

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

AUR ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENT
AND
INDEPENDENT AUDITOR'S REPORT**

PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2021



AUDIT No.: OAG 1/21-2400

January 16, 2024
Date

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

AUR ATOLL LOCAL GOVERNMENT

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AUR ATOLL LOCAL GOVERNMENT
Period from October 1, 2013 through September 30, 2021

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OFFICE OF THE AUDITOR-GENERAL

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INDEPENDENT AUDITORS' REPORT

Honorable Hesa Kaious
Mayor-Elect
Aur Atoll Local Government
Republic of the Marshall Islands

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Aur Atoll Local Government (Aur Government), which comprises the schedule of cash receipts and disbursements for the period from October 1, 2013 through September 30, 2021, and the related notes to the financial statements. The financial statement is the responsibility of the Aur 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 statement 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 Aur 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 \$192,286 and \$192,380, 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 Aur 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

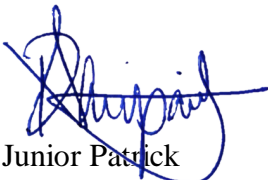
Other Supplementary Information

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 January 16, 2023 on our consideration of the Aur 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 Aur 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 Aur Government's internal control over financial reporting and compliance.

January 16, 2023

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Junior Patrick
Auditor-General

AUR ATOLL LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements
Period from October 1, 2013 through September 30, 2021

Cash Receipts:

	<u>Total</u>
RepMar Contribution	
Local Government Fund (LGF)	158,083
Head Tax	1,014
Business License	2,570
One Island One Product	2,480
Other Revenues	3,310
Bank Adjustments	5,628
Unreported/unidentified deposits	<u>19,201</u>
Total cash receipts	<u>192,286</u>

Cash Disbursements:

Salary	117,263
Transportation	2,934
Travel	2,794
Entertainment	220
Supplies and Materials	95
Other Expenses	4,406
Bank Charges	6,519
Unreported/unidentified cash disbursements	<u>58,149</u>
Total cash disbursements	<u>192,380</u>
Change in Cash	<u>(94)</u>

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.

AUR ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements

Period from October 1, 2013 through September 30, 2021.

(1) Organization

The Aur 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 Aur Government. The Aur 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.

The Aur 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 Aur 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, 2021, the carrying amount of the Aur Government's total cash was \$136.49 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 Aur Government does not require collateralization of its cash deposits in excess of FDIC depository limits.

(4) Budget Process

The Constitution of the Aur 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 Aur 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 Aur Government providing financial reports and supporting documents. For the period from October 1, 2014 through September 30, 2021, the Aur Government received \$158,082.47 from the LGF.

(6) Other Financing Sources and Contributions

The Aur 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 (MOFBPS). The disbursement of this grant fund is contingent upon the Aur Government providing community proposal and an approved resolution from council. For the period from October 1, 2013, through September 30, 2021, the Aur Government received a total of \$403,648.46 under this grant.

AUR ATOLL LOCAL GOVERNMENT

Notes to Schedule of Cash Receipts and Disbursements

Period from October 1, 2013 through September 30, 2021.

(6) Other Financing Sources and Contributions (continued)

In addition, the Aur Government is the beneficiary of annual appropriations from RepMar under the Grant-in-Aid fund administered and disbursed directly to vendors by RepMar's MOFBPS. The disbursement of this grant fund is contingent upon the Aur Government providing a community proposal and an approved resolution from the council. For the period from October 1, 2013, through September 30, 2021, the Aur Government received a total of \$46,767.30 under this grant. As these appropriations are disbursed directly by RepMar to vendors, they are not reflected as cash receipts and disbursements within the accompanying financial statement.

(7) Related Party Transactions

During the period from October 1, 2013 through September 30, 2021, the Aur Government made payments of salaries and sitting fees for the benefits of certain members of the council which amounted to \$117,262.69.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Cash Receipts and Disbursements Period from October 01, 2013 through September 30, 2021

Cash Receipts:

	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>Total</u>
RepMar Contribution	15,542	15,512	15,542	15,535	24,168	23,448	24,168	24,168	158,083
Local Government Fund (LGF)									
Head Tax	-	150	190	374	300	-	-	-	1,014
Business License	-	-	800	-	600	-	1,170	-	2,570
One Island One Product	-	-	-	-	-	-	2,480	-	2,480
Other Revenues	-	1,200	300	250	150	-	-	1,410	3,310
Bank Adjustments	671	1,949	1,606	-	-	831	471	100	5,628
Unreported/unidentified deposits	1,561	1,017	11,307	2,263	873	2,573	(1,992)	1,599	19,201
Total cash receipts	17,774	19,828	29,745	18,422	26,091	26,852	26,297	27,277	192,286

