

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

MEJIT ISLAND LOCAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

PERIOD FROM OCTOBER 01, 2012 THROUGH
SEPTEMBER 30, 2016



AUDIT No.: OAG 09/17-2400

January 17, 2020

Date

P.O. BOX 245
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REPUBLIC OF THE MARSHALL ISLANDS

MEJIT ISLAND LOCAL GOVERNMENT

Period from October 1, 2012 through September 30, 2016

TABLE OF CONTENT

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



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INDEPENDENT AUDITORS' REPORT

Honorable Almo Momotaro
Mayor
Mejit Island Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Mejit Island Local Government (the Mejit Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2012 through September 30, 2016, and the related notes to the financial statement. This financial statement is the responsibility of the Mejit Government.

Management's Responsibility for the Financial Statement

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

Auditors' Responsibility

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

Basis for Disclaimer of Opinion

Because of inadequacies in the accounting records of the Mejit Government, we are unable to form an opinion regarding the amounts recorded as cash receipts and cash disbursements in the accompanying financial statement stated at \$243,090 and \$242,122, respectively.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this financial statement.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

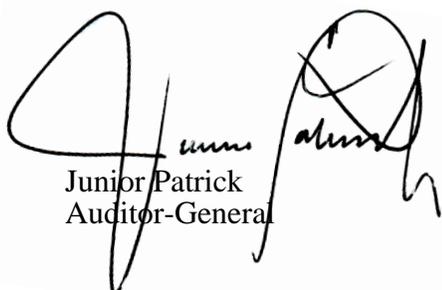
Other Supplementary Information

The Combining Schedule of Cash Receipts and Disbursements on page 6 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the engagement to audit the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the Basis of Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the other supplementary information in relation to the financial statement as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020, on our consideration of the Mejit Government’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mejit Government’s internal control over financial reporting or on compliance. That report is an integral part of an engagement to perform an audit with *Government Auditing Standards* in considering the Mejit Government’s internal control over financial reporting and compliance.

January 17, 2020



Junior Patrick
Auditor-General

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements Period from October 1, 2012 through September 30, 2016

Cash receipts:		
Japan Grassroots grant	\$	100,339
RepMar Local Government Fund (LGF)		59,136
RECD refund		24,608
National Training Council		19,464
Loan proceeds		5,000
Fees		374
Other revenue		7,423
Unreported/unidentified deposits		<u>26,746</u>
Total cash receipts		<u>243,090</u>
Cash disbursements:		
Water cistern project		100,337
Salary and Wages		55,485
NTC training project		19,463
Travel		2,096
Supplies		1,473
Fuel		1,025
Food		130
Other		19,105
Unreported/unidentified disbursements		<u>43,008</u>
Total cash disbursements		<u>242,122</u>
Net change in cash	\$	<u>968</u>

See accompanying notes to financial statements.

MEJIT ISLAND LOCAL GOVERNMENT

Notes to Financial Statement
Period from October 1, 2012 through September 30, 2016

(1) Organization

The Mejit Island Local Government (the Mejit Government) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of the Mejit Government. The Mejit Government is governed by an elected mayor, council members and representatives.

(2) Basis of Accounting

The Schedule of Receipts and Disbursements has been prepared on the cash basis of accounting. Receipts have been recognized when received in cash and disbursements have been recognized when cash is disbursed. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

The Mejit Government is not required to adopt fund basis accounting for local governments in conformity with standards promulgated by Governmental Accounting Standards Boards (GASB). However, the Mejit Government is required to comply with accounting system requirements established by the Government of the Republic of the Marshall Islands (RepMar) Ministry of Culture and Internal Affairs.

(3) Cash

As of September 30, 2016, the carrying amount of the Mejit Government's total cash was \$1,522, which corresponds to the bank balance and which is maintained in a local financial institution that is not subject to Federal Deposit Insurance Coverage (FDIC). The Mejit Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Mejit Government states that "no taxes shall be imposed and no other revenues shall be raised and no money of the Local Government shall be expended, unless authorized by law".

MEJIT ISLAND LOCAL GOVERNMENT

Notes to Financial Statement
Period from October 1, 2012 through September 30, 2016

(5) RepMar Contributions

The Mejit Government receives annual grant funding from RepMar's Local Government Fund (LGF), which is distributed on a quarterly basis. This quarterly allotment is contingent upon the Mejit Government providing financial reports and supporting documents. For the period from October 1, 2012 through September 30, 2016, the Mejit Government received \$59,136 from the LGF.

