Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

December 27, 2018

Mayor Hirata Kabua
Kwajalein Atoll Local Government
Republic of the Marshall Islands

Dear Mayor Kabua:

In planning and performing our audit of the statement of net assets of the governmental activities and the governmental funds balance sheet for the general fund of the Kwajalein Atoll Local Government (KALGOV) as of September 30, 2012 and on which we have issued our report dated December 27, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered KALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to KALGOV's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to KALGOV, also dated December 27, 2018 on our consideration of KALGOV'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 definition of a deficiency is also set forth in the attached Appendix I.

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

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

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

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

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KALGOV's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

<u>(1) Expenditures/Disbursements</u>

Our examination of expenditures noted the following exceptions:

1. Check # 23129 in the amount of $25,450 for vehicle purchase was not supported by a vendor invoice. We were informed by management that the procured vehicle was a replacement of an old vehicle. However, no corresponding retirement was recorded.

2. Check #s 23174, 24440 and 24620 in the amounts of $729, $3,000 and $2,798, respectively, for fuel purchases were not supported by vendor invoices and bunker delivery fuel to support actual receipt of fuel purchased.

3. Check # 23223 in the amount of $16,995 for repairs and spare parts was not supported by a vendor invoice. Instead, a quotation from the vendor was used as basis for disbursements.

4. Check # 23541 in the amount of $5,400 for payment of bonus to public safety personnel was not supported by written documentation or memo to support authorization of this transaction.

5. Check # 24816 in the amount of $12,000 for employee advance was not supported by Accounts Payable voucher authorized by the Finance Director and City Manager.

6. Check # 7142 in the amount of $5,000 for Mayoral housing allowance was not supported by authorized Council-approved schedule. Furthermore, the disbursement was not supported by written documentation indicating the specific period covered.

7. During the year ended September 30, 2012, KALGOV incurred $7,236 for cell card purchases reimbursed through petty cash. In addition, $749 of cash power was incurred under the name of petty cashier. We were informed that cash power reimbursement is part of employee board and lodging benefit.

We recommend that management maintain and adequately file supporting documentation to support disbursements. Management may consider setting an allowance limit for each officer on cell card usage per month and explicitly setting an allowance of cash power reimbursements as employee benefits.

SECTION II - OTHER MATTERS

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

<u>(1) Council Minutes, Ordinances and Resolutions</u>

KALGOV Ordinance No. 2012-01 did not indicate signature of officers evidencing approval of the Council.

We recommend that management document independent review and approval of government documents.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

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

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

Management's Responsibility

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

Objectives of Internal Control over Financial Reporting

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

Inherent Limitations of Internal Control over Financial Reporting

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