

KILI/BIKINI/EJIT LOCAL GOVERNMENT

FINANCIAL STATEMENT,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED SEPTEMBER 30, 2017

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Year Ended September 30, 2017

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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 were engaged to audit 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, 2017, 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 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 matters 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

We were unable to confirm or verify by alternative means, cash receipts from the Resettlement Trust Fund and the Bikini Claims Trust Fund. In addition, detailed accounting records supporting Section 177 distribution payments were not available for our audit. Finally, accounting records were inadequate regarding the amounts at which salary payments are recorded. Therefore, we were unable to satisfy ourselves about cash receipt amounts representing distributions from the Resettlement Trust Fund and the Bikini Claims Trust Fund, stated at \$6,309,307 and \$4,055,743, respectively, and cash disbursement amounts representing Section 177 distribution payments and salary payments, stated at \$4,001,778 and \$1,010,900, respectively, which are recorded in the accompanying statement of cash receipts and disbursements for the year ended September 30, 2017.

Disclaimer of Opinion

Because of the significance of the matters 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 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.

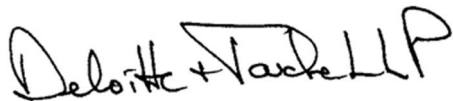
Other Matters

Other Information

The combining financial statement information on page 7 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 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 matters described in the "Basis for 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 February 2, 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 engagement to perform an audit in accordance with Government Auditing Standards and should be considered in assessing the results of our engagement to audit.



February 2, 2023

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Statement of Cash Receipts and Disbursements Year Ended September 30, 2017

Cash receipts:	
Distribution from Resettlement Trust Fund	\$ 6,309,307
Distribution from Bikini Claims Trust Fund	4,055,743
Rebates	71,937
Deposits	56,714
RMI Local Government Fund	15,333
Utility fees	13,823
Miscellaneous	174,818
Total cash receipts	<u>10,697,675</u>
Cash disbursements:	
Section 177 distribution payments	4,001,778
Kili/Ejit projects	2,527,149
Salary payments	1,010,900
Social security/income tax	765,815
Supplemental food purchases	509,865
Per diem	284,052
Scholarships	251,400
Travel	198,623
Lease payments	181,179
Benefit payments	117,500
Car/auto	116,472
Housing	110,000
Insurance	102,916
Education	50,116
Bikini Day	45,282
LGF expenditures	15,733
Telephone and fax	14,416
Bank charges	5,103
Miscellaneous	376,230
Total cash disbursements	<u>10,684,529</u>
Net change in cash	<u>\$ 13,146</u>

See accompanying notes to financial statement.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Notes to Financial Statement
Year Ended September 30, 2017

(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, 2017

(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, 2017

(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) Distribution from the Bikini Claims Trust Fund

During the year ended September 30, 2017, distribution payments of \$4,001,778 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, 2017, 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% distributions from corpus:	
November 28, 2016	\$ 750,974
February 28, 2017	775,463
May 28, 2017	750,451
August 28, 2017	751,447
	<u>3,028,335</u>
Special distribution:	
August 28, 2017	<u>1,027,408</u>
	\$ <u>4,055,743</u>

KILI/BIKINI/EJIT LOCAL GOVERNMENT
 Combining Statement of Cash Receipts and Disbursements
 Year Ended September 30, 2017