(6) Other Contributions

On February 4, 2015, the Mejit Government received funding from the Embassy of Japan in the amount of \$100,000 for Construction of Water Cistern in Mejit Island. The project has been completed and expenditures of the fund have been separately audited. The Mejit Government also received funding from the National Training Council (NTC) in the amount of \$19,464 for training on construction.

(7) On-Behalf Payments

The Mejit Government is the beneficiary of annual appropriations from RepMar under the Outer Islands Economic Development Fund (OIEDF) administered and disbursed directly to vendors by RepMar's Ministry of Finance, Banking and Postal Services. The disbursement of this grant fund is contingent upon the Mejit Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2016, the Mejit Government received a total of \$133,426 under this grant. In addition, the Mejit Government is the beneficiary of annual appropriations from RepMar under the Grant-in-Aid fund administered and disbursed directly to vendors by RepMar's Ministry of Finance, Banking and Postal Services. The disbursement of this grant fund is contingent upon the Mejit Government providing community proposal and an approved resolution from council. For the period from October 1, 2012 through September 30, 2016, the Mejit Government received a total of \$25,757 under this grant. As these appropriations are disbursed directly by RepMar to vendors, such are not reflected as cash receipts and disbursements within the accompanying financial statement.

(8) Loan Proceeds

On September 1, 2016, the Mejit Government entered into a \$5,000 bank revolving micro loan, interest at 7% per annum, with principal and interest due in monthly installments of \$755, due August 31, 2018.

MEJIT ISLAND LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements
Period from October 1, 2012 through September 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
Cash receipts:					
Japan Grassroots grant	\$ -	\$ -	\$ 100,339	\$ -	\$ 100,339
RepMar Local Government Fund (LGF)	14,784	14,784	14,784	14,784	59,136
RECD refund	-	-	-	24,608	24,608
NTC	-	-	-	19,464	19,464
Loan proceeds	-	-	-	5,000	5,000
Fees	-	374	-	-	374
Other revenue	2,788	15	4,620	-	7,423
Unreported/unidentified deposits	<u>10,900</u>	<u>7,965</u>	<u>-</u>	<u>7,881</u>	<u>26,746</u>
 Total cash receipts	 <u>28,472</u>	 <u>23,138</u>	 <u>119,743</u>	 <u>71,737</u>	 <u>243,090</u>
Cash disbursements:					
Water Cistern project	-	-	100,337	-	100,337
Salary and Wages	18,180	16,300	8,855	12,150	55,485
NTC training project	-	-	-	19,463	19,463
Travel	2,031	65	-	-	2,096
Supplies	-	-	1,473	-	1,473
Fuel	715	310	-	-	1,025
Food	130	-	-	-	130
Other	4,950	1,977	6,273	5,905	19,105
Unreported/unidentified disbursements	<u>(2)</u>	<u>6,361</u>	<u>333</u>	<u>36,316</u>	<u>43,008</u>
 Total cash disbursements	 <u>26,004</u>	 <u>25,013</u>	 <u>117,271</u>	 <u>73,834</u>	 <u>242,122</u>
 Net change in cash	 <u>\$ 2,468</u>	 <u>\$ (1,875)</u>	 <u>\$ 2,472</u>	 <u>\$ (2,097)</u>	 <u>\$ 968</u>

See accompanying independent auditors' report.



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

Honorable Almo Momotaro
Mejit Island Local Government
Republic of the Marshall Islands

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Mejit Island Local Government (the Mejit Government) for the period from October 1, 2012 through September 30, 2016, and the related notes to the financial statement and have issued our report thereon dated January 17, 2020. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statement due to inadequacies in the accounting records.

Internal Control Over Financial Reporting

In planning the engagement to audit the financial statement, we considered the Mejit Government's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Mejit Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mejit Government's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as *Finding No. 1, Finding No. 2, Finding No. 3, Finding No. 4, Finding No. 6, Finding No. 7, Finding No. 10, and Finding No. 14* to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mejit Government's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as *Finding No. 5, Finding No. 8, Finding No. 9, Finding No. 11, Finding No. 12, Finding No. 13, and Finding No. 15.*

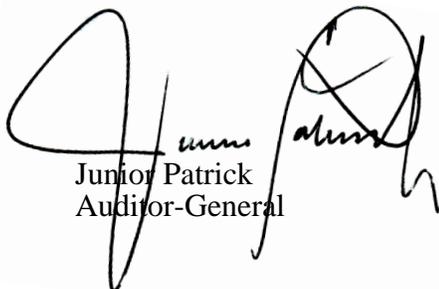
The Mejit Government's Response to Findings

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

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of the engagement to audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 17, 2020



Junior Patrick
Auditor-General

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2012 through September 30, 2016

Finding No. 1

Grant In Aid Funding

Criteria: It is the intention of the National Government to improve living standard in the outer islands. It is therefore the policy of the National Government to make funding available on a yearly basis under the Grant In Aid Fund (GIA) to the local governments.

