

REPUBLIC OF THE MARSHALL ISLANDS

**OFFICE OF THE AUDITOR-GENERAL**

UJAE ATOLL LOCAL GOVERNMENT

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FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

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PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2018



AUDIT No.: OAG 02/20-2400

FEBRUARY 10, 2023

Date

P.O. BOX 245  
MAJURO, MH 96960  
REPUBLIC OF THE MARSHALL ISLANDS

**UJAE ATOLL LOCAL GOVERNMENT**

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**FINANCIAL STATEMENT AND INDEPENDENT  
AUDITORS' REPORT**

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**PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2018**

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

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Edison Batlok  
Mayor  
Ujae Atoll Local Government  
Republic of the Marshall Islands

### **Report on the Financial Statement**

We were engaged to audit the accompanying financial statement of the Ujae Atoll Local Government (Ujae Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2013 through September 30, 2018, and the related notes to the financial statements. The financial statement is the responsibility of the Ujae 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 statements; 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 this 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 Ujae 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 \$79,281 and \$78,172, 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 the accompanying financial statement of Ujae Government.

### ***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**

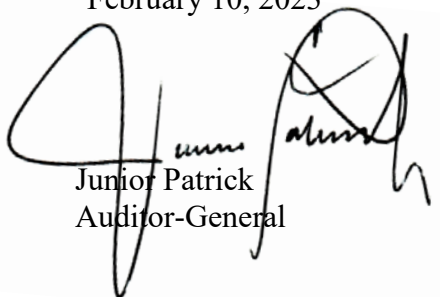
#### ***Other Supplementary Information***

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 10, 2023, on our consideration of the Ujae 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 Ujae 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 Ujae Government's internal control over financial reporting and compliance.

February 10, 2023



Junior Patrick  
Auditor-General

**UJAE ATOLL LOCAL GOVERNMENT**  
Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

	Total
<b>Cash receipts:</b>	
RepMar Contribution	
Local Government Fund(LGF)	76,493
Other Revenue	150
Unreported/unidentified deposits	2,638
<b>Total cash receipts</b>	<b>79,281</b>
 <b>Cash Disbursements:</b>	
Sitting Fees	7,605
Salary and Wages	16,785
Travel/Perdiem	3,041
Advance	150
Fuel	323
Council Operation	300
Fixed Assests	765
Bank charges	432
Unreported/unidentified cash disbursements	48,771
<b>Total disbursements</b>	<b>78,172</b>
<b>Net change in cash</b>	<b>1,109</b>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

## UJAE ATOLL LOCAL GOVERNMENT

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

### (1) Organization

The Ujae 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 Ujae Government. The Ujae Government is governed by an elected mayor, council members and representatives.

### (2) Basis of Accounting

The Schedule of Cash 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.

Ujae 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 Ujae Government is required to comply with accounting system requirements established by the Government of the Republic of the Marshall Islands (RepMar's) Ministry of Culture and Internal Affairs (MOCIA).

### (3) Cash

As of September 30, 2018, the carrying amount of the Ujae Government's total cash was \$1,109, which corresponds to the bank balance and which is maintained at a local financial institution which is not subject to Federal Deposit Insurance Coverage (FDIC). The Ujae Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

### (4) Budget Process

The Constitution of the Ujae 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 Ujae 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 Ujae Government providing financial reports and supporting documents. For the period from October 1, 2013 through September 30, 2018, the Ujae Government received \$76,493 from the LGF.

### (6) Other Financing Sources and Contributions

The Ujae 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 MOF, Banking and Postal Services (Ministry of Finance or MOF). The disbursement of this grant fund is contingent upon the Ujae Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, the Ujae Government received a total of \$132,386 under this grant. In addition, the Ujae Government is the beneficiary of annual appropriations from RepMar under the Grant-in-Aid fund administered and disbursed directly to vendors by RepMar's MOF.

