

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

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**FINANCIAL STATEMENT,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITOR'S REPORT**

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**YEAR ENDED SEPTEMBER 30, 2018**

# KILI/BIKINI/EJIT LOCAL GOVERNMENT

Year Ended September 30, 2018

## Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITOR'S REPORT	1
II. FINANCIAL STATEMENT:	
Statement of Cash Receipts and Disbursements	3
Notes to Financial Statement	4
III. OTHER SUPPLEMENTARY INFORMATION:	
Combining Statement of Cash Receipts and Disbursements	7
IV. INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements In Accordance With <i>Government Auditing Standards</i>	8
Schedule of Findings and Responses	10
Unresolved Prior Year Findings and Questioned Costs	22

## **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, 2018, 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, accounting records were inadequate regarding the amounts at which Section 177 distribution payments, disaster relief fund payments and 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 \$16,650,775 and \$7,919,606, respectively, and cash disbursement amounts representing Section 177 distribution payments, disaster relief fund payments and salary payments, stated at \$7,905,099, \$705,950 and \$2,116,350, respectively, which are recorded in the accompanying statement of cash receipts and disbursements for the year ended September 30, 2018.

#### ***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.

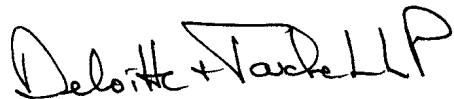
## ***Other Matters***

### ***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 matter 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 14, 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 14, 2023

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Statement of Cash Receipts and Disbursements  
Year Ended September 30, 2018

Cash receipts:	
Distribution from Resettlement Trust Fund	\$ 16,650,775
Distribution from Bikini Claims Trust Fund	7,919,606
DOI grant	370,986
RMI Deposit	291,435
Deposits	29,891
Rebates	25,088
Utility fees	16,943
RMI Local Government Fund	15,348
Other grants	10,000
Miscellaneous	358,489
Total cash receipts	<u>25,688,561</u>
Cash disbursements:	
Section 177 distribution payments	7,905,099
Kili/Ejit projects	3,383,011
Debt service	2,930,817
Salary payments	2,116,350
Supplemental food purchases	1,314,676
Moriba Boats	1,202,950
Social security/income tax	841,247
Travel	822,678
Disaster relief fund	705,950
Car/auto	644,062
Per diem	513,782
Apartment building project	425,000
Scholarships	328,900
Lease payments	289,503
Boat purchase	275,000
Benefit payments	187,293
Heavy equipment purchase	154,810
Insurance	140,802
Housing	133,605
Other allotments	121,074
Representation	105,131
Bikini Day	96,329
Solar project	89,800
Education	71,387
Telephone and fax	51,449
Investment management fees	46,193
Charter transportation	42,119
New housing project	37,935
KBE Annex	28,965
Legal fees	19,494
Construction	18,419
LGF expenditures	11,500
Stipend	9,460
Bank charges	1,085
Miscellaneous	418,737
Total cash disbursements	<u>25,484,612</u>
Net change in cash	<u>\$ 203,949</u>

See accompanying notes to financial statement.

## KILI/BIKINI/EJIT LOCAL GOVERNMENT

Notes to Financial Statement  
Year Ended September 30, 2018

### (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, 2018

### (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, 2018

### (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, 2018, distribution payments of \$7,905,099 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, 2018, 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, 2017	\$ 722,814
February 28, 2018	722,814
May 28, 2018	722,815
August 28, 2018	<u>722,815</u>
	2,891,258
Special distributions:	
March 12, 2018	2,500,000
August 10, 2018	2,500,000
Elderly distribution:	
November 18, 2017	<u>28,348</u>
	\$ <u>7,919,606</u>



**KILI/BIKINI/EJIT LOCAL GOVERNMENT**  
Combining Statement of Cash Receipts and Disbursements  
Year Ended September 30, 2018