Condition: RepMar check no. 129144 dated 8/5/2015 in the amount of \$19,994 was issued for various projects funded by the Grant-In-Aids Fund. Of this amount, \$5,999 was for building materials for Mejit United Church of Christ (UCC). During our site visit to the island to physically inspect the projects funded by the GIA, we were informed by a church member on Mejit that the building materials were not delivered. A person who has knowledge of the matter indicated that he was asked by the Church Pastor to assist in locating these items.

Cause: The cause of the above condition is the lack of implementation of project as approved by the Mejit Government. In addition, there is a lack of monitoring by the Ministry of Internal Affairs to ensure approved projects are implemented for the benefits of the community on Mejit as initially planned.

Effect: The effect of the above conditions is noncompliance with the intent of the GIA policy and possible misappropriation of grant funds and the community on Mejit does not receive full benefits.

Recommendation: We recommend that the Mejit Government and the Local Government Office at the Ministry of Internal Affairs monitor projects during implementation to ensure they are completed as planned. In addition, we also recommend that the Ministry of Internal Affairs seeks the assistance of the Attorney-General to help locate the building materials.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 2

Unsupported Disbursements

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to prove that actual payment was made. Additionally, accountability and good governance require that supporting documents for all transactions be filed and maintained for all public funds.

Condition: During our examination of the quarterly financial reports for the periods under audit, we noted that disbursements for council operating expenses were not supported by invoices, receipts, copies of tickets, and other related supporting documentation as indicated below:

Expenses	FY2013	FY2014	FY2015	FY2016	Comments
Travel	2,031	65	0	0	No approved TA; copies of airline tickets, or boarding passes,
Foods	130	0	0	0	No vendor invoices or other related supporting documents
Fuels	715	245	0	0	No vendor invoices or other related supporting documents
Supplies	0	0	1,473	0	No vendor invoices or other related supporting documents
Others	4,950	1,977	6,273	5,905	No vendor invoices & other related supporting documents
Total	\$7,826	\$2,287	\$7,746	\$5,905	

In addition, salaries paid in the amount of \$55,485 to council employees and council members were not supported by time sheets and roll call sheets, except for salaries paid to council members for the FY2014 1st quarter meeting in the amount of \$6,533. However, of this amount, we are unable to determine the salaries related to council members as payments for employee salaries and council member fees are reported as salaries rather than as separate expense line items for proper account classification. Additionally, of the \$55,485, two (2) payments were issued to a local Asian store for cash. Check #260 in the amount of \$6,215 for salaries and services provided during an inauguration ceremony for \$5,505 and \$710, respectively, and check #272 in the amount of \$3,660 for employee and council member salaries. The roll call sheet provided with check #272 was dated July 2016 while the cash payments were received on April 16-18, 2016.

Furthermore, the Mejit Government obtained a loan with a local bank for \$5,000 on September 1, 2016, however, we were unable to determine what the loan was used for as there were no document on file on how the loan was disbursed. We noted check no. 139 was issued for cash in the amount of \$4,000, however, the related supporting documents pertaining to this payment were not available on file.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No.2, Continued

Unsupported Disbursements

Accordingly, we are unable to determine the appropriateness of the payment or whether this payment was related to the loan.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1. Additionally, there is a lack of proper review of the financial reports by the Ministry of Internal Affairs and the Ministry of Finance and lack of established internal control procedures requiring proper review and monitoring by the local government Council over all accounting transactions of the local government.

Effect: The effect of the above condition is that the Mejit Government did not comply with the Local Government Financial Memoranda No. 1987-1 and inability to determine the appropriateness of total spending of \$79,249 from Mejit Government accounts.

Recommendation:

- 1) We recommend that the Mejit Government ensure all disbursements are supported by invoices or receipts and that these supporting documents are maintained on file for reference and audit purposes.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance review the quarterly reports to ensure they are supported by proper documentation. Anything with no supporting document should be returned and Ministry of Finance to decide the best way to resolve unsupported items. One solution could be to pay only items that have the proper support.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 3

Revenue/Cash Receipts

Criteria: A proper system of internal control requires that collection of revenues be supported by cash receipts and be deposited intact in a timely manner. Additionally, a cash receipts journal should be maintained that indicates the cash receipts being issued in a sequential manner and documents the customer name, date, amount of cash received and the type of revenue collected.