Cash Disbursements:

Salary	9,061	7,844	10,815	14,420	17,931	14,812	23,945	18,434	117,262
Transportation	-	737	1,338	525	335	-	-	-	2,935
Travel	-	800	-	-	-	-	1,994	-	2,794
Entertainment	-	-	-	220	-	-	-	-	220
Supplies & Materials	-	-	-	-	-	-	95	-	95
Other Expenses	-	1,080	-	175	1,034	-	1,816	301	4,406
Bank Charges	171	488	4,314	15	-	-	1,421	110	6,519
Unreported/unidentified cash disbursements	8,441	8,326	13,738	3,145	6,296	11,789	(5,768)	12,182	58,149
Total cash disbursements	17,673	19,275	30,205	18,500	25,596	26,601	23,503	31,027	192,380
Net change in cash	101	553	(460)	(78)	495	251	2,794	(3,750)	(94)

See Accompanying Notes to Schedule of Cash Receipts and Disbursements.



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 Hesa Kaious
Mayor-Elect
Aur 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 Aur Atoll Local Government (the Aur Government) for the period from October 1, 2013 through September 30, 2021, and the related notes to the financial statement and have issued our report thereon dated January 16, 2024. 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 Aur 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 Aur Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Aur 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, and Finding No. 4*, 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.5 and Finding No. 12* to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Aur 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. 1, Finding No. 2, Finding No. 3, Finding No. 4, Finding No. 5, Finding No. 6, Finding No. 7, Finding No. 8, Finding No. 9, Finding No. 10, and Finding No. 11* that we consider to be compliance weaknesses and other matters.


The Aur Government’s Response to Findings

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

January 16, 2024

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Junior Patrick
Auditor-General

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses
Period from October 1, 2013 through September 30, 2021.

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 (MOCIA). Furthermore, Part VI of Section 31 (1) of the Aur Government Constitution states that the Executive Committee shall cause to be kept full and proper accounts and records or revenue and expenditure of the local government, assets of or under the control of the local government 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, records, payroll registers, stipends and casual employment pay sheets, personnel action forms, travel expense reports, and purchase order forms for proper record-keeping.

Condition: We found that the Aur Government did not adopt the accounting system established by the MOCIA, and accounting forms as described in the above criteria were not utilized.

Cause: The cause of the above condition is due to the lack of adherence to the established accounting system by the Aur Government. In addition, there is a lack of oversight by the MOCIA and the Ministry of Finance, Banking & Postal Services (MOFBPS) in ensuring that the Aur Government adopts and follows the accounting system in place.

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

- Inability to perform an audit of a complete set of financial statements.
- Inadequate recording of financial transactions into a general ledger.
- Inability to verify the accuracy of revenues collected and reported.
- Inability to verify the accuracy of expenses paid and reported.

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

Repeated Finding: Noncompliance with the established accounting system was reported as a finding in our previous audit (Audit No. 17/13-9999 Finding No. 4).

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MoCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.1 (continued)

Response from the MOFBPS:

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

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.2

Revenue/Cash Receipts

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

Condition: During the periods covered by this audit, Aur Government reported in their quarterly financial reports \$9,374 in total local revenues collected; however, cash receipts were not utilized to properly record the revenues and their sources.

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

Effect: There is no audit trail to determine how much local revenue was collected, which increases the possibility of misappropriation of local revenues, which may not be detected and corrected in a timely manner. This indicates a significant weakness in the Aur Government's financial systems and controls, which may result in inaccurate financial reporting, loss of revenue, and an increased risk of fraud and errors to occur.

Repeated Finding: Lack of proper recordation of revenues was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 3).

Recommendation: We recommend that the Aur Government take corrective action to improve accounting for its revenues and ensure that all cash receipts are maintained to record monies collected.

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.3

Unsupported Disbursement

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 under audit, we noted the following disbursements totaling \$17,907 that were not supported by invoices, receipts, copies of tickets, and other related supporting documentation as presented in the table below.

