

REPUBLIC OF THE MARSHALL ISLANDS  
**OFFICE OF THE AUDITOR-GENERAL**

**ALINGLAPLAP ATOLL LOCAL GOVERNMENT**  

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  

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**PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2018**



**AUDIT No.:** OAG 14/16-2400

January 29, 2020  
Date

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

# AILINGLAPLAP LOCAL GOVERNMENT

Period from October 1, 2013 through September 30, 2018

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**OFFICE OF THE AUDITOR-GENERAL**

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**INDEPENDENT AUDITORS' REPORT**

Honorable Riming Ring  
Mayor  
Ailinglaplap Atoll Local Government  
Republic of the Marshall Islands

**Report on the Financial Statement**

We were engaged to audit the accompanying financial statement of the Ailinglaplap Atoll Local Government (Ailinglaplap Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2013 through September 30, 2018, and the related notes to the financial statement. This financial statement is the responsibility of the Ailinglaplap Government.

***Management's Responsibility for the Financial Statement***

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

***Auditors' Responsibility***

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

***Basis for Disclaimer of Opinion***

Because of inadequacies in the accounting records of the Ailinglaplap 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 \$507,460 and \$490,384 respectively.

***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report. We have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statement.

***Basis of Accounting***

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

**Other Matters**

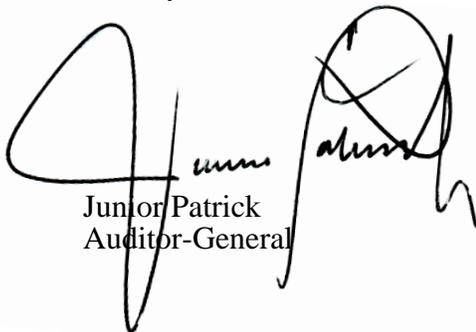
***Other Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of the Ailinglaplap 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 Ailinglaplap 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 Ailinglaplap Government’s internal control over financial reporting and compliance.

January 29, 2021



Junor Patrick  
Auditor-General

## AILINGLAPLAP LOCAL GOVERNMENT

### Schedule of Cash Receipts and Disbursements Period from October 1, 2013 through September 30, 2018

	<u>Total</u>
Cash receipts:	
Grant from Japan	100,132
RepMar Contribution	
Local Government Fund(LGF)	123,391
Food Security & Agriculture	34,121
Asian Development Bank	4,638
Business fees	19,107
Other revenue	2,579
Unreported/unidentified deposits	<u>223,491</u>
Total cash receipts	<u>507,460</u>
Disbursements:	
Grant from Japan	100,132
Food Security & Agriculture	34,121
Asian Development Bank	4,638
Salary and Wages	51,722
Travel	3,976
Fuel	3,225
Supplies	512
Food	-
Other	21,490
Unreported/unidentified cash disbursements	<u>270,569</u>
Total disbursements	<u>490,384</u>
Net change in cash	<u><u>17,076</u></u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

## AILINGLAPLAP LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

### (1) Organization

The Ailinglaplap Atoll Local Government (Ailinglaplap 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 Ailinglaplap Government. The Ailinglaplap 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 Ailinglaplap 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 Ailinglaplap 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, 2018, the carrying amount of the Ailinglaplap Government's total cash was \$17,076, 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 Ailinglaplap Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

### (4) Budget Process

The Constitution of the Ailinglaplap 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".

## AILINGLAPLAP LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

### (5) RepMar Contributions

The Ailinglaplap 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 Ailinglaplap Government providing financial reports and supporting documents. For the period from October 1, 2013 through September 30, 2018, the Ailinglaplap Government received \$123,391 from the LGF.

### (6) Other Contributions

On January 28, 2015, the Ailinglaplap Government received funding from the Embassy of Japan in the amount of \$100,132 for Construction of Water Cistern in Ailinglaplap. The project has been completed and expenditures of the fund have been separately audited. The Ailinglaplap Government received funding from the Embassy of Korea via Ministry of Foreign Affairs in the amount of \$34,121 for agriculture and gardening project. The Ailinglaplap Government also received fund from Asian Development Bank (ADB) in the amount of \$4,637.95 for development projects and agriculture projects.

### (7) On-Behalf Payments

The Ailinglaplap 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 Ailinglaplap Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, the Ailinglaplap Government received a total of \$249,595 under this grant. In addition, the Ailinglaplap 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 Ailinglaplap Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, the Ailinglaplap Government received a total of \$48,491 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.