**UJAE ATOLL LOCAL GOVERNMENT**  
Notes to Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

**(6) Other financing sources and contributors (continued)**

Disbursement of this grant fund is contingent upon the Ujae Government providing community proposal and an approved resolution from council. For the period from October 1, 2013 through September 30, 2018, the Ujae Government received a total of \$40,135 under this grant. Furthermore, on January 22, 2016, the Ujae Government received funding from the Asian Development Bank (ADB) in the amount of \$1,854 for the purpose of Solar training for MOCIA and Ujae Local Government. 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, 2013 through September 20, 2018, the Ujae Government made certain payments for the benefits of certain members of council, this amounted to \$7,605 in sitting fees and \$150 for other unsupported benefits.



**UJAE ATOLL LOCAL GOVERNMENT**  
Combining Schedule of Cash Receipts and Disbursements  
Period from October 1, 2013 through September 30, 2018

**Cash Receipts:**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
RepMar Contribution						
Local Government Fund(LGF)	14,017	14,025	14,025	10,519	23,907	76,493
Other Revenue	-	-	150	-	-	150
Unreported/unidentified deposits	-	-	2,638	-	-	2,638
	<hr/>					
<b>Total cash receipts</b>	<b>14,017</b>	<b>14,025</b>	<b>16,813</b>	<b>10,519</b>	<b>23,907</b>	<b>79,281</b>

**Cash Disbursements:**

Sitting Fees	4,145	1,380	2,080	-	-	7,605
Salary and Wages	3,690	3,645	6,250	-	3,200	16,785
Travel/Perdiem	1,961	663	127	-	290	3,041
Advance	-	150	-	-	-	150
Fuel	-	-	323	-	-	323
Council Operation	-	-	300	-	-	300
Fixed Assests	85	-	680	-	-	765
Bank Charges	135	105	100	48	44	432
Unreported/unidentified cash disbursements	4,020	8,033	1,322	15,676	19,720	48,771
	<hr/>					
<b>Total disbursements</b>	<b>14,036</b>	<b>13,976</b>	<b>11,182</b>	<b>15,724</b>	<b>23,254</b>	<b>78,172</b>
	<hr/>					
<b>Net change in cash</b>	<b>(19)</b>	<b>49</b>	<b>5,631</b>	<b>(5,205)</b>	<b>653</b>	<b>1,109</b>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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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 Edison Batlok  
Mayor  
Ujae Atoll 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 Ujae Atoll Local Government (the Ujae 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 10, 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 Ujae 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 Ujae Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ujae 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, and Finding No. 6* that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of Findings and Responses as *Finding No.7, Finding No. 8, and Finding No. 9* to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Ujae Government’s financial statement is 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. 10, and Finding No.11* that we consider to be compliance weaknesses and other matters.

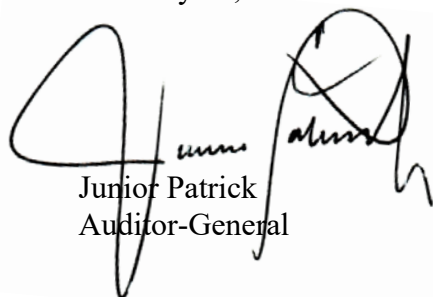
### **The Ujae Government’s Response to Findings**

The Ujae Government’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Ujae 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 10, 2023



Junior Patrick  
Auditor-General

# UJAE ATOLL LOCAL GOVERNMENT

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

## Finding No. 1

### Accounting System (Local Noncompliance)

Criteria: All local governments are required to establish an accounting system pursuant to the Financial Memoranda No. 1987-1 issued by the MOCIA. Included in the accounting system are forms developed to be used such as cash receipts and cash disbursements journals, personnel action, collection cards, purchase orders, budget control worksheets, and several others for proper record keeping.

Condition: We found that Ujae Government did not adopt the local government accounting system established by the MOCIA and the prescribed accounting forms described above were not utilized.