	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	\$ -	\$ 25,846	\$ -	\$ 3,237,131	\$ 238,696	\$ 2,807,634	\$ -	\$ 6,309,307
Distribution from Bikini Claims Trust Fund	4,055,743	-	-	-	-	-	-	4,055,743
Rebates	-	71,937	-	-	-	-	-	71,937
Deposits	-	-	56,714	-	-	-	-	56,714
RMI Local Government Fund	-	15,333	-	-	-	-	-	15,333
Utility fees	-	-	13,823	-	-	-	-	13,823
Miscellaneous	-	7,450	4,558	-	55,175	107,635	-	174,818
Total cash receipts	4,055,743	120,566	75,095	3,237,131	293,871	2,915,269	-	10,697,675
Cash disbursements:								
Section 177 distribution payments	4,001,778	-	-	-	-	-	-	4,001,778
Kili/Ejit projects	-	-	-	336,752	-	2,190,397	-	2,527,149
Salary payments	-	-	26,425	116,140	313,361	554,974	-	1,010,900
Social security/income tax	-	-	9,745	589,113	-	166,957	-	765,815
Supplemental food purchases	-	-	-	509,865	-	-	-	509,865
Per diem	-	-	300	283,752	-	-	-	284,052
Scholarships	-	-	-	251,400	-	-	-	251,400
Travel	-	750	300	197,573	-	-	-	198,623
Lease payments	-	-	-	181,179	-	-	-	181,179
Benefit payments	-	-	-	117,500	-	-	-	117,500
Car/auto	-	-	2,047	114,425	-	-	-	116,472
Housing	-	-	4,400	105,600	-	-	-	110,000
Insurance	-	102	-	102,814	-	-	-	102,916
Education	-	-	-	50,116	-	-	-	50,116
Bikini Day	-	-	2,798	42,484	-	-	-	45,282
LGF expenditures	-	15,733	-	-	-	-	-	15,733
Telephone and fax	-	-	-	14,416	-	-	-	14,416
Bank charges	160	-	-	4,833	36	74	-	5,103
Miscellaneous	-	104,120	25,852	244,278	-	1,980	-	376,230
Total cash disbursements	4,001,938	120,705	71,867	3,262,240	313,397	2,914,382	-	10,684,529
Net change in cash	\$ 53,805	\$ (139)	\$ 3,228	\$ (25,109)	\$ (19,526)	\$ 887	\$ -	\$ 13,146

See accompanying Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE ENGAGEMENT TO PERFORM THE AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We were engaged to 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, 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, 2017, and the related notes to the financial statement, and have issued our report thereon dated February 2, 2023. 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 the inability to confirm or verify cash receipts from the Resettlement Trust Fund and the Bikini Claims Trust Fund and the inadequacy of accounting records over Section 177 distribution payments and salary payments.

Internal Control over Financial Reporting

In planning the engagement to audit 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 statement, 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 2017-002 through 2017-006 to be material weaknesses.

Compliance and Other Matters

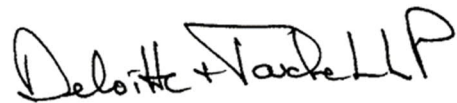
As part of obtaining reasonable assurance about whether KBLGOV's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2017-001.

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 engagement to audit 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 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.

A handwritten signature in black ink that reads "Deloitte + Tardell LLP". The signature is written in a cursive, flowing style.

February 2, 2023

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No.: 2017-001
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 twenty-one (21) 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	19856	10/04/2016	Diesel - 61,500 gallons	\$ 204,795
2	BPD	19857	10/04/2016	Kili charter	24,000
3	BPD	19942	10/18/2016	Diesel - 30,000 gallons	99,900
4	BPD	20004	10/28/2016	Kili charter	36,000
5	BPD	20022	11/05/2016	Construction supplies	25,876
6	BPD	20251	12/15/2016	Diesel - 60,000 gallons	209,400
7	Operations	31347	11/15/2016	Insurance	102,814
8	Operations	31906	12/15/2016	4 Office Vehicles	62,500
9	Operations	31907	12/30/2016	Various Tickets	59,932
10	Operations	31954	01/10/2017	Supplemental Food	82,448
11	BPD	20624	02/28/2017	Diesel - 48,000 gallons	167,520
12	BPD	20695	03/15/2017	Construction supplies	21,808
13	BPD	21052	05/18/2017	Kili New Genset	375,500
14	BPD	21058	05/25/2017	Diesel - 10,000 gallons	29,100
15	Operations	32747	06/12/2017	Supplemental food	67,988
16	BPD	21186	06/30/2017	Diesel - 60,000 gallons	207,600
17	Operations	32890	06/30/2017	Medical trip	15,812
18	Operations	32891	06/30/2017	Reimbursement	3,859
19	Operations	32919	07/03/2017	Supplemental Food	58,652
20	BPD	21267	07/04/2017	Kili charter	24,000
21	BPD	21544	08/20/2017	Mazda Pick-up	33,950
					<u>\$ 1,913,454</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, 2017

Finding No.: 2017-001, 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: Lack of compliance with the RMI Procurement Code was reported as a finding in the audits of KBLGOV for fiscal years 2009 through 2016.

