

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

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**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2016**

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor Hirata Kabua  
Kwajalein Atoll Local Government:

We have audited, 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, the financial statements of the Kwajalein Atoll Local Government (KALGOV) as of September 30, 2016, and have issued our report thereon dated December 27, 2018. Our report included a qualification due to the omission of certain capital assets and the lack of recording a liability for compensated absences in governmental activities and 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 for the year ended September 30, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KALGOV'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 statements, but not for the purpose of expressing an opinion on the effectiveness of KALGOV's internal control. Accordingly, we do not express an opinion on the effectiveness of KALGOV's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 2016-001, 2016-002, 2016-004 and 2016-010 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2016-003, 2016-007 and 2016-009 to be significant deficiencies.

## Compliance and Other Matters

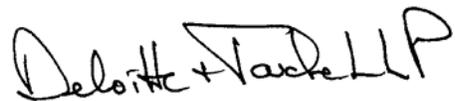
As part of obtaining reasonable assurance about whether KALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 items 2016-005, 2016-006, 2016-008, 2016-011 and 2016-012.

## KALGOV's Omission of Response to Findings

KALGOV has opted to omit responses and corrective actions to the findings identified in our audit and are described in the accompanying Schedule of Findings and Responses. Such missing information is considered to be an essential part of the Schedule of Findings and Responses. However, KALGOV's responses, if any, are not subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this 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 an audit performed 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.



December 27, 2018

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-001  
Area: Capital Assets

Criteria: Effective internal control necessitates that capital assets be recorded in the fixed asset register, properly tagged with asset identification number, and with complete description and location.

Condition: As of September 30, 2016, a capital asset register was not available to support the underlying cost and accumulated depreciation recorded in the general ledger. Furthermore, the following exceptions over capital assets were noted:

1. Due to unavailability of a capital asset register, location and condition of capital assets were undeterminable.
2. No established policies and process for capital asset disposals.
3. No established capitalization policy in place to determine capitalizable assets.
4. A \$1,300 laptop computer acquired in 2016 was unable to be sighted to verify existence.
5. In 2016, KALGOV received two garbage trucks and a Mazda pickup from the RMI Ministry of Finance. Transfer of ownership was not available on file for examination.

Cause: The cause of the above condition is the lack of internal control policies and procedures governing proper monitoring, capitalization, maintenance, and disposal of capital assets.

Effect: The effect of the above condition is potential misstatement in capital asset balances and scope limitation in the audit process.

Recommendation: We recommend that management maintain a fixed asset register, perform inventory of capital assets, establish capitalization policy and establish capital asset retirement policy.

Prior Year Status: The lack of established policies and procedures over capital assets was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-002  
Area: Compensated Absences

Criteria: Per Rule XVII - *Leave Privileges* of the policy adopted by KALGOV Civil Service Commission (CSC):

- a. Section 1(a) states that the maximum amount of leave that can be accumulated at the end of the leave year December 31 is 240 hours. Thereafter, any excess shall be forfeited unless taken before the end of the calendar year in which such excess was accumulated.
- b. Section 1(f) states that vacations will be scheduled in an orderly manner so that adequate manpower is available for the work to be done.
- c. Section 1(j) states that unused vacation leave will be paid to the employee subject to maximum amount described in Section 1 (a).
- d. Section 3(b) states that the appointing officer may require medical documentation as evidence of the employee's illness or injury that prevented attendance at work.
- e. Section 3(f) states that upon normal retirement, medical retirement or death the employee or beneficiary shall be paid 50% of the sick leave accumulated. Maximum accumulated sick leave is 960 hours.

