

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

LIB ISLAND LOCAL GOVERNMENT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2018



AUDIT No.: OAG 04/20-2400

FEBRUARY 8, 2023

Date

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MAJURO, MH 96960
REPUBLIC OF THE MARSHALL ISLANDS

LIB ISLAND LOCAL GOVERNMENT

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT**

PERIOD OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2018

LIB ATOLL LOCAL GOVERNMENT
Period October 1, 2013 through September 30, 2018

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INDEPENDENT AUDITORS' REPORT

Honorable Lee Bejang
Mayor
Lib Island Local Government
Republic of the Marshall Islands

Report on the Financial Statement

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

Management's responsibility for the Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting 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 matter 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 on this financial statement.

Basis for Disclaimer of Opinion

Because of inadequacies in the accounting records of the Lib Government, we are unable to form an opinion regarding the amounts recorded as cash receipts and cash disbursements in the accompanying financial statement stated at \$140,446 and \$140,340 respectively.

Disclaimer of Opinion

Because of the significance of the matter 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 on the financial statement. Accordingly, we do not express an opinion on this financial statement.

Basis of Accounting

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

Other Matters

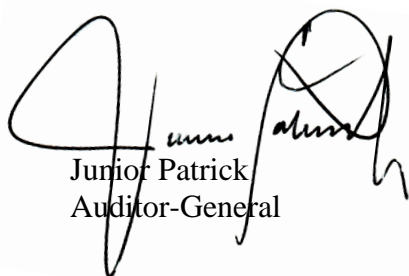
Other Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2023, on our consideration of the Lib Government’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lib Government’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lib Government’s internal control over financial reporting and compliance.

February 8, 2023



Junior Patrick
Auditor-General

LIB ISLAND LOCAL GOVERNMENT

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

Cash receipts:	Totals`
RepMar Contribution:	
Local Government Fund (LGF)	62,661
Kooj – In – Meto (KIM)	70,912
Other Revenue	1,220
Unreported/unidentified deposits	5,653
Total cash receipts	<u>140,446</u>
 Cash Disbursements:	
Salary and Wages	5,220
Allowances	28,919
Materials & Supplies	7,478
Travel	2,400
Equipment	600
Other	11,627
Unreported/unidentified cash disbursements	13,184
Kooj – In – Meto (KIM)	70,912
Total disbursements	<u>140,340</u>
Net change in cash	<u>106</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

LIB ISLAND LOCAL GOVERNMENT

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

(1) Organization

The Lib Island Local Government (the Lib Government) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of Lib Government. The Lib Government is governed by an elected mayor, council members and representatives.

(2) Basis of Accounting

The Schedule of Receipts and Disbursements has been prepared on the cash basis of accounting. Receipts have been recognized when received in cash and disbursements have been recognized when cash is disbursed. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

The Lib Government is not required to adopt fund basis accounting for local governments in conformity with standards promulgated by Governmental Accounting Standards Boards (GASB). However, the Lib Government is required to comply with accounting system requirements established by the Government of the Republic of the Marshall Islands (RepMar) Ministry of Culture and Internal Affairs.

(3) Cash

As of September 30, 2018, the carrying amount of the Lib Government's total cash was \$106, which corresponds to the bank balance and which is maintained in a local financial institution that is not subject to Federal Deposit Insurance Coverage (FDIC). The Lib Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Lib Government states that "no taxes shall be imposed and no other revenues shall be raised and no money of the Local Government shall be expended, unless authorized by law".

(5) RepMar Contributions

The Lib Government receives annual grant funding from RepMar's Local Government Fund (LGF), which is distributed on a quarterly basis. This quarterly allotment is contingent upon the Lib Government providing financial reports and supporting documents. For the period from October 1, 2013 through September 30, 2018, the Lib Government received \$62,614 from the LGF. Together with the opening Cash Balance as at October 1, 2013: \$47, the total amount accessible for Lib Government for the period was \$62,661.

LIB ISLAND LOCAL GOVERNMENT

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

(6) Other Contributions

The Lib Government is the beneficiary of annual appropriations from RepMar under the Outer Islands Economic Development Fund (OIEDF) administered and disbursed directly to vendors by RepMar's Ministry of Finance, Banking and Postal Services. The disbursement of this grant fund is contingent upon the Lib Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, the Lib Government received a total of \$132,651 under this grant.