	Section 177 Distribution Account	Council Account	Revenue Account	Operations Account	Labor Account	BPD Account	USDA Purchasing Account	Total
<b>Cash receipts:</b>								
Distribution from Resettlement Trust Fund	\$ 1,800,000	\$ -	\$ -	\$ 14,846,625	\$ -	\$ 4,150	\$ -	\$ 16,650,775
Distribution from Bikini Claims Trust Fund	7,919,606	-	-	-	-	-	-	7,919,606
DOI grant	-	-	-	275,000	-	-	95,986	370,986
RMI Deposit	-	-	-	-	-	-	291,435	291,435
Deposits	-	-	29,891	-	-	-	-	29,891
Rebates	-	25,088	-	-	-	-	-	25,088
Utility fees	-	-	16,943	-	-	-	-	16,943
RMI Local Government Fund	-	15,348	-	-	-	-	-	15,348
Other grants	-	-	-	-	-	-	10,000	10,000
Miscellaneous	-	11	24,098	5,829	250,265	78,286	-	358,489
<b>Total cash receipts</b>	<b>9,719,606</b>	<b>40,447</b>	<b>70,932</b>	<b>15,127,454</b>	<b>250,265</b>	<b>82,436</b>	<b>397,421</b>	<b>25,688,561</b>
<b>Cash disbursements:</b>								
Section 177 distribution payments	7,905,099	-	-	-	-	-	-	7,905,099
Kili/Ejit projects	-	-	-	598,411	85,413	2,699,187	-	3,383,011
Debt service	2,783,097	-	-	147,720	-	-	-	2,930,817
Salary payments	-	-	10,000	381,468	1,416,635	308,247	-	2,116,350
Supplemental food purchases	-	-	-	759,965	263,551	-	291,160	1,314,676
Moriba boats	-	-	-	1,202,950	-	-	-	1,202,950
Social security/income tax	-	-	3,145	324,103	352,048	161,951	-	841,247
Travel	-	-	2,056	792,698	27,924	-	-	822,678
Disaster relief fund	-	-	-	685,400	20,550	-	-	705,950
Car/auto	-	-	-	644,062	-	-	-	644,062
Per diem	-	-	9,140	441,776	62,866	-	-	513,782
Apartment building project	-	-	-	425,000	-	-	-	425,000
Scholarships	-	-	-	328,900	-	-	-	328,900
Lease payments	-	-	97,919	19,500	172,084	-	-	289,503
Boat purchase	-	-	-	275,000	-	-	-	275,000
Benefit payments	-	-	1,500	113,650	72,143	-	-	187,293
Heavy equipment purchase	-	-	-	154,810	-	-	-	154,810
Insurance	-	-	-	140,802	-	-	-	140,802
Housing	-	-	3,600	120,055	9,950	-	-	133,605
Other allotments	-	-	-	-	-	121,074	-	121,074
Representation	-	-	-	100,570	4,561	-	-	105,131
Bikini Day	-	-	-	96,329	-	-	-	96,329
Solar project	-	-	-	89,800	-	-	-	89,800
Education	-	-	-	58,736	12,651	-	-	71,387
Telephone and fax	-	-	-	50,699	750	-	-	51,449
Investment management fees	-	-	-	46,193	-	-	-	46,193
Charter transportation	-	-	-	42,119	-	-	-	42,119
New housing project	-	-	-	37,935	-	-	-	37,935
KBE Annex	-	-	-	28,965	-	-	-	28,965
Legal fees	-	-	-	19,494	-	-	-	19,494
Construction	-	-	-	-	-	-	18,419	18,419
LGF expenditures	-	11,500	-	-	-	-	-	11,500
Stipend	-	-	-	-	9,460	-	-	9,460
Bank charges	413	75	61	491	21	9	15	1,085
Miscellaneous	-	25,359	16,842	354,287	14,049	3,000	5,200	418,737
<b>Total cash disbursements</b>	<b>10,688,609</b>	<b>36,934</b>	<b>144,263</b>	<b>8,481,888</b>	<b>2,524,656</b>	<b>3,293,468</b>	<b>314,794</b>	<b>25,484,612</b>
	<b>(969,003)</b>	<b>3,513</b>	<b>(73,331)</b>	<b>6,645,566</b>	<b>(2,274,391)</b>	<b>(3,211,032)</b>	<b>82,627</b>	<b>203,949</b>
<b>Cash transfers:</b>								
Transfers in	2,500,000	-	100,000	1,398,551	2,500,876	3,202,796	-	9,702,223
Transfers out	(1,343,551)	-	-	(8,108,672)	(250,000)	-	-	(9,702,223)
	<b>1,156,449</b>	<b>-</b>	<b>100,000</b>	<b>(6,710,121)</b>	<b>2,250,876</b>	<b>3,202,796</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>\$ 187,446</b>	<b>\$ 3,513</b>	<b>\$ 26,669</b>	<b>\$ (64,555)</b>	<b>\$ (23,515)</b>	<b>\$ (8,236)</b>	<b>\$ 82,627</b>	<b>\$ 203,949</b>

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, 2018, and the related notes to the financial statement, and have issued our report thereon dated February 14, 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, disaster relief fund 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 2018-001 and 2018-004 through 2018-008 to be material weaknesses.