Cause: The cause of the above condition is due to the lack of adherence to the established accounting system by the Ujae Government. In addition, there is a lack of oversight by the MOCIA and MOF in ensuring that the Ujae Government adopts and follows the accounting system established for all local governments.

Effect: The effect of above condition is non-compliance by Ujae Government with the Financial Memoranda No. 1987-1 which resulted in the following:

- 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; and
- Inability to verify the accuracy of expenses paid and reported.

In addition, the lack of utilization of established accounting forms diminishes greatly accountability over the use of the Ujae Government funds and increases the likelihood that funds may be misused or misappropriated but will be detected and corrected in a promptly.

### Recommendation:

1. For the Ujae Government to adopt and follow the accounting system established by the MOCIA to improve accountability over its Financial Operations.
2. For the MOCIA and MOF to take steps to ensure that Ujae Local Government adopts and follows the established accounting system.

### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

### Response from 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.

# UJAE ATOLL LOCAL GOVERNMENT

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

## Finding No.1 Continued

### Response from MOF

The MOF 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.

# UJAE ATOLL LOCAL GOVERNMENT

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

### Finding No.2

#### Unsupported Disbursements

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 the periods covered by the audit, we have identified the following disbursements for council operation that were not supported by invoices, receipts, copies of tickets, and other related supporting documentation:

<b>Date</b>	<b>Check No.</b>	<b>Descriptions</b>	<b>Amount</b>
11/19/2013	1017	Payroll	\$2,465
1/07/2014	1018	Payroll	\$2,890
6/9/2014	1023	Travel	\$682
8/1/2014	1029	Payroll	\$2,505
7/31/2014	1028	Travel	\$1,009
7/7/2014	1027	Travel	\$150
11/11/2014	1030	Payroll & Travel	\$3,283
1/24/2018	1139	Council operation	\$284
1/19/2018	1142	Travel	\$299
<b>Total</b>			<b>\$13,567</b>

Cause: The cause of the above is due to the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by the Ujae Government and the lack of proper review of the financial reports by the MOCIA and MOF to ensure all disbursements are adequately supported. Additionally, internal controls surrounding local government accounting of transactions are inexistent.

Effect: The effect of the above condition is non-compliance with the Local Government Financial Memoranda No. 1987-1 by the Ujae Government and the inability to determine the authenticity and appropriateness of the disbursements made and the clear public purpose or benefits served. There is also a lack of established internal control procedures requiring that checks should be issued with supporting documentation.

#### Recommendation:

1. For the Ujae Government to ensure all disbursements are supported by invoices or receipts and are maintained on file for reference and audit purposes.
2. The MOCIA and MOF review the quarterly financial reports, ensures that they are adequately supported by proper documentation as required by the Local Government Financial Memoranda No. 1987-1, and creates an appropriate internal control system for Local governments to adhere to.

## UJAE ATOLL LOCAL GOVERNMENT

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

### Finding No.2 continued

#### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

#### Response from MOCIA

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

#### Response from MOF

The MOF acknowledges and accepts the findings. Corrective action has been implemented and all current documentations are properly on file.

## UJAE ATOLL LOCAL GOVERNMENT

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

#### Finding No. 3

#### Check issued to Cash

**Criteria:** Proper internal control over cash disbursements requires that disbursements be issued directly to the payee and not be issued to cash. All check payments made must meet all required internal controls surrounding it.

**Condition:** Our review of the Ujae Local Government bank statement revealed that checks were issued to cash and not reported. In addition, we noted that cash withdrawals directly from the Ujae Government bank account without the appropriate documentations and justification for each check issued or cash withdrawal as presented in the tables below:

1. Unreported Cash Checks:

We noted from the bank statement that a total of \$14,290 checks were issued to cash, however, check vouchers and supporting documents were not provided with the report when submitted to the MOF.