Item	Date	Check No.	Amount	Remarks
1	03/07/2014	770	\$350	No documentation was maintained on file to indicate nature of purchase.
2	04/04/2014	776	\$900	No documentation was maintained on file to indicate nature of purchase.
3	03/20/2015	1144	\$870	No documentation was maintained on file to indicate nature of purchase.
4	04/01/2015	1125	\$975	No documentation was maintained on file to indicate nature of purchase.
5	05/14/2015	1051	\$500	No documentation was maintained on file to indicate nature of purchase.
6	08/24/2015	995	\$394	No documentation was maintained on file to indicate nature of purchase.
7	12/21/2015	1003	\$400	No documentation was maintained on file to indicate nature of purchase.
8	12/24/2015	1019	\$1,500	No documentation was maintained on file to indicate nature of purchase.
9	12/30/2015	1007	\$400	No documentation was maintained on file to indicate nature of purchase.
10	04/11/2016	69	\$1,055	No documentation was maintained on file to indicate nature of purchase.
11	05/16/2016	1142	\$462	No documentation was maintained on file to indicate nature of purchase.
12	04/12/2017	1035	\$1,070	No documentation was maintained on file to indicate nature of purchase.
13	05/03/2018	228	\$400	No documentation was maintained on file to indicate nature of purchase.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No. 3 (continued)

14	06/17/2019	356	\$685.80	No documentation was maintained on file to indicate nature of purchase.
15	03/26/2020	561	\$328.16	No documentation was maintained on file to indicate nature of purchase.
16	04/02/2020	562	\$433.50	No documentation was maintained on file to indicate nature of purchase.
17	04/09/2020	569	\$487	No documentation was maintained on file to indicate nature of purchase.
18	04/14/2020	573	\$400	No documentation was maintained on file to indicate nature of purchase.
19	05/08/2020	610	\$1,465	No documentation was maintained on file to indicate nature of purchase.
20	05/08/2020	611	\$1,465	No documentation was maintained on file to indicate nature of purchase.
21	08/10/2020	616	\$487	No documentation was maintained on file to indicate nature of purchase.
22	08/13/2020	649	\$400	No documentation was maintained on file to indicate nature of purchase.
23	10/20/2020	653	\$1,240	No documentation was maintained on file to indicate nature of purchase.
24	11/02/2020	141	\$1,240	No documentation was maintained on file to indicate nature of purchase..
	Total		\$17,907.46	

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

Effect: The effect of the above condition is non-compliance with Local Government Financial Memoranda No. 1987-1 by the Aur Government and the inability to determine the authenticity and appropriateness of the disbursements made and the clear public purpose or benefits served.

Repeated Finding: Noncompliance with the Local Government Financial Memoranda No. 1987-1 was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 2).

Recommendation: We recommend that the Aur Government ensure all disbursements are supported by invoices or receipts and are maintained on file for reference and audit purposes. We also recommend that the MOCIA and MOFBPS review the quarterly financial reports and ensure that they are adequately supported by proper documentation as required by Local Government Financial Memoranda No. 1987-1.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.3 (Continued)

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from the MOFBPS:

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented and all current documentations are properly on file. All payment request are returned back to the Local Government office at the Ministry of Culture and Internal Affairs if such supporting documents are not attached with the request. The Ministry of Finance's new financial management information system is a cloud based storage so all supporting documents are best stored electronically.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No. 4

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 that a local government must submit a quarterly financial report to the secretary of the MOCIA by no later than the 15th of January, April, July, and October.

Condition: Our review of the quarterly financial reports filed with the MOCIA and MOFBPS revealed the following issues:

- The 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 Local Government Financial Memoranda No. 1987-1.
- The financial report and related supporting documentation for the 1st quarter of FY2014, 1st quarter of FY2015, and 1st quarter of FY2016 were not provided.
- The financial report and related supporting documentation for the 4th quarter of FY2021 were not provided on file. RepMar Check No. 227916, dated 03/11/22, was issued by the MOFBPS to the Aur Government for 1st and 2nd qtrs. Allotment, hence the acquittal of the 4th quarter financial report and supporting documentation for FY2021, would have not yet been submitted.

Cause: The cause of the above condition is the lack of adherence to the Local Government Financial Memoranda No. 1987-1 by the Aur Government. Also, there is a lack of consistency in utilizing the checklist that is required to be completed by the MOCIA when receiving the quarterly financial reports from the local government. The form provides for official acknowledgements and dates received by and is required to be attached to the purchase requisition submitted to the Secretary of the MOCIA for approval before being transmitted to the MOFBPS for payment. In addition, there is a lack of review by the MOCIA and MOFBPS to ensure financial reports submitted are accurate, complete, and properly supported prior to payment out of the Local Government Fund.

Effect: Non-compliance with the reporting requirements leads to a lack of files related to and supporting documentation. In addition, the lack of review by the MOCIA and MOFBPS has resulted in inaccurate and unreliable financial reports.

Repeated Finding: Noncompliance with the quarterly reporting requirements was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 5).

