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OFFICE OF THE AUDITOR-GENERAL

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January 17, 2025

Honorable Nicholas deBrum  
Mayor  
Likiep Atoll Local Government

Dear Mayor deBrum:

In planning and performing our audit of the cash basis financial statement of the Likiep Atoll Local Government (“the Likiep Government”) for the Project for Improvement of Sea Transportation in Likiep Atoll (“the Project”) for the period from December 1, 2020 through January 26, 2021 (on which we have issued our report dated January 17, 2025) 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 the Likiep Government’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 the Likiep Government’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 the Likiep Government’s internal control over financial reporting and other matters as of January 17, 2025 that we wish to bring to your attention.

We have also issued a separate report dated January 17, 2025, on our consideration of the Likiep Government’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters.

**The definition of a deficiency is also set forth in the attached Appendix I.**

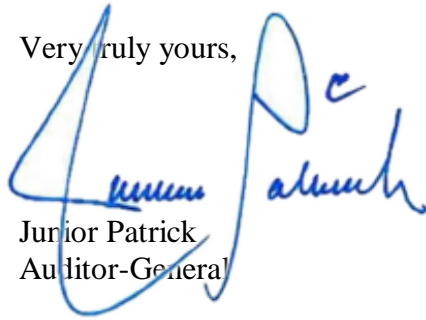
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Council of the Likiep Government, Management, 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 these suggestions.

We wish to thank the staff and management of the Likiep Government for their cooperation and assistance during the course of this audit.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Junior Patrick". The signature is stylized and cursive, with a large initial "J" and "P".

Junior Patrick  
Auditor-General

## SECTION I – 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:

### **(1) Income and Expenditure Report**

Observation: The Likiep Government did not prepare and provide an Income and Expenditure Report detailing the allocation and disbursement of the grant funds as required by the Project grant contract agreement.

Recommendation: We recommend the Likiep Government establish adequate internal control policies and procedures requiring compliance with Project grant contract agreements.

## 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.

## 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**

The Likiep Government's management is responsible for the overall accuracy of the financial statement 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.