	<b>Date</b>	<b>Check #</b>	<b>Payee</b>	<b>Amount</b>	<b>Remarks</b>
1	9/10/2015	1038	Cash	1,750	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
2	9/10/2015	11	Cash	200	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
3	1/4/2016	17	Cash	150	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
4	1/5/2016	18	Cash	2,200	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
5	1/5/2016	19	Cash	300	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
6	1/6/2016	20	Cash	150	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
7	1/12/2016	22	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
8	1/18/2016	21	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
9	1/26/2016	15	Cash	120	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
10	1/26/2016	23	Cash	180	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.



## UJAE ATOLL LOCAL GOVERNMENT

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

11	3/10/2016	33	Cash	175	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
12	9/5/2016	147	Cash	200	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
13	10/10/2016	151	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
14	11/3/2016	153	Cash	380	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
15	11/11/2016	154	Cash	300	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
16	11/23/2016	1042	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
17	12/22/2016	1044	Cash	50	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
18	1/13/2017	1046	Cash	2,920	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
19	10/11/2017	1105	Cash	150	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
20	10/20/2017	1107	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
21	10/27/2017	1131	Cash	150	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
22	10/11/2017	1105	Cash	150	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
23	10/20/2017	1107	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
24	12/18/2017	1135	Cash	400	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
25	6/26/2018	1154	Cash	100	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
26	6/27/2018	1157	Cash	2,850	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
27	7/24/2018	1163	Cash	500	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
28	9/18/2018	1167	Cash	150	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition,

## UJAE ATOLL LOCAL GOVERNMENT

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

					payment was not reported to MOF.
39	9/25/2018	1170	Cash	165	Unable to determine how the fund was expended in the absence of the appropriate documentation on file. In addition, payment was not reported to MOF.
<b>Total</b>				<b>\$14,290</b>	

#### 2. Unsupported Cash Checks:

Our audit also revealed checks that were reported to the MOF but did not have any supporting documentation on file totaling \$8,160.

	Date	Check #	Payee	Amount	Remarks
1	10/27/2017	1131	Cash	150	Check issued to cash for UALG pick up; no supporting documents on file.
2	12/21/2017	1138	Cash	2,990	Check issued to cash with no description provide; unable to determine how the fund was expended due to no supporting documents on file.
3	2/28/2018	1143	Cash	3,320	Check issued to cash with no description provided; unable to determine how the fund was expended due to absence of the appropriate documentation file.
4	3/2/2018	1144	Cash	300	Check issued to cash with no description provide; unable to determine how the fund was expended due to no supporting documents on file.
5	3/12/2018	1145	Cash	500	Check issued to cash with no description provide; unable to determine how the fund was expended due to absence of the appropriate documentation on file.
6	3/14/2018	1150	Cash	100	Check issued to cash with no description provide; unable to determine how the fund was expended due to absence of the appropriate documentations on file.
25	3/26/2018	1152	Cash	800	Check issued to cash with no description provide; unable to determine how the fund was expended due to absence of the appropriate documentations on file.
<b>Total</b>				<b>\$8,160</b>	

#### 3. Cash Check Withdrawals:

We also noted two cash withdrawals during FY2016 amounting to \$4,700. These cash withdrawals were not supported by any invoices, receipts, or other documentations indicating the nature of the withdrawals and whether they were directly related to the Ujae Government business. In addition, the cash withdrawal of \$2,900 on March 21, 2016 was not reported to MOF. The table below shows the details of the cash withdrawals.

Item	Date	Amount	Description	Remarks
1	2/10/2016	1,800	Cash withdrawal.	Cash withdrawals, no supporting document on file;
2	3/21/2016	2,900	Cash withdrawal.	Cash withdrawals, no supporting document on file; unreported to MOF
<b>Total</b>		<b>4,700</b>		

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures in governing cash disbursements and its reporting.

# UJAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Response  
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## Finding No. 3 continued

Effect: The current practice of writing checks to cash and direct withdrawals without the proper documentation greatly diminishes accountability over Ujae Government funds. In addition, there is also the possibility that funds could be misappropriated which may not be detected and corrected promptly.