Recommendation: We recommend that the Aur Government comply with the quarterly reporting requirements as dictated in Financial Memoranda No. 1987-1. We also recommend that the MOCIA address these compliance issues with the Aur Government on a regular basis. 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 in order to indicate review and verification. Further, we recommend that the MOFBPS thoroughly review these reports and ensure accurate and reliable supporting documentation is provided before releasing the fund.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No. 4 (Continued)

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

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 documentation are properly on file. Furthermore, all requests for quarterly LGFs are returned back to the Local Government office at the Ministry of Culture and Internal Affairs if such supporting documents are not attached with the request.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Finding and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.5

Revenues and Expenditures Under Reported

Criteria: Part VI of Section 31 of the Constitution of Aur Government requires that the Executive Committee cause to be kept full and proper accounts and records of revenues and expenditures of the local government, as well as 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 and the bank statements for the periods under audit for revenues and disbursements, we have found that revenues and expenditures for Aur Government were under-reported by \$19,201.43 and \$58,148.69, respectively. In addition, we were unable to determine whether parts of these disbursements totaling \$58,148.69 was reported to MOFBPS due to missing quarterly reports and related supporting documentation.

Receipts:

Periods	Bank Statements	Financial Summary Report	Under/Over Reported
FY2014	\$17,103.52	\$15,542.12	\$1,561.40
FY2015	\$17,878.72	\$16,862.12	\$1,016.60
FY2016	\$28,139.02	\$16,832.12	\$11,306.90
FY2017	\$18,421.76	\$16,158.56	\$2,263.20
FY2018	\$26,090.85	\$25,217.85	\$873.00
FY2019	\$26,021.00	\$23,447.85	\$2,573.15
FY2020	\$25,826.50	\$27,818.00	\$(1,991.50)
FY2021	\$27,176.53	\$25,577.85	\$1,598.68
Total	\$186,657.90	\$167,456.47	\$19,201.43

Disbursements:

Periods	Bank Statements	Financial Summary Report	Under/Over Reported
FY2014	\$17,502.54	\$9,061.40	\$8,441.14
FY2015	\$18,786.60	\$10,460.80	\$8,325.80
FY2016	\$25,890.55	\$12,152.23	\$13,738.32
FY2017	\$18,484.55	\$15,340.05	\$3,144.50
FY2018	\$25,596.22	\$19,299.94	\$6,296.28
FY2019	\$26,600.50	\$14,811.70	\$11,788.80
FY2020	\$22,082.26	\$27,850.69	\$(5,768.43)
FY2021	\$30,917.28	\$18,735.00	\$12,182.28
Total	\$185,860.50	\$127,711.81	\$58,148.69

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

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No. 5 (continued)

Effect: The effect of the condition is noncompliance with the Aur Constitution. In addition, a lack of proper financial reporting greatly diminishes accountability over the Aur Government funds and increases the possibility for unauthorized transactions to occur, which may not be detected and corrected in a timely manner.

Repeated Finding: Lack of proper recording and reporting of revenues and expenses by Aur Government was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 16).

Recommendation: We recommend that the Mayor and Executive Committee Members of the Aur Government keep full and proper accounts and records of all their revenues and expenditures. We also recommend that the MOCIA ensure that the Mayor and Executive Committee members receive proper training on how to properly record and report revenues and expenditures.

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.6

Procurement Code Violation

Criteria: All local governments that 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 \$.01 to \$500 under General Fund requires a minimum of 1 quotation only.
- ii. \$500 to \$25,000 for the General Fund requires a minimum of three valid and relevant quotations.
- iii. For all other funds, \$.01 to \$24,999.99 requires a minimum of three valid and relevant quotations.

Condition: We found that the Aur Government did not provide any price quotations for all payments where price quotations are mandatory. For instance, the following payments were made from the Local Government Fund (LGF), for which the 3-price quotation requirement was not followed:

Date	Check no.	Description	Amount	Remarks
04/04/2014	776	Not Indicated	\$900	No price quotation on file.
03/20/2015	1144	Not Indicated	\$870	No price quotation on file.
04/01/2015	1125	Not Indicated	\$975	No price quotation on file.
12/24/2015	1019	Not Indicated	\$1,500	No price quotation on file.
04/11/2016	69	Not Indicated	\$1,055	No price quotation on file.
04/12/2017	1035	Not Indicated	\$1,070	No price quotation on file.
06/17/2019	356	Not Indicated	\$685.80	No price quotation on file.
05/08/2020	610	Not Indicated	\$1,465	No price quotation on file.
05/08/2020	611	Not Indicated	\$1,465	No price quotation on file.
10/20/2020	653	Not Indicated	\$1,240	No price quotation on file.
11/02/2020	141	Not Indicated	\$1,240	No price quotation on file.
Total			\$12,465.80	

Cause: The cause of the above condition is the lack of proper oversight, monitoring, and enforcement to ensure the Aur Government complies with the RMI Procurement Code.