**Compliance and Other Matters**

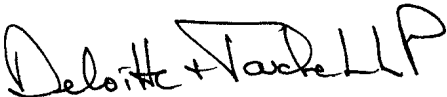
As part of obtaining reasonable assurance about whether KBLGOV’s financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 items 2018-002 and 2018-003.

**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.



February 14, 2023

## KILI/BIKINI/EJIT LOCAL GOVERNMENT

### Schedule of Findings and Responses Year Ended September 30, 2018

Finding No.: 2018-001  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: TAP-RMI-2017-2 Island Supply and Safety Vessel  
Questioned Costs: \$275,000

Area: Allowable Costs/Cost Principles

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award, in accordance with allowable costs/cost principle requirements, and directly related to, and in accordance with, program intent and objectives.

Condition: During the year ended September 30, 2018, KBLGOV entered into an agreement with a local vendor to purchase two Indonesian constructed landing craft at a cost of \$1,149,950 with attendant delivery costs of \$139,898. Grant funds of \$275,000 were utilized to partially fund the purchase. No underlying vessel purchase agreement was made available. In addition, the grant award stipulated the use of funds for the purchase of a U.S. Navy LCU Landing Craft.

Cause: Lack of internal control policies and procedures over required attendant documentation to substantiate check disbursements associated with the vessel purchase.

Effect: Inability to determine the accuracy and validity of check disbursements associated with the vessel purchase and whether such disbursements were in accordance with the prescribed grant award.

Effect: Noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs of \$275,000 for CFDA 15.875 result.

Recommendation: We recommend management establish internal control policies and procedures requiring accounting records relative to check disbursements be adequately safeguarded and filed in order to facilitate compliance with federal grant award agreements.

Auditee Response and Corrective Action Plan: Sending you the attached grant contract submitted to the DOI for the above cost of \$275,000 and the whole amount needed for the Vessel.

Auditor's Response: We reiterate our recommendation that check disbursements be adequately safeguarded and filed in order to facilitate compliance with federal grant award agreements. No underlying purchase agreement was made available. Furthermore, the grant award stipulated the use of funds for the purchase of a U.S. Navy LCU Landing Craft.

## KILI/BIKINI/EJIT LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2018

Finding No.: 2018-002  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: TAP-RMI-2017-2 Island Supply and Safety Vessel  
Questioned Costs: \$0

Area: Procurement and Suspension and Debarment/Local Noncompliance - RMI  
Procurement Code

Criteria: Purchases of goods and services by recipients of Federal grant funding are constrained by the concept of "fair procurement practices". The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments states that grantees and subgrantees will use their own procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Thus, the following guidelines shall be observed based on RMI's Procurement Code:

(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 \$14,367,236 in non-payroll disbursements, we tested one federal program disbursement (Check # 33461 for \$275,000) for which supporting documentation was inadequate to evidence the procurement process. KBLGOV entered into an agreement with a local vendor to purchase two Indonesian constructed landing craft at a cost of \$1,149,950 with attendant delivery costs of \$139,898. These grant funds of \$275,000 were utilized to partially fund the purchase.

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 federal procurement requirements and the RMI Procurement Code and questioned costs of \$275,000 for CFDA 15.875 result, which is reported within Finding No. 2018-001.

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.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-002, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: TAP-RMI-2017-2 Island Supply and Safety Vessel  
Questioned Costs: \$0  
  
Area: Procurement and Suspension and Debarment/Local Noncompliance - RMI  
Procurement Code

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 2017.

Auditee Response and Corrective Action Plan: KBE complied for the requirements needed for purchasing of the vessel. See the bidding committee report.

