

KILI/BIKINI/EJIT LOCAL GOVERNMENT

FINANCIAL STATEMENT,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED SEPTEMBER 30, 2016

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Year Ended September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Mayor Anderson Jibas
Kili/Bikini/Ejit Local Government
Republic of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statement of the Kili/Bikini/Ejit Local Government (KBLGOV), which comprises the statement of cash receipts and disbursements for the year ended September 30, 2016, and the related notes to the financial statement.

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 the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to KBLGOV's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KBLGOV's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Because of the inadequacy of KBLGOV accounting records, we are unable to form an opinion regarding the amount at which Section 177 distribution payments, salary payments and social security/income tax payments are recorded in the accompanying statement of cash receipts and disbursements for the year ended September 30, 2016 (stated at \$3,103,253, \$898,093 and \$739,354, respectively).

Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion" paragraph, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Kili/Bikini/Ejit Local Government for the year ended September 30, 2016, in accordance with the cash basis of accounting described in Note 2 to the financial statement.

Basis of Accounting

We draw attention to Note 2 to 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. Our opinion is not modified with respect to this matter.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the receipts and disbursements of Kili/Bikini/Ejit Local Government accounting records maintained by the KBLGOV Trust Liaison and Support Office and is not intended to present fairly the financial position and results of operations of the Kili/Bikini/Ejit Local Government in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

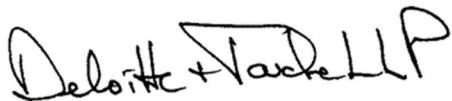
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The combining financial statement information on page 8 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of KBLGOV's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of 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. In our opinion, except for the effect on supplementary information of the inadequacy of accounting records over Section 177 distribution payments, salary payments and social security/income tax payments, the combining financial statement information is fairly stated, in all material respects, 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 27, 2023, on our consideration of KBLGOV'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



January 27, 2023

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Statement of Cash Receipts and Disbursements Year Ended September 30, 2016

Cash receipts:	
Distribution from Resettlement Trust Fund	\$ 4,097,552
Distribution from Bikini Claims Trust Fund	3,107,217
Rebates	90,002
Deposits	32,175
Utility fees	27,801
Yacht revenue	15,000
RMI Local Government Fund	11,500
Miscellaneous	191,105
Total cash receipts	<u>7,572,352</u>
Cash disbursements:	
Section 177 distribution payments	3,103,253
Kili/Ejit projects	1,665,604
Salary payments	898,093
Social security/income tax	739,354
Scholarships	229,750
Lease payments	177,253
Insurance	107,411
Per diem	99,155
Supplemental food purchases	97,021
Travel	88,248
Car/auto	67,304
Benefit payments	44,000
Bikini Day	39,927
Education	34,552
Housing	14,800
LGF expenditures	11,500
Telephone and fax	9,978
Gift	7,898
Bank charges	3,172
Stipend	300
Miscellaneous	102,149
Total cash disbursements	<u>7,540,722</u>
Net change in cash	<u>\$ 31,630</u>

See accompanying notes to financial statement.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Notes to Financial Statement
Year Ended September 30, 2016

(1) Organization

The Kili/Bikini/Ejit Local Government (KBLGOV) was established pursuant to Section 13(1) of the Local Government Act 1980, the Ordinance. KBLGOV is governed by an elected Mayor, Council members, and representatives.

The accompanying financial statement relates solely to those accounting records maintained by the KBLGOV Trust Liaison and Support Office located on Majuro Atoll and does not incorporate any accounts related to the Bikini Claims Trust Fund, the Bikini Resettlement Trust Fund, or any other departments or agencies of KBLGOV that may be accounted for outside of the KBLGOV Trust Liaison and Support Office.

The KBLGOV Trust Liaison and Support Office is responsible for the day-to-day administration of KBLGOV operations on Majuro Atoll. The Trust Liaison and Support Office maintains several bank accounts in order to function in this capacity. These bank accounts are comprised of the following:

- Section 177 Distribution Account - accounts for the receipts and disbursements of quarterly distribution payments in accordance with Article II of the Agreement between the Government of the United States and the Government of the Republic of the Marshall Islands (RepMar) for Implementation of Section 177 of the Compact of Free Association (the Compact) (the Agreement).
- Council Account - accounts for the receipts of rebates received from the Fund Manager, UBS. The Council is allowed to use a certain percentage of the Claims Trust Fund and the Resettlement Trust Fund to pay for the commission. The commission is set at a certain amount and once it has reached that amount, anything over that is remitted to the Council to be used for whatever the Council decides. The Council Account also receives funds from RepMar's Local Government Fund.
- Revenue Account - accounts for the receipts and disbursements of funds received from diver visits and other local revenue activities deposited into the account such as payment of electricity and water from the U.S. Department of Energy for personnel who are stationed on Bikini Atoll.
- Purchasing Account - accounts for the receipts and disbursements of the USDA food program that is received by the Ministry of Finance on a quarterly basis and passed through to KBLGOV.
- Operations Account - accounts for the receipts and disbursements of funds received from the Resettlement Trust Fund to pay for general KBLGOV operations.
- Labor Account - accounts for the receipts and disbursements of funds received from the Resettlement Trust Fund to pay for certain KBLGOV payroll costs.
- Bikini Projects Department Account - accounts for the receipts and disbursements of funds received from the Resettlement Trust Fund to pay for certain KBLGOV living costs for Bikinians living on the islands of Kili and Ejit.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Notes to Financial Statement
Year Ended September 30, 2016

(1) Organization, Continued

In addition to the above accounts, KBLGOV maintains the following investment trust funds:

- Bikini Claims Trust Fund - accounts for funds received under Article II, Section 2, of the Agreement.
- Bikini Resettlement Trust Fund - accounts for United States Congress appropriations under United States Public Law 97-257 to assist in the resettlement of Kili Island by the people of Bikini.

These investment accounts are separately maintained by a trustee located in the United States of America.

Bikini Claims Trust Fund:

The Bikini Distribution Authority (the Distribution Authority) was established pursuant to Section 177 of the Compact. The Distribution Authority was established to satisfy requirements of the Agreement. Article III of the Agreement establishes KBLGOV as the Distribution Authority.

Section 177(c) of the Compact provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement. Pursuant to the Agreement, RepMar established the Nuclear Claims Trust Fund (NCTF) from which these distributions are made. The Distribution Authority is to receive \$75,000,000 from the NCTF, in payment of claims arising out of the Nuclear Testing Program for loss or damage to property of or personal injury to the people of Bikini, to be disbursed in quarterly amounts of \$1,250,000, commencing one calendar quarter after the effective date (October 21, 1986) of the Compact. These funds shall be distributed, placed in trust or otherwise invested as the Distribution Authority may determine consistent with the Agreement. Accordingly, the Distribution Authority established the Bikini Claims Trust Fund. Pursuant to the Bikini Claims Trust Fund agreement, the trustee, upon receipt of each quarterly payment, distributes 48% to the Distribution Authority, for distribution to the people of Bikini. These distributions are based on an approved distribution scheme. The remaining 52% is retained and added to the corpus of the Bikini Claims Trust Fund.

The trust agreement was amended on July 25, 2002 (retroactive to the quarter ended March 31, 2002) to allow for quarterly distributions to the Distribution Authority at the rate of 1.25% of the average market value of the Bikini Claims Trust Fund for the previous three fiscal years.

The trust agreement was further amended in August of 2005 to allow for a 3% distribution in lieu of the 1.25% quarterly distribution in the event of an unforeseen natural disaster or other similar circumstance to occur no more frequently than every three years, provided the value of the trust fund has increased as of the preceding fiscal year ends.

Bikini Resettlement Trust Fund:

The Resettlement Trust Fund for the People of Bikini was established by the U.S. Congress under Public Law No. 97-257 on October 16, 1982 and a trust agreement approved by the people of Bikini and the Secretary of the Interior effective October 18, 1982. The trust agreement was amended on October 26, 1988 in order to comply with Public Law No. 100-446.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Notes to Financial Statement
Year Ended September 30, 2016

(2) Basis of Accounting

The KBLGOV Trust Liaison and Support Office's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Consequently, receipts are recognized when received and disbursements are recognized when paid. Noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

(3) Budget Process

The Constitution of KBLGOV stated that "no taxes shall be imposed and no other revenue shall be raised, and no money of the Local government shall be expended unless authorized by Law".