In addition, the Lib Government is the beneficiary of annual appropriations from RepMar under the Grant-in-Aid fund administered and disbursed directly to vendors by RepMar's Ministry of Finance, Banking and Postal Services. The disbursement of this grant fund is contingent upon the Lib Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, the Lib Government received a total of \$36,396 under this grant. Finally, from October 1, 2013 to September 30, 2018, the Lib Government received funding from the Asian Development Bank (ADB) in the amount of \$8,977 for the purposes of purchasing Solar Streetlights. As these appropriations are disbursed directly by RepMar to vendors, such are not reflected as cash receipts and disbursements within the accompanying financial statement.

(7) Related Party Transactions

During the period October 1, 2015 through September 20, 2018, the Lib Government made certain payments for the benefits of certain members of council, this amounted to \$28,919 in sitting fees and \$2,400 for representation fees from its LGF Account.

Additionally, a total of \$14,355 was paid out to certain executive members of the council from the Kooj- In-Meto (KIM) account in the same period.

LIB ISLAND LOCAL GOVERNMENT

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Cash Receipts:						
RepMar Contribution						
Local Government Fund (LGF)	12,512	12,465	12,465	12,465	12,754	62,661
Kooj – In – Meto (KIM)	26,543	23,697	18,933	1,739	-	70,912
Other Revenue	-	-	-	1,220	-	1,220
Unreported/unidentified deposits	-	-	-	5,653	-	5,653
Total cash receipts	39,055	36,162	31,398	21,077	12,754	140,446
Cash Disbursements:						
RepMar Disbursements						
Salary and Wages	1,810	3,410	-	-	-	5,220
Allowances	4,433	3,840	4,596	8,250	7,800	28,919
Material/Supplies	871	1,562	1,328	2,967	750	7,478
Travel	-	-	900	-	1,500	2,400
Equipment	-	-	-	-	600	600
Other Expenses	2,334	3,350	3,393	500	2,050	11,627
Unreported/unidentified cash disbursements	1,840	1,220	2,732	266	7,126	13,184
Kooj – In – Meto (KIM)	23,264	25,123	19,054	1,599	1,872	70,912
Total disbursements	34,552	38,505	32,003	13,582	21,698	140,340
Net change in cash	4,503	(2,343)	(605)	7,495	(8,944)	106

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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

Honorable Lee Bejang
Mayor
Lib Island Local Government
Republic of the Marshall Islands

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Lib Island Local Government (the Lib Government) for the period from October 1, 2013 through September 30, 2018, and the related notes to the financial statement and have issued our report thereon dated February 8, 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 inadequacies in the accounting records.

Internal Control over Financial Reporting

In planning the engagement to audit the financial statement, we considered the Lib Government's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lib Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lib Government's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as *Finding No. 1, Finding No. 2, Finding No. 3, Finding No.4, Finding No.5, Finding No.6, Finding No.7, Finding No.9, Finding 10 and Finding No.13 and Finding No. 15* to be material weaknesses

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lib Government’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as, *Finding No.8, Finding No. 11, Finding No.12, and Finding No.14* that we consider to be compliance weaknesses and other matters.

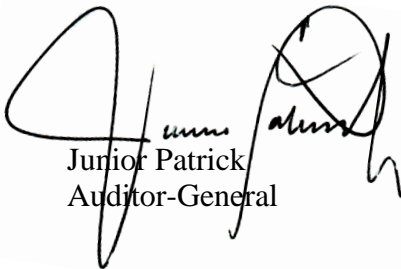
The Lib Government’s Response to Findings

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

Purpose of the Report

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

February 8, 2023



Junior Patrick
Auditor-General

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 1

Accounting System

Criteria: All Local Governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the Ministry of Culture and Internal Affairs. Furthermore, Section 31 of the Lib Government Constitution states that the Executive Committee shall cause to be kept full and proper accounts and records of revenues, expenditures, assets, and liabilities of the local government.

Included in the Accounting system are forms developed to be used such as cash receipt and cash disbursement Journals, collection cards for each taxpayer, summary sheet for the clerk to record taxes received daily, fines and rentals record, payroll register, stipends and casual employment pay sheet, personnel action form, travel expense report, and purchase order form for proper record keeping.

