Attachment II

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

MAJURO ATOLL LOCAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2010

AUDIT No.: OAG 02/10-5131

January 28, 2019
Date

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

MAJURO ATOLL LOCAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2010

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL
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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor Ladie Jack
Majuro Atoll Local Government:

We were engaged to audit the accompanying financial statements of the governmental activities and the general fund of the Majuro Atoll Local Government (MALGOV) as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements of MALGOV's primary government. These financial statements are the responsibility of the management of MALGOV.

Because of inadequacies in the accounting records, detailed records regarding assets and liabilities of the governmental activities and the general fund, and underlying supporting documentation evidencing the validity of revenues and expenditures/expenses, have not been maintained and certain supporting data were not made available for our engagement. Therefore, we were not able to satisfy ourselves about the amount at which assets, liabilities, revenues and expenditures/expenses are recorded for the governmental activities and the general fund as of and for the year ended September 30, 2010.

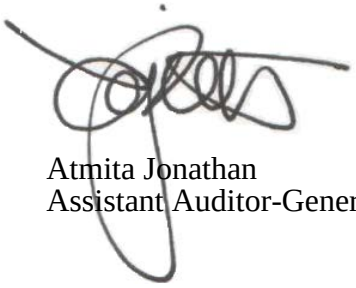
Management has classified expenditures/expenses for the year ended September 30, 2010 in the accompanying statement of revenues, expenditures and changes in fund balance/statement of activities by object class. Classification of expenditures/expenses in the financial statements at a minimum by function is required by accounting principles generally accepted in the United States of America.

Because of the significance of the matters discussed in the second and third paragraphs above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the respective financial statements of the governmental activities and the general fund.

Management has omitted the Management's Discussion and Analysis and the budgetary comparison schedule that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019, on our consideration of MALGOV's internal control over financial reporting and 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 MALGOV's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement to audit.

January 28, 2019



Atmita Jonathan
Assistant Auditor-General

MAJURO ATOLL LOCAL GOVERNMENT

Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2010

	General Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	$ 304,518	$ -	$ 304,518
Receivables:			
Taxes	255,545	-	255,545
Employees	15,102	-	15,102
Other	19,996	-	19,996
	290,643	-	290,643
Less allowance for doubtful accounts	(126,037)	-	(126,037)
	164,606	-	164,606
Prepaid items	9,322	-	9,322
Other assets	2,200	-	2,200
Capital assets, net of accumulated depreciation	-	57,830	57,830
Total assets	$ 480,646	57,830	538,476
LIABILITIES			
Accounts payable	$ 684,916	-	684,916
Accrued interest payable	-	53,605	53,605
Social security taxes payable	1,201,806	-	1,201,806
Withholding taxes payable	970,076	-	970,076
Other liabilities and accruals	288,830	-	288,830
Long-term liabilities:			
Due within one year	-	185,782	185,782
Total liabilities	3,145,628	239,387	3,385,015
Commitments and contingencies			
FUND BALANCE/NET ASSETS			
Fund balance:			
Unreserved	(2,664,982)	2,664,982	-
Total fund balance	(2,664,982)	2,664,982	-
Total liabilities and fund balance	$ 480,646		
Net assets:			
Invested in capital assets		57,830	57,830
Unrestricted		(2,904,369)	(2,904,369)
Total net assets		$ (2,846,539)	$ (2,846,539)

See accompanying notes to financial statements.