Condition: During the year ended September 30, 2016, KALGOV asserted that it follows RepMar's Public Service Commission policy regarding compensated absences. However, no written documentation was available on file to support this assertion. Furthermore, the following exceptions were noted regarding compensated absences:

- 1. A supporting schedule of compensated absences payable as at September 30, 2016 was not available.
- 2. The sick leave liability at September 30, 2016 reported a debit balance of \$20,861 due to encashment of sick leave pay without corresponding accrual.
- 3. Accumulated amount of \$874 unused sick leave was paid to employees still in service without appropriate approved sick leave application and certificate from qualified medical officer.
- 4. During the year ended September 30, 2016, management encashed a total of \$4,565 for unused annual leave. Recipients include KALGOV employees still in service.

Cause: The cause of the above condition is the lack of internal control policies facilitating complete monitoring, accurate reporting of compensated absences, and compliance with KALGOV CSC policies.

Effect: The effect of the above condition is potential misstatement in compensated absences payable, noncompliance with KALGOV CSC policies, and scope limitation in the audit process.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-002, Continued  
Area: Compensated Absences

Recommendation: We recommend that management maintain updated compensated absences schedule and adhere to KALGOV CSC policies.

Prior Year Status: The lack of established policies and procedures over compensated absences was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-003  
Area: Accounts Receivables

Criteria: Effective internal control necessitates that employee advances and other receivables be collected in a timely manner to facilitate efficient governmental operations and minimize possible losses through noncollection.

Condition: As of September 30, 2016, KALGOV reported the following employee advances and other receivables:

	<u>Amount</u>	<u>Allowance</u>
Due from Employees	\$18,843	\$(18,217)
AR Others	36,885	(26,310)
Tax Due	50,551	(48,276)

AR Others included amount due from an individual (\$6,000) for payment for vehicle purchase based in Hawaii. Due from employees included cash advance for one former employee (\$12,200) without payroll deduction.

Furthermore, documentation that management performs allowance assessment on a periodic basis was not available.

Cause: The cause of the above condition is the lack of adequate internal control governing proper approval of employee advances and enforcement of timely collection of receivables.

Effect: The effect of the above conditions potentially impacts KALGOV's ability to facilitate efficient government operations and potential loss of government funds.

Recommendation: We recommend that management implement collection procedures over outstanding employee advances and other receivables. Furthermore, we recommend that management establish formal policies approved by the Executive Council over employee advances.

Prior Year Status: The lack of established policies and procedures over accounts receivable was reported as a finding in the audit of KALGOV for fiscal years 2013 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-004  
Area: Journal Entries

Criteria: Effective internal control necessitates that journal entries be adequately supported and independently reviewed.

Condition: Our testing of journal entries noted the following exceptions:

1. The journal voucher system is not utilized and there is no evidence to support independent review of recorded journal entries.
2. Journal entry # 16-04003 for \$108,000 to record tax revenues paid directly to MISSA lacked supporting documentation supporting the revenue amount and application of payment.
3. Journal entry # 16-09006 for \$311,016 to record tax revenues paid directly to MISSA lacked supporting documentation supporting the revenue amount and application of payment.

Cause: The cause of the above condition is the lack of internal control policies and procedures requiring correctness of journal entries and independent review prior to recording to the general ledger.

Effect: The effect of the above condition is a potential for unauthorized journal entries.

Recommendation: We recommend that management adopt policies and procedures to evidence review and approval of journal entries. Furthermore, management may consider utilizing the journal voucher system.

Prior Year Status: The lack of internal control policies and procedures over journal entries was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-005  
Area: Local Noncompliance - Social Security Taxes

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: KALGOV filed and paid social security contributions for the year ended September 30, 2016 in a manner inconsistent with the criteria. As of September 30, 2016, KALGOV was liable for social security contributions in the amount of \$5,538,034, inclusive of penalties and interest relating to delinquent and unremitted contributions.

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 KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-006  
Area: Local Noncompliance - RepMar Withholding Taxes

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: KALGOV filed and paid income taxes withheld for the year ended September 30, 2016 in a manner inconsistent with the criteria. As of September 30, 2016, KALGOV was liable for income taxes withheld in the amount of \$4,363,435, 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 KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action Plan:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-007  
Area: Payroll

Criteria: Effective internal control necessitates that personnel files should be maintained to support personnel related expenditures and disbursements.