## AILINGLAPLAP LOCAL GOVERNMENT

Combining Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Cash receipts:						
RepMar Contribution						
Local Government Fund(LGF)	19,631	19,631	19,631	14,723	49,774	123,391
Grant from Japan	-	-	100,132	-		100,132
Food Security and Agriculture/Gardening( Korean Grant )	-	34,121	-	-		34,121
Asian Development Bank	-	4,638	-	-	-	4,638
Business License	3,047	8,100	2,900	2,560	2,500	19,107
Other revenue	-	1,337	-	1,242	-	2,579
Unreported/unidentified deposits	44,228	168,216	1,161	9,586	300	223,491
Total cash receipts	66,906	236,044	123,825	28,111	52,574	507,460
Disbursements:						
Grant from Japan	-	-	100,132	-	-	100,132
Agriculture and Gardening( Korean Grant )	-	34,121	-	-	-	34,121
Asian Development Bank	-	4,638	-	-	-	4,638
Salary and Wages	7,701	3,445	4,530	3,220	32,826	51,722
Supplies	97	415	-	-	-	512
Travel	910	-	-	-	3,066	3,976
Food	-	-	-	-	-	-
Fuel	864	295	-	-	2,066	3,225
Other	3,309	10,954	3,872	1,230	2,125	21,490
Unreported/unidentified cash disbursements	75,833	155,913	18,431	24,203	(3,812)	270,569
Total disbursements	88,714	209,781	126,965	28,653	36,271	490,384
Net change in cash	(21,808)	26,263	(3,140)	(542)	16,303	17,076

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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

Honorable Mayor Riming Ring  
Ailinglaplap 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 Ailinglaplap Atoll Local Government (Ailinglaplap Government) for the period from October 1, 2013 through September 30, 2018, and the related notes to the financial statement and have issued our report thereon dated January 29, 2021. 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 Ailinglaplap 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 Ailinglaplap Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ailinglaplap 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. 10 that we consider* to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ailinglaplap Government's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as *Finding No. 1, Finding No. 2, Finding No. 3, Finding No. 4, Finding No. 5, Finding No. 6, Finding No.7, Finding No.8, and Finding No.9.*

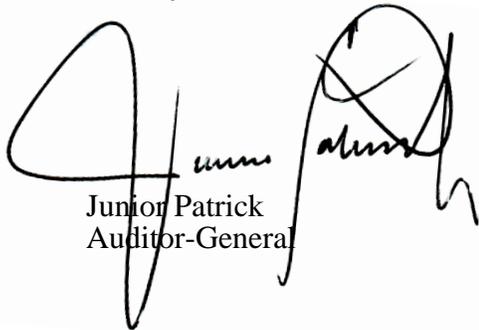
## The Ailinglaplap Government's Response to Findings

The Ailinglaplap Government's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Ailinglaplap 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 29, 2021



Junior Patrick  
Auditor-General

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.1

#### Accounting Systems (Local Noncompliance)

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

Condition: We found that the Ailinglaplap local government did not adopt the accounting system established by the MOCIA, and the prescribed accounting forms described in the above criteria were not utilized. This is not in compliance to memoranda No.1987-1.

Cause: This is due to the lack of compliance to memoranda No.1987-1 by the Ailinglaplap local government and Oversight by the MOCIA and the Ministry of Finance, Banking and Postal Services (MOFBPS) was not evident as the Ailinglaplap local government did not adopt, nor follow the accounting system established for all local governments.

Effect: The effect of the above condition is that the Ailinglaplap local government has not complied with the Financial Memoranda No. 1987-1. This leads to 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.

In addition to this, the lack of oversight by MOCIA and MOFBPS can lead to LGF funds being misused or misappropriated without any knowledge of its reporting and accountability.

#### Recommendation:

1. For the Ailinglaplap local government to strictly adopt and follow the accounting system established by the MOCIA in order to improve accountability over its financial operations.
2. For the MOCIA and the MOFBPS to strictly require that the Ailinglaplap local government to fully adopt and follows the accounting system.

#### Auditee's Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

**AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

Finding No.1, Continued

Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from Ministry of Finance

No response was provided by Ministry of Finance to the finding and recommendation.

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.2

#### Cash Receipt (Local Noncompliance)

Criteria: Pursuant to the Local Government Act 1980, Section 106, Power to make ordinances states “(a) A Local Government may make ordinance for the area in respect of which it has jurisdiction, provided

that such ordinances are not inconsistent with any Act”; and (b) “an ordinance may provide for the levying of taxes and for the appropriation of funds for local purposes.” The Accounting System established by the Republic of the Marshall Islands Ministry of Culture and Internal Affairs requires that cash receipts be issued for all monies received by all local governments.

