

**ALELE, INC.**  
**(A NOT-FOR-PROFIT CORPORATION)**

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2004**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN ENGAGEMENT TO AUDIT IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Alele, Inc.:

We were engaged to audit the financial statements of Alele, Inc. as of and for the year ended September 30, 2004. Our report dated March 2, 2006, 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 statements due to our inability to determine that assets, liabilities, revenues and other support, and expenses were fairly stated, the omission of inventory and fixed assets from the financial statements.

Internal Control Over Financial Reporting

In planning our engagement to audit, we considered Alele Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Alele Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 17) as items 2004-1 through 2004-11 and 2004-14 and 2004-15.

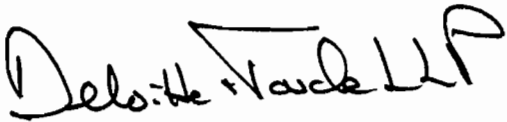
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1 through 2004-4 and 2004-14 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of Alele, Inc. in a separate letter dated March 2, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alele Inc.'s financial statements are 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 that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-13 and 2004-14.

This report is intended solely for the information and use of the Board of Trustees, management, and the Republic of the Marshall Islands and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte Touche LLP". The signature is stylized and written in a cursive-like font.

March 2, 2006

ALELE, INC.  
(A NOT-FOR-PROFIT CORPORATION)

Schedule of Findings  
Year Ended September 30, 2004

Inventory

Finding No. 2004-1

Criteria: Inventory held for sale should be recorded in the financial statements and be expensed through cost of sales.

Condition: At September 30, 2004, Alele, Inc.'s financial statements did not include inventory items held for sale.

Cause: The cause of the above condition is the lack of performance of an inventory count at September 30, 2004.

Effect: The effect of the above condition is unrecorded inventory.

Recommendation: We recommend that management ensure that an inventory count is performed and that inventory is recorded in the financial statements.

Auditee Response and Corrective Action Plan: Management will ensure inventory is recorded.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Fixed Assets

Finding No. 2004-2

Criteria: A proper system of fixed asset management requires that fixed asset records include a description, the acquisition date, cost and estimated useful life.

Condition: At September 30, 2004, Alele, Inc.'s financial statements recorded total office equipment of \$126,797; however, no fixed asset register was maintained and no depreciation expense was recognized.

Cause: The cause of the above condition is the lack of established policies and procedures to record and maintain fixed assets.

Effect: The effect of the above condition is that fixed assets may be materially misstated and the office equipment balance is unsubstantiated.

Recommendation: We recommend that management establish policies and procedures to record and maintain a subsidiary ledger for fixed assets.

Auditee Response and Corrective Action Plan: Fixed assets will be recorded with their description, purchase date, cost and estimated useful life.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Liabilities

Finding No. 2004-3

Criteria: General ledger control accounts for accounts payable should be reconciled to a subsidiary ledger on a regular basis.

Condition: Alele, Inc. has not maintained an accounts payable subsidiary ledger.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the reconciliation of general ledger accounts payable balances to a subsidiary ledger.

Effect: The effect of the above condition is the possible understatement of accounts payable and invalid payments made for purchases.

Recommendation: We recommend that management establish policies and procedures requiring the reconciliation of general ledger accounts payable balances to a subsidiary ledger on a monthly basis.

Auditee Response and Corrective Action Plan: Qualified Alele accountant will follow the given recommendation.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Fund Balance

Finding No. 2004-4

Criteria: A proper system of internal control requires the establishment of a chart of accounts to ensure proper classification and accounting of restricted funds.

Condition: During the year ended September 30, 2004, Alele, Inc. commingled unrestricted and restricted fund revenues and expenses. Specifically, Alele, Inc. is the recipient of funding for one federally assisted grant program funded by the U.S. Department of the Interior. Expenses incurred under these grant programs were not separated from expenses incurred through unrestricted funding.

Cause: The cause of the above condition is the lack of adequate policies and procedures that would require proper classification and accounting for restricted funds.

Effect: The effect of the above condition is the inability to specify restricted funds expended.

Recommendation: We recommend that management ensure that a chart of accounts is established to ensure the proper classification and accounting of restricted funds.