Condition: Personnel action forms (PAF) for KALGOV employees were not available for examination to facilitate verification and agreement with hourly rate per payroll register. Furthermore, we tested 26 payroll items and noted the following exceptions:

1. One item where 80 hours annual leave for employee ANIJ for PPE September 10, 2016 was not supported by underlying leave application.
2. Two items where employee JOSJ for PPE October 24, 2015 and employee DRIL for PPE February 27, 2016 were underpaid for 8 hours and 2 hours, respectively.
3. Timesheets for Municipal Administration Department employees for PPE December 19, 2015 lacked signature of department head to support independent review of time charges.
4. Employee benefits totaling \$18,570 were paid to the former City Manager for salary covering the period March to September 2016 whereas the individual ceased employment since February 2016. Relevant documentation granting this employee benefit in accordance with RepMar's Public Service Commission regulations was not available on file for examination. In addition, no taxes were withheld from these benefits.
5. Check # 9526 for \$1,000 for clothing allowance for two individuals. Council ordinance or resolution supporting authorization of this benefit was not available on file for examination.
6. Check # 9512 for \$750 for monthly allowance for an individual. Council ordinance 2016-02 approves \$750 monthly allowance for Council members; however, the individual was not included on the approved list.
7. Check # 9604 for \$1,650 includes \$750 monthly allowance for the City Manager. Council ordinance or resolution supporting authorization of this benefit was not available on file for examination.
8. Check # 9486 for \$250 for sitting fee for a non-Council member. Council ordinance or resolution supporting authorization of this benefit was not available on file for examination.

Cause: The cause of the above condition is the lack of internal control policies and procedure governing proper maintenance of employee permanent files.

Effect: The effect of the above condition is a potential misstatement in salaries and wages.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-007, Continued  
Area: Payroll

Recommendation: We recommend that management properly maintain employee permanent files and perform independent review of timesheets to support employee related expenditures.

Prior Year Status: The lack of internal control policies and procedures over the maintenance of employee permanent files and timesheets was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-008  
Area: Local Noncompliance – RepMar’s Procurement Code

Criteria: Section 106(3) of RepMar's Procurement Code applies to KALGOV, being a political subdivision of RepMar. The Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: For the following items, supporting documentation was inadequate to evidence the procurement process:

- 1. Check # 9133 for partial payment for \$26,500 vehicle purchase. Invoice and competitive procurement documentation was not available on file for examination. Sighting of the vehicle noted under repair;
- 2. Competitive procurement documentation of the following purchases were not available on file for examination:

<u>Reference No.</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
PO 1050	07/29/2016	\$ 2,685	gasoline and diesel
PSIE # 2016-00092	09/14/2016	6,000	oxygen and acetylene
PSIE # 2016-00093	09/14/2016	4,012	various construction materials
8046	10/22/2015	279	a cellphone unit
8459	02/01/2016	2,590	LUV seats
8225	12/11/2015	600	vehicle rental service for Public Works
26833	07/26/2016	3,770	boat repair service
9143	06/08/2016	1,575	jackets for the council members
8785	04/01/2016	287	engine oil
8069	10/30/2015	1,300	laptop purchased by City Manager
8327	01/05/2016	4,608	2 iphones, imac desktop, mini refrigerator
9527	10/22/116	940	a cellphone unit
9496	10/14/2016	24,904	6 units of small boats

- 3. Check nos. 26889 and 26897 for \$6,000 for advance payment to an individual for a purchase of vehicle amounting to \$28,000. The vehicle stayed in Hawaii for approximately two years. Invoice and competitive procurement documentation was not available during examination;

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-008, Continued  
Area: Local Noncompliance – RepMar’s Procurement Code

4. Check # 9588 for \$3,505 for “Moneygram” purchase with description of "contribution". Further examination of invoice showed the payment was for KALGOV boat GPS device. Competitive procurement documentation was not available on file during examination; and
5. Check # 9686 for \$1,280 for purchase of diesel fuel. Check was named to an individual instead of the vendor, Marshalls Energy Company. Purpose of fuel purchase was not adequately documented. Competitive procurement documentation was not available during examination.