Condition: The Mejit Government collected and reported fees and other revenues totaling \$7,797 in their quarterly financial reports, however, these revenues were not supported by cash receipts. We have been unable to determine whether these revenues were used in the daily operation of the Mejit Government due to lack of proper accounting records. Details of the revenues are indicated below.

Type of Revenues	FY2013	FY2014	FY2015
Fees	0	374	0
Other Revenues	2,788	15	4,620
Total	\$2,788	\$ 389	\$4,620

Cause: The cause of the above condition is the lack of adherence to the established accounting system for local governments and lack of proper review of the financial reports by the Ministry of Internal Affairs to ensure all revenues are properly accounted for, cash receipts are issued for all fees collected and that these fees are deposited intact in a timely manner and reported to the Ministry of Internal Affairs in the quarterly financial reports.

Effect: The effect of the above condition is the possibility for misappropriation of public funds. Additionally, there is no audit trail to determine how much local revenues were collected.

Recommendation:

- 1) We recommend that the Mejit Government issue official cash receipts to customers when collecting local revenues on the island as a measure for transparency and accountability. These collections should be accounted for through a cash receipts journal and deposited in a timely manner.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance properly review the financial reports to ensure all supporting documents are provided to support amounts reported.

Auditee’s Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 3, Continued

Revenue/Cash Receipts

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 4

Accounting System

Criteria: All local governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the Ministry of Internal Affairs. Included in the accounting system are forms developed to be used such as cash receipts and cash disbursements journals, personnel action, collection cards, purchase order, budget control worksheet, and several others for proper record keeping.

Condition: During the periods under audit, the Mejit Government did not adopt the accounting system established by the Ministry of Internal Affairs. The prescribed accounting forms described in the above criteria were not utilized.

Cause: The cause of the above condition is the lack of adherence to established policy by the Mejit Government and lack of oversight by the Ministry of Internal Affairs and Ministry of Finance requiring Mejit Government to adopt and follow the accounting system established for all local governments.

Effect: The effect of the above condition is that Mejit Government did not follow the Financial Memoranda No. 1987-1 that diminishes accountability over the government's financial resources. It also resulted in the followings:

- Inability to perform an audit of a complete set of financial statements.
- Financial transactions not recorded properly into a general ledger.
- Inability to verify accuracy of revenues collected and reported.
- Inability to verify that expenses were authorized and paid because of lack of utilization of accounting forms.

Recommendation:

1. We recommend that the Mejit Government comply and follow the accounting system established for all local governments by the Ministry of Internal Affairs in order to improve accountability over its financial operation.
2. We further recommend that the Ministry of Internal Affairs and Ministry of Finance require that Mejit Government comply with the accounting system for local governments as stipulated in the Financial Memoranda No. 1987-1 prior to release of Local Government Fund appropriations.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 4, Continued

Accounting System

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 5

Financial Reports

Criteria: The Local Government Financial Memoranda No. 1987-1 states that a local government must submit a quarterly financial report to the Secretary of the Ministry of Internal Affairs by no later than the 15th of January, April, July and October each year.

Condition: We performed a detailed analysis of the financial reports and noted the following discrepancies:

- The financial reports were not documented to indicate when they were filed at the MOCIA.
- Amounts reported in the quarterly financial reports did not match total of the checks provided as support for the FY2013 3rd quarter report, FY2014 1st & 2nd quarter report, FY2015 1st & 2nd quarter report.
- Check registers were not provided with all the quarterly financial reports indicating the payees, amounts and nature of the expenses being reported. As such, we are unable to determine whether all disbursements have been properly accounted for and reported to MOF.
- Quarterly financial report formats were not consistent. For instance, in FY2013 & 2014, the reports were provided in excel spread sheets. For FY2013, the spread sheets covered the periods from February 2012 to January 2013, February 2013 to April 2013, and February 2013 to June 2013. For FY2014, the spread sheets covered the periods from February 2013 to January 2014. For FY2015, the reports submitted were in the format issued by MOCIA; in FY2016, the reports submitted were list of checks issued for the 2nd and 3rd quarters.
- FY2015 1st and 2nd quarter reports were both dated July 1, 2015 and the 3rd quarter report was dated February 7, 2016. This indicates that the reports were not submitted timely and in accordance with the Financial Memoranda No. 1987-1. Additionally, the reports were not certified by the Mayor.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by the Mejit Government and lack of consistency in using the Checklist that is required to be completed by Officials of the Local Government Division when receiving the quarterly financial reports from a local government. The form provides for official acknowledgements and date received by and is required to be attached with the purchase requisition (PR) submitted to the Secretary of Internal Affairs for approval before the PR is transmitted to the Ministry of Finance for payment. In addition, we observed a physical security weakness over Local Government files as files are accessible to anyone entering the Local Government Office.