MAJURO ATOLL LOCAL GOVERNMENT

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended September 30, 2010

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Taxes:			
Sales tax	$ 1,730,084	$ -	$ 1,730,084
Gasoline tax	586,990	-	586,990
Beer and liquor tax	264,651	-	264,651
Cigarette tax	32,714	-	32,714
Hotel tax	12,477	-	12,477
Business licenses	219,034	-	219,034
Vehicle registration	66,434	-	66,434
Other	308,808	-	308,808
Total revenues	3,221,192	-	3,221,192
Expenditures/expenses:			
Salaries and wages	1,304,415	-	1,304,415
Rent and land leases	64,633	-	64,633
Employees benefits	149,958	-	149,958
Travel and per diem	18,131	-	18,131
Vehicle maintenance	18,571	-	18,571
Entertainment	6,492	-	6,492
Donations	28,814	-	28,814
Gasoline and diesel	114,919	-	114,919
Utilities	46,148	-	46,148
Vehicles	23,495	(23,495)	-
Insurance	65,203	-	65,203
Interest and bank charges	204,784	11,075	215,859
Office supplies	24,574	(11,677)	12,897
Professional fees	44,850	-	44,850
Member's compensation	163,000	-	163,000
Vehicle rental	18,460	-	18,460
Bank charges	16,283	-	16,283
Miscellaneous	60,244	-	60,244
Unallocated depreciation	-	32,567	32,567
Total expenditures/expenses	2,372,974	8,470	2,381,444
Excess of revenues over expenditures	848,218	(848,218)	
Changes in net assets		839,748	839,748
Fund balance/net assets:			
Beginning of the year	(3,513,200)	-	(3,686,287)
End of the year	$ (2,664,982)	$ -	$ (2,846,539)

See accompanying notes to financial statements.

(1) Reporting Entity

Majuro Atoll Local Government (MALGOV) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands (RepMar) and operates under the Constitution of the Majuro Atoll Local Government. MALGOV is governed by an elected mayor and a fifteen-member council.

(2) Summary of Significant Accounting Policies

The accompanying basic financial statements of MALGOV have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of MALGOV's accounting policies are described below.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been eliminated from these statements.

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business.

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets consists of capital assets, net of accumulated depreciation plus construction or improvement of those assets.

- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation. MALGOV has no restricted net assets at September 30, 2010.

- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated (for example, internally restricted), to indicate that management does not consider them to be available for general operations. They often have resources that are imposed by management, but can be removed or modified.

Fund Financial Statements

MALGOV uses one governmental fund to report on its financial position and results of operations. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

(2) Summary of Significant Accounting Policies, Continued

Fund Financial Statements, Continued

Separate financial statements are provided for governmental funds. MALGOV presents a balance sheet and a statement of revenues, expenditures and changes in fund balance for its governmental fund. The ending fund balance on the balance sheet is then reconciled to the ending governmental activities net assets.

Adjustments required to reconcile total governmental fund balance to net assets of governmental activities in the Statement of Net Assets are as follows:

Total fund balance - governmental funds		$ (2,664,982)
Add:		
Capital assets	1,779,351	
Accumulated depreciation	(1,721,521)	
		57,830
Less:		
Loan payable	(185,782)	
Accrued interest payable	(53,605)	
		(239,387)
Total net assets - governmental activities		$ (2,846,539)

Adjustments required to reconcile net change in total governmental fund balance to change in net assets of governmental activities in the Statement of Activities are as follows:

Net change in fund balance - governmental funds		$ 848,218
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:		
Capital outlays	35,172	
Depreciation expense	(32,567)	
		2,605
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. For the current year, these activities consist of:		
Increase in accrued interest payable		(11,075)
Change in net assets - governmental activities		$ 839,748

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of MALGOV and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, MALGOV considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation and other items that are not allocated to specific programs.

Unrestricted contributions and grants are recorded as revenue in the statement of revenues, expenditures, and changes in fund balance when received (in the case of contributions) or when approved by the grantor agency (in the case of grants).

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, MALGOV's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MALGOV does not have a deposit policy for custodial credit risk.

For purposes of the balance sheet/statement of net assets, cash and cash equivalents is defined as cash on hand, and cash held in demand accounts. As of September 30, 2010, the carrying amount of the primary government's total cash and cash equivalents was $304,518. Of the bank balance amount, $285,655 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. MALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are primarily due from businesses and individuals residing on islands within the Majuro Atoll.

(2) Summary of Significant Accounting Policies, Continued

Receivables, Continued

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense. MALGOV believes the allowance amounting to $126,037 at September 30, 2010, is adequate to absorb currently estimated bad debts in the account balance.

Capital Assets

Capital assets, which consist of vehicles, furniture and fixtures, and other equipment, are reported in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the date of donation. Title to the land on which MALGOV's facilities are located is held in the name of the landowner. Fair market rental value related to this property has not been assessed or recorded.

MALGOV has not developed a capitalization policy. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the statement of activities.

Compensated Absences

It is MALGOV's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation leave benefits and a portion of sick leave benefits is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability as of September 30, 2010 is not available.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, MALGOV implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.

- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits,* which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MALGOV.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MALGOV.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of MALGOV.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Estimated Useful Lives	October 1, 2009	Additions	Deletions	September 30, 2010
Depreciable capital assets:					
Leasehold improvements	5 years	$ 13,011	$ -	$ -	$ 13,011
Vehicles	3 - 7 years	1,267,040	23,495	-	1,290,535
Furniture and fixtures	2 - 5 years	51,536	1,658	-	53,194
Other equipment	6 years	412,592	10,019	-	422,611
		1,744,179	35,172	-	1,779,351
Less accumulated depreciation		(1,688,954)	(32,567)	-	(1,721,521)
		$ 55,225	$ 2,605	$ -	$ 57,830

(4) Social Security Taxes Payable

At September 30, 2010, MALGOV was liable for taxes payable of $1,201,806 to the Marshall Islands Social Security Administration (MISSA), including certain delinquent employee and employer contributions of $1,142,004, inclusive of related penalties and interest. On November 22, 2004, MALGOV entered into a promissory note with MISSA in the amount of $1,750,630 associated with these delinquent contributions. The note bears interest at 12% per annum with monthly payments commencing December 10, 2004. In 2007, MISSA filed suit against MALGOV for defaulting on the above promissory note. The High Court subsequently entered judgment against MALGOV in favor of MISSA for $2,931,870, inclusive of penalties and interest relating to delinquent contributions.

(5) Withholding Taxes Payable

At September 30, 2010, MALGOV was liable for withholding taxes payable to the Republic of the Marshall Islands (RepMar) in the amount of $970,076. No repayment schedule with RepMar exists and thus the entire $970,076 has been reflected as a current liability in the accompanying financial statements.

(6) Note Payable

Note payable to the Marshall Islands Development Bank (MIDB) in the original amount of $208,524, interest at 6.5% per annum, collateralized by certain motor vehicles, an assignment of quarterly allotments from RepMar and an assignment of sales taxes.	$ 185,782

The above note payable was originally due on July 15, 1998. Management of MALGOV have agreed with MIDB for repayment to commence in January, 2002; however, the terms of this agreement have not been documented. No changes occurred during the year ended September 30, 2010 in liabilities reported as part of MALGOV's long-term liabilities in the statement of net assets.

(7) Contingencies

MALGOV is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. MALGOV has elected not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, MALGOV believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred for the past three years.

MALGOV has incurred a significant cumulative operating deficit at September 30, 2010 and may not be able to meet its liabilities in the ordinary course of business. The continuation of MALGOV's operations is dependent upon future fiscal budgetary management and improvement in tax collections.

(8) Commitments

MALGOV has entered into various land lease agreements with landowners. Under the terms of the land lease agreements, MALGOV is obligated to pay annual rents between $1,225 and $11,650 on the remaining years between one and twenty-four years.

(9) Subsequent Event

In August 2014, MALGOV entered into a $360,000 loan agreement with a bank for the purpose of funding certain operational activities.

MAJURO ATOLL LOCAL GOVERNMENT

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2010

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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*

The Honorable Mayor Ladie Jack
Majuro Atoll Local Government:

We were engaged to audit the financial statements of the governmental activities and the General Fund of the Majuro Atoll Local Government (MALGOV) as of and for the year ended September 30, 2010, which collectively comprise MALGOV's basic financial statements. Our report dated January 28, 2019, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the respective financial statements of the governmental activities and the general fund due to: 1) our inability to determine the propriety of assets, liabilities, revenues and expenditures/expenses recorded for the governmental activities and the general fund; and 2) the classification of expenditures/expenses in the financial statements by object class.

Internal Control Over Financial Reporting

Management of MALGOV is responsible for establishing and maintaining effective internal control over financial reporting. In planning our audit, we considered MALGOV's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MALGOV'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 that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2010-1 through 2010-7 to be material weaknesses.

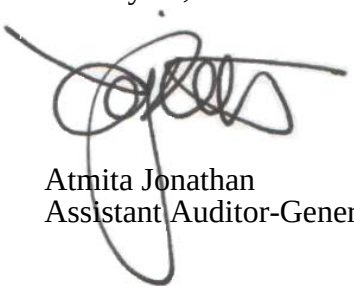
Compliance and Other Matters

As part of obtaining reasonable assurance about whether MALGOV's financial statements are 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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2010-8 through 2010-10.

MALGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MALGOV's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Council members, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

January 28, 2019



Atmita Jonathan
Assistant Auditor-General

MAJURO ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Year Ended September 30, 2010

Finding No. 2010-1

Council Ordinances and Minutes of Meetings

Criteria: Council ordinances, resolutions and minutes of Council meetings are a primary means by which regulatory agencies document the administration of MALGOV operations.

Condition: Complete set of Council ordinances, resolutions or minutes of Council meetings together with the underlying supporting schedules referenced in the annual appropriation ordinance were not available.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to documentation of Council ordinances, resolutions and minutes of Council meetings.

Effect: The effect of the above condition is possibility that directives of the Council are not properly disclosed or recorded in the financial statements.

Recommendation: We recommend that the MALGOV Council require that all ordinances, resolutions and minutes of Council meetings be retained and be formally documented by the Council Clerk and approved by the Mayor.

Prior Year Status: The lack of retention of Council ordinances, resolutions or minutes of Council meetings was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-2

Bank Reconciliations

Criteria: Bank reconciliations should be performed in a timely manner, be initialed by the preparer, and be independently reviewed.

Condition: As of September 30, 2010, monthly bank reconciliations were not provided for the following general ledger accounts:

1010	BOG-GENERAL FUND 1005017128	$ (24,741)
1011	BOG-GRANT FUND 1005-019713	$ 5,873
1021	BOH-0039-00TlS5	$ (151)
1023	SOH-SPECIAL ED. FUND 39-013533	$ 15
1032	BOM-PILOT SCHOOL FUND 005057	$ 150
1034	BOM-8819503379-MAJURO DAY	$ 11,239
1035	BOG-TCD AC#0405-057625	$ 45,000
1036	BOG- SAVING 0205-195289	$ 42,443
1038	BOM - MALGOV RESERVED ACCOUNT	$ 1,000
1039	MAJURO DAY -881-95-0448-4	$ (2,348)
1040	MALG-RECD GRANT	$ 18,539
1041	Japanese Grant - Woja Project	$ 90,000
1042	BOG - India Grant	$ 100,000

Furthermore, the following September 2010 general ledger bank reconciliations included invalid reconciling items:

1012	BOG-PAYROLL 1005-035598	$(1,747,071)
1030	BOM-COPRA FUND 950012	$ 22,920
1031	BOM-GENERAL FUND 005442	$ (247,939)

Audit adjustments were proposed to remove the invalid reconciling items.

Cause: The cause of the above condition is the lack of policies and procedures requiring the timely performance and independent review of bank reconciliations.

Effect: The effect of the above condition is potential misstatement of cash accounts and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring the timely performance and independent review of bank reconciliations.

Prior Year Status: The lack of bank reconciliations being performed in a timely manner, being initialed by the preparer, and being independently reviewed was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-3

Receivables

Criteria: General ledger receivable accounts should be supported by underlying subsidiary ledgers. Furthermore, revenues should be recorded in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities.

Condition: As of September 30, 2010, supporting subsidiary ledgers were not provided for the following general ledger receivable accounts:

1110	ACCOUNT RECEIVABLE	$ 100,075
1112	ACCOUNT RECEIVABLE-EMPLOYEES	$ 15,102
1115	ACCOUNT RECEIVABLE-RETURNED CHK	$ 19,996

Furthermore, September 2010 receipts for sales and gasoline taxes of $108,367 and $47,103, respectively, received in October 2010 were not recognized as taxes receivable as of September 30, 2010. Audit adjustments were proposed to correctly recognize tax revenue in the correct accounting period.

Cause: The cause of the above condition is the lack of policies and procedures requiring general ledger receivable accounts be supported by subsidiary ledgers and tax revenues be recognized in accordance with governmental GAAP.

Effect: The effect of the above condition is potential misstatement of receivable and related revenue accounts and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring general ledger receivable accounts be supported by subsidiary ledgers and tax revenues be recognized in accordance with governmental GAAP.