Auditor's Response: We reiterate our recommendation that KBLGOV require that documentation be adequate to comply with the RMI Procurement Code with specific reference to competitive sealed bidding. KBLGOV provided a price quotation, dated August 26, 2017 for \$1.42 million; a Marshall Islands Journal "Request for Quotation" advertisement, dated September 15, 2017; a KBE Bid Opening Log Sheet, dated September 22, 2017; and a Bid Award justification, dated September 25, 2017. This documentation does not demonstrate compliance with the competitive sealed bidding requirements as required by the RMI Procurement Code.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-003  
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 \$14,367,236 in non-payroll disbursements, we tested the following fourteen (14) 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	21853	10/26/2017	Insurance	\$ 13,531
2	Operations	33664	11/01/2017	LCT MORIBA boat	184,980
3	BPD	21938	11/01/2017	Diesel - 60,000 gallons	175,200
4	Operations	34957	11/15/2017	Insurance	111,440
5	Operations	35302	12/21/2017	Vehicle costs	15,443
6	Operations	35424	01/29/2018	LCT MORIBA boat	829,868
7	Labor	26657	01/30/2018	Food for Majuro/Kili	46,575
8	Operations	35736	03/06/2018	Food items	845
9	BPD	22734	03/29/2018	Honda engine parts	4,374
10	BPD	22809	04/13/2018	Diesel - 60,000 gallons	232,200
11	BPD	22921	05/18/2018	Construction supplies	36,934
12	Operations	36897	07/03/2018	Travel - Indonesia boat	79,791
13	Operations	37660	08/29/2018	Food for Kili	172,476
14	Operations	37705	09/11/2018	Good Earth apartments	<u>350,000</u>

\$ 2,253,657

Item #s 2 and 6 pertain to the acquisition of two Indonesian constructed landing craft at a total cost of \$1,149,950 with attendant delivery costs of \$139,898.

Item # 14 pertains to a down payment relating to the acquisition of an apartment complex at a total cost of \$1,310,000.

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 procurement requirements of the RMI Procurement Code.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-003, 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 2017.

Auditee Response and Corrective Action Plan: KBE Local Government shall do its best to comply with the RMI Procurement Code in the purchasing of diesel, food, engine parts, etc.

For the Good Earth Apartments purchase with a partial amount of \$350,000 is an investment decision by the KBE Local Government Council.

Auditor's Response: We reiterate our recommendation that KBLGOV require that documentation be adequate to comply with the RMI Procurement Code.



## KILI/BIKINI/EJIT LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2018

Finding No.: 2018-004  
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, 2018, KBLGOV received cash distributions from the Bikini Claims Trust Fund and the Resettlement Trust Fund of \$7,919,606 and \$16,650,775, 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.

Prior Year Status: Lack of independent audit reports or investment statements relative to the Trust Funds was reported as a finding in the audit of KBLGOV for fiscal year 2017.

Auditee Response and Corrective Action Plan: KBE Local Government shall do its best to obtain Trust Fund reports from its Trustees and Independent Auditor in Maryland. KBE had no control of the speed at which the independent auditor conducts its duties, however, COVID was provided as a reasonable reason for the delays.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-005  
Area: Cash Disbursements

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

Condition: Of \$14,092,236 in non-Federal non-payroll cash disbursements, twenty-seven (27) items totaling \$6,042,332 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	33664	11/01/2017	LCT MORIBA boat	\$ 184,980
2	Operations	34957	11/15/2017	Insurance	111,440
3	Operations	35302	12/21/2017	Vehicle costs	15,443
4	Operations	35424	01/29/2018	LCT MORIBA boat	829,868
5	Operations	36897	07/03/2018	Travel - Indonesia boat	79,791
6	Operations	37705	09/11/2018	Good Earth apartments	<u>350,000</u>
					\$ <u>1,571,222</u>

Item #s 1 and 4 pertain to the acquisition of two Indonesian constructed landing craft at a total cost of \$1,149,950 with attendant delivery costs of \$139,898.

Item # 6 pertains to a down payment relating to the acquisition of an apartment complex at a total cost of \$1,310,000.

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 maintained, safeguarded and filed.

Prior Year Status: Lack of accounting records relative to check disbursements was reported as a finding in the audit of KBLGOV for fiscal year 2017.

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. We only selected one vendor and the payment was supported with documents and receipts in the file and these are all approved by the Mayor.

1.1. LCT Moriba boat and Travel – Indonesia boat (\$184,980; \$829,868 & \$79,791). Payments for these are all to Majuro Motors, Inc. and the attached Official Receipts from the vendor are in the file. Majuro Motors, Inc. is only vendor that submitted a bidding to this project.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-005, Continued  
Area: Cash Disbursements

Auditee Response and Corrective Action Plan, Continued:

1.2. In regard to the Insurance \$111,440, we are part of the Public Service Commission (PSC) contract as one of the companies for the employee's insurance here in the RMI and all payments annually is being made to the Bank of the Marshall Islands. The contract was on a separate file which was shown to the auditor and the deposit slip was attached to the voucher/check released on file. The payment slip also is being submitted to the Insurance Agency as proof of our payment.