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

Repeated Finding: Noncompliance with the RMI Procurement Code requirements was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 10).

Recommendation: We recommend that the Aur Government strictly comply with the procurement policy to get the best value for its money. We also recommend that the MOCIA and MOFBPS ensure that the Aur Government complies with the Procurement Code prior to approval and disbursement of funds.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.6 (continued)

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

Response from the MOFBPS:

The Ministry of Finance acknowledges and accepts the finding. Corrective action has been implemented. All purchase requests are returned back to the Local Government office at the Ministry of Culture and Internal Affairs if supporting documents such as price quotations are not attached with the request. Furthermore, the Ministry will work closely with MoCIA to conduct procurement training, especially with newly elected Mayors, to avoid future findings.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.7

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 salaries. This contribution was increased in the Social Security Amendment Act 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 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 the Aur Government paid a total of \$117,262.69 in salaries and sitting fees; however, no taxes were withheld for income tax, social security, or health fund taxes.

Periods	Description	Amount
FY2014	Salary and sitting fees	\$9,061.40
FY2015	Salary and sitting fees	\$7,844.20
FY2016	Salary and sitting fees	\$10,814.54
FY2017	Salary and sitting fees	\$14,420.45
FY2018	Salary and sitting fees	\$17,930.94
FY2019	Salary and sitting fees	\$14,811.70
FY2020	Salary and sitting fees	\$23,945.46
FY2021	Salary and sitting fees	\$18,434.00
Total		\$117,262.69

Cause: The cause of the above condition is due to a lack of oversight from the Aur Government to ensure income tax, social security tax, and health fund tax are withheld when salaries and sitting fees are paid.

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.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.7 (continued)

Repeated Finding: Noncompliance with the Income Tax, Health Fund and Social Security Act was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 15)

Recommendation: We recommend that the Aur 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 Aur Government disagreed with our finding and recommendation and further suggested Local Government staff be provided minimum wage salary and then tax should be deducted (See Appendix 1).

Auditor's Response to Comments by Aur Government:

We acknowledge the comments and suggestions by the Aur Government. We reiterate our recommendation for the Aur Government to comply with requirements of the Income Tax Act of 1989, the Social Security Tax Act, and the Health Tax Act of 2002.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No. 8

Personnel File

Criteria: Personnel action files should be maintained to have evidence that a person receiving salaries or compensations was actually employed. 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 \$117,262.69 were paid to council employees, which included a clerk, police officers, and midwife. In the absence of these documents, we are unable to determine whether employees paid are in fact employees of the Aur Government.

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

Effect: The effect of the above conditions is the inability to determine the appropriateness of the compensations paid and whether they were properly authorized.

Recommendation: We recommend that the Aur Government establish and implement internal control policies and procedures requiring that personnel files are established for all employees of the Aur Government and that copies are maintained on file.

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.9

Budget

Criteria: Article V of Section 3(1) and (2) of the Aur Government Constitution states “the Executive Committee shall cause to be introduced into the council in respect of each financial year (a) a set of budget estimates of revenue and expenditure and (b) an Appropriation Ordinance to make appropriations for expenditure, and may introduce additional supplementary estimates and Supplementary Appropriation Ordinances”. Additionally, the Accounting Procedures for Local Government requires that each local government must have at least one Budget for each fiscal year to maintain and keep track of the council’s spending against budget appropriations.

Condition: A review of the Budget Ordinance for the periods covered by the audit disclosed the followings:

- The budget ordinances for FY2014 and FY2015 were not available and maintained on file for examination.
- The budget ordinance for FY2016 was not signed by the Mayor and Clerk.
- FY2017 budget in the amount of \$205,128.64 was not supported by detail revenues and expenditures.
- The annual budgets prepared for FY2016 and FY2018 are not balanced, where the anticipated expenditures are greater than the anticipated revenues.

Cause: The cause of the above condition is the lack of adherence to the Constitution and the lack of review and monitoring by the Council to ensure expenditures are incurred following the approved spending limits. Additionally, the budgets were not properly reviewed by MOCIA to ensure they are balanced and approved by the Mayor.

Effect: Non-compliance with the Constitution and likelihood that expenses may have been incurred during the period were not authorized by the Council in the absence of the Budget Ordinance.