Condition: From September 30, 2014 to 2018, Ailinglaplap Government received \$21,686 in Business license and other revenue. However, there were no cash receipts issued to the customer to support the cash collection. As such, we could not determine how much was collected and its source.

Cause: This is due to the lack of adherence with the Local Government Accounting System requiring the issuance of cash receipts and utilization of the cash receipts journal.

Effect: There is a possibility for misappropriation of local revenue and other collections. We also issued disclaimer of opinion on the cash receipts due in part because of our inability to test the accuracy of cash collection.

Recommendation: For Ailinglaplap Local Government to issue cash receipt to customer when collecting fees and other revenues as required by the Ministry of Internal Affairs’ accounting system. In addition, copies of ordinances enacted to be kept and maintained at the Office of the Local Government in secure place.

#### Auditee’s Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.3

#### Financial Reports (Local Noncompliance)

Criteria: The Financial Memoranda of 1987-1 states that the next quarterly allotment will not be released unless the local government furnishes a financial report of the previous quarter.

Condition: The Ailinglaplap local government did not provide financial summary report for:

- 1st quarter FY2017: resulting to a loss of revenue of \$4,908
- Additionally, on FY2015, we noted Check No.134540 was issued to Ailinglaplap Local Government for 1<sup>st</sup> quarter payment; however, there were no receipts to confirm the transfer of funds.

Cause: This is due to the lack of coordination by the Ailinglaplap local government to fulfill their responsibilities as required under the Local Government Financial Memoranda 1987-1.

Effect: The Ailinglaplap local government is not compliant with the financial reporting requirements.

Recommendation: For the Ailinglaplap local government to comply with the reporting requirements as established under the Local Government Financial Memoranda of 1987-1. This is to ensure they qualify for quarterly funding.

#### Auditee's Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.4

#### Business Listing (Local Noncompliance)

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 find any business listing filed with the Ministry of Culture and Internal Affairs and the Ministry of Finance Banking and Postal Service by Ailinglaplap Government for the entire periods under period under review.

Cause: This is due to the lack of monitoring and oversight by the Ministry of Culture and Internal Affairs.

Effect: The Ailinglaplap local government was not in compliance with the requirements of the Local Government Act.

#### Recommendation:

- 1) For Ailinglaplap local government to comply with Section 203 of the Local Government Tax Fees Act of 1989.
- 2) For MOCIA to ensure proper monitoring and oversight of local governments.

#### Auditee's Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

#### Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

**AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
 Period from October 1, 2013 through September 30, 2018

Finding No.5

Unreported Expenditure and Revenue (Local Noncompliance)

Criteria: Section 31(1) of the Constitution of Ailinglaplap Local Government requires that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditure of the local government, assets of or under the local government and liabilities of the local government. Furthermore, good internal control dictates that all revenues and expenditures are properly accounted for and adequately supported.

Condition: Our review of quarterly financial reports for deposits, disbursements, and amounts per the bank statements, has noted that revenues and expenditures were under reported by \$191,955 and \$277,393, respectively. This indicates that it was not accounted for.

TABLE 1: UNDERSTATED REVENUE COULD INDICATE HIDDEN RECEIPTS WITH QUESTIONABLE INTENTIONS.

<i>Cash Receipts</i>			
<i>Fiscal year</i>	<i>Per Bank Statement</i>	<i>Per Financial Report</i>	<i>Variance</i>
2014	66,906	22,679	44,228
2015	165,749	29,068	136,680
2016	23,693	22,531	1,161
2017	28,111	18,525	9,586
2018	52,574	52,274	300
<b>Total</b>	<u>337,033</u>	<u>145,078</u>	<u>191,955</u>

TABLE 2: UNDERSTATED EXPENSES COULD INDICATE HIDDEN EXPENDITURES FROM REPORTING.

<i>Cash Disbursement</i>			
<i>Fiscal Year</i>	<i>Per Bank Statement</i>	<i>Per Financial Report</i>	<i>Variance</i>
2014	88,714	12,881	75,833
2015	171,022	8,285	162,737
2016	26,833	8,402	18,431
2017	28,653	4,450	24,203
2018	36,271	40,083	-3,812
<b>Total</b>	<u>351,493</u>	<u>74,101</u>	<u>277,393</u>

## **AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.5, Continued

Cause: The Executive committee did fully not perform their duties diligently under the constitution.