Condition: During the periods under audit, the Lib Government did not adopt the accounting system established by the Ministry of Culture and Internal Affairs (the MOCIA). The prescribed accounting forms described in the above Criteria were not utilized.

Cause: The cause of the above condition is the lack of adherence to established policy by the Lib Government and lack of oversight by the MOCIA and Ministry of Finance, Banking and Postal Services (the MOFBPS) requiring Lib Government to adopt and follow the accounting system established for all local governments.

Effect: The effect of the above condition is noncompliance by the Lib Government with the Accounting Standards and Financial Memoranda No. 1987-1 resulting in the followings:

- Inability to perform an audit of a complete set of financial statements.
- Inadequate recording of financial transactions not recorded properly into a general ledger.
- Inability to verify the accuracy of revenues collected and reported.
- Inability to verify expenses paid due to non-utilization of accounting forms.

Recommendation: For the Lib Government to utilize the accounting system established for all local governments under the MOCIA to improve accountability over its financial bookkeeping. We also recommend stricter oversight by the MOCIA and the MOFBPS in ensuring the Lib Government adopts and implements the local government accounting system prior to the release of the Local Government Fund.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 1 (Continued)

Response from the MOCIA:

MOCIA will ensure that the Accounting System be used and will ensure that compliance with Policies & Procedures be as accordingly. The Ministry is recommending that a simpler and unified template be created for all the Local Governments be used given that this is a common finding All local governments are cited for.

Response from the MOFBPS:

The Ministry of Finance acknowledges and accepts the finding. Ways forward, the Ministry strongly encourages MOCIA to ensure that all Local Governments adopt the form developed by MOCIA' Local Government Act accounting system.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 2

Cash Checks

Criteria: Proper Internal Control over cash disbursements requires that checks be issued directly to the designated payee for services provided.

Condition: Our review of the cash disbursements for FY 2014 disclosed three (3) checks that were drawn to cash in the amount of \$4,875. These payments were also not supported by adequate supporting documentation as indicated below:

Item	Date	Check #	Amount	Payee	Description
1	12/3/2013	161	1,430	Cash	Unable to locate the file and the related supporting documentation, hence, unable to determine how the fund was expended
2	12/3/2013	162	1,072	Cash	Unable to locate the file and the related supporting documentation, hence, unable to determine how the fund was expended
3	1/14/2014	168	2,373	Cash	Allowance for Council & Staff members, however, no evidence of payees receiving their cash payments
		Total:	4,875		

Cause: The cause of the condition is the lack of adequate internal control policies and procedures in governing cash disbursements and the maintenance of accounting records.

Effect: The effect of the condition is the risk that cash could be misappropriated. There is also a potential inability to determine the authenticity and appropriateness of these cash payments.

Recommendation: For the Lib Government to make disbursements directly to the payees, however, if it uses cash checks, then relevant supporting documentation, such as a distribution list with signatures of payees should be maintained. We also recommend that the MOCIA assist in establishing a written set of policies and procedures to address the drawing of checks to cash and other procedures that would be sufficient for proper audit trails.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

This is an issue under control and strict supervision by the LGA office and MOCIA has already resurfaced this issue with each respective the Local Governments.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 3

Revenue and Expenditures Under Reported

Criteria: Section 30(1) of the Constitution of the Lib Government requires that the Executive Committee's cause to be kept full and proper accounts and records of revenues and expenditures of the local government, assets, and liabilities under the control of the local government. Furthermore, good internal control dictates that all revenues and expenditures are properly accounted for and adequately supported.

Condition: Based on our review of the quarterly financial reports for deposits and disbursements, we noted that revenue and expenditure for the Lib Government were under-reported by \$1,643 and \$7,462, respectively.

Receipt:

Period	Bank Statements	Financial Summary Report	Under/Over Reported
FY2014	12,465	12,465	-
FY2015	12,465	12,465	-
FY2016	12,465	9,349	3,116
FY2017	19,338	10,569	8,769
FY2018	<u>12,754</u>	<u>22,996</u>	<u>(10,242)</u>
Total	<u>\$69,487</u>	<u>\$67,844</u>	<u>\$1,643</u>

Disbursement:

Period	Bank Statements	Financial Summary Report	Under/Over Reported
FY2014	12,288	13,178	(890)
FY2015	13,382	11,100	2,282
FY2016	19,054	9,314	9,740
FY2017	11,983	6,915	5,068
FY2018	<u>19,826</u>	<u>28,564</u>	<u>(8,738)</u>
Total	<u>\$76,533</u>	<u>\$69,071</u>	<u>\$7,462</u>

Cause: The cause of the above condition is the lack of oversight by the Executive Committee of the Lib Government to ensure proper record-keeping and reporting of revenues and expenditures during the period.