## Recommendation:

1. For the Ujae Government to cease the practice of writing checks to cash and issuing checks directly to the appropriate payee. In the event checks have to be issued to cash or cash withdrawals, then relevant and appropriate documentations should be maintained for proper accountability purposes.
2. For the MOCIA to improve its oversight responsibility over Ujae Government affairs.

## Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 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.

# UJAE ATOLL LOCAL GOVERNMENT

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

### Finding No.4

#### Financial Reports (Local Non-compliance)

Criteria: Financial reports should be accurate and accompanied by the 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 MOCIA by no later than the 15 of January, April, July, and October.

Condition: Based on our review of the quarterly financial reports filed with the MOCIA and MOF, we identified the following did not comply with the reporting requirements:

- 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 1987-1.
- There were missing quarterly reports and supporting documents (meeting minutes, check copies, ordinances, resolution, invoices, and receipts) for the following:
  - FY2016- 3rd quarter financial report
  - FY2017- 2nd and 3rd quarter financial report
  - FY2018-1st, 3rd, and 4th quarter financial report
- 2<sup>nd</sup> quarter financial report and the related supporting documentation for FY2014 could not be located for examination.
- 3<sup>rd</sup> quarter financial report and the related supporting documentation for FY 2015 could not be located for examination.

Cause: The cause of this condition is due to the lack of adherence to the Local Government Financial Memoranda 1987-1 by the Ujae Local Government. There is also a lack of utilization of checklists that are required to be completed by Officials of the Local Government Division when receiving the quarterly financial reports from a local government. The form provides for official acknowledgments and the date received by and is required to be attached with the purchase requisition (PR) submitted to the Secretary of MOCIA for approval before PR is transmitted to MOF for payment. In addition, there is a lack of review by Internal Affairs Local Government Division and MOF to ensure financial reports submitted are accurate, complete and are adequately supported prior to the release of the LGF.

Effect: The effect of this condition is the non-compliance with the Financial Memoranda 1987-1 which leads to missing files and reports. In addition, a lack of overview from the MOCIA and MOF leads to inaccurate and unreliable financial reports which greatly diminishes accountability over Ujae Government funds

#### Recommendation:

1. For the Ujae Government to comply with the reporting requirements as dictated in the Financial Memoranda No. 1987-1.

## UJAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Response  
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### Finding No. 4 Continued

2. For the MOCIA to address these compliance issues with the Ujae Government regularly. Review the reports thoroughly and ensure they are accurate, complete, and properly supported. In addition, the Officials at the local government division should complete the required checklist form quarterly from the local governments to indicate review and certification.
3. For the MOF to thoroughly review these reports and ensure accurate and reliable proper supporting documentation are provided before releasing the fund.

### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

### Response from 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 MOF

The MOF 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 MOF, all files are properly scanned electronically.

# UJAE ATOLL LOCAL GOVERNMENT

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

### Finding No. 5

#### Revenues and Expenditures Under Reported

Criteria: Section 31(1) of the Constitution of the Ujae Government states that the Executive Committee shall cause to be kept full and proper accounts and records of revenue and expenditure, and assets and liabilities of the local government. Furthermore, good internal control dictates that all revenues and expenditures be properly accounted for and reported.

Condition: We reviewed and compared the revenues and expenditures of the Ujae Government as reported in its quarterly financial reports against the corresponding bank account statements and noted discrepancies and a total unreported revenues and expenditures of \$2,638 and \$48,770, respectively. These underreported discrepancies are presented in the Tables below.

