

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



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

Board of Directors
Kwajalein Atoll Development Authority:

We have audited the financial statements of the Kwajalein Atoll Development Authority (KADA) as of and for the year ended September 30, 2001, and have issued our report thereon dated May 16, 2002, which was qualified because of the omission of a Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund, and our inability to determine that accounts payable of the Governmental Fund Types and revenues and expenses of the Kwajalein Atoll Joint Utilities Resources, Inc. were fairly stated. Except as discussed in the preceding sentence, 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 KADA's financial statements are 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 16) as Findings 2001-8 and 2001-9.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered KADA'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 KADA's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2001-1 through 2001-7.

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 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 Findings 2001-1, 2001-2 and 2001-6, to be material weaknesses.

This report is intended for the information of the management of KADA, the Government of the Republic of the Marshall Islands, 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

May 16, 2002



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

Board of Directors
Kwajalein Atoll Development Authority:

Compliance

We have audited the compliance of the Kwajalein Atoll Development Authority (KADA) 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, 2001. KADA's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 16). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of KADA's management. Our responsibility is to express an opinion on KADA'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 KADA'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 KADA's compliance with those requirements.

As described in Findings 2001-8 and 2001-9 in the accompanying Schedule of Findings and Questioned Costs, KADA did not comply with requirements related to the Compact of Free Association. Compliance with such requirements is necessary, in our opinion, for KADA to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, KADA 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, 2001.

Internal Control Over Compliance

The management of KADA 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 KADA'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 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 KADA'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 in Findings 2001-8 and 2001-9.

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, of the reportable conditions described above, we consider Findings 2001-8 and 2001-9 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of KADA as of and for the year ended September 30, 2001, and have issued our report thereon dated May 16, 2002, which was qualified because of the omission of a Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund, and our inability to determine that accounts payable of the Governmental Fund Types and revenues and expenses of the Kwajalein Atoll Joint Utilities Resources, Inc. were fairly stated. Our audit was performed for the purpose of forming an opinion on the financial statements 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 financial statements. This schedule is the responsibility of the management of KADA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

This report is intended for the information of the management of KADA, the Government of the Republic of the Marshall Islands, 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

May 16, 2002

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

<u>Federal Grantor/Pass- Through Grantor/ Program Title</u>	<u>Federal CFDA Number/ Grantor I.D. No./ Pass Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Receivable from Grantor Agency at October 1, 2000</u>	<u>Cash Receipts FY01</u>	<u>Transfers Out and Expenditures FY01</u>	<u>Receivable from Grantor Agency at September 30, 2001</u>
<u>U.S. Department of the Interior</u>						
Passed through the Republic of the Marshall Islands:						
Compact of Free Association, Title Two, Article 1 Section 211	15.875/ Compact/-	\$ 4,430,400	\$ -	\$ 4,430,400	\$ 4,430,400	\$ -

* For financial statement presentation, total expenditures and transfers out above are increased by \$229,235 of capital expenditures related to bond anticipation notes to arrive at expenditures and transfers out of the Capital Project Fund per the statement of revenues, expenditures and changes in fund balances (deficit). The proceeds received from issuance of bond anticipation notes, totaling \$6,655,000, were collateralized by U.S. Department of the Interior, Compact of Free Association, Title Two, Article 1, Section 211 funds. Terms and conditions of the Compact funding attach to the bond proceeds, and these proceeds have been audited for compliance with those terms and conditions.

See accompanying notes to schedule of expenditures of federal awards.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2001

(1) Scope of Review

The Kwajalein Atoll Development Authority (KADA) was established pursuant to Public Law 1989-36, the Kwajalein Atoll Development Authority Act of 1989 of the Republic of the Marshall Islands. KADA was established to develop and implement programs for the social and economic betterment of the inhabitants of Kwajalein Atoll. KADA's powers and functions are vested in and exercised by a Board of Directors, who are appointed by the President of the Republic of the Marshall Islands. KADA was given no authority to levy taxes for its operations, but receives revenue on a user-charge basis from operation of its component units - proprietary funds. Substantially all projects of KADA are funded by direct grants from U.S. federal agencies or as a subrecipient of U.S. federal grants. All significant operations of KADA are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as KADA's cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

Basis of Accounting

For purpose of this report, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures or transfers out.