Prior Year Status: The lack of policies and procedures requiring general ledger receivable accounts being supported by subsidiary ledgers and tax revenues being recognized in accordance with governmental GAAP was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-4

Capital Assets

Criteria: Capital asset activities should be recorded in accordance with GAAP as applicable to governmental entities and be supported by an underlying capital asset register.

Condition: During the year ended September 30, 2010, capital asset activities were not recorded by MALGOV as required by GAAP. Furthermore, capital assets were not reconciled to and supported by a detailed capital asset register. Audit adjustments were proposed to correct capital asset balances and to recognize capital asset activities.

Cause: The cause of the above condition is the lack of policies and procedures requiring capital asset activities be recorded in accordance with GAAP and be supported by an underlying capital asset register.

Effect: The effect of the above condition is potential misstatement of capital asset balances and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring capital asset activities be recorded in accordance with GAAP and be supported by an underlying capital asset register.

Prior Year Status: The lack of policies and procedures requiring capital asset activities being recorded in accordance with GAAP and being supported by an underlying capital asset register was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-5

Payables

Criteria: General ledger liability accounts should be supported by underlying subsidiary ledgers.

Condition: As of September 30, 2010, a supporting subsidiary ledger was not provided for the following general ledger liability account:

2000	ACCOUNTS PAYABLE	$ (684,916)

Furthermore, other liabilities of $288,830 representing various payroll related accruals and allotment balances were not supported by underlying subsidiary ledgers.

Cause: The cause of the above condition is the lack of policies and procedures requiring general ledger liability accounts be supported by subsidiary ledgers.

Effect: The effect of the above condition is potential misstatement of payable balances and related expenditure accounts and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that MALGOV adopt policies and procedures requiring general ledger liability accounts be supported by subsidiary ledgers.

Prior Year Status: The lack of policies and procedures requiring general ledger liability accounts being supported by subsidiary ledgers was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-6

Financial Reporting

Criteria: GAAP requires classification of expenditures/expenses in the financial statements be classified at a minimum by function.

Condition: For the year ended September 30, 2010, MALGOV classified expenditures/expenses in the statement of revenues, expenditures and changes in fund balance/statement of activities by object class.

Cause: The cause of the above condition is inadequate financial statement chart of accounts that facilitates the classification of expenditures/expenses at a minimum by function.

Effect: The effect of the above condition is the presentation of financial statements not in accordance with GAAP.

Recommendation: We recommend that management establish financial statement chart of accounts that facilitate the classification of expenditures/expenses at a minimum by function.

Prior Year Status: The lack of classification of expenditures/expenses in the financial statements by function was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-7

Documentation and File Maintenance

Criteria: Adequate internal control policies should be adopted and established to facilitate reliable and relevant accounting records.

Condition: For the year ended September 30, 2010, documentation was inadequately maintained over revenue and expenditure accounting records.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures for filing and maintaining accounting records.

Effect: The effect of the above condition is a potential inability to support the authenticity and correctness of recorded revenue and expenditure transactions and the inability to perform all planned audit procedures resulting in a disclaimer of opinion.

Recommendation: We recommend that management establish and implement appropriate internal control policies and procedures that facilitate efficient filing and maintenance of accounting records.

Prior Year Status: The lack of establishing and implementing appropriate internal control policies and procedures facilitating efficient filing and maintenance of accounting records was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-8

RMI Procurement Code

Criteria: Section 118 (2) of 44 MIRC Chapter 1 of the RMI Procurement Code states that no contract for the services of legal counsel may be awarded without the approval of the Attorney-General.

Condition: During the year ended September 30, 2010, MALGOV incurred professional services for independent legal counsel. No approval was provided by MALGOV to indicate that these services were approved by the Attorney-General.

Cause: The cause of the above condition is the lack of adequate controls over the procurement of legal services in accordance with the RMI Procurement Code.

Effect: The effect of the above condition is potential noncompliance with the RMI Procurement Code regarding authority to contract for certain services.

Recommendation: We recommend that management comply with the RMI Procurement Code and obtain written approval of the Attorney-General for contracts for the services of independent legal counsel.