Effect: Non-compliance with the Constitution will result in understated revenues or overstated expenditures. In addition, reporting may give rise to unknown and unauthorized transactions. The effect of the above condition is that the Executive Committee of the Lib Government did not comply with the requirements of its Constitution. In addition, the lack of proper financial reporting greatly diminishes accountability over the Lib Government funds and increases the possibility for unauthorized transactions to occur which may not be detected and corrected promptly.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 3 (Continued)

Recommendation: For the Executive Committee Members of the Lib Government to keep full and proper accounts and records of all their revenues and expenditures. We also recommend that MOCIA ensure that the Executive Committee Members are well-trained on how to accurately maintain their revenue and expenditures records.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA will thoroughly make sure monies under this fund is accounted for and will take its due responsibility to reject noncomplying funding requests under the program. MOCIA continues to advise Local Governments to hire Clerks who suitable for such post.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 4

Checks written to Officials

Criteria: Proper Internal Controls require that checks be issued to the designated payee for services provided.

Condition: Our review of Expenditures disclosed numerous checks under the name of the Mayors during the fiscal years FY2014 \$3,830, FY2015 \$5,490, FY2016 \$2,500, and FY2018 \$16,950 for representation, allowances and salaries, and other council operations as shown in the tables below. We noted that there was no supporting documentation to determine the payments' appropriateness.

FY2014

Date	Check #	Amount	Payee	Description
12/2/2013	163	\$200	Official #1	1st quarter Representation, no receipts on file supporting the amount, therefore unable to determine the justification for the expense
2/12/2014	168	\$200	Official #1	Copy of check not available on file but able locate in the bank statement therefore unable to determine nature of payment
4/8/2014	171	\$1,240	Official #1	Allowances & Salaries for 3rd quarter, no document evidencing receipt of payments by council & staff members
5/9/2014	173	\$200	Official #1	Copy of check not available on file but able locate in the bank statement therefore unable to determine nature of payment
7/31/2014	175	\$860	Official #1	Allowance for 4th quarter FY2014, no receipts on file supporting the amount, therefore unable to determine how the fund was expended
8/4/2014	177	<u>\$1,130</u>	Official #1	Copy of check not available on file but able locate in the bank statement therefore unable to determine nature of payment
Total		<u>\$3,830</u>		

FY2015

Date	Check #	Amount	Payee	Description
11/26/2014	176	\$200	Official #1	Copy of check not available on file but able locate in the bank statement therefore unable to determine nature of payment
11/27/2014	177	\$1,010	Official #1	Allowance for council members, no document evidencing receipt of payments by council & staff members

LIB ISLAND LOCAL GOVERNMENT

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

Finding No 4 (Continued)

FY2015

12/3/2014	178	\$800	Official #1	Representation, no receipts on file therefore unable to determine the justification for the expense
5/11/2015	190	\$700	Official #1	Representation, no receipts on file therefore unable to determine the justification for the expense
5/21/2015	193	\$1,400	Official #1	3rd quarter Salaries for council members, no document evidencing receipt of payments by council & staff members
5/25/2015	194	\$350	Official #1	Representation 3rd quarter, no receipts on file therefore unable to determine the justification for the expense
5/29/2015	195	\$300	Official #1	Representation 3rd quarter, no receipts on file therefore unable to determine the justification for the expense
7/31/2015	198	\$480	Official #1	Li-go batrik club, no receipts on file therefore unable to determine the nature of the expense or clear public purpose or benefit served
8/3/2015	199	<u>\$250</u>	Official #1	Representation, no receipts on file therefore unable to determine the justification for the expense
Total		<u>\$5,490</u>		

FY2016

Date	Check #	Amount	Payee	Description
8/3/2016	452	<u>\$2,500</u>	Official #2	Copy of check not available on file but able locate in the bank statement therefore unable to determine nature of payment
Total		<u>\$2,500</u>		