Recommendation: We recommend that the Aur Government ensure that a Budget Ordinance is prepared and authorized each year by the Aur Council for its operation in accordance with the Aur constitution. Additionally, the Council should review the quarterly financial reports against the budget to ensure expenditures are not exceeding the approved amounts. Furthermore, we recommend that MOCIA review Budget that are prepared by Aur Government.

Auditee’s Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.10

Bank Reconciliation

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

Condition: Based on our review, we found that Aur Government did not reconcile its cash at the bank for the entire period under review. The Aur 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 and MOCIA to ensure that bank reconciliations are performed on a regular basis.

Effect: The effect of the above condition is noncompliance with the requirements, and the Aur Government may not be able to detect potential financial errors and/or fraud in a timely manner.

Repeated Finding: Lack of performance bank account reconciliation on a regular basis was reported as finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 6).

Recommendation: We recommend that the Executive Committee of the Aur Government ensure that the bank reconciliations are prepared monthly. In addition, we recommend that MOCIA ensure that Aur Government is performing its bank reconciliation on a regular basis and provide these with the quarterly financial reports.

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

Response from the MOCIA:

No response was provided by the MOCIA to the finding and recommendation although it communicated earlier that it would provide its comments.

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No. 11

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 documents provided to MOCIA and MOFBPS, we noted that the Aur Government did not file a report or a listing of all fixed assets bought and are in its possession as stipulated under the Local Government Act of 1980 during the period audited.

Cause: This is due to the lack of adherence to the above criteria by the Aur Government and the lack of oversight by the MOCIA in making sure assets purchased are recorded and reported in accordance with the requirements.

Effect: The effect of the above condition is the possibility of misappropriation of assets, which may not be detected and corrected in a timely manner.

Repeated Finding: Lack of proper reporting of fixed assets was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 8).

Recommendation: We recommend that the Aur Government must 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.

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).

AUR ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses

Period from October 1, 2013 through September 30, 2021.

Finding No.12

Checks Not Issued in Sequential Order

Criteria: Proper internal control over cash disbursement require checks to be issued in a sequential order.

Condition: Our examination of checks issued during the periods under audit disclosed that checks were not issued in a sequential order and that not all checks were pre-numbered, many of them are counter checks with duplicate numbers.

Cause: The cause of the above condition is the lack of internal control procedures requiring that checks be issued in a sequential order.

Effect: The effect of the above condition is possibility for issuance of unauthorized disbursements.

Repeated Finding: The issue of checks not issued in sequential order was reported as a finding in our previous audit (Audit Report No. 17/13-9999 Finding No. 12).

Recommendation: We recommend that Aur Government establish policies and procedures requiring the issuing of checks in a sequential order.

Auditee's Response and Corrective Action Plan:

The Aur Local Government agreed with our finding and recommendation (See Appendix 1).



Aur Atoll Local Government

P.O. Box 688

Majuro, Marshall Islands 96960

January 16, 2024

Mr. Junior Patrick
Auditor General

Iakwe Auditor General Junior Patrick

Moktata Nebar im Kamolol IROIJLAPLAP JEMED ILAN imaan menotimjej.

I would like to express my sincere appreciation for the outstanding work undertaken by you and your team in conducting the recent audit of Aur Atoll local government [FY October 2013-September 30, 2021]

Your thorough examination of Aur Atoll Local Government's financial records, operational processes, and compliance to regulatory standards has been invaluable. Your findings and the insightful recommendations provided serve as a roadmap for enhancing the efficiency and transparency of Aur Atoll Local Government's operations.

The findings identified for improvement will not only address current challenges but will also contribute to a more resilient and effective governance structure for the future.

Finding #1: Accounting System

Finding #2: Revenue/Cash receipts

Finding #3: Unsupported Disbursements

Finding #4: Financial Report

Finding #5: Revenues and Expenditures under reported

Finding #6: Procurement Code Violation

Finding #7: Income Taxes, Social Security and Health Fund Taxes

Finding #8: Personal File

Finding #9: Budget

Finding #10: Bank Reconciliation

Finding #11: Fixed Assets

Finding #12: Checks not issued in Sequential Order

Recommendations:

To summarize challenges (Findings) it is recommended that Findings [FY 2013-2021] numbers 1-12, with the exception of #7- Please see below

Finding #1-6 & 8-12

- I.) Prioritize Hiring a CPA or equivalent ASAP to handle all financial aspects of the Outer Island Local Government Operations- Specifically for the 18 Outer Island Local Governments.

CPA and Financial system (CMI, Majuro, Kwajelein Local Government uses) should be taken out of the 5% Contingency fund from all Outer Islands to cover Cost.

