

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

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

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**YEAR ENDED SEPTEMBER 30, 2003**

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

Mayor Jackson Ading  
Enewetak/Ujelang Local Government  
Republic of the Marshall Islands:

We were engaged to audit the financial statements of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) as of and for the year ended September 30, 2003. Our report dated January 12, 2005, 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 receivables and expenditures were fairly stated and due to our inability to obtain Council ordinances for the year ended September 30, 2003.

**Internal Control Over Financial Reporting**

In planning the audit, we considered the Program's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an 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 the Program'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 and Questioned Costs (pages 7 through 13) as items 2003-1 through 2003-3.

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. We consider items 2001-1 through 2003-3 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Program in a separate letter dated January 12, 2005.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatements, 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 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* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-4 through 2003-6. We also noted immaterial instances of noncompliance, which we have reported to management of the Program in a separate letter dated January 12, 2005.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*  
January 12, 2005

**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 Jackson Ading  
Enewetak/Ujelang Local Government  
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) 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, 2003. The Program'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 13). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of the Program's management. Our responsibility is to express an opinion on the Program'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 Program'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 on the Program's compliance with those requirements.

As described in items 2003-4 through 2003-6 in the accompanying Schedule of Findings and Questioned Costs, the Program did not comply with requirements regarding allowable costs/cost principles, procurement, suspension and debarment, and reporting that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for the Program to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Program 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, 2003.

### Internal Control Over Compliance

The management of the Program is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Program'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 certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Program's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-4 through 2003-6.

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 the 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 items 2003-4 through 2003-6 to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We were engaged to audit the financial statements of the Program as of and for the year ended September 30, 2003. Our report dated January 12, 2005, 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 receivables and expenditures were fairly stated and due to our inability to obtain Council ordinances for the year ended September 30, 2003. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the Program's management. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on that schedule.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
January 12, 2005

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2003

	<u>Prior Year's Deficiency</u>	<u>2003 Funds Received</u>	<u>Other Receipts</u>	<u>2003 Funds Expended</u>	<u>Deficiency of Funds Available Over Funds Expended</u>
<u>U.S. Department of the Interior</u>					
<u>CFDA #15.875</u>					
Fund received in a direct capacity:					
Operation of the Enewetak Food and Agricultural Support Program	\$ (72,933)	\$ 1,620,000	\$ 74,254	\$ 1,630,169	\$ (8,848)
	\$ (72,933)	\$ 1,620,000	\$ 74,254	\$ 1,630,169	\$ (8,848)

See accompanying notes to schedule of expenditures of federal awards.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2003

**(1) Organization**

The Program is the recipient of non-Compact funds received from the U.S. Department of the Interior. These funds must be expended in accordance with grant awards and are subject to general U.S. federal requirements, including OMB's Circular A-87 and Circular A-102.

**(2) Summary of Significant Accounting Policies**

a. **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Program and is presented on the modified accrual basis of accounting. 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*.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2003

**Section I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed a disclaimer of opinion due to our inability to determine that receivables and expenditures were fully stated and due to our inability to obtain Council ordinances for the year ended September 30, 2003.
2. Reportable conditions in internal control over financial reporting were identified, all of which were considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, all of which were considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Program's one major program was as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Enewetak Food and Agricultural Support Program	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 Program did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2003-1	External Financial Reporting	8
2003-2	Receivables	9
2003-3	Accrued Liabilities	10

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2003-4	Allowable Costs/Cost Principles	\$ 668,139	11
2003-5	Procurement and Suspension and Debarment	\$ 457,557	12
2003-6	Reporting	\$ -	13

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

**Section II - Financial Statement Findings**

External Financial Reporting

Finding No. 2003-1

Criteria: Council resolutions and ordinances are a primary means by which independent auditors can evaluate the administration of the Program's operations.

Condition: Council resolutions and ordinances passed for the periods from October 1, 2002 through September 30, 2003 were not made available.

Cause: The cause of the above condition is that resolutions and ordinances for this period were not made available for review, and not locatable, or were never prepared.

Effect: The effect of the above condition is the possibility that directives of the Council are not properly disclosed or recorded in the Program financial statements.

Recommendation: We recommend that the Council ensure that all resolutions and ordinances are maintained and filed.

Auditee Response: Since January 2004 with the new administration, all council resolutions and ordinances are properly maintained and are readily available.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Receivables

Finding No. 2003-2

Criteria: Receivables should be supported by a reconciled subsidiary ledger.

Condition: At September 30, 2003, the Program recorded other receivables in the amount of \$33,316. However, no reconciled subsidiary ledger was provided to support this balance.

Cause: The cause of the above condition is the lack of a reconciled subsidiary ledger for other receivables.

Effect: The effect of the above condition is the possibility of misstatement of other receivables.

Recommendation: A subsidiary ledger should be constructed and utilized to support other receivables.

Auditee Response: It appears the previous administration accumulated this balance over a 4-year period. This has been corrected in 2004.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Accrued Liabilities

Finding No. 2003-3

Criteria: Employee allotments payable should be supported by a subsidiary ledger.

Condition: At September 30, 2003, the Program recorded a \$9,992 payable for employee allotments. However, we could not obtain detail of the composition of this balance. Additionally, supporting subsidiary payroll ledgers were not made available for the pay periods from October 1, 2002 to September 30, 2003.