Summary of underreported Revenues by year:

<u>Fiscal Year</u>	<u>Per Bank Statement</u>	<u>Per Financial Report</u>	<u>Variance</u>
FY2014	\$14,025	\$14,025	-
FY2015	14,025	14,025	-
FY2016	16,813	14,175	\$2,638
FY2017	10,519	10,519	-
FY2018	23,907	23,907	-
<b>Totals</b>	<b>\$79,289</b>	<b>\$76,651</b>	<b>2,638</b>

Summary of underreported Expenditures by year:

<u>Fiscal Year</u>	<u>Per Bank Statement</u>	<u>Per Financial Report</u>	<u>Variance</u>
FY2014	\$13,901	\$9,881	\$4,020
FY2015	13,871	5,838	8,033
FY2016	11,082	9,761	1,322
FY2017	15,676,	-	15,676
FY2018	23,660	3,940	19,720
<b>Totals</b>	<b>\$78,190</b>	<b>\$29,419</b>	<b>\$48,770</b>

Cause: The cause of the above condition is the lack of internal control policies and procedures for filing and maintaining accounting records. The Executive Committee did not perform its duties diligently as required under the Ujae Government's Constitution. Additionally, there is a lack of proper review of the quarterly financial reports by the MOCIA and MOF to ensure financial reports are accurate and complete.

Effect: The effect of the above condition is the potential inability to support the authenticity and correctness of recorded revenue and expenditure transactions and the inability to perform all planned audit procedures resulting in a disclaimer of opinion. In addition, the lack of proper financial reporting greatly diminishes accountability over Ujae Government funds and increases the possibility for unauthorized transactions to occur which may not be detected and corrected promptly.

# UJAE ATOLL LOCAL GOVERNMENT

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

## Finding No.5 Continued

### Recommendation:

1. For the Executive Committee Members of the Ujae Government to review the quarterly financial reports to ensure proper accounts and records of revenues and expenditures.
2. For the MOCIA and MOF to thoroughly review the quarterly financial reports to ensure accuracy and completeness. They must also ensure that all monies received and all disbursements made have been properly accounted for.

### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

### Response from 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.

### Response from MOF

The MOF acknowledges and accepts the finding. Corrective action has been implemented and all bank statements submitted with financial reports are properly examined.

# UJAE ATOLL LOCAL GOVERNMENT

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

## Finding No. 6

### 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.

Condition: Based on our review of the expenditures, we noted that Ujae Government bought certain capital assets totaling \$765, however, such were not recorded in a fixed assets register as the local government is not maintaining a list of properties acquired over the years.

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

Effect: The effect of the above condition is noncompliance with the Local Government Act 1980 and the possibility for misappropriation of assets which may not be detected and corrected promptly.

### Recommendation:

1. For the Ujae Local Government to ensure all fixed assets acquired are recorded in a fixed register and submit the registration to the MOCIA.
2. For the MOCIA to work with the Ujae Local Government to ensure a fixed assets register is maintained for all assets purchased.

### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

### Response from 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. 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



## UJAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Response  
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### Finding No. 7

#### Revenue/Cash Receipt

Criteria: A proper system of internal control requires that the collection of revenues be supported by cash receipts and deposited intact in a timely manner. Additionally, the Local Government Accounting system established by the MOCIA requires that cash receipts are issued for all monies collected and if cash receipts are not available, utilize the collection cards.

Condition: During the periods covered by the audit, the Ujae Government reported in its quarterly financial reports \$150 as local revenues, however, the bank statement stated that a total of \$2,788 was deposited into the LGF account, a variance of \$2,638.

Cause: The cause of this condition is due to the lack of adherence to the Local Government Accounting System requiring the issuance of cash receipts and utilization of the cash receipts journal.

Effect: The effect of the above condition is the possibility of misappropriation of public funds. Additionally, there is no audit trail to determine how much local revenues were collected.

Recommendation: For the Ujae Government to issue cash receipts to customers, or utilize the collection cards when collecting the required fees and taxes on the island as a measure of transparency and accountability. These collections should be accounted for through a cash receipts journal and deposited promptly.

#### Auditee's Response and Collective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

# UJAE ATOLL LOCAL GOVERNMENT

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

## Finding No.8

### Income Taxes, Social Security and Health Fund Taxes (Local Noncompliance)

Criteria: The Income Tax Act of 1989 states that income tax shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employee. Every employer required to deduct and withhold the tax imposed shall be liable for the payment 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. 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 3.5% of their covered earnings to the Health Fund. It also requires that every employer shall remit the same to the Administration along with the employer's contributions.