Important Note:

Majuro, Kwajelein, Enewetak, Rongelap, KBE, and Utrok local Governments all have their own CPA to manage and organize financial records, transactions, reconciliation, filing, etc. Allowing Mayors to solely concentrate on developing their respective communities and improving the qualities of life given the many challenges that their communities endure- high cost of living, lack of jobs available, infrastructures promoting job developments, climate change, etc.

Tier #1

Majuro
Kwajelein

Tier#2

Enewetak
Rongelap
Kili-Bikini-Ejet
Utrok

Tier # In Need of CPA

Ailinglaplap
Ailuk
Arno

Aur
Ebon
Jabot
Jaluit
Lae
Lib
Likiep
Maloelap
Mejit
Mili
Namdrik
Namu
Ujae
Wotje
Wotho

- II.) The office of Local Governments from Day #1 should prioritize conducting a joint Orientation with the Office of the Auditor General for new incoming Mayors to Cover policies and procedures to avoid reoccurring financial issues.
- III.) Increase MOCIA's Local Government Division's Budget to address serious and ongoing issues that currently undermine progress- affecting Outer Island Communities. It is most Unfortunate that Every Year Local Governments would lose out on Much needed Grants to develop the Outer Island Communities due to Local Government Division being under staffed and underbudgeted to meet budget deadlines.
 - A.) Address Understaff Issue and hire qualified personnel
 - B.) Dedicated vehicle to Local Government Division to address Transportation needs to follow up with the offices of Procurement and Finance with the Purchase requests and Purchase Orders. Constant Delays are a norm that negatively impacts the Outer Island Communities; Changes are needed.

Finding #7: Income Taxes, Social Security and Health Fund Taxes

Recommendation: That the Outer Island Staff be provided Minimum wage Salary and then deductions can be made for taxes, otherwise outer Island taxes should be written off,

Positions

Clerk
Policemen
Mid Wife

Please feel free to contact me at any time for further clarifications or any additional inquiries.

Once again, Komol Tata Auditor General for your hard work, professionalism, and the positive influence you and your Team (Mr. Raymond Saipaia, Damien Langidrik, and others) have on

Aur and all the other local governments. looking forward to the implementation of the recommended changes to improve the services for the Outer Island Local Governments and Communities. Komol im Jeramon

Ilo Kautiej

Fred Bukida

A handwritten signature in black ink is written over a solid horizontal line. The signature is stylized and appears to be the name 'Fred Bukida'.

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

HOTLINE

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You may also contact us by writing to:

Facsimile (Fax) (692) 625-1156

[Messages to our fax machine are also anonymous and non-traceable]

OR

Office of the Auditor-General

P.O. Box 245

Majuro, MH 96960

[If you do not want to reveal your identity, do not disclose a return address]

OR

Fill out the Compliance Form from our website www.rmioag.com

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

AUR ATOLL LOCAL GOVERNMENT

**AUDITOR'S COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE**

PERIOD FROM OCTOBER 1, 2013 THROUGH SEPTEMBER 30, 2021



AUDIT No.: OAG 1/21-2400

January 16, 2024
Date

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



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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January 16, 2024

Honorable Jess Gasper, Jr.
Minister
Ministry of Culture and Internal Affairs
Republic of the Marshall Islands

Dear Minister Gasper, Jr.:

We were engaged to audit the financial statement of the Aur Atoll Local Government (Aur Government) for the period from October 1, 2013 through September 30, 2021, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated January 16, 2024.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Aur Government is responsible.

This report is intended solely for the information and use of the management of the Aur Government, the Office of the Auditor General, pass-through entities, and others within the Aur Government organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

for

Junior Patrick
Auditor-General

cc: The Management of Aur Atoll Local Government

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our notification letter dated January 18, 2022. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the fairness of the presentation of the Aur Government’s financial statement and the accompanying supplementary information, in relation to the financial statement as a whole, for the period from October 1, 2013 through September 30, 2021 (the “financial statement”), in conformity with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, in all material respects.
- To express an opinion on whether the supplementary information that accompanies the financial statement is fairly stated, in all material respects, in relation to the financial statement taken as a whole; and
- To report on the Aur Government’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the period from October 1, 2013 through September 30, 2021, based on an audit of financial statements performed in accordance with standards applicable to financial audits contained in generally accepted government auditing standards.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statement that has been prepared with the oversight of management and the Office of the Mayor is presented fairly, in all material respects, in conformity with the cash basis of accounting. The audit of the financial statement does not relieve management or the Office of the Mayor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Aur Government’s preparation and fair presentation of the financial statement in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Aur Government’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Aur Government’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

SIGNIFICANT ACCOUNTING POLICIES

The Aur Government’s significant accounting policies are set forth in Note 2 to the Aur Government’s financial statement. During the period from October 1, 2013 through September 30, 2021, there were no significant changes in previously adopted accounting policies or their application.