(4) Cash

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

As of September 30, 2016, the carrying amount of KBLGOV's total cash was \$166,451, which corresponds to the bank balance. Of the bank balance amount, \$165,964 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of \$165,964 were FDIC insured. The remaining bank deposits of \$487 are maintained in a financial institution not subject to depository insurance. KBLGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(5) Distribution from the Bikini Claims Trust Fund

During the year ended September 30, 2016, distribution payments of \$3,103,253 were paid to the people of Bikini, on a per capita basis, based on a distribution scheme approved by KBLGOV. During the year ended September 30, 2016, the following distributions were made from the Bikini Claims Trust Fund for the purpose of funding distribution payments to the people of Bikini:

1.25% distribution from corpus:	
November 28, 2015	\$ 770,427
February 28, 2016	771,193
May 28, 2016	794,944
August 28, 2016	<u>770,653</u>
	\$ <u>3,107,217</u>

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Notes to Financial Statement
Year Ended September 30, 2016

(6) Bikini Claims Trust Fund

The following information was obtained from the separate Independent Auditor's Report, dated January 9, 2017, of the Bikini Claims Trust Fund. As of September 30, 2016, the fair market value of investments available for future distributions maintained by the Bikini Claims Trust Fund are as follows:

Equity securities	\$ 57,127,912
Partnerships	80,936
Money market funds	207,218
Other	<u>37,936</u>
	\$ <u>57,454,002</u>

(7) Bikini Resettlement Trust Fund

The following information was obtained from the separate Independent Auditor's Report, dated July 10, 2017, of the Resettlement Trust Fund for the People of Bikini. As of September 30, 2016, the fair market value of investments maintained by the Bikini Resettlement Trust Fund are as follows:

Equity securities	\$ 68,120,027
Debt securities	670,474
Money market funds	2,180,741
Other	<u>54,627</u>
	\$ <u>71,025,869</u>

(8) Long-term Debt

The following information was obtained from the separate Independent Auditor's Report, dated July 10, 2017, of the Resettlement Trust Fund for the People of Bikini. In 1997 and 1998, KBLGOV entered into promissory notes of \$8,000,000 and \$1,250,000, respectively. As security, distributable income from the Bikini Resettlement Trust Fund was pledged to secure repayment of the notes. In 2001, these notes were refinanced into one note and an additional \$1,000,000 was borrowed. The outstanding balance on this new consolidated note as of September 30, 2016, was \$3,427,009.

KILI/BIKINI/EJIT LOCAL GOVERNMENT
 Combining Statement of Cash Receipts and Disbursements
 Year Ended September 30, 2016

	Section 177 Distribution Account	Council Account	Revenue Account	Operations Account	Labor Account	BPD Account	USDA Purchasing Account	Total
Cash receipts:								
Distribution from Resettlement Trust Fund	\$ -	\$ -	\$ -	\$ 1,947,093	\$ 261,296	\$ 1,889,163	\$ -	\$ 4,097,552
Distribution from Bikini Claims Trust Fund	3,107,217	-	-	-	-	-	-	3,107,217
Rebates	-	90,002	-	-	-	-	-	90,002
Deposits	-	-	32,175	-	-	-	-	32,175
Utility fees	-	-	27,801	-	-	-	-	27,801
Yacht revenue	-	-	15,000	-	-	-	-	15,000
RMI Local Government Fund	-	11,500	-	-	-	-	-	11,500
Miscellaneous	-	22,601	10,207	18,541	54,043	85,712	1	191,105
Total cash receipts	3,107,217	124,103	85,183	1,965,634	315,339	1,974,875	1	7,572,352
Cash disbursements:								
Section 177 distribution payments	3,103,253	-	-	-	-	-	-	3,103,253
Kili/Ejit projects	-	-	-	293,591	-	1,372,013	-	1,665,604
Salary payments	-	-	24,000	94,969	315,676	463,448	-	898,093
Social security/income tax	-	-	8,016	605,130	-	126,208	-	739,354
Scholarships	-	-	-	229,750	-	-	-	229,750
Lease payments	-	-	-	177,253	-	-	-	177,253
Insurance	-	16,500	4,176	86,735	-	-	-	107,411
Per diem	-	5,050	7,900	86,205	-	-	-	99,155
Supplemental food purchases	-	-	-	97,021	-	-	-	97,021
Travel	-	19,785	314	68,149	-	-	-	88,248
Car/auto	-	31,424	2,540	33,340	-	-	-	67,304
Benefit payments	-	-	-	44,000	-	-	-	44,000
Bikini Day	-	2,236	-	37,691	-	-	-	39,927
Education	-	-	-	34,552	-	-	-	34,552
Housing	-	-	4,000	10,800	-	-	-	14,800
LGF expenditures	-	11,500	-	-	-	-	-	11,500
Telephone and fax	-	-	-	9,978	-	-	-	9,978
Gift	-	7,598	300	-	-	-	-	7,898
Bank charges	2,161	-	24	806	96	61	24	3,172
Stipend	-	300	-	-	-	-	-	300
Miscellaneous	-	29,551	23,243	42,733	-	6,622	-	102,149
Total cash disbursements	3,105,414	123,944	74,513	1,952,703	315,772	1,968,352	24	7,540,722
Net change in cash	\$ 1,803	\$ 159	\$ 10,670	\$ 12,931	\$ (433)	\$ 6,523	\$ (23)	\$ 31,630

See accompanying Independent Auditor's Report.