Cause: The cause of the above condition is the lack of internal control policies and procedures to facilitate compliance with procurement requirements.

Effect: The effect of the above condition is potential noncompliance of RepMar Procurement Code.

Recommendation: We recommend that management adhere to Repmar Procurement Code.

Prior Year Status: The lack of internal control policies and procedures to facilitate compliance with RepMar procurement requirements was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-009  
Area: Travel Expenditures

Criteria: Effective internal control necessitates that travel expenditures be supported by itineraries, boarding passes, and invoices to support liquidation process.

Condition: For the following items, travel advances were not provided with an ordinance supporting existing rates used for per diem, lodging, car rental and representation allowances. Furthermore, no itinerary or boarding passes were on file for the following items:

1. Check #s 8613 and 8820 for \$1,812 and \$1,000, respectively, were drawn for airfare and car rental allowance of KALGOV employees; however, the travel advances did not adequately disclose the purpose of travel;
2. Check # 8013 for \$4,500 was drawn for travel advance of the Finance Director;
3. Check # 9318 for \$3,000 was drawn for representation allowance of the Mayor;
4. Check # 8322 for \$1,963 was drawn for travel advance of the Prosecutor;
5. Check #s 8195 and 8237 for \$3,281 were drawn for training travel expense. Ordinance and training details/schedule were not available on file for examination to verify per diem rate and allowance.
6. Check # 9320 for \$1,637 was drawn for hotel reimbursement of the City Manager; the travel advance did not adequately disclose the purpose of travel;
7. Check # 9520 for \$3,491 was drawn for per diem, hotel, and representation allowance of the City Manager for 3 day meeting. Adequate documentation supporting 10 day per diem was not available on file for examination.
8. Check # 9573 for \$1,050 was drawn for representation allowance with payee as "Moneygram". The approved purchase requisition did not indicate the name of the requestor.
9. Check # 9776 for \$6,576 was drawn for the City Manager, which included \$3,459 for training travel expense and \$750 for monthly allowance. Training details and schedule were not available on file for examination to verify per diem allowance. Documentation supporting authorization of monthly allowance was not available on file for examination.
10. Check # 9838 for \$1,500 was drawn for representation allowance of the City Manager; however, the check payee was to an individual other than the City Manager. Documentation was not available on file for examination to verify the purpose of the representation allowance and the designated check payee.

Cause: The cause of the above condition is the lack of established internal control policies and procedures administering the liquidation of travel advances.

Effect: The effect of the above condition is potential unauthorized and misstatement of travel expenditures.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-009, Continued  
Area: Travel Expenditures

Recommendation: We recommend that management establish appropriate internal control policies and procedures governing authorization and liquidation of travel advances.

Prior Year Status: The lack of established internal control policies and procedures administering the authorization and liquidation of travel advances was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-010  
Area: Revenues and Cash Receipts Journal

Criteria: Fines, taxes and fees assessed should be supported by necessary documentation including tickets, tax assessments, invoices, applications, ordinances or their equivalent. Furthermore, cash collected should be deposited in a timely manner and related cash collection reports should evidence review and approval.

