

February 2, 2023

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

Dear Mayor Jibas:

In planning the engagement to audit the financial statement of Kili/Bikini Local Government (KBLGOV) for the year ended September 30, 2017 (on which we have issued our report dated February 2, 2023), 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, we considered KBLGOV's internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KBLGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with the engagement to audit, we identified, and included in the attached Appendix I, deficiencies related to KBLGOV's internal control over financial reporting and other matters as of September 30, 2017 that we wish to bring to your attention.

The definition of a deficiency is also set forth in the attached Appendix I.

We have also issued a separate report to you, also 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.

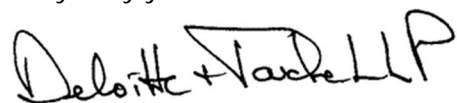
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Council, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of KBLGOV for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KBLGOV's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

1) Payroll

During the year ended September 30, 2017, the following exceptions over payroll disbursements were noted:

- a. Employee contracts or Personnel Action Forms evidencing payrates and other benefits are not maintained for all employees.
- b. Housing allowances of \$110,000 were paid; however, no underlying documentation was maintained on file to support these transactions.
- c. One payroll disbursement (Check # 3565 for \$800) from the Revenue Account, one payroll disbursement (Check # 32313 for \$1,756) from the Operations Account, and two payroll disbursements (Check #s 23897 and 24649 for \$173 and \$340, respectively) from the Labour Account were not evidenced by supporting payroll registers and timesheets.
- d. Four payroll disbursements (Check #s 20189, 20433, 21031 and 21525 for \$180, \$328, \$170 and \$164, respectively) from the BPD Account were not evidenced by supporting timesheets.

We recommend management establish internal control policies and procedures over processing, disbursement and maintenance of payroll related transactions.

2) Unsupported Receipts

During the year ended September 30, 2017, the following bank deposits were noted for which no underlying supporting documentation was made available:

<u>Account</u>	<u>Type</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
Revenue	Deposit	10/26/2016	Indies Trader	\$ 4,000
Revenue	Deposit	11/18/2016	Deposit	\$ 2,881
Revenue	Deposit	01/25/2017	Deposit	\$ 10,050
Revenue	Deposit	02/13/2017	Horizon	\$ 5,080
Revenue	Deposit	02/22/2017	Deposit	\$ 1,250
Revenue	Deposit	02/28/2017	Deposit	\$ 2,150
Revenue	Deposit	03/13/2017	Deposit	\$ 12,391
Revenue	Deposit	03/29/2017	Deposit	\$ 1,500
Council	Deposit	04/07/2017	Dive employee salary	\$ 2,000
Council	Deposit	04/07/2017	Bikini Day delegation	\$ 5,450
Revenue	Deposit	05/30/2017	Deposit	\$ 7,413
Revenue	Deposit	06/30/2017	Indies Trader	\$ 5,000
Revenue	Deposit	08/29/2017	DOE Electric-Water	\$ 3,458
Revenue	Deposit	08/31/2017	Indies Trader	\$ 5,000

We recommend management establish internal control policies and procedures requiring the filing and safekeeping of documents supporting financial transactions.

3) UBS Rebates

During the year ended September 30, 2017, KBLGOV was the recipient of \$71,937 in rebates from UBS Investment Bank. No underlying documentation was made available to support the rebate calculation. We recommend management establish internal control policies and procedures requiring verification of UBS rebates remitted to KBLGOV.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Maintenance of Files

During the year ended September 30, 2017, the following documents were not available for inspection:

- Council Ordinances and Resolutions
- Budget v Actual Reports
- Monthly Financial Reports

We recommend executive minutes, ordinances and resolutions as approved by the Council be formally documented and maintained by the Council Clerk.

2) RMI Local Government Fund

During the year ended September 30, 2017, KBLGOV was the recipient of \$15,333 in RMI Local Government Fund appropriations. No written agreement or Memorandum of Understanding was available to ascertain the spending constraints, if any, on these funds. We recommend management execute and maintain copies of all relevant agreements associated with grant receipts.

3) Social Security Act and the Social Security Health Fund Act

KBLGOV filed and paid employer and employee contributions withheld for the year ended September 30, 2017 in a manner inconsistent with the Social Security Act and the Social Security Health Fund Act. Specifically, contributions for the quarter ended March 31, 2017 of \$31,029 and June 30, 2017 of \$120,666 were not timely filed and remitted. For the quarter ended March 31, 2017, KBLGOV filed and paid contributions on April 19, which was 9 days after the due date. For the quarter ended June 30, 2017, KBLGOV filed and paid contributions on July 18, which was 8 days after the due date. We recommend management establish internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

A deficiency 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

KBLGOV's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.