Auditee Response and Corrective Action Plan: Management will ensure that chart of accounts is established.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Revenue/Receipts

Finding No. 2004-5

Criteria: Donated or contributed services should be recorded as support and expense.

Condition: Alele, Inc. is the recipient of certain donated or contributed services, including contributed facilities. At September 30, 2004, Alele, Inc. had not recorded donated or contributed services as support and expense relating to payment of a land lease for Alele, Inc. by the RepMar government. Additionally, we also noted that check #2522 was paid to a land owner for \$352.80 without an attendant lease agreement.

Cause: The cause of the above condition is the lack of policies and procedures that require donated or contributed services to be accounted for and reported.

Effect: The effect of the above condition is unrecorded donated or contributed services.

Recommendation: We recommend that management establish policies and procedures whereby donated or contributed services that should be accounted for and reported are clearly defined. Additionally, payment of land lease should be supported by a valid lease agreement.

Auditee Response and Corrective Action Plan: Given recommendation will be followed.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Travel Advances

Finding 2004-6

Criteria: Travel advances should only be disbursed for official trips of Alele, Inc.

Condition: Check #1529 was issued for per diem for a total of \$1,214 to the Board Chairman; however, travel did not occur. The total amount was reclassified to accounts receivable from the Chairman; however, as of March 2, 2006, the amount has not been collected. An adjustment has been proposed to record an allowance for this amount.

Cause: The cause of the above condition is that the travel advance was not collected.

Effect: The effect of the above condition is a bad debt expense and a loss of funds.

Recommendation: We recommend that management ensure that the above advance is collected.

Auditee Response and Corrective Action Plan: Management will ensure travel advance money be collected.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

External Reporting

Finding No.2004-7

Criteria: Grant revenue should be reimbursed in a timely manner to ensure that there is sufficient cash flow for operations.

Condition: During tests of grant revenues, we noted that grant reimbursements were not performed in a timely manner. The grant reimbursements for grant periods from 2001 to 2003 were submitted for reimbursement to the grantor on May 13, 2004, and the remaining reimbursements for the FY2003 grant period were submitted to the grantor on April 18, 2005.

Cause: The cause of the above condition is inadequate grant maintenance.

Effect: The effect of the above condition is recurring negative cash flows.

Recommendation: We recommend that management ensure that grant reimbursements are performed in a timely manner.

Auditee Response and Corrective Action Plan: Management will ensure that grant reimbursement be done in a timely manner.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Board Minutes

Finding 2004-8

Criteria: Board minutes are a means to document official decisions made by the Board of Trustees and they are also a means by which regulatory agencies and independent auditors can evaluate the administration of Alele, Inc.

Condition: All Board minutes from October 1, 2003 to March 2, 2006 were not signed.

Cause: The cause of the above condition is that the minutes did not appear to be appropriately maintained.

Effect: The effect of the above condition is that decisions made and documented may not be official.

Recommendation: We recommend that management ensure that Board minutes are signed and certified.

Auditee Response and Corrective Action Plan: Board minutes will be signed and certified.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Journal Vouchers

Finding 2004-9

Criteria: Journal entries should be supported by journal vouchers to provide an audit trail.

Condition: Alele, Inc., did not utilize journal entries to support entries posted to the general ledger; therefore, we were unable to test one item recorded for \$726 as there is no reference indicating the source document number.

Cause: The cause of the above condition is lack of policies and procedures requiring the utilization of journal vouchers to support journal entries.

Effect: The effect of the above condition is the lack of an audit trail.

Recommendation: We recommend that management ensure that entries made to the general ledger are supported by journal vouchers.

Auditee Response and Corrective Action Plan: Journal vouchers will be used to support entries made to the general ledger.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Accrued Expenses

Finding 2004-10

Criteria: Accrued annual leave should be reconciled to the general ledger in a timely manner.

Condition: At September 30, 2004, Alele, Inc. recorded \$2,418 in an annual leave expenditure for payment of check #s 1317 and 1330 to an employee who resigned. We noted that the entity did not record accrued annual leave and did not maintain a detailed accrued annual leave subsidiary ledger.

Cause: The cause of the above condition is the lack of policies and procedures requiring the maintenance of an accrued leave subsidiary ledger.

