

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

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

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED 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, 2004. Our report dated January 18, 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 cash, receivables payables and accrued expenses were fairly stated.

Internal Control Over Financial Reporting

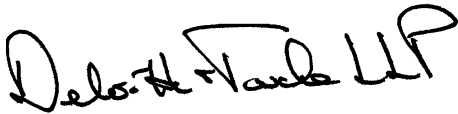
In planning the audit, we considered the Program's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 16) as items 2004-1 through 2004-4.

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 2004-1 through 2004-4 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 18, 2006.

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 2004-5 through 2004-7.

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.

A handwritten signature in black ink, appearing to read "Deloitte Touche LLP". The signature is written in a cursive, stylized font.

January 18, 2006

**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, 2004. 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 (page 7). 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 2004-5 through 2004-7 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, 2004.

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.

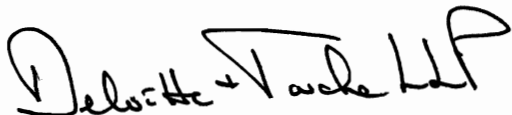
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 2004-5 through 2004-7.

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 2004-5 through 2004-7 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, 2004. Our report dated January 18, 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 cash, receivables and other liabilities and accruals were fairly stated as of and for the year ended September 30, 2004. 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 18, 2006

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

	<u>Prior Year's Deficiency</u>	<u>2004 Funds Received</u>	<u>Other Receipts</u>	<u>2004 Funds Expended</u>	<u>Excess 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	\$ (8,848)	\$1,689,018	\$ -	\$1,639,317	\$ 40,853
	\$ (8,848)	\$1,689,018	\$ -	\$1,639,317	\$ 40,853

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

(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, 2004

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 cash, receivables and other liabilities and accruals were fairly stated as of and for the year ended September 30, 2004.
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>
2004-1	Cash Reconciliations	8
2004-2	Receivables	9
2004-3	Accrued Expenses	10
2004-4	Other Revenue	11

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-5	Procurement and Suspension and Debarment	\$ 394,109	12
2004-6	Reporting	\$ -	15
2004-7	Cash Management	\$ -	16

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

Cash Reconciliations

Finding No. 2004-1

Criteria: Cash accounts should be reconciled on a monthly basis.

Condition: At September 30, 2004, the Food and Agriculture Support Program recorded cash of \$85,541; however, no reconciliation was provided for this account. Upon further investigation, we discovered two checking accounts used in support of the Program. The cash in these two accounts aggregate \$17,338. The balance, \$68,203, was discovered to actually be cash received by the program that has been deposited into EULGOV's general fund.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the reconciliation of cash accounts and the recording of receivables from EULGOV's general fund.

Effect: The effect of the above condition is that cash accounts have been misstated throughout the year.

Recommendation: We recommend that management ensure that cash accounts are reconciled on a monthly basis and that cash be portrayed accurately in the financial statements.

Auditee Response and Corrective Action Plan: Cash accounts are now being reconciled on a monthly basis.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Receivables

Finding No. 2004-2

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

Condition: At September 30, 2004, the Food and Agriculture Support Program recorded \$71,189 in due from general fund; however, no reconciled subsidiary ledger was provided to support the balance.

Cause: The cause of the above condition is the lack of a reconciled subsidiary ledger for due from general fund.

Effect: The effect of the above condition is the possibility of misstatement of due from general fund.

Recommendation: A subsidiary ledger should be created that supports the due from general fund balance.

Auditee Response and Corrective Action Plan: Subsidiary ledgers are now being maintained for due fund from and due to accounts.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Accrued Expenses

Finding No. 2004-3

Criteria: Accrued expenses should be supported by a subsidiary ledger.

Condition: At September 30, 2004, EULGOV Food and Support Program recorded \$53,700 in accrued liabilities. No reconciled subsidiary ledger was provided to support this balance until this matter was brought to management's attention through the presentation of the initial draft audit report. Upon receipt of the draft, a reconciliation was subsequently provided.

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

Effect: The effect of the above condition is that accrued expenses were misstated throughout the year.

Recommendation: We recommend that management ensure that accrued expenses are supported by a detail subsidiary ledger throughout the year.

Auditee Response and Corrective Action Plan: A subsidiary ledger was supplied and will continue to be supplied for audits.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Other Revenue

Finding No. 2004-4

Criteria: Revenues should be recorded in the general ledger as earned.

Condition: We were informed that the Kawewa vessel earned revenues from passenger and cargo sales; however, no revenues were recorded in the general ledger of the Food and Agriculture program during fiscal year 2004.

Cause: The cause of the above condition is that no such revenues were recorded in the general ledger.

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

Recommendation: We recommend that management ensure that revenues earned are recorded in the financial statements.

Auditee Response and Corrective Action Plan: Employee responsible for recording and depositing revenue from KaWeWa failed to perform their assigned task and was removed. All revenues are now being recorded and posted to the correct revenue accounts.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 2004-5
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Procurement and Suspension and Debarment
Questioned Costs: \$394,109

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires that all purchases less than \$100,000 require evidence of informal bidding procedures. OMB Circular requires that allowable costs be supported by adequate supporting documentation, such as invoices, contracts, etc.

Condition: Of nineteen non-payroll expenditures tested, totaling \$560,422, procurement of supplies and equipment from vendors for the following check numbers did not evidence support of informal procurement procedures.

