

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002

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, 2002, and have issued our report thereon dated May 21, 2003, 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 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 20) as Findings 2002-7 and 2002-8.

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 2002-1 through 2002-6.

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 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 2002-1 and 2002-6 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 21, 2003



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, 2002. 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 20). 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 2002-7 and 2002-8 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, 2002.

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 2002-7 and 2002-8.

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 2002-7 and 2002-8 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, 2002, and have issued our report thereon dated May 21, 2003, 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 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 21, 2003

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002

Federal Grantor/Pass Through Grantor/ <u>Program Title</u>	Federal CFDA Number/ Grantor I.D. No./ Pass Through Grantor's <u>Number</u>	Program or Award <u>Amount</u>	Cash Receipts <u>FY02</u>	Expenditures <u>FY02</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/-	\$ <u>1,900,000</u>	\$ <u>1,900,000</u>	\$ <u>935,097</u>

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, 2002

### (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, 2002

**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>
2002-1	External Financial Reporting	\$ -	8
2002-2	Payroll	\$ -	9
2002-3	Operations	\$ -	10
2002-4	Receivables	\$ -	11
2002-5	Fixed Assets	\$ -	12
2002-6	Liabilities	\$ -	13

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2002-7	Compact of Free Association	\$ 310,035	14
2002-8	Compact of Free Association	\$ 721,080	16

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

**Section II - Financial Statement Findings**

External Financial Reporting

Finding No. 2002-1

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 2002 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 2001.

Auditee Response and Corrective Action Plan: This issue has been ongoing for the last three to four years since RepMar had assumed all financial and other legal obligations of ERRFC. As far as KADA is concerned, ERRFC is no longer a KADA entity and had ceased to exist.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Payroll

Finding No. 2002-2

Criteria: Accrued leave liabilities should be properly recorded and employees should have properly approved employment contracts.

Condition: In our testing of payroll expenditures, we noted that check #'s 1957, 24061, 24099 and 24120 were issued to employees for annual and sick leave, however, KADA did not record an accrued annual and sick leave liability. In addition, check #'s 24267, 24300, 24361, 24503 and 24546 were issued to two employees whose employment contracts were verbally agreed to by management.

Cause: The cause of the above condition is the lack of established policies and procedures relating to annual and sick leave liabilities and the formal approval of employment contracts by management.

Effect: The effect of the above condition is that liabilities were understated and salaries and wages expenses were overstated. In addition, the lack of written employment agreements subjects KADA to increased risk in the event of a disagreement with the employee.

Recommendation: We recommend that KADA implement policies and procedures to ensure the proper recording of annual and sick leave liabilities and that all employees are subject to written employment contracts.

Auditee Response and Corrective Action Plan: The concerned vouchers represent final settlements of employee accounts covering sick and annual leaves, while the other set of vouchers are for salary of employee whose contracts were extended based on the contract premise of: "prior to expiration of this contract, if both parties were silent, this contract is deemed renewed for the same period." Furthermore, both the employees and the management had agreed verbally about the terms and conditions of employment, although no new contract was signed, we believe a gentleman's agreement still exists.

Auditor Response: We believe employment contracts should be in writing.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Operations

Finding No. 2002-3

Criteria: Pursuant to Public Law 1989-36, Kwajalein Atoll Development Authority (KADA) was established to develop and implement programs and projects for the social and economic betterment of the people of Kwajalein Atoll.

Condition: During the year ended September 30, 2003, KADA bought fuel for community members after first receiving the money from its customers. These fuel purchases were made at a reduced purchases governmental rate. In addition, KADA lent two computers to Liakwe Insurance Company, which is not part of its normal operations.

Cause: The cause of the above condition is the lack of management oversight relating to KADA's daily operations.

Effect: The effect of the above condition is that KADA may be in violation of Public Law 1989-36.

Recommendation: We recommend that management ensure that KADA engages in programs and projects that comply with the requirements of Public Law 1989-36.

Auditee Response and Corrective Action Plan: KADA has been providing this service to the community since its inception, although we believe a greater demand was abnormally accommodated by KADA. It is we believe that this service is in conjunction with the intent of Public Law 1989-36 (i.e. "economical betterment of the people of Kwajalein Atoll"). What is surprising in this finding is how this was brought to our attention on only "NOW"!

As to lending the computers, physically, the computers are in the KADA office and the ownership still remains KADA. Who uses it does not change the ownership or the make-up of KADA assets.

The management is fully aware of all these transactions.

We believe this finding should be deleted.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Receivables

Finding No. 2002-4

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	\$ 997,535
Accounts receivable - employees	543,716
Prepaid lease payments	<u>470,129</u>
	<u>\$ 2,011,380</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 that KADA establish 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 2001.