We have evaluated the significant qualitative aspects of the Aur Government’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

ACCOUNTING ESTIMATES

As the Aur Government is using the cash basis of accounting, no accounting estimates were recorded during the period from October 1, 2013 through September 30, 2021.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Aur Government's financial statement.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the period, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the period, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Office of the Mayor.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Aur Government's management and staff and had unrestricted access to the Aur Government's senior management.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Aur Government's management about the representations embodied in the financial statement. In addition, we have requested that management provide to us the written representations the Aur Government is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated January 16, 2024, on the Aur Government's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the engagement to audit in accordance with *Government Auditing Standards*. Within that report, we noted certain matters that were considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. Although we have included management's written responses to our comments, such responses have not been subjected to the auditing procedures applied in our engagement to audit the financial statement and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

* * * * *

**Aur Atoll Local Government
Republic of the Marshall Islands 96960**

January 16, 2024

Junior Patrick
Auditor-General
Office of the Auditor-General
Republic of the Marshall Islands, 96960

We are providing this letter in connection with your engagement to audit the financial statement of the Aur Atoll Local Government (Aur Government), which comprises the schedule of cash receipts and disbursements for period from October 1, 2013 through September 30, 2021, and the related notes to the financial statement, which is prepared in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation of the schedule of cash receipts and disbursements of Aur Government using the cash basis of accounting.
- b. 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.
 - To prevent and detect fraud.
- c. The review and approval of the schedule of cash receipts and disbursements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your engagement to audit.

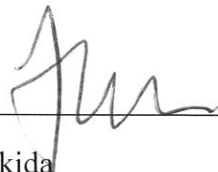
1. The financial statement referred to above is fairly presented in accordance with the cash basis of accounting. In addition:
 - a. Other supplementary information is measured and presented within prescribed guidelines.

- b. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
2. The Aur Government has provided to you all relevant information and access as agreed in the terms of the audit notification letter.
3. The Aur Government has provided you:
 - a. Minutes of the meetings of the Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. Financial records and related data for all financial transactions of Aur Government and for all funds administered by Aur Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by Aur Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statement has been prepared.
4. There has been no:
 - a. Action taken by Aur Government management that contravenes the provisions of federal laws and Republic of the Marshall Islands' laws and regulations, or of contracts and grants applicable to Aur Government except as described in your Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statement.
5. The Aur Government has not performed a formal risk assessment, including the assessment of the risk that the financial statement may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in Aur Government and do not believe that the financial statement is materially misstated as a result of fraud.
6. Except for certain matters that were communicated to the proper authorities, we have no knowledge of fraud or suspected fraud affecting Aur Government involving:
 - a. Management.
 - b. Employees who have significant roles in the Aur Government's internal control.
 - c. Others, when the fraud could have a material effect on the financial statement.
7. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*. For the period from October 1, 2013 through September 30, 2021, the Aur Government did not utilize the services of legal counsel and was not considered as a defendant in any litigation, claims and assessments brought against the Aur Government.
8. There are no:
 - a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loan transfers, leasing arrangements, and guarantees.

- b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangement.
9. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the schedule of cash receipts and disbursements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by the FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
10. There have been no significant assumptions used by us in making accounting estimates.
11. We are responsible for the compliance with local and RepMar laws, rules and regulations, and provisions of grants and contracts relating to Aur Government's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable reports, effective and efficient operations, and compliance with laws and regulations. The Aur Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
13. There are no transactions that have not been properly recorded in the accounting records underlying the financial statement.
14. The Aur Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateralized.
15. The Aur Government has complied with all aspects of contractual agreements that may have an effect on the financial statement in the event of noncompliance.
16. No department or agency of Aur Government has reported a material instance of noncompliance to us.
17. The Aur Government has disclosed whether, subsequent to September 30, 2021, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.
18. Evidence of fraud, possible irregularities, or dishonesty in fiscal operations of programs administered by Aur Government were discovered and communicated to the proper authorities.
19. The Aur Government is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Aur Government has elected not to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed.
20. No events have occurred after September 30, 2021, but before the date of this letter that requires consideration as adjustments to, or disclosures in, the financial statement.
21. Regarding supplementary information, we are responsible for the preparation and fair

presentation of the supplementary information in accordance with the cash basis of accounting. We believe the supplementary information, including its form and content, is fairly presented in accordance with the cash basis of accounting. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Fred Bukida', is written over a horizontal line.

Fred Bukida
Mayor, Aur Atoll Local Government