FY2018

Date	Check#	Amount	Payee	Description
11/6/2017	1017	\$3,450	Official #2	FY17 3rd & 4th quarter allowances, no document evidencing receipt of payments by council & staff members
12/11/2017	1019	\$800	Official #2	Food supplies, trip to Lib, no receipts on file therefore unable to determine nature of expense
4/2/2018	1026	\$7,000	Official #2	Allowance, no receipts and no document on file evidencing receipt of payments by council & staff members therefore, unable to determine nature of payment
5/10/2018	1025	\$5,000	Official #2	Unable to determine nature of payment due to unclear writings on check and no supporting document noted on file
5/21/2018	1030	<u>\$700</u>	Official #2	Unable to determine nature of payment due to unclear writings on the check and no supporting document noted on file
Total		<u>\$16,950</u>		

LIB ISLAND LOCAL GOVERNMENT

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

Finding No 4 (Continued)

Cause: This is caused by a lack of internal control policies and oversight to ensure checks issued by the Lib Government are supported by appropriate documentations to justify the expenses incurred.

Effect: The effect of this is that we are unable to determine the appropriateness of the expenses which increases the opportunity for misuse and misappropriation of funds.

Recommendation: For the Lib Government to maintain appropriate documentations to justify each expense incurred. We also recommend that the MOCIA ensure that appropriate internal controls are instituted and followed by the Lib Government for cash disbursements.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA will implement and enforce Proper control and continue to advice Local Governments to avoid activities as fined. MOCIA has already listed Lib Islands Local Government under close supervision in reporting as part of discontinuing these misusing of public fundings.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 5

Fixed Assets

Criteria: Under the Local Government Act 1980 (PL 1981-2, Section 46(2) (b), every local government is required to file a report of properties in their possession with the MOCIA.

Condition: Based on our test of Expenditures during the period under audit, we noted that the Lib Government did not file a report or a listing of all Fixed Assets bought and are in their possession as stipulated under the Local Government Act of 1980 during the period audited.

Item #	Number of Checks	Total Amount	Description
1	2	2,055	Boat
2	1	117	Materials & Supplies
Total:		<u>2,172</u>	

Cause: The cause of this is due to the lack of oversight by MOCIA in making sure these reports that are submitted by the Lib Government are accurate and comply with appropriate documentation standards.

Effect: The effect of the above condition is the possibility for misappropriation of assets that may not be detected and corrected promptly.

Recommendation:

1. For the Lib Government to comply with the Local Government Act of 1980 and submit a report or listing of all fixed assets bought under the name of the Local Government Office.
2. For the MOCIA to perform its oversight role to ensure the Lib Government prepares and submits a listing of its assets as required by the criteria.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA highlighted these requirements as reflected in the Financial Memorandum Act as most Local Governments in the past years have elicited this required listing from their quarterly report. MOCIA will all add this bulletin to its Check List for LGF request form documentation is provided before releasing the fund.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 6

Financial Reports

Criteria: Financial Reports should be accurate and accompanied by proper documentation. Additionally, Local Government Financial Memoranda No. 1987-1, Section 1 (B) states, a local government must submit a quarterly financial report to the secretary of the Ministry of Culture and Internal Affairs by no later than the 15th of January, April, July, and October.

Condition: Our review of the quarterly financial reports filed with the MOCIA noted the followings:

- No verification or filing and receiving dates of the quarterly financial reports were not documented by Officials of the Local Government Office to ensure compliance with the reporting requirement stipulated under the Local Government Financial Memoranda No. 1987-1.
- Bank Statements were not provided with the financial reports.
- There were missing quarterly reports and their supporting documents (check copies, ordinances, resolution, invoices, and receipts) for the following:
 - FY2014 – 1st quarter report.
 - FY2016 – 2nd quarterly report.
 - FY2017 – 1st quarterly report.
 - FY2018 – 4th quarterly report.
- Check vouchers were not provided and attached to the quarterly financial reports.
- Quarterly reports were not submitted on time to the Ministry of Culture and Internal Affairs and the Ministry of Finance.
- There were missing supporting documents such as for FY2015 2nd, 3rd & 4th quarters and FY2016 1st & 2nd quarters:
 - Copies of cancelled checks;
 - Missing check vouchers, invoices, and receipts;
 - Missing logs for allowances and
 - No personnel file maintained.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by the Lib Government. In addition, there is a lack of consistency in utilizing the checklist required by Officials of the Local Government Division when receiving the quarterly financial reports from the local government. In addition, there is a lack of review by the Local Division at the MOCIA and MOFBPS to ensure financial reports submitted are accurate, complete, and properly supported before payment of the Local Government Fund.