Effect: The effect of the above condition is that the Mejit Government was not in compliance with the reporting requirements and thereby diminishing accountability over its financial operation.

Recommendation:

- 1) We recommend that the Mejit Government adheres to reporting requirements as dictated in the Financial Memoranda No. 1987-1.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 5, Continued

Financial Reports

- 2) We recommend that the Ministry of Internal Affairs address these compliance issues with the Mejit Government on a regular basis to resolve them. In addition, the Local Government Division within the Ministry of Internal Affairs should complete the required Checklist form every time the quarterly financial reports are received from the local government to indicate review and certification.
- 3) We recommend that the Ministry of Finance should thoroughly review the quarterly reports that are submitted by the Mejit Government to ensure all required supporting documentation are provided prior to making payment.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 6

Bank Reconciliations

Criteria: Proper internal control requires bank reconciliation to be performed on a regular basis to prevent fraud and error.

Condition: The Mejit Government did not reconcile its bank accounts for the entire periods under review. The Mejit Government relied on the bank to indicate what checks have been cleared and what deposits have been made into their bank accounts.

Cause: The cause of the above condition is the lack of oversight by the Council to ensure that bank reconciliations are performed on a regular basis.

Effect: The effect of the above condition is that the Mejit Government may not be able to detect financial reporting irregularities caused by fraud or error in a timely manner.

Recommendation:

- 1) We recommend that the Mejit Government reconcile its bank account on a regular basis.
- 2) We recommend that the Ministry of Internal Affairs and the Ministry of Finance require Mejit Government to perform bank reconciliation on a regular basis and require those monthly bank reconciliations to be provided with the quarterly financial reports.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 7

Fixed Assets

Criteria: The Local Government Accounting system requires that a local government should maintain a record of its fixed assets. Such register should document the type of assets acquired, costs of the assets, date of acquisition, location of the assets and who has custody of the fixed assets. Additionally, Mejit Government is required to file a report of property and equipment at the Local Government Affairs Division under Ministry of Internal Affairs that indicate all assets purchased under the Outer Islands Economic Development (OIEDF).

Condition: The Mejit Government received a total of \$51,638 from the OIEDF that was used to purchase assets such as a MacBook Laptop, Digital Camera, Shredder, Color Printer, Water Pump, Rear Carts, Yamaha Outboard Engine, Daewoo Mini Pickup and various other items. In addition, the local government expended \$26,862 for the completion of the community center and \$14,372 for a copra warehouse. However, a fixed assets register was not maintained for all fixed assets acquired during the entire periods covered by this audit.

Additionally, during our site visit to Mejit to physically inspect the assets purchased, we were unable to locate the following items, the total value of \$2,461.

- Nikon Digital Camera
- 13" Mack Book Laptop
- Color Photo Printer with Scanner, Copier and Fax

Cause: The cause of the above condition is lack of adherence to established policies and procedures to ensure proper control of and accountability for fixed assets.

Effect: The effect of the above condition is the lack of compliance with established policies and procedures and possibility for misappropriation and misuse of public assets that may not be detected and corrected in a timely manner.

Recommendation:

- 1) We recommend the Mejit Government ensure all fixed assets acquired are recorded in a fixed assets register and that these assets are tagged and allocated a unique identification number to indicate the Mejit Government ownership.
- 2) We recommend the Ministry of Internal Affairs work with Mejit Government to ensure a fixed assets register is maintained for all assets purchased.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 7, Continued

Fixed Assets

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 8

Business Listing

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

Condition: We did not note any business listing filed with the Ministry of Internal Affairs and the Ministry of Finance by the Mejit Local Government for the entire periods covered by this audit.

Cause: The cause of the above condition is the lack of oversight by the Ministry of Internal Affairs to require that prior to acceptance of the financial reports that a business listing is provided as part of the required financial reports.

Effect: The effect of the above condition is that the Mejit Government was not in compliance with the reporting requirements of the Local Government Act.

