

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, 2013 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, 2013 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.

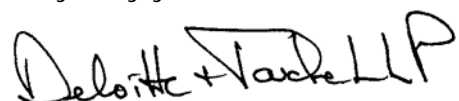
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



**SECTION I – CONTROL DEFICIENCIES**

We identified, and have included below, control deficiencies involving KALGOV's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

(1) Expenditures / Disbursements

Our examination of expenditures noted the following exceptions:

1. Check # 25964 in the amount of \$1,115 for fuel charges, for which \$745 was not supported by a vendor invoice. Furthermore, supporting documentation lacked approval and justification of fuel withdrawals from vendor.
2. Check # 7101 in the amount of \$90 for employee reimbursement, for which \$50 for tire purchase was not supported by a vendor invoice.
3. Check # 25150 in the amount of \$1,175 for employee reimbursement was not supported by vendor invoices.
4. 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.

We recommend that management maintain and adequately file supporting documentation to support disbursements.

(2) License Fee Revenues

Our examination of license fee revenues noted the following exceptions:

1. Daily collections on March 14 and 15, 2013 with accumulated amount of \$6,033 were deposited on March 20, 2013, which represents a delay of four to five working days.
2. CR # 4268 in the amount of \$3,400 includes license fees of \$400 for bakery license, which is inconsistent with Council-approved rates as mandated by Ordinance No. 2006-04.

We recommend that management establish internal control policies requiring that accurate rates and fees be charged and timely deposited.

**SECTION II – 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.

**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.