Effect: Non-compliance with the reporting requirements leads to missing files for 3rd quarterly reports for FY2016 and 2nd quarterly report for FY2017. In addition, lack of review from MOCIA and MOFBPS leads to inaccurate and unreliable financial reports.

Recommendation: For the Lib Government to comply with the reporting requirements as dictated in the Financial Memoranda No. 1987-1. We also recommend for the MOCIA and MOFBPS to thoroughly review the quarterly reports and ensure they are accurate and accompanied by the required documentation.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 6 (Continued)

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA has committed to stricter implementations on these repeated findings and will do its due diligent and make sure to submit complying documents at all time.

Response from the MOFBPS

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented and all current financial reports and supporting documentations are properly on file. Furthermore, with the new accounting system adopted by the ministry of Finance, all files are properly scanned electronically.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 7

Personnel Action Form

Criteria: The Local Government Accounting System that was developed and designed to be used by each Local Government have forms such as the Personnel Action form and the Casual Stipend Form to be used by Local Governments.

Condition: Personnel files, time sheets, and attendance sheets were not maintained. Salaries in the amount of \$5,220 were paid to council employees that included a clerk, police officers, and field workers, whilst \$28,919 were paid to council members for sitting fees. In the absence of these documents, we are unable to determine whether employees paid are in fact employees of the Lib Government.

Cause: This is due to noncompliance by the Lib Government and oversight to ensure the Lib Government follows the accounting system established for Local Governments.

Effect: The effect of the condition is noncompliance with the Accounting System and inability to determine the appropriateness of the salary expenses and inaccurate financial reporting.

Recommendation: For the Lib Government to comply with the Local Government Accounting System and utilize the accounting forms to properly document salary expenses. In addition, we recommend that the MOCIA require the Lib Government to follow the Accounting System to improve accountability over its financial operations.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA confirms in its meeting with AG's office that along with RESOLUTION for hiring from Council, MOCIA shall then formulate a 'ACTION' and/or 'Contract' for proper documentation of employment.

Response from the MOFBPS

The Ministry of Finance acknowledges and accepts the finding. Ways forward, the Ministry strongly encourages MOCIA to ensure that all Local Governments adopt the forms developed by MOCIA's Local Government Act accounting system.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 8

Procurement Violations

Criteria: All Local Governments who receive funds from the RMI Government are required to adhere to the RMI Procurement Code Policies established by the MOFBPS for small purchases of \$.01-25,000.

- i. Procurement of \$.01 to \$500 under General Fund requires a minimum of 1 quotation only.
- ii. \$500 to \$25,000 for General Fund requires a minimum of 3 valid and relevant quotations.
- iii. For all other funds, \$.01 to \$24,999.99 requires a minimum of 3 valid and relevant quotations.

Condition: Our testing of expenditures for the period covered FY 2014 to FY 2018 revealed that Lib Government did not comply with the SOP. In FY2016 a total amount of \$7,889 and in FY2017 \$2,694 in value were disbursed without obtaining the three (3) price quotations as required under the SOP.

F/Y2016

Date	Check Number	Amount	Remarks
1/12/2016	415	\$1,000	Unable to locate 3 price quotations on file
1/18/2016	420	\$1,315	Unable to locate 3 price quotations on file
2/22/2016	434	\$1,300	Unable to locate 3 price quotations on file
3/10/2016	435	\$809	Unable to locate 3 price quotations on file
6/6/2016	444	\$965	Unable to locate 3 price quotations on file
8/3/2016	452	\$2,500	Unable to locate 3 price quotations on file
Total		\$7,889	

FY2017

Date	Check Number	Amount	Remarks
12/19/2016	197	\$694	Unable to locate 3 price quotations on file
6/26/2017	1001	\$2,000	Unable to locate 3 price quotations on file
Total		\$2,694	

Cause: This is due to the lack of review and scrutiny by the MOCIA and Ministry of Finance to ensure the Lib Government follows the Procurement Code.

Effect: The effect of the above condition is noncompliance with the Procurement Code by the Lib Government and there is no assurance whether the Lib Government is getting the best value for money spent.