Auditee Response and Corrective Action Plan: A collection scheme will be presented to the Board together with the opinion of our legal counsel in order to proceed to a more vigorous collection drive.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Fixed Assets

Finding No. 2002-5

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 2001.

Auditee Response and Corrective Action Plan: We will conduct inventories and reconciliation.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Liabilities

Finding No. 2002-6

Criteria: Accounts payable subsidiary ledgers should be periodically reviewed 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 2001.

Auditee Response and Corrective Action Plan: We will conduct review of these accounts.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

Finding No. 2002-7

Program	Finding/Noncompliance	Questioned Cost
U.S. Department of the Interior, Compact of Free Association, Title Two, Article 1, Section 211, CFDA #15.875	<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. Additionally, the Fiscal Use Agreement states that KADA may dedicate compact capital account funding to those uses having to do generally with the construction or major repair of capital infrastructure.</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 \$28,500 after adjustment in project administration costs. During fiscal year 2002, KADA expended \$338,535 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 \$28,500.</p> <p>Additionally, KADA is allocating administrative costs between various capital projects, general fund and enterprise fund through an allocation plan that has not been approved by the grantor agency.</p> <p>Details of the general fund expenditures include:</p> <ul style="list-style-type: none"> <li>• Employee benefits partially consist of liquated advances to contract workers. No contract for these workers currently exists and therefore it is not documented whether family travel, utilities and phone card expenditures have been approved by management;</li> <li>• Office supplies expenditures consist of five computers purchased during fiscal year 2002. Two of these computers were loaned to the KADA Yokwe Insurance Company;</li> <li>• Interest expenditures consist of \$32,261 in penalties and interest to the Marshall Islands Social Security Administration (MISSA) and RepMar Revenue and Taxation;</li> <li>• Repairs and maintenance expenditures consist of salaries and wages for employees who worked on the KADA office roof repair;</li> <li>• Travel expenditures include travel for an attorney from Honolulu to Kwajalein (check no. 2277 for \$2,316) who is not the KADA legal counsel.</li> </ul> <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 between capital projects, general fund and enterprise fund through an allocation plan that was not approved by the grantor agency.</p>	\$ 310,035

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No. 2002-7, Continued

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
	<p><u>Recommendation:</u> We recommend that 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 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> This has been ongoing questioned costs for the last fifteen years. This can only be resolved with RepMar, U.S. Department of the Interior and KADA agreeing on the correct percentage. Even our allocations are very consistent. We have raised this issue time and time again and yet, we got no response either from RepMar or the DOI.</p> <p>The first two items of detail of general fund expenditures included repetition of Finding Nos. 2 and 3. We do not know if this repetition was overlooked or a political ploy to emphasize a point.</p> <p>If the auditors are aware of KADA's financial position, then why question MISSA and Taxation interest charges?</p> <p>The management decided to do the repairs ourselves in order to save on cost if the repairs were contracted. Now if this cost is being questioned, maybe next time we will just let the whole building deteriorate.</p> <p>Although the travel expenditure of the attorney is not our legal counsel, are we not allowed to consult legal matters and pay for them accordingly? If all management decisions would be second-guessed by auditors, then why do we need our Board, maybe we can just ask the auditors!</p> <p><u>Auditor Response:</u> Items listed in Section III of this report relate to federal award findings. Items listed in Section II relate to internal control over financial reporting.</p> <p>We believe the items listed in the condition may not comply with the Fiscal Use Agreement.</p>	

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No. 2002-8

<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> Article II, Section 3, paragraph e, of the Fiscal Use Agreement states that KADA may dedicate compact capital account funding to those uses having to do generally with the construction or major repair of capital infrastructure, the financing of public sector projects identified in the official overall economic development plans, or public sector participation in private sector projects which are so identified. KADA should ensure compliance with the intent of the Compact Agreement.</p> <p><u>Condition:</u> During fiscal year 2002, 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;">\$ 201,996</td> </tr> <tr> <td>Workboats</td> <td>Repairs and Maintenance</td> <td style="text-align: right;">234,894</td> </tr> <tr> <td>Community Relations</td> <td>Operations</td> <td style="text-align: right;">20,268</td> </tr> <tr> <td>Ebeye Dock</td> <td>Repairs and Maintenance</td> <td style="text-align: right;">1,000</td> </tr> <tr> <td>KADA's Office Building</td> <td>Repairs and Maintenance</td> <td style="text-align: right;">36,419</td> </tr> <tr> <td>Development Consultant</td> <td>Operations</td> <td style="text-align: right;">15,984</td> </tr> <tr> <td>New Hospital</td> <td>Operations</td> <td style="text-align: right;">80,000</td> </tr> <tr> <td>Power Plant</td> <td>Operations</td> <td style="text-align: right;"><u>6,000</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>\$ 596,561</u></td> </tr> </tbody> </table>	<u>Project</u>	<u>Nature of Expenditure</u>	<u>Amount</u>	Causeway Project	Repairs and Maintenance	\$ 201,996	Workboats	Repairs and Maintenance	234,894	Community Relations	Operations	20,268	Ebeye Dock	Repairs and Maintenance	1,000	KADA's Office Building	Repairs and Maintenance	36,419	Development Consultant	Operations	15,984	New Hospital	Operations	80,000	Power Plant	Operations	<u>6,000</u>			<u>\$ 596,561</u>	596,561
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Causeway Project	Repairs and Maintenance	\$ 201,996																														
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Details of project account expenditures include:

**Causeway Project:**

Expenditures include \$26,395 of penalties and interest to MISSA and \$1,200 for an administrative payroll advance liquidation.

**Workboats:**

Expenditures consist partially of \$23,462 of penalties and interest to MISSA and fuel charges (check nos. 24155, 24159, 24358, 24382, 24442 and 24465 for \$7,613, \$7,613, \$8,958, \$8,958, \$6,152 and \$6,152, respectively) for workboats traveling between outer islands.

**Community Relations:**

Expenditures consist partially of travel for the Kwajalein Negotiating Corporation, a farewell party for the USAKA Commander, and food for the opening of the Ebeye Health Center (check no. 24323 for \$2,107) for food and soda.

**Ebeye Dock:**

Expenditures consist of one disbursement to support the Ebeye Dock clean-up.

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No. 2002-8, Continued

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
	<p>KADA's Office Building:</p> <p>Expenditures consist partially of materials purchased for roof repair of the KADA Office Building (check nos. 24341 and 2029 for \$19,682 and \$13,121, respectively).</p> <p>Development Consultant:</p> <p>Expenditures consist partially of payments to a consultant for the Ebeye Dumpsite Conversion Project for which no report was ever issued (check nos. 2171, 2150, 2069, 2060, 2102, 2082 for \$3,243, \$3,194, \$2,676, \$159, \$513 and \$1,306, respectively).</p> <p>New Hospital:</p> <p>Expenditures consist entirely of payments to RepMar (check nos. 24422 and 24419) to reimburse disbursements related to the hospital. RepMar withheld Compact funds from KADA until these payments were made.</p> <p>Power Plant:</p> <p>Expenditures consist entirely of legal fees paid to a former legal counsel.</p> <p>Additionally, during fiscal year 2002, \$124,519 of Compact funding was advanced to employees. This amount is included in other receivables in KADA's general fund.</p> <p>Details concerning the advances are as follows:</p> <ul style="list-style-type: none"> <li>• Disbursements made directly to a store on Ebeye (check nos. 24078 and 24319 for \$5,703 and \$4,825, respectively) were recorded as advances to an employee;</li> <li>• Advances to one employee totaled \$26,050 in fiscal year 2002. These advances were partially liquidated by \$9,561 for three family members traveling from the Philippines. It was determined that the travel did not occur. However, the general fund of KADA was charged for the expenditure. Additionally, \$8,462 of liquidations of advances for the employee were unsupported;</li> <li>• Advances to one employee totaled \$11,850 in fiscal year 2002. These advances were partially liquidated by \$4,334 for a family member traveling from the Philippines. It is unknown whether the travel occurred;</li> <li>• The Executive Director of KADA was advanced \$31,567 during fiscal year 2002;</li> <li>• An employee with a job description "aide to the former KADA Chairman" was advanced \$13,000 during fiscal year 2002;</li> <li>• A former Chairman of KADA was advanced \$15,000 during fiscal year 2002;</li> </ul>	<p><u>124,519</u></p>

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No. 2002-8, Continued

Program	Finding/Noncompliance	Questioned Cost
	<ul style="list-style-type: none"> <li>• The Kwajalein Atoll Local Government was advanced \$20,000 during fiscal year 2002.</li> </ul> <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 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> This again is an ongoing discussion as to the nature of all these expenses, whether they are repairs and maintenance or a project cost.</p> <p>Causeway Project is an unfinished project, therefore, how could we repair and maintain an unfinished project. This project borders in a thin line of cost and repair, which is which, is a big question that remains unanswered for the last ten years!</p> <p>Workboats are the only link and service provided to Kwajalein other islands and outer islands. This service is part and parcel of KADA's mandate, without these boats, how can we provide service to other Kwajalein islands?</p> <p>Community Relations: KADA is not only involved in development project but also in the everyday life of Kwajalein Atoll. Community activities such as Lerioj Kitlan Memorial Hospital dedication is within KADA involvement.</p> <p>Ebeye Dock: If cleaning the environment was not part of KADA's mandate, therefore, who would do it? The clean-up of the Ebeye Dock, which by the way is the "Gateway to Ebeye", then next time you come here, don't be surprised if the dock is dirty and filthy, because we will tell the people of Ebeye that it is not our duty, as the auditors had questioned!</p> <p>Office Building: This is another finding that is already answered in Finding No. 7, to split the finding into two for labor and materials is quite astonishing.</p>	