Prior Year Status: The lack of compliance with the RMI Procurement Code in obtaining written approval of the Attorney-General for contracts for the services of independent legal counsel was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-9

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MALGOV filed and paid income taxes withheld for the year ended September 30, 2010 in a manner inconsistent with the criteria. As of September 30, 2010, MALGOV was liable for income taxes withheld in the amount of $970,076, which included unremitted income taxes withheld from prior years.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with the RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The lack of compliance with the RepMar Income Tax Act of 1989, as amended, was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

Finding No. 2010-10

Local Noncompliance

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: MALGOV filed and paid social security contributions for the year ended September 30, 2010 in a manner inconsistent with the criteria. As of September 30, 2010, MALGOV was liable for social security contributions in the amount of $1,201,806, which included certain delinquent and unremitted social security contributions of $1,142,004.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of social security taxes.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: The lack of compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 was reported as a finding in the audit of MALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: See APPENDIX I

Auditor's Response to Auditee's Response: See APPENDIX II

MAJURO ATOLL LOCAL GOVERNMENT

Unresolved Prior Years Findings
Year Ended September 30, 2010

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Responses section of this report

APPENDIX I: Auditee Response and Corrective Plan

MAJURO ATOLL LOCAL GOVERNMENT
Office of the Mayor
P. O. BOX 796
MAJURO, MARSHALL ISLANDS
TEL: (692) 625-8186/4142 FAX: (692) 625-5714
Email: ladienjack@gmail.com

Office of the Auditor General
RECEIVED
JAN 28 2019
Republic of the Marshall Islands

January 28, 2019

Mr. Junior Patrick, Auditor-General
Office of the Auditor General
P.O. Box 245
Majuro, Republic of the Marshall Islands 96960

Dear Mr. Junior Patrick:

I am pleased to inform your good office that we are in receipt of Majuro Atoll Local Government's Audit Reports for the years, 2009,2010, 2011, 2012, 2013 and 2014 and I do praise and appreciate the good work done by your Office on this matter. We do understand that these audits, as conducted by Independent Auditors, were basically focused on MALGOOV's Financial Statements as provided, as well as on Internal Control and on Compliance in accordance with the Government Auditing Standards.

The current Executive Committee has reviewed these audits and the findings associated with them and has decided that corrective measures to all the repeated findings need to be considered a top priority for immediate action, and during the course of action all administrative and fiscal policies and procedures must to be complied with or established on all audit findings as one step forward to correct most of the findings. Also, a new post for compliance and internal control has been considered by the Executive Committee to oversee compliance and internal control on policies and procedures of all administrative and fiscal works.

The Executive Committee has also reviewed the transitions of the audits for the years in review and has decided to express its concern regarding the gap between the auditing years and the actual undertaking of their audits, which has really made a big impact on repeated findings for all these years audited. Auditing these six years above was just done in late 2018, if audit was conducted consistently year by year, repeated findings would have not been a case as reflected on the audit reports, as corrective actions on findings would have been made soon after each audit. MALGOV does recommend consistent yearly audit after all.

In closing, the most part of our review on these audits was FINDING NO. 2014-11. My administration considered this as a work of fraud. As it appeared as a finding in your audit report for the year 2014, we believe fraudulence has been committed here twice. One on

$100,000 promissory note with an Ohio Corporation, and the other one was on $360,000 and its portion of $293,900 payment to a Washington D.C. lobbyist firm. We all need to find out how this loan money was used and who really benefited from it. We strongly recommend the Office of the Auditor General and the Office of the Attorney General to do a thorough investigation and make a fraud case for all people connected or associated in this finding.

Thank you.

Sincerely,

Ladie N. Jack
Mayor, Majuro Atoll Local Government

APPENDIX II: Auditors' Response to Auditees' Response

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

P.O. Box 245

Majuro, Republic of the Marshall Islands 96960

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Staff: (692) 625-3390
Facsimile: (692) 625-5135
Fraud Hotline:
Telephone: (692) 625-1155
Facsimile: (692) 625-1156

Auditors' Response to Comments by MALGOV

We commend MALGOV for taking corrective measures to address the audit findings and recommendations throughout our reports on internal control and on compliance. We also acknowledge the comments by MALGOV regarding the need to have more timely and consistent audit and wish to advise that plans have been made to bring the audits of MALGOV to current. In addition, we wish to point out also that absence of an audit does not relieve management of its responsibility: (1) to prepare and fairly present financial statements in accordance with generally accepted accounting principles; and (2) to design, implement, and maintain internal control over financial reporting and for efficiency and effectiveness of operations. The routine monitoring by management is imperative to ensure that bank accounts are reconciled on a regular basis, that expenditures are properly documented and classified, that proper accounting and internal control over fixed assets is maintained, and other accounting issues highlighted throughout our reports, is a management function. Fully depending on the Office of the Auditor-General (OAG) to fulfill a management responsibility is not our role. In fact, depending on OAG to fulfill management's responsibility impairs the ability of OAG to carry out its mandate in an independent and impartial manner. Accordingly, we consider that it is the responsibility of MALGOV management to actively pursue our recommendations.