Effect: The effect of the above condition is the possibility of misstatement of accrued annual leave balances in the financial statements.

Recommendation: We recommend that a detailed accrued annual leave subsidiary ledger be maintained and that the balance be reconciled to the general ledger.

Auditee Response and Corrective Action Plan: Management will ensure that accrued leave subsidiary ledger is established.

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Schedule of Findings, Continued  
Year Ended September 30, 2004

Expenditures

Finding 2004-11

Criteria: Expenditures should be recorded when the related liability is incurred.

Condition: At September 30, 2004, Alele, Inc. recorded check #s 2520 and 2622 for \$755 and \$400, respectively, for payment of invoices that were dated in fiscal year 2003.

Cause: The cause of the above condition is the lack of policies and procedures requiring the accrual of invoices.

Effect: The effect of the above condition is the misstatement of liabilities and expenditures.

Recommendation: We recommend that expenditures be recorded when related liabilities are incurred.

Auditee Response and Corrective Action Plan: Management will adhere to the recommendation.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Social Security

Finding 2004-12

Criteria: Section 131 and 18 of the RepMar Social Security Act of 1990 and the Marshall Islands Health Fund Act of 2002, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administration, a report of the wages and salaries paid and the contributions due, under Section 129 and 130, and 16 and 17, respectively, and pay into the Fund the contributions due.

Condition: Alele, Inc has been delinquent in remitting social security employer and employee contributions during the year ended September 30, 2004.

Cause: The cause of the above is that social security tax payments were not made in accordance with the criteria.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 2002.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 2002.

Auditee Response and Corrective Action Plan: Management will ensure Alele is in compliance with Social Security Act of 2000 and Health Fund Act of 2002.

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Schedule of Findings, Continued  
Year Ended September 30, 2004

Income Tax Act

Finding No. 2004-13

Criteria: The Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: At September 30, 2004, Alele, Inc. recorded \$22,032 payable to RepMar for withholding income taxes of prior years. Additional penalties and interest were also incurred, which amounted to \$7,876 at the end of the year.

Cause: The cause of the above condition is non-timely payments of taxes.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989 as amended.

Recommendation: We recommend that management comply with the Income Tax Act of 1989 as amended.

Auditee Response and Corrective Action Plan: Management will follow recommendation.

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Schedule of Findings, Continued  
Year Ended September 30, 2004

Accounts Receivable/Due to/Due from

Finding No. 2004-14

Criteria: General ledger control accounts for accounts receivable and accounts payable should be reconciled to subsidiary ledgers on a regular basis.

Condition: At September 30, 2004, Alele, Inc., recorded a due from government for a total of \$107,542. A reconciled subsidiary ledger was not provided for this balance and a total of \$94,248 was reclassified to grant revenue and Nitijela appropriations.

Additionally, the Due to/Due from accounts recorded a total of \$60,540 and \$51,238, respectively. It appears that beginning balances for these accounts did not agree and there was no supporting subsidiary ledger.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the maintenance of a subsidiary ledger.

Effect: The effect of the above condition is that receivable and payable balances were misstated throughout the fiscal year.

Recommendation: We recommend that Alele, Inc., establish policies and procedures that require periodic reconciliation of receivable and payable accounts.

Auditee Response and Corrective Action Plan: Management will adhere to recommendation.

ALELE, INC.  
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Schedule of Findings, Continued  
Year Ended September 30, 2004

Rental Revenue

Finding No. 2004-15

Criteria: Rental revenue should be paid based on a lease agreement.

Condition: Our review of the rental lease agreement for the Kiosk hut indicated that annual lease charges are \$500 per month or \$6,000 annually. We noted that payment from the lesser was only \$3,866. We were informed that the tenant had made some improvements and had subtracted these amounts from the rental fee; however, no copies of invoices were provided to support such renovation.

Cause: The cause of the above condition is inadequate documentation of the rental agreement.

Effect: The effect of the above condition is the possible under payment of rental revenue.

Recommendation: We recommend that management ensure that such documents described above are maintained and filed.

Auditee Response and Corrective Action Plan: Management will do as recommended.

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Unresolved Prior Year Comments  
Year Ended September 30, 2004

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 17).