

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

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

YEAR ENDED SEPTEMBER 30, 2005

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 have audited the financial statement of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) for the year ended September 30, 2005 and have issued our report thereon dated September 8, 2006. 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.

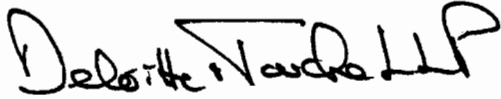
Internal Control Over Financial Reporting

In planning and performing 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 statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial would not necessarily disclosed all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statement is free of material misstatements, 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 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 (pages 7 through 10) as items 2005-1 and 2005-2.

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 that reads "Deloitte Touche LLP". The signature is written in a cursive, stylized font.

September 8, 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, 2005. 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 2005-1 and 2005-2 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, 2005.

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.

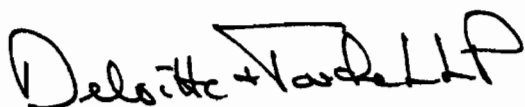
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 2005-1 and 2005-2.

A material weakness is a reportable 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 caused by error or fraud 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 2005-1 and 2005-2 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statement of the Program for the year ended September 30, 2005 and have issued our report dated September 8, 2006. 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 purposes 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 Program's management. Such information has been subjected to the auditing procedures applied in our 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 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.



September 8, 2006

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

	<u>Prior Year Fund Balance</u>	<u>2005 Funds Received</u>	<u>Other Receipts</u>	<u>2005 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	\$ <u>40,853</u>	\$ <u>1,793,000</u>	\$ <u> </u> -	\$ <u>1,831,087</u>	\$ <u>2,766</u>

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, 2005

(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, 2005

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report on the basic financial statement expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
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 - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2005-1	Allowable Costs/Procurement and Suspension and Debarment	\$ 595,058	8
2005-2	Reporting	\$ -	10

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-1
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Allowable Costs/Procurement and Suspension and Debarment
Questioned Costs: \$595,058

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. For purchases greater than \$100,000, formal bidding procedures are required. Furthermore, OMB Circular A-87 requires that allowable costs be evidenced by adequate supporting documentation.

Condition: Of nineteen non-payroll expenditures tested, totaling \$806,235, procurement of supplies and equipment from vendors from the following check numbers did not evidence support of either informal or formal procurement procedures.

21633	\$ 45,000
29021	60,587
30486	64,004
30618	19,300
31616	6,972
31853	44,471
31990	80,119
33760	79,591
36310	<u>124,591</u>
	<u>\$524,635</u>

The following check numbers did not evidence contracts, invoices, purchase orders or other authoritative source documents.

29009	\$ 7,850
33046	6,193
34761	<u>45,500</u>
	<u>\$59,543</u>

Of fifteen payroll expenditures tested, totaling \$43,677, we could not perform tests of check #37559 amounting to \$480, as the timesheet, personnel action form, and check copy were not available. Additionally, for check # 36205, which was issued in the amount of \$400 or (\$10,400 per annum), we noted in the personnel action form that the employee is a council member. We were informed that the individual is also a field technician for the Program; however, no such documentation supporting this matter is present in the personnel action form.

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

**ENEWETAK/UJELANG LOCAL GOVERNMENT
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-1, Continued
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Allowable Costs/Procurement and Suspension and Debarment
Questioned Costs: \$595,058

Effect: The effect of the above condition is the lack of informal formal procurement procedures. Additionally, we are unable to determine if costs were allowed as there were no supporting invoices, contracts, etc. Therefore, questioned costs result from this finding.

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, 2003 and 2004.

Recommendation: We recommend that the Program comply with the Common Rule with respect to the procurement of supplies and equipment, and with OMB Circular A-87 with respect to the maintenance of supporting invoices, contracts, etc., evidencing reported expenditures.

Auditee Response and Corrective Action Plan: Starting Fiscal Year 2006, a Notice to BID for the supplies EULG Food Program for the FY2006 is published in the newspaper for 3 consecutive issues.

Standard guidelines for the procurement of supplies and equipment are being followed.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-2
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, 2005.

Cause: The cause of the above condition is due to the inability to provide these reports to document that such are in agreement with the underlying books and records.

Effect: The effect of the above condition is that EULGOV cannot produce the required reports to ensure compliance with the criteria.

Recommendation: We recommend that EULGOV provide requested reports.

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the audit of EULGOV for the fiscal year ended September 30, 2004.

Auditee Response and Corrective Action Plan:

Required quarterly and monthly reports are submitted to the Funding Agency.

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

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2005

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, 2005:

Questioned costs of fiscal year 2003 audit	\$ 1,125,696
Questioned costs of fiscal year 2004 audit	394,109
Questioned costs of fiscal year 2005 audit	<u>595,058</u>
Unresolved questioned costs at September 30, 2005	\$ <u>2,114,863</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 through 10).