Effect: Non-Compliance by the Ailinglaplap local government comply with the provisions of their constitution. Understated revenues and expenses in reporting may give rise to unknown and unauthorized transaction.

### Recommendation:

- 1) For the Ailinglaplap local government executive committee to keep full and proper accounts and records of revenue and expenditures.
- 2) For MOCIA and MOFBPS to ensure that local governments reporting are submitted and reviewed timely before next disbursements are made.

### Auditee's Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

### Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

### Response from Ministry of Finance

No response was provided by Ministry of Finance to the finding and recommendation.

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.6

#### Income Tax (Noncompliance)

Criteria: The Income Tax Act of 1989 states that income tax shall be collected at a tax rate of eight percent (8%) upon the first \$10,400, to be prorated at \$200 per week, or \$866.67 per month, and twelve percent (12%) upon the amount over \$10,400, as prorated by pay period of all wages and salaries received by every employee, except as provided in subsection (2) of 93) of this section. Every employer is required to deduct and withhold the tax imposed and shall pay such tax to the Secretary of Finance.

The Social Security Tax Act of 1990, states that a worker or a self-employed worker shall contribute to the Administration an amount equal to 7% of his/her salaries. This increased in the Social security Amendment 2016 by an additional 1% for January 1 2017. The worker's contributions to the Fund shall be collected by the employer of the worker, by deducting the amount of the contributions due from the worker's earnings, and the employer shall remit the same to the Administration along with the employer's contributions.

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

Condition: The Ailinglaplap local government paid a total of \$51,722 in salaries and wages, however, no taxes were withheld for Income, Social Security and Health Fund Taxes.

Cause: There is no adherence with the Income Tax Act, the Social Security Tax Act and the Health Fund Tax Act. The Ailinglaplap local government has not complied to the various acts.

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. Penalties are arise from non-compliance to such Acts.

Recommendation: For the Ailinglaplap local government to 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:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

**AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

Finding No.7

Unsupported Disbursements (Local Noncompliance)

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to proof 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: Our review revealed that disbursements for council operating expenses were not supported by invoices, receipts, copies of tickets, and other related supporting documentation as indicated below:

<b>Expenses</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<i>Fuel</i>	686				275
<i>Contingency Fund</i>	2,367	3,050			3,284
<i>Per diem/Stipend</i>	1,215				
<i>Supplies</i>	97				
<i>Other</i>	1,711		1,250	100	2,280
	<u>\$ 6,077</u>	<u>\$ 3,050</u>	<u>\$ 1,250</u>	<u>\$ 100</u>	<u>\$ 5,839</u>

Cause: This is due to 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. Internal controls surrounding local government accounting of transaction are inexistent.

Effect: This lead the Ailinglaplap Government to be noncompliant with the Local Government Financial Memoranda No. 1987-1.

Recommendation:

- 1) For the Ailinglaplap local government to ensure all disbursements are supported by invoices or receipts and that these supporting documents are maintained on file for reference and audit purposes.
- 2) For the MOCIA and MOFBPS review the quarterly reports to ensure they are supported by proper documentation, this is in line with the Local Government Financial Memoranda No.198-1

Auditee’s Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

**AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

Finding No.7, Continued

Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from Ministry of Finance

No response was provided by Ministry of Finance to the finding and recommendation.

## **AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.8

#### Bank Reconciliation

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

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

Cause: This is due to the lack of oversight by the Ailinglaplap Government to ensure that bank reconciliations are performed on a regular basis. MOCIA and MOFBPS's lack of oversight as well in ensuring financial reports and reconciliation are done timely.

Effect: This means that the Ailinglaplap local government may not be able to detect financial errors and/or fraud in a timely manner.

Recommendation: For the Ailinglaplap local government to ensure that bank reconciliations are performed on a regular basis.

For MOCIA and MOFBPS to require that the Ailinglaplap local government perform its bank reconciliation on a regular basis and require the monthly bank reconciliation to be provided with the financial reports.

#### Auditee's Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

#### Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

#### Response from Ministry of Finance

No response was provided by Ministry of Finance to the finding and recommendation.