Indirect Cost Allocation

KADA does not receive an indirect cost allocation.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Two 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 are 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. KADA's one major program was as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association	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. KADA 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>Questioned Costs</u>	<u>Refer Page #</u>
2001-1	External Financial Reporting	\$ -	8
2001-2	External Financial Reporting	\$ -	9
2001-3	Cash	\$ -	10
2001-4	Receivables	\$ -	11
2001-5	Fixed Assets	\$ -	12
2001-6	Liabilities	\$ -	13
2001-7	Local Noncompliance	\$ -	14

Section III - Federal Award Findings and Questioned Cost

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2001-8	Compact of Free Association	\$ 182,677	15
2001-9	Compact of Free Association	\$ 388,449	16

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Section II - Financial Statement Findings

External Financial Reporting

Finding No. 2001-1

Criteria: Presentation of a Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund is required by accounting principles generally accepted in the United States of America (GAAP).

Condition: A budget was not prepared by KADA for the year ended September 30, 2001.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the omission of a statement required by GAAP and a violation of the Kwajalein Atoll Development Authority Act of 1989 which requires the preparation of an operating budget.

Recommendation: We recommend that the Board of Directors of KADA prepare budgets in the future.

Prior Year Status: Lack of an approved budget was reported as a finding in the audits of KADA for fiscal years 1995 through 2000.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

External Financial Reporting

Finding No. 2001-2

Criteria: GAAP requires that the financial statements of KADA present KADA and its component units; entities for which KADA is considered to be financially accountable.

Condition: KADA has not incorporated the Ebje Ruktok/Rukjenlein Fishing Company (ERRFC) into its 2001 financial statements as a Component Unit – Proprietary Fund.

Cause: The cause of the above condition is that KADA's management believes ERRFC has been dissolved and that a loan payable of ERRFC, to RepMar, has been liquidated through the transfer of assets to RepMar. RepMar's concurrence with this arrangement has not been received.

Effect: The effect of the above condition is that a material Component Unit – Proprietary Fund may have been improperly excluded from the financial statements.

Recommendation: We recommend that KADA clarify the status of ERRFC's loan payable with RepMar and obtain a legal interpretation of ERRFC's status.

Prior Year Status: Lack of incorporation of ERRFC into KADA's financial statements as a Component Unit - Proprietary Fund was reported as a finding in the audits of KADA for fiscal years 1998 through 2000.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Cash

Finding No. 2001-3

Criteria: Lease payments should be deposited into the appropriate bank account.

Condition: For the year ended September 30, 2001, one lease payment in the amount of \$12,000 was misappropriated by a former employee.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the misappropriation of cash.

Recommendation: We recommend KADA ensure that lease payments are deposited intact.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Receivables

Finding No. 2001-4

Criteria: Receivables should be invoiced and pursued to ensure timely collection.

Condition: KADA's General Fund has various material receivable accounts, substantially all of which are over one year old, as follows:

Accounts receivable - miscellaneous	\$ 960,353
Accounts receivable - employees	419,197
Prepaid lease payments	<u>470,129</u>
	<u>\$ 1,849,679</u>

The allowance for doubtful accounts for these receivables is \$137,350 with the remainder included within the reserve for related assets section of the General Fund's fund balance.

Most of the receivables have been incurred as a result of paying for services rendered to individuals. KADA does not appear to either effectively invoice for these services or vigorously pursue collection.

Cause: The cause of the above condition is the lack of prescribed billing and collection procedures that ensure systematic and timely repayment of receivables.

Effect: The effect of the above condition is the potential for nonrepayment. In addition, KADA's cash position is adversely affected by delinquent accounts receivable.

Recommendation: We recommend KADA institute procedures whereby credit limits are imposed, accounts receivable are effectively billed, and vigorous collection procedures are undertaken. In addition, KADA should consider imposing a nominal interest rate on accounts receivable to help ensure timely repayment.

Prior Year Status: Aged receivables was reported as a finding in the audits of KADA for fiscal years 1993 through 2000.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Fixed Assets

Finding No. 2001-5

Criteria: Annual inventories of fixed assets should be performed and be reconciled to general ledger control totals.

Condition: KADA is not performing annual inventories of fixed assets or reconciling to general ledger control totals in the General Fixed Assets Account Group.

Cause: The cause of the above condition is the lack of policies and procedures requiring annual inventories and reconciliation.

Effect: The effect of the above condition is a lack of control over fixed assets.

Recommendation: We recommend that KADA perform a physical inventory of fixed assets and reconcile this inventory to the general ledger control total.

