

REPUBLIC OF THE MARSHALL ISLANDS
Office of the Auditor-General



Republic of the Marshall Islands
Project for the Procurement of Equipment for Dried Coconuts Logistics in Lib Island
(Financed by the Embassy of Japan in the Marshall Islands)

MANAGEMENT LETTER

Period from March 14, 2024 through March 30, 2024

Audit No.: 16/25 - 9999

March 10, 2026



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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March 10, 2026

Honorable Winlan Sheet
Mayor
Lib Island Local Government

Dear Mayor Sheet:

In planning and performing our audit of the cash basis financial statement of the Lib Island Local Government (“the Lib Government”) for the Project for the Procurement of Equipment for Dried Coconuts Logistics in Lib Island (“the Project”) for the period from March 14, 2024 through March 30, 2024 (on which we have issued our report dated March 10, 2026) 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 Lib 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 Lib 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 Lib Government’s internal control over financial reporting and other matters as of March 10, 2026 that we wish to bring to your attention.

We have also issued a separate report dated March 10, 2026, on our consideration of the Lib 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.

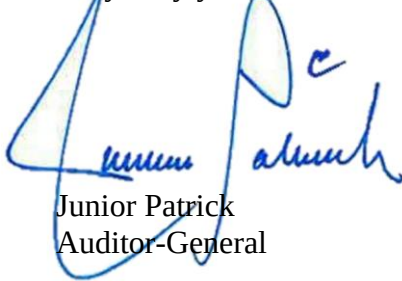
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Council of the Lib 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 Lib 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", is written over a large, light blue circular stamp. The signature is fluid and cursive, with the first name "Junior" and last name "Patrick" clearly legible.

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) Separate Bank Account for the Grassroots Grant Project

Observation: The Lib Government did not establish a separate bank account exclusively for the Grassroots Grant Project, as required under the pledge conditions and the project grant agreement executed by the Mayor. Instead, project funds were deposited into and disbursed from a general bank account under the Lib Island Local Government, increasing the risk of commingling project funds with other government funds and reducing transparency and accountability over project expenditures.

Recommendation: We recommend that the Lib Government establish a separate bank account solely for the Grassroots Grant Project in accordance with the pledge requirements and the signed grant contract agreement. All project-related receipts and disbursements should be processed exclusively through this account. Management should also develop and implement written procedures to ensure compliance with grant conditions for future projects, including periodic monitoring to confirm that project funds are properly segregated and accounted for. In addition, the Lib Government should reimburse the Embassy of Japan in the Marshall Islands for the unused portion of the Project funds.

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 Lib 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.

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