Condition: Of sixty-three cash receipts tested, we noted the following exceptions:

1. Cash collection reports were not certified by Finance Director evidencing that independent review occurred.
2. Tax assessment forms with related invoices and bills of lading were not provided for the following cash receipts:

<u>CR/ Ref. no.</u>	<u>CR/OR Date</u>	<u>Amount</u>
7184	12/30/2015	\$ 13,920
7943	09/07/2016	12,672
7084	11/30/2015	4,457
7529/7530	03/16/2016	1,897
7569	04/05/2016	1,303
0609	06/09/2016	4,577
0620	06/20/2016	8,540
16-12005	12/31/2015	2,640
16-03004	03/31/2016	3,720
16-06004	06/30/2016	2,640
16-09005	09/30/2016	3,780
16-12005	12/31/2015	22,990
16-03004	03/31/2016	36,884
16-06004	06/30/2016	20,870
16-09005	09/30/2016	<u>38,373</u>
		\$ <u>184,050</u>

3. Certain excise property tax on the initial sale assessment indicated that taxes levied was fully paid when only partial payment were received. Payments subsequently received were as follows:

<u>Cash Receipt no.</u>	<u>Cash Receipt Date</u>	<u>Unpaid Tax Due</u>	<u>Settlement Date</u>
7198	12/31/15	\$ 3,355	Not paid
7605	04/28/16	<u>3,355</u>	Not paid
		\$ <u>6,710</u>	

In addition, we noted one item (CR # 7515) where actual excise property tax collected exceeded the expected amount by \$2,553.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-010, Continued  
Area: Revenues and Cash Receipts Journal

- 4. KALGOV charges an alcohol tax of \$0.40 per can of beer in accordance with ordinance no. 2004-05 with an effective date of 07/19/2004. However, copy of said ordinance supporting the rate was not on file during examination.
- 5. Ordinance # 2004-01 supporting approved ID Card fee rate and ordinance # 2007-02 supporting approved anchorage and mooring fees were not available on file for examination.
- 6. Series of Official Receipts (OR) or Cash Receipts (CR) were insequentially issued or missing. As a result, we were unable to ascertain the completeness of cash collections.
- 7. Property tax assessment forms - payment receipts, bills of lading and supplier's invoices to support tax collected were not provided for OR # 8149 for \$25,392.
- 8. The following cash receipts lacked collections report and journal voucher to ascertain nature of collections:

<u>Account</u>	<u>Reference</u>	<u>Date</u>	<u>Tax Due</u>
BOMI 44	BOMI	10/14/2016	\$ 25,000
BOMI 26	Deposit	10/03/2016	16,000

Cause: The cause of the above condition is the lack of established internal control policies and procedures over the filing and maintenance revenue recordation and collection process.

Effect: The effect of the above condition is a potential understatement of revenues, unauthorized rates used, and misappropriation of cash.

Recommendation: We recommend that management develop and maintain procedures to ensure that revenue collections are supported, properly recorded, pursue collection of unpaid taxes due, approval of rates used are maintained, timely deposit of collections, and collection reports are independently reviewed.

Prior Year Status: The lack of established internal control policies and procedures over the filing and maintenance of revenue recordation and collection process was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-011  
Area: Local Noncompliance - Public Services Fund

Criteria: Section 4A of the Memorandum of Agreement (MOA) between KALGOV and RepMar requires the creation and separate accounting for the KALGOV Public Services Fund.

Condition: During the year ended September 30, 2016, KALGOV received \$313,472 from RepMar in accordance with the MOA; however, all related transactions associated with this grant were recorded in the General Fund.

Cause: The cause of the above condition is the lack of adequate controls governing compliance with the MOA.

Effect: The effect of the above condition is noncompliance with terms and conditions of the MOA.

Recommendation: We recommend that management separately establish and account for transactions of the Public Services Fund.

Prior Year Status: The lack of internal control policies and procedures over the creation and separate accounting for the KALGOV Public Services Fund was reported as a finding in the audit of KALGOV for fiscal years 2012 through 2015.

Auditee Response and Corrective Action Plan:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2016

Finding No.: 2016-012  
Area: Local Noncompliance - Legal Services

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, 2016, KALGOV incurred professional services of \$30,000 for independent legal counsel. No approval was provided by KALGOV 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.

Auditee Response and Corrective Action Plan:

Auditee did not provide a formal response to this finding.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**

Schedule of Prior Audit Findings  
Year Ended September 30, 2016

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