 2017 and October 1, 2018, respectively, which appears to be subsequent to the effective budget fiscal year’s periods.

Cause: The cause of the above condition is lack of adherence to the Constitution and lack of review and monitoring by the Executive Committee to ensure budget ordinances are approved before expenditures are incurred. Additionally, the budget ordinances are not properly reviewed by MOCIA to ensure budgets are balanced and the effective dates are accurate.

Effect: The effect of the above condition is noncompliance with the Wotho Constitution and that expenditures incurred during FY2013 were not authorized.

Recommendation:

We recommend that the Wotho Government comply with the Wotho Constitution. In addition, we also recommend that appropriate policies are instituted to ensure a balanced budget.

Auditee’s Response and Corrective Action Plan:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit. The current administration submits its budget ordinance at the beginning of new fiscal year.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.11. Continued.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.12

Missing Council Minutes (Local Noncompliance)

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. Council minutes are a primary means by which Local Government document the administration of Local Governments' operations.

Condition: Review of the Council's meeting minutes disclosed the following:

- 1st and 4th quarter minutes for FY2013 were not available on file.
- 1st quarter minutes for FY2014 appears to be not intact as the page showing date of approval and officials signatories are missing.
- 4th quarter minutes for FY2014 is a duplicate of the 3rd quarter FY2013 meeting minutes as contents are the same except the dates signed are different.
- 3rd quarter minutes for FY2015 was not available on file.
- 2nd quarter minutes of FY2016 was not available on file.
- 3rd quarter minutes of FY2016 was not available on file
- 1st & 2nd quarter minutes of FY2017 are duplicates of the 4th quarter minutes FY2016 as contents are the same except the dates of meeting and dates signed are different.
- 1st quarter minutes of FY2018 is a duplicate of the 4th quarter meeting minutes of FY2015 as contents are the same except the dates of meeting and dates signed are different.

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 Wotho Local Government. It appears that dates of meeting minutes are changed and provided to satisfy the reporting requirements of the quarterly financial reports.

Effect: The effect of the above conditions is in 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 Wotho Government administration.

Recommendation:

1. We recommend that the Wotho Government comply with the Local Government (Amendment) Act 2016, in terms of adhering to the quarterly meetings requirements.
2. We recommend that MOCIA and MOF carefully review the meeting minutes provided with the quarterly financial reports to ensure they represent the actual quarterly Council meetings.

Auditee's Response and Corrective Action Plan:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit. As advised by MoCIA, council meets a minimum of twice a year and reports the meeting minutes accordingly when submitting the quarterly financial report to MoCIA.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.12. Continued

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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:

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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.13

Personnel Files

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

Condition: Personnel files and time sheets were not being maintained, however, salaries in the amount of \$3,520 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 Wotho Government.

Additionally, during the period FY2013-FY2018, Wotho government disbursed \$18,655 for compensation of a local government official who was also under the RepMar Government Payroll during the same period. We did not find any resolution to support the disbursement.

Cause: The cause of the above condition is due to a lack of internal control procedures regarding personnel files, time sheets, and lack of adherence to the policies surrounding payment of officials.

Effect: The effect of the above conditions is the inability to determine the appropriateness of the compensations paid and whether they were properly authorized. This also led additional expenses that was not budgeted for respectively.

Recommendation:

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

Auditee's Response and Corrective Action Plan:

The current administration acknowledges and accepts the finding.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.14

Unsupported Disbursements (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 the periods covered by the audit, we noted that the following payments were made directly to various vendors without any evidence of an invoice/supporting documentation.

Date	Check #	Amount	Description
08/08/2013	223	700.00	Freight
07/30/2013	219	100.00	Food supplies
06/18/2014	313	770.00	Freight
08/25/2014	289	185.00	Food supplies
12/30/2013	380	200.00	Food supplies
9/30/2015	48	4,000.00	Building materials
10/5/2015	47	3,000.00	Building materials
10/06/2015	405	1,000.00	Fuel
10/07/2015	407	1,000.00	Building materials
10/28/2016	465	300.00	Food supplies
03/07/2017	596	100.00	Food supplies
07/21/2017	700	150.00	Food supplies
08/10/2017	708	100.00	Vehicle repair
1/23/2018	768	600.00	Food supplies
7/31/2018	781	300.00	Vehicle repair
08/21/2018	85	100.00	Fuel
	TOTAL	12,605.00	

Cause: The cause of the above conditions is due to the lack of adherence to the Local Government Financial Memoranda No. 1987-1 and the 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 Wotho Government and the inability to determine the authenticity and appropriateness of the disbursements made and the clear public purpose or benefits served. There is also a lack of established internal control procedures requiring that checks should be issued with supporting documentation.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No.14. Continued

Recommendation:

1. We recommend that the Wotho Government ensure all disbursements are supported by invoices or receipts and are maintained on file for reference and audit purposes.
2. We recommend that the MOCIA and the MOFBPS review the quarterly financial reports, ensure that they are adequately supported by proper documentation as required by the Local Government Financial Memoranda No. 1987-1, and create an appropriate internal control system for Local governments to adhere to.

Auditee's Response and Corrective Action Plan:

The current administration acknowledges the finding, but does not accept as we are not familiar with the events during the scope of audit. All current purchases made are supported by some form of supporting documentation.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies

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:

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented so 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.

WOTHO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2018

Finding No. 15

Fixed Assets Register

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 Wotho 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: The cause of the above condition is due to the lack of oversight by MOCIA in making sure these reports that are submitted by Wotho Government are accurate and comply with appropriate documentation standards.

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

Recommendation:

We recommend that Wotho Government comply with the Local Government Act of 1980-1 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 current administration acknowledges and accepts the finding.

Auditors' Response to Auditee's Response:

We consider that it is the responsibility of Wotho Government to actively pursue our recommendation to correct current and past deficiencies.

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