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No. 2002-8, Continued

Program	Finding/Noncompliance	Questioned Cost
	<p>Development Consultant: Our employment of a consultant for Ebeye Dumpsite is our step in a right direction. The consultancy is to address and find a proper disposal of waste. Again, is this decision is being second-guessed by the auditors, do we sit here and wait till our garbage mounts and wait for the auditors to tell us, which is ok to do? We sincerely believe that this is within KADA's mandate.</p> <p>New Hospital: This is merely case of tit-for-tat, and KADA opted for survival. If KADA was hostage in paying to RepMar then so be it.</p> <p>Power Plant: The case, in which this payment was made, had been dragging on for years. It was KADA's decision to end this case amicably in order to save, now again, this is another "glowing" example of this audit trying to second-guess the decision and take over the duties of the Board.</p> <p>Other details:</p> <p>Disbursement to a store on Ebeye (take note of the generalization of the word "store") was made for purchases. KADA had an account with this store, and payment is being made on a periodic basis.</p> <p>Advances to one employee (again, take note of the generalization of the word "employee"), all these advances were properly processed and approved. Deduction to the employee's payroll is done regularly. Employee benefits include vacation leave. This entitlement covers the employee and his family, and can be convertible to cash if travel is not consummated. The question of whether actual travel is made becomes irrelevant.</p> <p>Another advance to one employee (again, take note of the generalization of the word "employee"), if partial liquidation is presented, therefore, the balance is still in employee's account as advance.</p> <p>Now, this, why is this finding became very particular to an employee is something we detest. We thought the audit should be impartial and balance, but we believe politics is playing behind in this finding. Why so particular, why mention a position of an employee, if only one man holds that position. It is the same as mentioning the name...our question is "WHY"?</p> <p>Why we brought this issue is a question of consistency in the audit, since in the FY'01, Finding No. 2001-3 stated the following:</p> <p>"For the year ended September 30, 2001, one lease payment in the amount of \$12,000 was misappropriated by a former employee."</p> <p>The term in itself former employee is wrong, but why the generalization as former employee is used and then now, suddenly, the term being used pertains to a very particular position and person... WHY?</p>	

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No. 2002-8, Continued

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
	<p>Then the next finding is generalized particular. We believe the job description was erroneously presented; it should read "Liaison Officer" since that is what the employee doing.</p> <p>Now, again back to the "generalized particular, the former KADA Chairman, are we being consistent or what. We will not contest that an advance was made, but how the finding was worded is our only concern.</p> <p>The Board approved the advance made KALGOV.</p> <p>We believe all these findings should be deleted unless of course the auditors would like to take over the function of the Board of the Kwajalein Atoll Development Authority. It is alarming that "political color" is embroiled in this audit, although we do not conclude it but the repetitious findings, inconsistencies, palpable demonstration of the usurpation of the duties of the Board and the second-guessing of the Board decisions in some of the findings begs to disagree.</p> <p>The Board of the Kwajalein Atoll Development Authority is aware of their mandate and purpose. The development of Kwajalein will always remain a priority and sole objective. In the course of this objective, decisions will be made. These decisions, be it right or wrong are geared toward the betterment of life in Kwajalein. We are not hypocrites and we cannot say we are perfect, our imperfections make us vulnerable but we will always work to achieve our goal.</p> <p><u>Auditor Response:</u> We believe that the items listed in the condition may not comply with the Fiscal Use Agreement.</p>	
	Total Questioned Costs	<u>\$ 1,031,115</u>

KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2002

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, 2002.

	<u>Questioned Cost</u>
Questioned costs as previously reported	\$ 2,332,821
Less questioned costs resolved in fiscal year 2002	
Questioned costs of fiscal year 1999 Single Audit (1)	<u>(805,733)</u>
	1,527,088
Questioned costs of fiscal year 2002 Single Audit	<u>1,031,115</u>
Unresolved questioned costs at September 30, 2002	\$ <u>2,558,203</u>
(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 20).

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