

BIKINI DISTRIBUTION AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor Elton Note
Kili/Bikini/Ejit Local Government
Republic of the Marshall Islands:

We have audited the statement of cash receipts and disbursements of the Bikini Distribution Authority (the Distribution Authority) for the year ended September 30, 2000, and have issued our report thereon dated October 12, 2001. We conducted our 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.

Compliance

As part of obtaining reasonable assurance about whether the Distribution Authority's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 9) as item 2000-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Distribution Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the Distribution Authority's internal control over financial reporting and its operation that we consider to be a reportable condition. 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 the Distribution Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2000-1.

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 statement 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, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the Kili/Bikini/Ejit Local Government, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

October 12, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mayor Elton Note
Kili/Bikini/Ejit Local Government
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Bikini Distribution Authority (the Distribution Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2000. The Distribution Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 9). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of the Distribution Authority's management. Our responsibility is to express an opinion on the Distribution Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Distribution Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Distribution Authority's compliance with those requirements.

As described in item 2000-2 in the accompanying Schedule of Findings and Questioned Costs, the Distribution Authority did not comply with requirements regarding special tests and provisions relating to the Compact of Free Association that are applicable to its one major federal program. Compliance with such requirements is necessary, in our opinion, for the Distribution Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Distribution Authority complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2000.

Internal Control Over Compliance

The management of the Distribution Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Distribution Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Distribution Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2000-2.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance 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, we consider the reportable condition described above to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the statement of cash receipts and disbursements of the Distribution Authority for the year ended September 30, 2000, and have issued our report thereon dated October 12, 2001. Our audit was performed for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statement. This schedule is the responsibility of the management of the Distribution Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the Kili/Bikini/Ejit Local Government, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

October 12, 2001

BIKINI DISTRIBUTION AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

	<u>Total Authorization</u>	<u>2000 Funds Received</u>	<u>2000 Funds Disbursed</u>	<u>Excess of Funds Received Over Funds Disbursed (Note 3)</u>
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>				
Funds passed through the Republic of the Marshall Islands:				
The Agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 2,400,000</u>	<u>\$ 2,600,000</u>

See accompanying notes to schedule of expenditures of federal awards.

BIKINI DISTRIBUTION AUTHORITY

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2000

(1) Organization

The Bikini Distribution Authority (the Distribution Authority) was established pursuant to Section 177 of the Compact of Free Association (the Compact) between the Government of the United States and the Government of the Republic of the Marshall Islands (RepMar). The Distribution Authority was established to satisfy requirements of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Article III of the Agreement establishes the Kili/Bikini/Ejit Local Government as the Distribution Authority. Accordingly, the Distribution Authority is considered a component unit of the Kili/Bikini/Ejit Local Government.

It has been determined that funds received under Section 177 of the Compact are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be disbursed in compliance with local laws and regulations and the Compact intent.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Distribution Authority and is prepared on the cash basis of accounting. Disbursements are recognized when paid. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(3) Excess of Funds Received Over Funds Disbursed

Of the funds received, \$2,600,000 is invested in a non-expendable trust fund, disbursements from which are not subject to the Single Audit of the Bikini Distribution Authority.

BIKINI DISTRIBUTION AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2000

Part I - Summary of Auditor's Results Section

1. The Independent Auditors' Report on the statement of cash receipts and disbursements expressed an unqualified opinion.
2. One reportable condition in internal control over financial reporting was identified, which is considered to be a material weakness.
3. One instance of noncompliance considered material to the financial statement was disclosed by the audit.
4. One reportable condition in internal control over compliance with requirements applicable to the one major federal award program was identified, which is considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to the one major federal award program expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Distribution Authority's one major program is as follows:

Name of Federal Program or Cluster	CFDA Number
Compact of Free Association, Title I, Article VII, Section 177 (c)	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Distribution Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

Reference Number	Finding	Refer Page #
2000-1	Purchases/Disbursements	8

Part III - Federal Award Findings and Questioned Cost Section

Reference Number	Finding	Questioned Costs	Refer Page #
2000-2	Special Tests and Provisions	\$ 300,000	9

BIKINI DISTRIBUTION AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Part II - Financial Statement Findings Section

Purchases/Disbursements

Finding No. 2000-1

Criteria: Disbursements from the Distribution Authority should be made to the designated payee.