Cause: The cause of the above condition is that the required payroll registers were not made available and detail of the employee allotment payable was not provided.

Effect: The effect of the above condition is the possibility of misstatement of employee allotment payable balances and of payroll expenses.

Recommendation: We recommend that management ensure that employee allotments payable and payroll expenses are supported by payroll registers.

Auditee Response: Payroll system prior to December 31, 2003 was a manual payroll system. Checks were calculated individually and posted as JV by check number. There was no system generated payroll register. With the new accounting system in place from January 1, 2004, payroll checks are system generated with supporting payroll register.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

**Section III - Federal Award Findings and Questioned Costs**

Allowable Costs/Cost Principles

Finding No. 2003-4

Program	Reason for Questioned Cost	Questioned Costs
<p>U.S. Department of the Interior/ Food and Agricultural Support Program / CFDA #15.875</p>	<p><u>Criteria:</u> The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (the Common Rule) and OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, requires that allowable costs must be supported by adequate source documentation. Additionally, expenditures must fulfill the intent of the funding program.</p> <p><u>Condition:</u> Of twenty-two non-payroll expenditures tested, totaling \$569,656, supporting documentation for one item (check #1043 for \$19,385) was not made available. Furthermore, we were unable to test payroll expenditures totaling \$648,754 as personnel action forms were not made available for review. While the auditee was able to provide time sheets supporting hours claimed, we could not trace such to an authoritative description of work performed and could not ensure that such work was germane to the grant award. The basis for documenting employee work descriptions is normally a personnel action form. This form is not apparently utilized by the auditee.</p> <p><u>Cause:</u> The cause of the above condition is the lack of invoices and other authoritative support evidencing the purchase, nature and receipt of these goods and services.</p> <p><u>Effect:</u> The effect of the above condition is the lack of support to determine whether the expenditures comply with conditions of the grant award. Additionally, the Program did not comply with allowable cost requirements.</p> <p><u>Recommendation:</u> We recommend that the Program comply with the Common Rule and OMB Circular A-87 with respect to the requirement that allowable costs be supported by adequate source documentation and that expenditures are allowable under the funding program. We further recommend that the Program implement use of a personnel action form that will document job responsibilities and relevance to grant awards.</p> <p><u>Auditee Response:</u> Auditors would not accept a letter invoice from the Company concerned that was the basis for payment. Despite other evidence to show that the funds were expended as documented, auditors required a formal invoice which we could not request the vendor to issue from their accounting system since this transaction had been completed.</p> <p>While all documentation was made available and all payroll records were complete and duly authorized, auditors questioned these costs for a lack of a Personnel Action Form only. To satisfy the auditors, Personnel Action Forms are now in place.</p>	<p align="right">\$ 668,139</p>

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Procurement and Suspension and Debarment

Finding No. 2003-5

Program	Reason for Questioned Cost	Questioned Costs
<p>U.S. Department of the Interior/ Food and Agricultural Support Program / CFDA #15.875</p>	<p><u>Criteria:</u> The <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i> (the Common Rule) requires that all purchases less than \$100,000 require evidence of informal bidding procedures.</p> <p><u>Condition:</u> Of twenty-two non-payroll expenditures tested, totaling \$894,757, procurement of supplies and equipment from vendors through check #s 907, 1060, 1301, 1153, 17144, 17342, 17454, 17460, 17577, 17644, 17646, 17834, 17841, 17844, 18515, 18516, 18730, and 18731 for \$8,190, \$8,260, \$7,700, \$6,250, \$6,000, \$6,667, \$92,511, \$6,250, \$12,000, \$13,260, \$5,873, \$9,400, \$6,667, \$92,911, \$32,155, \$35,022, \$14,505, and \$93,936, respectively, did not evidence support of informal procurement procedures. Additionally, check number 17460 was issued in payment of legal fees, which are usually unallowable expenses. We could not locate specific approval of this expense by the grantor agency and such is accordingly questioned.</p> <p><u>Cause:</u> The cause of the above condition is the lack of support evidencing informal bidding procedures for procurement of goods and services.</p> <p><u>Effect:</u> The effect of the above condition is the lack of informal bidding procedures to ensure that the procurement of supplies and equipment is at the lowest price.</p> <p><u>Recommendation:</u> We recommend that the Program comply with the Common Rule with respect to the procurement of supplies and equipment.</p> <p><u>Auditee Response:</u> Procurement staff informally compared prices for items available from more than one supplier but did not document this process. Several items questioned were only available from one on island vendor at the time so a comparative quote was not available.</p> <p>This has been corrected from January 2004, with a formal and informal bidding procurement procedure now in place that is appropriately documented.</p>	<p align="right">\$457,557</p>

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Reporting - Food and Agricultural Support Program  
CFDA #15.875

Finding No. 2003-6

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires the quarterly submission of financial status reports (SF-269) and federal cash transactions reports (SF-272) based upon the financial accounting system of the grantee.

Condition: The Program was unable to provide copies of all quarterly financial status and federal cash transactions reports for the year ended September 30, 2003.

Cause: The cause of the above condition is that copies of the reports were not provided.

Effect: The effect of the above condition is that the Program did not comply federal reporting requirements.

Recommendation: We recommend that the Program adhere to requirements of the Common Rule requiring the quarterly submission of financial status and federal cash transactions reports.

Auditee Response: While copies of these reports could not be found from the previous administration, they are available from the grantee.