Recommendation: We recommend that the Mejit Government comply with Section 203 of the Local Government Tax Fees Act of 1989.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Period from October 1, 2012 through September 30, 2016

Finding No. 9

Procurement Code

Criteria: The OIEDF Policy Section IV, Subsection B, states that all purchasing and procurement of goods and services shall follow the RMI Procurement Code and relevant policies. Furthermore, all local governments receiving funds from the RMI government are required to adhere to the RMI Procurement Code. The Ministry of Finance has established that at least 3 price quotations are required to be obtained for all purchases of \$500 and above.

Condition: The following payments pertaining to the Outer Islands Economic Development Fund (OIEDF) were made on behalf of Mejit Government totaling \$77,645, however, no price quotations were provided to indicate the procurement process.

Item	Check No.	Date	Description	Amount	Comment
1	110244	9/2/2013	Folding tables, chairs & a freezer	2,550	3 price quotations not provided
2	111890	11/8/2013	Solar power, battery box, electrical wire	8,000	3 price quotations not provided
3	122332	11/21/2014	Build. materials-Comm. Center	2,777	3 price quotations not provided
4	122333	11/21/2014	Nikon Camera, MacBook Laptop, etc.	2,461	3 price quotations not provided
5	122335	11/21/2014	Water pump, diesel generator	3,158	3 price quotations not provided
6	123074	12/30/2014	Yamaha outboard engine	3,500	3 price quotations not provided
7	124017	2/4/2015	Shredder	1,940	3 price quotations not provided
8		2/4/2015	Diesel generator	2,299	3 price quotations not provided
9	126394	5/8/2015	Rear carts	1,840	3 price quotations not provided
10	126579	5/15/2015	Epoxy Sealer	1,360	3 price quotations not provided
11	127045	5/25/2015	Gasoline/Oils	1,171	3 price quotations not provided
12	127542	6/15/2015	Solar kits, freight charges	9,911	3 price quotations not provided
13	129107	8/3/2015	Build. materials-Community Center	1,595	3 price quotations not provided
14	129142	8/5/2015	100 High back Chairs	2,299	3 price quotations not provided
15	129144	8/5/2015	Build. materials-Community Center	4,085	3 price quotations not provided
16		8/5/2015	Build. materials-Community Center	5,762	3 price quotations not provided
17	130375	9/9/2015	Build. materials-Community Center	1,214	3 price quotations not provided
18	133867	12/31/2015	2-Solar refrigerators	4,790	3 price quotations not provided
19	134613	1/22/2016	Build. material-Community Center	2,560	3 price quotations not provided
20	135434	2/5/2016	Build. materials-Copra Warehouse	14,373	3 price quotations not provided
			Total	\$77,645	

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 9, Continued

Procurement Code

Cause: The cause of the above condition is Cabinet through Cabinet Minute 181(2013) exempted purchases for projects approved under the OIEDF from the procurement process.

Effect: The effect of the above condition is noncompliance with the Procurement Code by Mejit Government and there is no assurance that Government is getting the best value for money spent.

Recommendation:

1. We recommend that the Mejit Government comply with the Procurement Code in order to get the best value for its money.
2. We recommend the Ministry of Internal Affairs and the Ministry of Finance ensure that the Mejit Government complies with the Procurement Code prior to approval and disbursement of funds.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 10

Budget

Criteria: The Constitution of the Mejit Government requires that no monies of the local government shall be expended without a budget appropriation ordinance. Additionally, budget worksheets should be calculated properly.

Condition: Our review of the budget ordinances approved for the periods under review disclosed the following:

- FY2013 budget ordinance was not available on file.
- FY2015 budget appeared to be incomplete as no revenue sources were provided, however has projected total expenditures of \$25, 901.
- FY2016 budget approved is \$29,164, while detail total is \$29,209. Additionally, total revenue appropriated is \$29,164, while detail total is \$26,569, a difference of \$2,595.

Cause: The cause of the above condition is the lack of adherence to the Constitution.

Effect: The effect of the above condition is noncompliance with the Constitution and inability to verify that the expenses during FY2013 were approved by the Mejit Government.

Recommendation: We recommend that the Mejit Government comply with the Constitution and should ensure budgets are accurate and complete before they are approved.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 11

Council Minutes Meeting

Criteria: The Constitution of the Mejit Local Government requires that Council meet at least once every two months. Meeting minutes should represent minutes of meetings that actually took place during each quarter.

Additionally, resolutions and ordinances approved during these meetings should be attached to the minutes when filed at the Ministry of Internal Affairs.