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

Mayor Anderson Jibas
Kili/Bikini/Ejit Local Government
Republic of the Marshall Islands:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Kili/Bikini/Ejit Local Government (KBLGOV), which comprises the statement of cash receipts and disbursements for the year ended September 30, 2016, and the related notes to the financial statement, and have issued our report thereon dated January 27, 2023. Our report includes a qualified opinion due to the inadequacy of accounting records over Section 177 distribution payments, salary payments and social security/income tax payments.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered KBLGOV's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KBLGOV's internal control. Accordingly, we do not express an opinion on the effectiveness of KBLGOV'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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-002 through 2016-005 to be material weaknesses.

Compliance and Other Matters

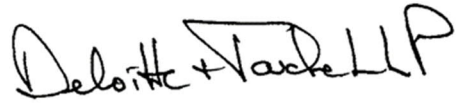
As part of obtaining reasonable assurance about whether KBLGOV's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as item 2016-001.

KBLGOV's Responses to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

January 27, 2023

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding No.: 2016-001
Area: Local Noncompliance - RMI Procurement Code

Criteria: The RMI Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts (including local government Councils) shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$2,784,083 in other non-payroll disbursements, we tested the following sixteen (16) non-federal program disbursements for which supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Account</u>	<u>Check #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1	BPD	18623	02/02/2016	Diesel - 120,000 gallons	\$ 325,200
2	Operations	27094	10/19/2015	Life Insurance	83,735
3	BPD	18211	10/22/2015	Diesel - 60,000 gallons	181,200
4	BPD	18266	01/23/2015	Fuel	19,254
5	BPD	18273	01/23/2015	Construction materials	26,339
6	BPD	18337	03/18/2015	Kili charter	24,000
7	Operations	29077	05/11/2015	Supplemental Food	5,316
8	BPD	18623	02/02/2016	Diesel - 30,000 gallons	81,300
9	BPD	18683	02/11/2016	Vehicles	40,000
10	BPD	18697	02/16/2016	Honda Engines	20,850
11	Operations	29367	03/11/2016	Supplemental Food	5,488
12	Council	11596	04/15/2016	Mayor SUV	20,995
13	BPD	19056	04/29/2016	Bikini charter	18,000
14	Operations	28934	01/04/2016	Various tickets	10,819
15	BPD	18929	03/31/2016	Kili charter	23,500
16	BPD	19366	07/13/2016	Fuel	15,181
					<u>\$ 901,177</u>

Cause: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with applicable procurement requirements.

Effect: Noncompliance with the RMI Procurement Code.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-001, Continued
Area: Local Noncompliance - RMI Procurement Code

Recommendation: We recommend that KBLGOV require that documentation be adequate to comply with the RMI Procurement Code. Specifically, documentation should indicate the history of procurement, including the rationale for contractor selection.

Prior Year Status: The lack of compliance with the RMI Procurement Code was reported as a finding in the audits of KBLGOV for fiscal years 2009 through 2015.

Auditee Response and Corrective Action Plan: We have forwarded all the existing files to the auditor during the audit. Only that KBE do not have canvass of the three (3) quotations from other suppliers. The vendor we selected and have been paid was supported with documents and receipts in the file. We will make sure that RMI procurement policies and procedures are being followed by KBE for the USDA Food Procurement. In addition, all purchases will have complete documents/receipts in the file.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-002
Area: Distribution Payments

Criteria: Disbursements from the Local Distribution Authority (LDA) should be made to the designated payee.

Condition: During the year ended September 30, 2016, distribution payments of \$3,103,253 were made to the people of Bikini; however, underlying accounting records relative to distribution check disbursements were not available.

Cause: Lack of adequate internal control policies and procedures over the maintenance of LDA distribution payment records.

Effect: Inability to determine whether the designated payees received distribution payments or whether the distribution payments were in accordance with prescribed policies and procedures. A qualified audit opinion resulted.

Recommendation: We recommend management establish internal control policies and procedures requiring accounting records relative to distribution check disbursements be adequately safeguarded and filed.

Prior Year Status: The lack of accounting records relative to distribution check disbursements was reported as a finding in the audits of KBLGOV for fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: Yes, it is true that the old system for the Distribution payments are lack of policies and procedures. We will make sure that KBE has improved policies and procedures for all KBE Distribution payments.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-003
Area: Salary Payments

Criteria: Payroll disbursements should be supported by underlying payroll records including employment contracts or Personnel Action Forms authorizing pay rates, payroll registers demonstrating wages are correctly calculated, and timesheets supporting hours worked.