1.3. Vehicle cost of \$15,443 is payment to ELM Motors. Only official receipt was attached to the file during the audit.

We will make sure that all disbursements have complete documents such as invoices and receipts in the file and with three (3) quotations from other suppliers in compliance with the RMI procurement policies and procedures.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-006  
Area: Distribution Payments

Criteria: Disbursements from the Local Distribution Authority (LDA) should be supported by authorization letters or evidenced by signature from recipients.

Condition: During the year ended September 30, 2018, distribution payments of \$7,905,099 were made to the people of Bikini; however, underlying accounting records relative to distribution check disbursements was inadequate. Specifically, the following items were tested all of which were not supported by evidence of receipt by authorized recipients:

*March 2018 Special Distribution*

<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
03/12/18	65563	\$6,420	03/12/18	66002	\$8,132	03/12/18	66423	\$5,136
03/12/18	65673	\$5,992	03/12/18	66113	\$3,424	03/12/18	66533	\$1,284
03/12/18	65790	\$3,852	03/12/18	66218	\$2,996	03/12/18	66632	\$2,140
03/12/18	65897	\$7,704	03/12/18	66318	\$8,132			

*August 2018 Special Distribution*

<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
08/10/18	68012	\$2,115	08/10/18	68350	\$5,499	08/10/18	68985	\$5,499
08/10/18	68112	\$5,922	08/10/18	68456	\$5,076	08/10/18	69091	\$4,230
08/10/18	68237	\$846	08/10/18	68878	\$7,191			

*Quarterly Distributions*

<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
11/28/17	62970	\$868	02/28/18	64979	\$1,230	05/22/18	67686	\$610
11/28/17	63344	\$372	02/28/18	65341	\$1,845	08/28/18	69331	\$1,452
11/28/17	63708	\$1,984	05/22/18	66938	\$488	08/28/18	69730	\$726
11/28/17	64124	\$1,364	05/22/18	67317	\$3,050	08/28/18	70103	\$363
02/28/18	64605	\$615	11/18/17	62890	\$213			

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.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-006, Continued  
Area: Distribution Payments

Recommendation: We recommend management establish internal control policies and procedures requiring accounting records relative to distribution check disbursements be adequately maintained, 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 2017.

Auditee Response and Corrective Action Plan: Releasing of checks are being done by the Treasurer office. For FY2018, this is handled by the previous Assistant Treasurer Mr. Reim Timius. We asked him to find all the authorization letters for those sampled audit items but some of those samples given by the auditor are not on the file and cannot be located.

We will make sure that all distribution payments must be received by the recipients or authorization letters and be filed accordingly.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-007  
Area: Disaster Relief Fund Payments

Criteria: Internal control over cash disbursements is more effective when payments are made by check, rather than by cash, except for incidental amounts that are paid out of petty cash. The paid check provides proof of payment.

Condition: During the year ended September 30, 2018, KBLGOV disbursed \$705,950 of disaster relief fund payments, which included cash payments of \$550,000 from the Operations Account to the people of Bikini. Recipients were required to sign a ledger as verification of receipt.

Cause: Lack of established internal control policies and procedures requiring distribution payments to be made by check.

Effect: Cash distributions are subject to unnecessary risk of theft and disaster relief fund payments may be made to individuals who were not entitled to receive payment. A disclaimer of opinion resulted.

Recommendation: We recommend management establish internal control policies and procedures over payments to the people of Bikini requiring that all payments be made by check.

Auditee Response and Corrective Action Plan: The Disaster Relief Fund Payments was approved by the Mayor and Council as attached in the file. Only that payment to the people of KBE was made in Cash. The total amount of this is \$705,950 thus, the \$550,000 is withdrawn from the bank in Cash. The people needed that money immediately so the Council decided to give it in cash rather than a check to each person.

The list of KBE people and its signature and the amount they received were attached to the file and this was reconciled with the overall total amount.

We will make sure that no payment of any expenses is to be paid in CASH.

**KILI/BIKINI/EJIT LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2018

Finding No.: 2018-008  
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, 2018, salary payments of \$2,116,350 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 maintained, 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 2017.

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**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2018

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 report on compliance with laws and regulations noted the following questioned costs that were unresolved as of September 30, 2018:

	<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>
		143,294
Questioned costs for the year ended September 30, 2018:		
Finding No. 2018-001	15.875	<u>275,000</u>
Total unresolved questioned costs as of September 30, 2018		\$ <u>418,294</u>