Condition: Our examination of the Council minutes disclosed the followings:

1. First Quarter FY2013 Council meeting minutes was not on file.
2. Second and Fourth Quarter 2014 Council meeting minutes were not on file.
3. Second, Third and Fourth Quarters 2015 Council meeting minutes were not on file.
4. First and Fourth Quarters 2016 Council meeting minutes were not on file.

As minutes were not available, we are unable to determine whether meetings were held however, salaries related to the above periods totaling \$15,190 were made. Additionally, discrepancies in the dates were noted in the minutes for the third and fourth quarters in 2013. For instance, the third quarter minutes was dated April 8, 2013, while the date stated as meeting adjourned was April 4-5, 2013. Similarly, the fourth quarter minutes was dated June 24-28, 2013, while the date stated as meeting adjourned was April 4-5, 2013. Further, we noted also that almost all of the discussions in the minutes of April 8th were also discussed in the minutes of June 24-28. It appears, therefore, that the same minutes were used to support and satisfy the quarterly financial reporting requirements in 2013.

Cause: The cause of the above condition is lack of policies and procedures in place regarding maintenance of Council minutes. In addition, there is a lack of oversight by the Ministry of Internal Affairs to ensure that Mejit Council convenes meetings of the Council as dictated by the Mejit Constitution.

Effect: The effect of the above condition is that we could not determine whether there were any significant financial issues discussed in the absence of the meeting Minutes of the Council.

Recommendation: We recommend that the Council meet on a regular basis as required by the Mejit Government Constitution. Additionally, we recommend that the Mejit Government meeting minutes are filed with financial reports, including any approved council resolutions and ordinances. We also recommend that the Ministry of Internal Affairs ensures that Mejit Government convenes meetings of the Council as required by the Mejit Constitution on a quarterly basis.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 11, Continued

Council Minutes Meeting

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 12

Income Taxes, Health Fund and Social Security Taxes

Criteria: The Income Tax Act of 1989 states that income tax shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employee. Every employer required to deduct and withhold the tax imposed shall be liable for the payment and shall pay such tax to the Secretary of Finance.

The Social Security Tax Act of 1990, states that a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. The worker's contributions to the Fund shall be collected by the employer of the worker, by deducting the amount of the contributions due from the worker's earnings, and the employer shall remit the same to the Administration along with the employer's contributions.

The Marshall Health Fund Act of 2002 requires every employer to pay 3.5% of their covered earnings to the Health Fund. It also requires that every employer shall remit the same to the Administration along with the employer's contributions.

Condition: For the periods under audit, the Mejit Government paid a total of \$55,485 in salaries and wages, however, no amounts were withheld and remitted for Income, Social Security and Health Fund tax purposes. Additionally, salaries were paid to construction trainees in the amount of \$18,062 under the NTC grant, however, no taxes were withheld and remitted to the relevant tax agencies.

Cause: The cause of the above condition is the lack of adherence with the Income Tax Act, the Social Security Tax Act and the Health Fund Tax Act.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002.

Recommendation: We recommend that Mejit Government comply with the Income Tax Act of 1989, the Social Security Tax Act of 1990 and the Health Fund Tax Act of 2002.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 13

Unreported Revenues and Expenditures

Criteria: Section 31 of the Constitution of the Mejit Government states that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditure of the local government, assets of or under the local government and liabilities of the local government.

Condition: Per the comparative and analytical review of the amounts reported in the quarterly financial reports for deposits and disbursements and amounts per the bank statements, it was noted that revenues and expenditures were under reported by \$56,353 and \$43,008, respectively, as detailed in the tables below. This indicates that revenues and expenditures were not properly accounted for.

Receipts:

	Quarterly Reports	Bank Statements	Variance
FY 2013	\$17,572	\$28,472	\$10,900
FY 2014	15,173	23,138	7,965
FY 2015	19,404	19,404	-
FY 2016	14,784	52,273	37,489
Total	\$66,934	\$123,287	\$56,353

Disbursements:

	Quarterly Reports	Bank Statements	Variance
FY 2013	26,004	26,002	(2)
FY 2014	18,652	25,013	6,361
FY 2015	15,128	15,461	333
FY 2016	19,528	55,844	36,316
Total	\$79,314	\$122,322	\$43,008

Cause: The cause of the above condition is a lack of proper review of the quarterly financial reports by Ministry of Internal Affairs and Ministry of Finance to ensure reports are accurate and complete.