Prior Year Status: Not performing physical inventories of fixed assets and reconciling to general ledger control totals was reported as a finding in the audits of KADA for fiscal years 1990 through 2000.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Liabilities

Finding No. 2000-6

Criteria: Accounts payable subsidiary ledgers should be reviewed periodically to determine propriety.

Condition: KADA's subledgers for accounts payable include numerous balances from prior years that have not been liquidated.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a misstatement of accounts payable.

Recommendation: We recommend that payable subsidiary ledgers be periodically reviewed to determine propriety.

Prior Year Status: Reviewing accounts payable balances for propriety was reported as a finding in the audits of KADA for fiscal years 1997 through 2000.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-7

Criteria: Section 5 of 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: KADA is currently delinquent on employee income tax withholdings to be remitted to RepMar.

Cause: The cause of the above condition is unknown.

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.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Section III - Federal Award Findings and Questioned Costs

Finding No. 2001-8

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
<p>U.S. Department of the Interior, Compact of Free Association, Title Two, Article 1, Section 211, CFDA #15.875</p>	<p><u>Criteria:</u> Article II, Section 3, paragraph e, item 12, of the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Republic of the Marshall Islands (the Fiscal Use Agreement) states that project administration costs related to capital account expenditures are not to exceed 1.5% of the total capital account for a given fiscal year.</p> <p><u>Condition:</u> It is our understanding that the Republic of the Marshall Islands transferred to KADA, Compact of Free Association, Title Two, Article 1, Section 211 funding designated for capital project use in Kwajalein Atoll. Based on total funds received, the 1.5% guideline would allow for \$66,456 after adjustment in project administration costs. During fiscal year 2001, KADA expended \$249,133 on administration and finance. These expenditures are considered to be for the purpose of project administration and we thus question the total of these costs expended in excess of \$66,456.</p> <p>Additionally, KADA is allocating administrative costs to various capital projects through an allocation plan that has not been approved by the grantor agency.</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 KADA's project administration costs exceeded the amount required to comply with the aforementioned requirements. Administration costs would have been higher had KADA not allocated certain costs to capital projects through an allocation plan that was not approved by the grantor agency.</p> <p><u>Recommendation:</u> We recommend KADA comply with the aforementioned requirements relating to project administration costs and obtain approval from the grantor agency of its allocation plan.</p> <p><u>Prior Year Status:</u> Noncompliance with project administration cost limitations was reported as a finding in the audits of KADA for fiscal years 1988 through 2000.</p>	<p>\$ 182,677</p>

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Finding No. 2001-9

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>																		
U.S. Department of the Interior, Compact of Free Association, Title Two, Article 1, Section 211, CFDA #15.875	<p><u>Criteria:</u> KADA should ensure compliance with the intent of the Compact Agreement.</p> <p><u>Condition:</u> During fiscal year 2001, Compact Funding was expended for operations or repairs and maintenance as opposed to the construction of capital projects, as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Project</u></th> <th style="text-align: left;"><u>Nature of Expenditure</u></th> <th style="text-align: right;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>Causeway Project</td> <td>Repairs and Maintenance</td> <td style="text-align: right;">\$ 194,077</td> </tr> <tr> <td>Workboats</td> <td>Repairs and Maintenance</td> <td style="text-align: right;">159,749</td> </tr> <tr> <td>Community Relations</td> <td>Operations</td> <td style="text-align: right;">9,452</td> </tr> <tr> <td>Ebeye Dock</td> <td>Repairs and Maintenance</td> <td style="text-align: right;"><u>420</u></td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;">\$ <u>363,698</u></td> </tr> </tbody> </table>	<u>Project</u>	<u>Nature of Expenditure</u>	<u>Amount</u>	Causeway Project	Repairs and Maintenance	\$ 194,077	Workboats	Repairs and Maintenance	159,749	Community Relations	Operations	9,452	Ebeye Dock	Repairs and Maintenance	<u>420</u>			\$ <u>363,698</u>	363,698
	<u>Project</u>	<u>Nature of Expenditure</u>	<u>Amount</u>																	
Causeway Project	Repairs and Maintenance	\$ 194,077																		
Workboats	Repairs and Maintenance	159,749																		
Community Relations	Operations	9,452																		
Ebeye Dock	Repairs and Maintenance	<u>420</u>																		
		\$ <u>363,698</u>																		
	<p>Additionally, during fiscal year 2001, \$24,751 of Compact Funding was advanced to employees. This amount is included in other receivables in KADA's general fund.</p> <p>This use of Compact funds may be inconsistent with the Compact Agreement.</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 potential noncompliance with the intent of the Compact Agreement.</p> <p><u>Recommendation:</u> We recommend that management ensure that monies spent for capital projects are in compliance with the Fiscal Use Agreement of the Compact.</p> <p><u>Prior Year Status:</u> Noncompliance with the Compact Agreement was reported as a finding in the audits of KADA for fiscal years 1998 through 2000.</p>	<u>24,751</u>																		
Total Questioned Costs		\$ <u>571,126</u>																		

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Unresolved Prior Year Questioned Costs
Year Ended September 30, 2001

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2001.