Recommendation: For the MOCIA and Ministry of Finance to require Lib Government to follow the Procurement Code.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 8 (Continued)

Response from the MOCIA:

MOCIA will continue with stricter and avoid exemptions from the Procurement Act.

Response from the MOFBPS

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented and all current requests are carefully examined to ensure that 3 quotations requirement is met.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 9

Checks Issued and Reported Not in Sequential Order.

Criteria: Proper Internal Control over cash disbursements require checks to be issued and reported sequentially.

Condition: During the period under audit, we found that checks issued and reported by Lib Government were not in sequential order. The table below is to be used as an example:

Item #	Date	Number of Checks	Total Amount	Description
1	5/21/2017	209	100	Salaries
2	5/28/2017	208	175	Salaries
3	6/26/2017	1003	50	Salaries
4	6/27/2017	1002	500	Salaries
Total:			<u>825</u>	

Cause: This is due to a lack of established internal control procedures requiring checks to be issued and reported in sequential order.

Effect: When checks are not in sequential order, it could give rise to instances of duplication or written fraudulently since it takes time for the checks to be presented at the bank.

Recommendation: For the Lib Government to issue checks in sequential order.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 10

Bank Reconciliation

Criteria: The Local Government Financial Memoranda No. 1987-1 requires all local governments to perform bank reconciliation of their accounts regularly to prevent fraud and error.

Condition: Based on our review, we determined that Lib Government did not reconcile its cash at the bank for the entire period under review. The Lib Government relied on the bank to indicate what checks have been cleared and what deposits have been made into their bank account.

Cause: The cause of the above condition is the lack of oversight by the Executive Committee to ensure that bank reconciliations are performed regularly.

Effect: The effect of the above condition is that the Lib Government may not be able to detect potential financial errors and/ or fraud promptly.

Recommendation: For the Lib Government to perform bank reconciliations on a regular basis. We also recommend that the MOCIA to require the Lib Government to perform its bank reconciliation regularly and provide those with its quarterly financial reports.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA has given absolute reporting duties to each Mayor and their executive branch and therefore will ensure that before submission of LGF request, the account is reconciled and included in the report. This will be closely monitored by the LGA office.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 11

Income Taxes, Social Security and Health Fund Taxes.

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

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

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

Condition: Based on our review, we found that the Lib Government paid a total of \$39,964 in salaries and wages, however, no taxes were withheld for Income Tax, Social Security, and Health Fund tax purposes.

Cause: The cause of the above condition is the lack of adherence to the Income Tax Act, the Social Security Tax Act, and the Health Fund Tax Act. Furthermore, Lib Government has not complied with the various acts.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, the Social Security Tax Act of 1990, and the Health Fund Tax Act of 2002 which exposes the Lib Government to litigation and payment of penalties.

Recommendation: For the Lib Government comply with the Income Tax Act of 1989, the Social Security Tax Act of 1990, and the Health Fund Tax Act of 2002.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 12

Business Listing

Criteria: Section 203 of the Local Government Tax and Fees Act of 1989 requires, at the end of each quarter, every local government council shall provide to the Secretary of Finance through the Secretary of the MOCIA a list of all businesses licensed under its jurisdiction.

Condition: We did not find any business listing filed by the Lib Government with the MOCIA and Ministry of Finance for the entire periods covered by this audit.

Cause: The cause of the above condition is the lack of proper oversight by the MOCIA in ensuring that the Lib Government is compliant with this provision requiring that a business listing be filed as part of the financial report.

Effect: The effect of the above condition is that Lib Government did not comply with the reporting requirements of the Local Government Tax and Fees Act of 1989.

Recommendation: For the Lib Government to strictly comply with Section 203 of the Local Government Tax Fees Act of 1989. We also recommend for the MOCIA, as the administrator, to require that Lib Government comply with all requirements of the Local Government Tax and Fees Act of 1989.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

LIB ISLAND LOCAL GOVERNMENT

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

Finding No. 13

Cancelled Checks

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that canceled checks be maintained on file to support checks issued.

Condition: We found that the Lib Government did not file all its canceled checks at the MOCIA and the MOFBPS for the periods under audit.

Cause: The cause of the above condition is a lack of adherence by the Lib Government and oversight by the MOCIA requiring that all canceled checks be provided as part of the financial reports.