Effect: The effect of the above condition is inaccurate financial reporting which diminishes accountability over Mejit Government finance operation, which resulted in a disclaimer of opinion on cash receipts and cash disbursements.

Recommendation:

1. We recommend that the Mejit Government ensure all revenues and expenditures are properly reported in the quarterly financial reports.
2. We recommend that Ministry of Internal Affairs and Ministry of Finance thoroughly review the quarterly financial reports to ensure accuracy and completeness and to ensure that all monies received and all disbursements made are properly accounted for.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 13, Continued

Unreported Revenues and Expenditures

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
 Period from October 1, 2012 through September 30, 2016

Finding No. 14

Checks Issued for Cash

Criteria: Proper internal control over cash disbursements require that cash disbursements be issued by checks.

Condition: Review of the bank statements disclosed various checks totaling \$29,038 that were issued to cash, however, no invoices or other related supporting documentation were noted on file. Additionally these payments were not reported to MOF, except for check no. 113 for \$600. Accordingly, we were unable to determine the nature of these cash payments or whether they were related to the operation of the local government.

Item No.	Date Posted by Bank	Payee	Check No.	Amount
1	4/2/2013	BOMI/Cash	1123	\$ 1,000
2	6/19/2013	BOMI/Cash	1204	300
3	6/16/2014	Cash	132	100
4	3/27/2015	Cash	171	600
5	4/11/2016	Cash	267	200
6	6/17/2016	Cash	105	2,077
7	“	Cash	107	150
8	6/20/2016	Cash	108	3,547
9	6/21/2016	Cash	109	3,000
10	7/4/2016	Cash	113	600
11	7/11/2016	Cash	114	1,324
12	7/18/2016	Cash	116	1,500
13	7/22/2016	Cash	120	2,230
14	7/29/2016	Cash	123	3,660
15	8/15/2016	Cash	126	500
16	8/19/2016	Cash	128	3,500
17	“	Cash	129	600
18	8/24/2016	Cash	132	150
19	9/5/2016	Cash	139	4,000
			Total	\$29,038

Cause: The cause of the above condition is lack of policies and procedures in place regarding cash disbursements.

Effect: The effect of the above condition is the risk that cash will be misappropriated as there are no copies of check indicating who actually received the cash and when or for what purpose.

Recommendation: We recommend that the Mejit Government follow proper internal control procedures and ensure checks are issued directly to the payees or vendors and that all disbursements are reported to MOF.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 14, Continued

Checks Issued for Cash

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

MEJIT ISLAND LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Period from October 1, 2012 through September 30, 2016

Finding No. 15

Outer Islands Economic Development Fund (ROC Fund)

Criteria: Section VII (E) of the OIEDF Policy requires that a local government, at the end of the fiscal year, will report the money used in an annual financial report. The financial report must include receipts for all purchases made under the OIEDF as well as communications to include management and operations of the projects. Furthermore, Section VI states the eligibility requirements of the fund are as follows:

- All proposals must be clear and specific in their intentions to use the OIEDF for community development purposes.
- Proposals must contain a plan, who will benefit, who will manage the project, a blue print or picture.
- Proposals must be approved by Council resolution or ordinance.
- A land lease agreement must be secured with a term not less than 50 years.

Condition: The Mejit Government did not prepare and submit annual financial reports for funding it received from the OIEDF totaling \$133,426 during the entire periods under audit from FY 2013 through FY 2016. Additionally, a payment for \$14,373 (check no. 135434 dated February 5, 2016) was issued from the Ministry of Finance pertaining to building materials for a Copra Warehouse on Mejit Island, which did not have a land lease agreement and blue print on file.

Cause: The cause of the above condition is the lack of adherence to the OIEDF policy by the Mejit Government. Additionally, there is lack oversight by the Ministry of Internal Affairs to ensure that Mejit Government comply with the policy.

Effect: The effect of the above condition is the Mejit Government was not in compliance with financial requirements as promulgated in the OIEDF rules and procedures.

Recommendation: We recommend that the Mejit Government comply with the financial reporting requirements as set forth in the OIEDF rules and procedures. Additionally, we recommend that the Ministry of Internal Affairs require that new projects be put on hold unless reporting requirements have been fulfilled for previous projects.

Auditee's Response and Corrective Action Plan:

Mejit Local Government agreed with our finding and recommendation.

Response from Ministry of Internal Affairs:

Ministry of Internal Affairs did not provide a response to our finding and recommendation.

Response from Ministry of Finance:

Ministry of Finance did not provide a response to our finding and recommendation.

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