Condition: Based on our review, we found that Ujae Government paid \$7,605 for sitting fees and \$16,785 for salaries and wages, totaling \$24,390, however, no taxes were withheld for Income taxes, Social Security and Health Fund Taxes.

Cause: The cause of the above condition is due to the lack of adherence to the Income Tax Act, the Social Security Tax Act, and the Health Fund Tax Act.

Effect: The effect of the above condition is that Ujae Government is non-compliant with the Income Tax Act of 1989, the Social Security Tax Act of 1990, and the Health Fund Tax Act of 2002. Penalties can arise for non-compliance to such Acts.

Recommendation: For the Ujae Government to strictly 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 Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

# UJAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Response  
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## Finding No. 9

### Business Listing (Local Noncompliance)

Criteria: Section 203 of the Local Government Tax and Fees Act of 1989 requires that, at the end of each quarter, every Local Government Council shall provide to the Secretary of Finance, through the Secretary of Internal Affairs, a list of names of all businesses licensed under its jurisdiction.

Condition: During the periods of the audit covered in this review, we did not find any business listing filed by the Ujae Government with the MOCIA and MOF for the entire period covered by this audit.

Cause: The cause of this condition is due to the lack of compliance, review, and oversight by the MOCIA and MOF in ensuring that the Ujae Government is compliant with this provision requiring that a business listing be filed as part of the financial report.

Effect: The effect of this condition is that Ujae Government is non-compliant with the reporting requirements of the Local Government Tax and Fees Act of 1989.

Recommendation: For the Ujae Government to strictly comply with Section 203 of the Local Government Tax and Fees Act of 1989.

### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

# UJAE ATOLL LOCAL GOVERNMENT

Schedule of Findings and Response  
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## Finding No. 10

### Council Minutes (Local Noncompliance)

Criteria: Section 102 of the Local Government (Amendment) Act 2016 indicates that the constitution of every local government shall provide for a meeting of the Council at least once every three (3) months.

Condition: During our examination, we were unable to locate any council minutes for the 2<sup>nd</sup> Quarter of FY2014, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> Quarter of FY2015, and 1<sup>st</sup> Quarter of FY2016.

Cause: The Cause of the above condition is the lack of adherence to Section 102 of the Local Government (Amendment) Act 2016 by the Administration of Ujae Local Government.

Effect: The effect of the above conditions is noncompliance with the requirement and that major decisions of the Council are not properly documented which represents a culture of loosened oversight and negligence of duties by the Ujae Government Administration.

Recommendation: For the Ujae Government to comply with the Local Government (Amendment) Act 2016, in terms of adhering to the quarterly meetings requirements.

### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

# UJAE ATOLL LOCAL GOVERNMENT

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

### Finding No. 11

#### Personnel Files

Criteria: Personnel files should be maintained to have evidence that a person receiving salaries/compensations was hired. A personnel file should include an approved personnel action form, job descriptions that clearly define duties and responsibilities, and other related documents.

Condition: Personnel files and time sheets were not being maintained, however, salaries in the amount of \$16,785 were paid to council employees that included a clerk, police officers, a public prosecutor, maintenance crews, and boat operator crews. In the absence of these documents, we are unable to determine whether employees paid are in fact employees of the Ujae Government.

Cause: The cause of this condition is due the lack of internal control policies and procedures regarding personnel files and time sheets.

Effect: The effect of this condition is the inability to determine the appropriateness of the compensations paid by the Ujae Government to its workers and whether they were properly authorized.

Recommendation: For the Ujae Government to establish and implement internal control policies and procedures that require personnel files being established for all employees that copies are maintained on file.

#### Auditee's Response and Corrective Action Plan:

The Ujae Local Government has verbally agreed to our findings and recommendations at our exit conference on January 27, 2023.

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