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 and these are all approved by the Mayor. 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, 2017

Finding No.: 2017-002
Area: Trust Fund Distributions

Criteria: Distributions received by KBLGOV from the Bikini Claims Trust Fund and the Resettlement Trust Fund (collectively, the Trust Funds) should be supported by corroborative evidence that confirm or verify amounts distributed.

Condition: During the year ended September 30, 2017, KBLGOV received cash distributions from the Bikini Claims Trust Fund and the Resettlement Trust Fund of \$4,055,743 and \$6,309,307, respectively. No independent audit reports or investment statements for the Trust Funds were made available to assist in the corroboration of these cash receipts.

Cause: Lack of timely completion of the independent audit reports for the Trust Funds and lack of adequate internal control policies and procedures over the maintenance of investment statement records.

Effect: Inability to determine the accuracy and completeness of cash distributions received from the Trust Funds. A disclaimer of opinion resulted.

Recommendation: We recommend management require timely completion of the independent audit reports for the Trust Funds. Furthermore, we recommend management establish internal control policies and procedures requiring investment statements be adequately safeguarded and filed.

Auditee Response and Corrective Action Plan: The audited financial reports of the KBE trust funds are not in our control. This is being audited separately by an independent auditor in the USA.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-003
Area: Cash Disbursements

Criteria: Cash disbursements should be supported by underlying vendor invoices or other documentation substantiating the nature of the disbursement.

Condition: Of \$4,795,876 in non-Federal non-payroll cash disbursements, thirty (30) items totaling \$2,021,525 were tested, of which the following items were not adequately supported by attendant documentation:

<u>Item #</u>	<u>Account</u>	<u>Check #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
1	Operations	30294	10/12/2016	Batiten	\$ 1,793
2	Operations	30701	11/08/2016	Scholarship	1,000
3	Operations	31347	11/15/2016	Insurance	102,814
4	Operations	31906	12/15/2016	4 Office Vehicles	62,500
5	Council	07272	03/18/2017	Mayor rebate - Jan. 2017	10,650
6	Revenue	03524	04/11/2017	Con-Con	3,000
7	Operations	32747	06/12/2017	Supplemental food	67,988
8	Operations	32890	06/30/2017	Medical trip	15,812
9	Operations	32891	06/30/2017	Reimbursement	3,859
10	Operations	32932	07/12/2017	Indonesia trip	5,000
					<u>\$ 274,416</u>

Cause: Lack of internal control policies and procedures over required attendant documentation to substantiate cash disbursements.

Effect: Inability to determine the accuracy and validity of check disbursements and whether such disbursements were in accordance with prescribed policies and procedures.

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

Auditee Response and Corrective Action Plan: As far as disbursements of those expenses, there is an approved request signed by the Mayor. The biggest amount of \$102,814 on the list is the annual IAC Insurance for the KBE employees and this was deposited to the BOG account of IAC. We believe this was supported by the BOMI deposit and we have list of employees being insured yearly. Only that during this fiscal year, some of the supporting documents were not filed properly. We will make sure that all KBE disbursements are supported by the request of payment which is approved by the Mayor and necessary invoices and receipts per vendors or payee.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-004
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, 2017, distribution payments of \$4,001,778 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 disclaimer of 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: Lack of accounting records relative to distribution check disbursements was reported as a finding in the audits of KBLGOV for fiscal years 2014 through 2016.

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 an improved policies and procedures for all KBE Distribution payments.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-005
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, 2017, salary payments of \$1,010,900 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 disclaimer of 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 through 2016.

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 the 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.

KILI/BIKINI/EJIT LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-006
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, 2017 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: 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 2016.

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, 2017

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, 2017:

	<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, 2017		\$ <u>143,294</u>