Condition: Of one hundred and eight disbursements to the people of Bikini tested, the following exceptions were noted:

1. Fifty-six disbursements were received by individuals other than the designated payee. An approved assignment agreement was not available for review for these disbursements authorizing the assignment.
2. Thirty-seven disbursements showed no indication of the recipient signing as evidence of receipt of the check.

Cause: The cause of the above condition is the lack of adequate controls over the disbursement of per capita distribution payments.

Effect: The effect of the above condition is the inability to determine whether the designated payee actually received their per capita distribution payment.

Recommendation: We recommend that the Distribution Authority obtain written authorization and that such be kept on file before per capita distribution checks can be released to anyone other than the designated payee. In addition, we recommend that the designated payee upon receipt acknowledge all disbursements received in writing.

Prior Year Status: The lack of adequate controls over the disbursement of per capita distribution payments was reported as a finding in the Single Audits of the Distribution Authority for fiscal years 1993 through 1999.

BIKINI DISTRIBUTION AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Part III - Federal Award Findings and Questioned Cost Section

Finding No. 2000-2

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>
<p>U.S. Department of the Interior / Compact of Free Association / Title One / Article VII / Section 177(c) / CFDA #15.875</p>	<p><u>Criteria:</u> A Special Tribunal of the Nuclear Claims Tribunal "Decision and Order" No. 27-001 ruled that legal services secured by agreement with Local Council's are not "in accordance with the Section 177 Agreement".</p> <p><u>Condition:</u> The Distribution Authority through the Kili/Bikini/Ejit Local Government entered into an agreement with an attorney for the payment of certain legal fees of \$300,000 annually. These legal services do not appear to comply with the ruling by a Special Tribunal of the Nuclear Claims Tribunal.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that the Distribution Authority resolve the above issue with the Nuclear Claims Tribunal.</p> <p><u>Prior Year Status:</u> The above condition was reported as a finding in the Single Audits of the Distribution Authority for fiscal years 1987 through 1999.</p>	<p>\$ 300,000</p>
Total Questioned Costs		\$ <u>300,000</u>

BIKINI DISTRIBUTION AUTHORITY

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2000

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2000:

Questioned costs of the Distribution Authority, as previously reported	\$ 900,000
Questioned costs for fiscal year 2000 Single Audit	<u>300,000</u>
Unresolved questioned costs of the Distribution Authority at September 30, 2000	\$ <u>1,200,000</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 7 through 9).

BIKINI ATOLL

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Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Reports on Internal Control and on Compliance for the Year Ended September 30, 2000

Financial Statements Findings Section

Purchases/Disbursements

Finding No. 2000-1

Our normal routine as a matter of business is to get such written authorization for such vendors and creditors that loan money to, or do business with, the people of Bikini. Indeed, many times we have more than one written authorization for one check, which creates many problems for our office. While the system we have may not appear adequate from a control standpoint, we have not had any complaints from individual Bikinians as to how their checks have been handled for their distributions. Everyone who is entitled to a check receives their money on time and in the manner they choose, which often involves a loan or an advance from a local business. It is a problem that has been ongoing, and the Distribution Authority does not expect it to change.

Federal Award Findings and Questioned Cost Section

Special Tests and Provisions

Finding No. 2000-2

The people of Bikini freely entered into an agreement with the Distribution Authority attorney for work he did on the Compact of Free Association. No Bikinian has ever challenged or questioned these costs with the Nuclear Claims Tribunal (NCT) because this involved a community-wide understanding. The ruling from the Special Tribunal of the NCT occurred because members of the Rongelap Atoll community challenged their attorney's agreement. The Kili/Bikini/Ejit Local Government Council has no problems with this disbursement, which is the same case for the people of Bikini.

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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 1999:

Financial Statement Findings Section

Finding No. 99-1 - Not corrected. See corrective action plan to Finding No. 2000-1.

Federal Award Findings and Questioned Costs Section

Finding No. 99-2 - Not corrected. See corrective action plan to Finding No. 2000-2.