<u>Check #</u>	<u>Amount</u>
1385	\$ 10,605
1390	2,325
18860	6,250
18918	4,760
19115	55,000
19121	4,155
19187	4,773
19400	55,514
19462	10,125
19640	5,770
19852	54,958
20016	16,080
20022	8,336
20026	6,250
20131	12,143
25319	49,914
27614	59,971
19872	3,615
20123	3,615
25190	3,615
26195	3,615
26884	3,615
27840	<u>3,615</u>
	<u>\$388,619</u>

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 2004-5, Continued
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Procurement and Suspension and Debarment
Questioned Costs: \$394,109

Condition, Continued:

The following check numbers did not evidence supporting documentation.

<u>Check #</u>	<u>Amount</u>	
1385	\$10,605	(included above)
1390	2,325	(included above)
19121	4,155	(included above)
20016	16,080	(included above)
20022	8,336	(included above)
25189	<u>5,490</u>	(a questioned cost)
	<u>\$46,991</u>	

Additionally, upon commencement of our audit, we noted payments of \$42,175 charged to the Program that represent 100% of the cost of a consulting contract, procured without benefit of competitive procurement activities, entered into with EULGOV. The contract is to benefit EULGOV as a whole, yet all contract costs were charged to the Program. At a minimum, these costs should be subject to an allocation between the Program and EULGOV, based on actual hours expended on the Program, yet such had not occurred. After a draft was submitted to the entity, this amount was distributed sixty percent to the Program and forty percent to EULGOV. Management did not indicate how the above distribution scheme was derived and is not able to support the percentage charged to the Program based on evidence of actual hours worked. Therefore, questioned costs for the payments made under this contract are included above (check #'s 19872, 20123, 25190, 26195, 26884 and 27840).

Based on additional inquiry of management, we also discovered the following expenses that were allocated to the program.

\$ 9,750 – represents an allocation of the Mayor’s salary to the program. The mayor is an elected official.
4,500 – allocation of office space
\$14,250

The allocation of an elected official’s time to the Program does not appear to be an allowable cost. Additionally, without a documented basis for the allocation of office space to the Program, we are unable to conclude as to the validity of the allocation. However, no questioned costs for these two allocations arise since the Program reversed these charges in fiscal year 2005.

Cause: The cause of the above condition is the lack of support evidencing informal bidding procedures for procurement of goods and services. Additionally, there is a lack of source documentation for payment.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 2004-5, Continued
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Procurement and Suspension and Debarment
Questioned Costs: \$394,109

Effect: The effect of the above condition is the lack of informal bidding procedures to ensure that the procurement of supplies and equipment conforms to federal requirements. Additionally, we are unable to determine if costs of \$46,991 were allowed as there were no supporting documents substantiating the payment basis.

Prior Year Status: The lack of informal bidding procedures was reported as a finding in the Single Audits of EULGOV for fiscal years 1994 through 1998, and 2003.

Recommendation: We recommend that the Program comply with federal procurement guidelines when procuring supplies and equipment. Additionally, all expenditures should be appropriately documented. The consultant contract should be allocated to the Program based on actual hours worked.

Auditee Response and Corrective Action Plan: The previous administration did not adhere to Federal Procurement guidelines in particular informal bidding. The current administration during its first year in office has corrected these shortcomings and said guidelines are now being followed. Time sheets are now being maintained by council employees and contractors who work on more than one cost center, namely the support program and general fund.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.: 2004-6
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Reporting
Questioned Costs: \$0

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: EULGOV was unable to provide copies of all quarterly financial status and federal cash transactions reports for the year ended September 30, 2004.

Cause: The cause of the above condition is that the reports do not appear to have been filed.

Effect: The effect of the above condition is that we were precluded from ensuring that the financial reports agree with the underlying financial records.

Recommendation: We recommend that EULGOV adhere to requirements and submit the quarterly financial status and federal cash transactions reports.

Auditee Response and Corrective Action Plan: Said recommendations noted and followed.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No.:	2004-7
CFDA No.:	15.875
Grantor Agency	U.S. Department of the Interior
Program Area	Cash Management
Questioned Costs	\$0

Criteria: Cash drawdowns from the grantor agency should be timed to coincide with the actual expenditure of funds. The drawdown should be timed to coincide with the clearing of checks in the grantee's bank account.

Condition: As of September 30, 2004, we determined that Program cash is being deposited to the EULGOV general fund. At September 30, 2004, approximately \$68,203 was so deposited. We have not been able to obtain sufficient information from EULGOV to determine the amount of interest that is refundable to the grantor.

Cause: Inadequate program records are maintained in support of program activities.

Effect: The effect of this condition is our inability to determine and calculate the amount of interest that should be refunded to the grantor.

Recommendation: EULGOV should obtain adequate accounting assistance and should reconstruct its records for the year to enable the Program to calculate the amount of interest that is to be repaid to the federal government by EULGOV.

Auditee Response and Corrective Action Plan: Said recommendations noted. EULGOV has employed a CPA to reconcile this account to determine if any interest should be accrued to the grantor for FY2004.

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

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2004

Questioned Costs

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2004:

Questioned costs of fiscal year 2003 audit	\$ 1,125,696
Questioned costs of fiscal year 2004 audit	<u>394,109</u>
Unresolved questioned costs at September 30, 2004	\$ <u>1,519,805</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 8 through 16).