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.9

#### Council Minutes Meeting

Criteria: The Constitution of the Ailinglaplap Atoll 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:

Quarters	Fiscal Year	Issue
4th quarter	2014	Not filed
2nd quarter	2015	Not filed
4th quarter	2016	Not filed
2nd and Third quarter	2017	Not filed
1st, 2nd and 4th quarter	2018	Not filed

Cause: This is due to 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 Ailinglaplap Council convenes meetings of the Council as dictated by the Ailinglaplap 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:

- 1) We recommend that the Council meet on a regular basis as required by the Ailinglaplap Government Constitution.
- 2) We recommend that the Ailinglaplap local government meeting minutes are filed with financial reports, including any approved council resolutions and ordinances.
- 3) We also recommend that the Ministry of Internal Affairs ensures that Ailinglaplap local government convenes meetings of the Council as required by the Ailinglaplap Constitution on a quarterly basis.

**AILINGLAPLAP LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

Finding No.9, Continued

Auditee's Response and Corrective Action Plan:

Alinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

Response from Ministry of Culture and Internal Affairs

No response was provided by the Ministry of Cultural and Internal Affairs to the finding and recommendation although it communicated earlier that it would provide its comments.

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.10

#### Korean Grant

Criteria: Per the Grant agreement, the Local government is to assure the utilization of the fund is in compliance with the grant agreement and all RMI laws, regulations and requirement governing the use of the fund.

Condition: Our findings indicate the following:

- No progressive report on project status
- No supporting documents for payments
- No expense reports to indicate expenditure summary.

The only evidence that could be seen were the coconut plants (below) growing, presumably the end results of the funding.



#### Cause:

- 1) This was mainly attributed to the non-adherence to the grant agreement and
- 2) The lack of planning, managing and oversight by the Ailinglaplap local government.

## AILINGLAPLAP LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued  
Period from October 1, 2013 through September 30, 2018

### Finding No.10, Continued

#### Effect:

- 1) Due to the non-adherence to the grant agreement, this could evidently point out that it creates an opportunity for misuse of grant funds.
- 2) The lack of oversight from the Ailinglaplap local government could also indicate that those in charge of governance are not fully executing their duties efficiently and effectively.

#### Recommendation:

- 1) For the Ailinglaplap local government to follow the various grants agreement it has bounded itself to.
- 2) For those charged with governance or to the executive members of the local council to ensure proper oversight is maintained for all relevant projects.

#### Auditee's Response and Corrective Action Plan:

Ailinglaplap Government provided a formal written communication agreeing to our findings (See Appendix I).

Appendix I: Auditee Response and Corrective Plan

AILINGLAPLAP ATOLL LOCAL GOVERNMENT  
AILINGLAPLAP BUKON LOBAD  
AIROK, AILINGLAPLAP  
REPUBLIC OF THE MARSHALL ISLANDS

January 25, 2021

Honorable Junior Patrick  
Auditor-General  
Republic of the Marshall Islands

Iakwe Auditor-General Patrick,

Ij kammolol kin toprak in jermal eo aurok. Tokjen jermal in enaaj jiban bwe en alikar, tiljok, im jimwe waween an Ailinglaplap Local Government lore kakien ko nan an juon *Kien emman*. Mene ejjelok melele ippa kin iio kein ilo bonbon in, ak ao eddo kiio nan lolorjake bwe Ailinglaplap Local Government en lore recommendation kein walok ilo report in, kinke rej pedped in jermal kin money ko an armej.

Jen iio 2020, Finding No. 2, Finding No. 3, Finding No. 5, Finding No. 7, Finding No. 8, im Finding No. 9, Ailinglaplap Local Government emoj an loor recommendation walok ilo findings kein.

Finding No. 1

Ilo ao jela ejjanin wor juon accounting system eo MOCIA, local government office emoj kalikar tok bwe jen lore. Ijoke ewor waween ko Local Governments rej lori.

Finding No. 4

Ejjab lap melele kin Section 203, ijoke waween in naaj komman ilo iien eo emokajtata, ainwot ke ewor list in aolep business ippa Ailinglaplap Local Government.

Finding No. 6

Nan Local Governments lore Kakien kein, ej juon waween eo elap an aban, ainwot an jab bwe money ilo local government kein. Ilo FY 2021 Budget eo Ailinglaplap ewor jidik money nan Social Security botaab ej nan wot police officers ro. Kotobar eo elap bwe en lore Kakien kein.

Finding No. 10

Kin aurok in jiban kein, Ailinglaplap Local Government enaj kojbarok im lukkuun etale bwe en jab bar walok waween kein ainwot ke emaron naaj kommane apan nan Local Governments ko jet im RMI jimor.

Ailinglaplap Local Government enaaj loor recommendation ko im elaptata komman bwe office en wor an maron kwalok opinion ilo an kommane jermal in aurok.

Ilo kautiej elap  
Riming Ring  
Ailinglaplap Atoll Local Government

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