In response to MALGOV's comments in relation to Audit Finding No. 2014-11, OAG will review this finding and take action as appropriate.

MAJURO ATOLL LOCAL GOVERNMENT

INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT

YEAR ENDED SEPTEMBER 30, 2010

REPUBLIC OF THE MARSHALL ISLANDS
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January 28, 2019

Honorable Ladie Jack
Mayor
Majuro Atoll Local Government

Dear Mr. Jack:

In planning the engagement to audit the financial statements of the Majuro Atoll Local Government (MALGOV) as of September 30, 2010, (on which we have issued our report dated January 28, 2019), we considered MALGOV'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 MALGOV'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 engagement, we identified, and included in the attached Appendix I, deficiencies related to MALGOV's internal control over financial reporting and other matters as of September 30, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Council, also dated January 28, 2019, on our consideration of MALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

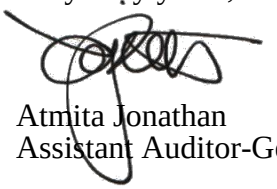
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Council, management, 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 these suggestions.

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

Very truly yours,



Atmita Jonathan
Assistant Auditor-General

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MALGOV's internal control over financial reporting for the year ended September 30, 2010 that we wish to bring to your attention:

(1) Cash Receipts Documentation

Our examination of the cash receipts file for FY 2010 noted the following exceptions:

- Cash receipts not issued sequentially
- No copies of deposit slips filed
- No copy of business licenses available at the time of field work for examination
- Collection sheets or transmittal forms are not verified and signed off by Accountant, Treasurer and Executive Director of Finance
- Sales Tax Report not signed by both payee and tax collector officer

We recommend that the Finance department require proper cash receipts documentation be maintained and filed such as filing of deposit slips, business licenses, collection sheets and transmittal forms, and Sales Tax Reports. In addition all cash receipts should be issued sequentially.

(2) Daily Collections not matched to Deposits

Our examination of revenue testing noted a deposit on 12/17/2009 in the amount of $1,850; however, total collections for the day were $21,944, representing a variance of $20,094. We traced to bank statement and found no deposit in this amount.

We recommend that management require the responsible officials to match, verify and sign-off on daily collections and transmittal forms. Furthermore, cash receipts deposited should be matched to total collections for the day.

(3) Expenditures

Our examination of the expenditures disclosed ten (10) disbursements totaling $61,070 that were not supported by invoices or other pertinent documentation to support each expense incurred. In addition, no documentation was maintained on file evidencing the procurement process.

We recommend that management require that all pertinent documentation associated with vendor payments be maintained on file. Furthermore, we recommend that management document the procurement process consistent with RepMar's Procurement Code.

(4) Land Leases

Our examination of land leases noted that certain leases were expired; however, no renewals of such leases were made available. Furthermore, certain land leases were not properly executed by all relevant parties.

We recommend that management require that land leases be renewed upon expiration and be properly executed by all relevant parties.

(5) Payroll

Our examination of salaries and wages paid to the Mayor and Council Members did not appear to be consistent with pay rates authorized per Ordinance No. 02-2004. In addition, we noted 77 payroll disbursements issued on October 2, 2009, October 16, 2009 and October 30, 2009 totaling $26,269 that were not supported by time sheets. Furthermore, the pay rates did not agree to the approved employee Personnel Action Forms.

We recommend that management require that pay rates applied be in accordance with rates authorized per Ordinance No. 02-2004 and the employee Personnel Action Forms. Furthermore, we recommend that all pertinent documentation associated with payroll disbursements be maintained on file.

SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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.

APPENDIX II

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

MALGOV's management is responsible for the overall accuracy of the financial statement 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.

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

HOTLINE

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