Effect: The effect of the above condition is the inability to verify whether checks were properly authorized or endorsed and that amounts issued were correctly cleared by the bank.

Recommendation: For the Lib Government to comply with the Financial Memoranda 1987-1. In addition, we recommend that the MOCIA review all reports and make sure that all canceled checks are being filed and reported.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA will enforce that LGA be stricter and have proper control by not accepting incomplete and noncomplying reports.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No.14

Unsupported Disbursement (Local Noncompliance)

Criteria: The Local Government Financial Memoranda No. 1987-1 requires that purchases of goods and services be accompanied by receipts or invoices to prove that actual payment was made. Additionally, accountability and good governance require that supporting documents for all transactions be filed and maintained for all public funds.

Condition: During our examination of the quarterly financial reports for the periods under audit, we noted that disbursements for council operating expenses were not supported by invoices, receipts, and other related supporting documentation as indicated in the summary below:

Item #	Number of Checks	Total Amount	Description
1	2	3,971	Allowances
2	2	1,272	Food Supplies
3	2	497	Fuel
4	2	1,407	Funeral
5	6	2,600	Representation cost
6	25	<u>16,775</u>	Unsubstantiated Payments
Total:		<u>26,522</u>	

Cause: This is due to the lack of adherence to the Local Government Financial Memoranda No. 1987-1. Additionally, there is a lack of proper review of the financial reports by the MOCIA and Ministry of Finance over invoices and checks. Internal controls surrounding government accounting of the transaction are inexistent.

Effect: The Lib Government becomes non-compliant with the Local Government Financial Memoranda No. 1987-1. There are also possible losses to the overpayment of vendors due to a lack of review and overview.

Recommendation:

1. For the Lib Government to ensure all disbursements are supported by invoices or receipts and that these supporting documents are maintained on file for reference and audit purposes.
2. For the MOCIA and Ministry of Finance to review the quarterly reports to ensure they are supported by proper documentation.

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

LIB ISLAND LOCAL GOVERNMENT

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

Finding No.15

Income & Expenditures from the Lib Government's Boat Kooj-In-Meto

Criteria: The Local Government Fund is the principal fund in which monies may be granted to/ paid out to the local government for operations.

Condition: During our examination of the quarterly financial reports for the periods under audit, we noted that payment for certain salaries and allowances were disbursed from the Lib Government LGF bank account with a total amount of \$34,139. In addition, we also noted that salaries and allowances were paid out in the amount of \$40,407 from a Kooj-In-Meto bank account. Upon further examination, we determined that the Kooj-In-Meto bank account was established specifically for the operation of Kooj-In-Meto operation, a boat that belonged to the Lib Government. These payments were not accompanied by the appropriate documentation other than bank records indicating receipt and disbursement of funds.

Furthermore, Lib Government transferred all of its quarterly drawdowns in FY2016 to Kooj-In-Meto account with a total amount of \$40,407.

Our review revealed that KIM disbursements for salaries and wages to Lib Governments' officials and employees as indicated below:

KIM Account Summary:

Period	Receipts	Disbursements	Salaries & Allowances
FY2014	26,543	23,264	12,398
FY2015	23,697	25,123	14,218
FY2016	18,933	19,054	12,461
FY2017	1,739	1,599	1,030
FY2018	-	1,872	300
Total	70,912	70,912	40,407

Cause: The cause of the above condition is a lack of adherence by the Lib Government and oversight by the MOCIA requiring that all expenditures are disbursed from the local government LGF bank account and not commingled with another bank account that belongs to the Lib Government.

Effect: The effect above condition is a lack of proper internal control the inability to determine the authenticity and appropriateness of disbursements, lacking clear public purpose or benefit served.

Recommendation:

1. For the Lib Government to disburse expenses from their respective accounts and not from other bank accounts/funds.
2. For the MOCIA to put in place stringent oversight to ensure the Lib Government disburses funds out of its LGF bank account.

LIB ISLAND LOCAL GOVERNMENT

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

Finding No.15 (Continued)

Auditee's Response and Corrective Action Plan:

The Lib Local Government has verbally agreed to our findings and recommendations at our exit conference on the February 1, 2023

Response from the MOCIA:

MOCIA will ensure that proper disbursement of monies be as according to the Laws and will enforce more proper control in the handing of and reporting of monies.

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

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