	Questioned Cost
Questioned costs as previously reported	\$ 2,758,270
Less questioned costs resolved in fiscal year 2001	.
Questioned costs of fiscal year 1998 Single Audit (1)	(996,575)
	1,761,695
Questioned costs of fiscal year 2001 Single Audit	571,126
Unresolved questioned costs at September 30, 2001	\$ 2,332,821

- (1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as KADA considers these findings are no longer valid as 1) two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse, 2) the federal agency or pass-through entity is not currently following-up with the auditee on the audit finding, 3) a management decision was not issued.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 through 16).

United States Department of the Interior, Office of the Inspector General Financial Assistance Under Section 211 of the Compact of Free Association, Republic of the Marshall Islands - Report Dated January 17, 1990

Questioned costs:	\$ 1,523,430
Comments:	Power plant costs Administrative costs Annual reports

United States Department of the Interior, Office of Insular Affairs, Financial Assistance for the Ebeye Health Center and Causeway Projects - Memorandum Dated March 11, 1996

Questioned costs:	\$ 565,471
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Kwajalein Atoll Development Authority

P.O. Box 5159 Ebeye, Kwajalein Atoll
Republic of the Marshall Islands 96970
Phone: (692) 329-3469 Fax: (692) 329-3297

Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2001

Financial Statements Findings Section

External Financial Reporting

Finding No. 2001-1

We accept the finding and a budget will be prepared.

External Financial Reporting

Finding No. 2001-2

This finding is the same as in fiscal year 1999 since ERRFC has ceased to exist. The Republic of the Marshall Islands (RMI) and the Asian Development Bank (ADB) had officially closed ERRFC. The official documents to the arrangement are with RMI and ADB. We will clarify the status with RMI and obtain documentation.

Cash

Finding No. 2001-3

We have instituted necessary action with regards to the reported incident and will insure future lease payments are properly accounted for and deposited.

Receivables

Finding No. 2001-4

The Board has looked into this account and a resolution will be adopted in order to address this issue.

Fixed Assets

Finding No. 2001-5

There is an inventory submitted to the Board for resolution, however, until the Board acts, only then can the reconciliation take place.

Liabilities

Finding No. 2001-6

We will review balances and will ask our vendors to provide us with statements in order for us to reconcile these accounts.

Local Noncompliance

Finding No. 2001-7

We are now current with RMI income tax withholdings.

Federal Award Findings and Questioned Cost Section

Finding No. 2001-8

This is another finding that has been going on for years. The fact is our desire to settle and clear this matter once and for all had gone unheeded with the U.S. Department of the Interior. Our stand on this issue will remain the same.

Finding No. 2001-9

This is the same issue and finding as last year and the years before. Again, we would like to reiterate that these projects being questioned stand on a thin line that separates repairs and maintenance and actual project costs. Unless a clear line is drawn and these projects can be completed, only then can we safely identify between a project and maintenance cost.



Kwajalein Atoll Development Authority

P.O. Box 5159 Ebeye, Kwajalein Atoll
Republic of the Marshall Islands 96970
Phone: (692) 329-3469 Fax: (692) 329-3297

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, 2000:

Financial Statement Findings Section

- Finding No. 2000-1 - Not corrected. See corrective action plan to Finding 2001-1.
- Finding No. 2000-2 - Not corrected. See corrective action plan to Finding 2001-2.
- Finding No. 2000-3 - Not corrected. See corrective action plan to Finding 2001-4.
- Finding No. 2000-4 - Not corrected. See corrective action plan to Finding 2001-5.
- Finding No. 2000-5 - Not corrected. See corrective action plan to Finding 2001-6.
- Finding No. 2000-6 - Corrective action was taken.

Federal Award Findngs and Questioned Costs Section

- Finding No. 2000-7 - Not corrected. See corrective action plan to Finding 2001-8.
- Finding No. 2000-8 - Not corrected. See corrective action plan to Finding 2001-9.