Condition: During the year ended September 30, 2016, salary payments of \$898,093 were made to employees; however, underlying accounting records relative to payroll disbursements were not available.

Cause: Lack of adequate internal control policies and procedures over the maintenance of payroll records.

Effect: Inability to determine whether payroll was correctly calculated based on authorized pay rates and whether employees were paid for hours worked. A qualified audit opinion resulted.

Recommendation: We recommend management establish internal control policies and procedures requiring accounting records relative to payroll disbursements be adequately safeguarded and filed.

Prior Year Status: The lack of accounting records relative to payroll disbursements was reported as a finding in the audits of KBLGOV for fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: Please be informed that KBE has a lot of employees being paid and 90% of these employees has no contract signed by the Mayor. These are the existing policy and procedure since the beginning of KBE and moving forward to the coming years. Only few personnel have an employee's contract with time period of work and payrates and these are all signed by the Mayor. Only Mayor and council members can make a resolution for the changes on the salary payments to be supported by contract and other documents needed.

Auditor Response: We reiterate our recommendation requiring internal control policies and procedures over the safeguarding and filing of accounting records relative to payroll disbursements.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-004
Area: Social Security/Withholding Tax Payments

Criteria: Disbursements for social security and withholding tax remittances should be supported by underlying tax returns.

Condition: During the year ended September 30, 2016, social security and income tax payments of \$739,354 were made to the respective taxing authorities. The following disbursements were tested for which the underlying accounting records were not available:

<u>Item #</u>	<u>Account</u>	<u>Check #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1	Operations	27077	10/07/2015	3 rd Quarter 2015	\$ 109,155
2	Operations	28961	01/05/2016	4 th Quarter 2015	109,810
3	Operations	29252	02/26/2016	2/25/16 W/H Taxes	14,323
4	BPD	18867	03/23/2016	3/12/16 W/H Taxes	<u>3,195</u>
					<u>\$ 236,483</u>

Cause: Lack of adequate internal control policies and procedures over the maintenance of social security and withholding tax remittance payment records.

Effect: Inability to determine whether the respective taxing authorities received remittance payments or whether the remittance payments were in accordance with prescribed taxing legislation. A qualified audit opinion resulted.

Recommendation: We recommend management establish internal control policies and procedures requiring accounting records relative to social security and withholding tax remittances be adequately safeguarded and filed.

Prior Year Status: The lack of underlying tax returns relative to social security and withholding tax remittances was reported as a finding in the audits of KBLGOV for fiscal years 2014 and 2015.

Auditee Response and Corrective Action Plan: There is no turnover of all files from the previous administration so all files in the filing cabinet are messed up and we cannot locate it. Only we found all those disbursements record in the Accounting System of KBE. We will make sure that all the records for Social Security and Withholding Tax Payments are properly filed.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-005
Area: Bank Reconciliations

Criteria: Adequate internal control policies and procedures require timely bank reconciliations be performed and independently reviewed on a regular basis to prevent fraud and error.

Condition: Bank reconciliations were not available for the year ended September 30, 2016 for each of KBLGOV's seven bank accounts.

Cause: Lack of adequate internal control policies and procedures requiring timely bank reconciliations be performed, independently reviewed and filed.

Effect: Inability to timely detect and resolve errors and to better understand KBLGOV's cash position at all times to meet cash flow needs.

Recommendation: We recommend management establish internal control policies and procedures requiring timely performance, independent review and filing of monthly bank reconciliations.

Prior Year Status: The lack of internal controls over the performance of bank reconciliations was reported as a finding in the audits of KBLGOV for fiscal years 2009 through 2015.

Auditee Response and Corrective Action Plan: Yes, KBE has no bank reconciliations report on that fiscal year. We will make sure that a monthly bank reconciliation is being made for all KBE accounts to ensure all bank accounts are reconciled with the monthly financial reports.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2016

Prior Year Findings

The status of unresolved findings is discussed in the Schedule of Findings and Responses section of this report.

Questioned Costs

The prior year audit reports on compliance with laws and regulations noted the following questioned costs that were unresolved as of September 30, 2016:

	<u>CFDA#</u>	<u>Total</u>
Unresolved questioned costs of KBLGOV as previously reported:		
Finding No. 2014-001	10.582	\$ 87,775
Finding No. 2015-001	10.582	<u>55,519</u>
Total unresolved questioned costs as of September 30, 2016		\$ <u><u>143,294</u></u>