

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

INDEPENDENT AUDITORS' REPORT 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 Joint Utilities Resources:

We have audited the financial statements of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) as of and for the year ended September 30, 2001, and have issued our report thereon dated May 16, 2002. 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. Our report dated May 16, 2002 stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the statements of income and retained earnings and cash flows due to our inability to determine the propriety of balance sheet accounts as of September 30, 2000.

Compliance

As part of obtaining reasonable assurance about whether KAJUR's financial statements is 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 balance sheet 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 (pages 3 through 8) as items 2001-4 through 2001-6.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered KAJUR'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 KAJUR's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2001-1 through 2001-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2001-1, 2001-2 and 2001-3 to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management 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 JOINT UTILITIES RESOURCES, INC.

Schedule of Findings
Year Ended September 30, 2001

Purchases/Disbursements

Finding No. 2001-1

Criteria: Taxes payable should be remitted on a timely basis.

Condition: KAJUR is currently delinquent with regard to income tax withholding and social security taxes.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is potential interest and penalty charges.

Recommendation: We recommend that KAJUR implement policies and procedures to ensure the timely payment of taxes.

Prior Year Status: The delinquency regarding withholding taxes and social security taxes was reported as a finding in the audits of KAJUR for the years ended September 30, 1993 through 2000.

Auditee Response and Corrective Action Plan: Policies and procedures are already in place, but because of KAJUR's cash flow problems we can not maintain timely payment of taxes payable.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Receivables

Finding No. 2001-2

Criteria: Receivable subledger balances should be reconciled to the general ledger on a monthly basis. Aged subledger balances should be evaluated periodically to determine an appropriate allowance for doubtful accounts or whether write-off is appropriate.

Condition: Our testing of KAJUR's receivables determined the following:

- . KAJUR's utility receivable subledger balance did not agree with the general ledger by \$101,780 at September 30, 2001. This situation was corrected through a proposed adjustment.
- . KAJUR's utility receivable subledger is not aged and KAJUR's allowance for doubtful accounts total did not agree with the general ledger by \$141,082 at September 30, 2001. This situation was also corrected through proposed adjustment.

Cause: The cause of the above condition is the lack of policies and procedures requiring reconciliation of subledger balances to the general ledger, or the periodic review of receivable balances to determine an appropriate allowance for doubtful accounts.

Effect: The effect of the above condition is that receivables are materially overstated.

Recommendation: We recommend that KAJUR reconcile receivable subledger balances to the general ledger on a monthly basis and evaluate receivables periodically to determine an appropriate allowance for doubtful accounts.

Prior Year Status: The lack of reconciliation of receivable subledger balances to the general ledger and the lack of evaluation of receivables to determine an appropriate allowance for doubtful accounts was reported as a finding in the audit of KAJUR for the years ended September 30, 1993 through 2000.

Auditee Response and Corrective Action Plan: KAJUR has policies and procedures in reconciling the subledger to the general ledger on a monthly basis. Fiscal year 2002 will reflect this and hopefully eliminate this finding.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Payables and Accrued Liabilities

Finding No. 2001-3

Criteria: Employee allotments payable should be remitted on a timely basis.

Condition: KAJUR is currently delinquent with regards to employee allotments withheld related to employees' life insurance, medical insurance, loans, and miscellaneous payments.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the potential exposure and risk of loss related to unpaid employees' insurance and loans.

Recommendation: We recommend that KAJUR implement policies and procedures to ensure the timely payment of employee allotments withheld.

Prior Year Status: The delinquency regarding employee allotments was reported as a finding in the audit of KAJUR for the year ended September 30, 2000.

Auditee Response and Corrective Action Plan: Employee allotments (from the previous administration) have not been paid due to cash flow problems. KAJUR plans to offset the outstanding allotments of those employees with electric arrears before reimbursing the employees.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-4

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: KAJUR is currently delinquent with regards to income tax withholdings from employee wages to be remitted to RepMar during the year ended September 30, 2001.

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.

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended was reported as a finding in the audits of KAJUR for the years ended September 30, 1998 through 2000.

Auditee Response and Corrective Action Plan: KAJUR's management is trying to pay the outstanding taxes to comply with the Income Tax Act of 1989, but the high price of fuel in Ebeye and the lack of credit available from the fuel supplier caused KAJUR to delay payments for income taxes, social security taxes and delinquency with other vendors.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-5

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: KAJUR is currently delinquent with regards to remitting to the Marshall Islands Social Security Administration (MISSA) employer and employee contributions during the year ended September 30, 2001.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: Noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 was reported as a finding in the audits of KAJUR for the years ended September 30, 1998 through 2000.

Auditee Response and Corrective Action Plan: KAJUR's management is trying to pay the outstanding taxes to comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991, but the high price of fuel in Ebeye and the lack of credit available from the fuel supplier caused KAJUR to delay payments for income taxes, social security taxes and delinquency with other vendors.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-6

Criteria: Section 14.3 and appendix N of the management contract states that the management contractor is required to maintain liability insurance for general liability, workers compensation, property and casualty.

Condition: KAJUR is currently not maintaining insurance against liability and other risks as required in the management contract.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the management contract.

Recommendation: We recommend that management comply with the provisions stated in the management contract.

Prior Year Status: Noncompliance with the management contract regarding liability insurance was reported as a finding in the audit of KAJUR for the year ended September 30, 2000.

Auditee Response and Corrective Action Plan: KAJUR is currently working on the life and workmen's compensation insurance with Moylans Insurance Company as there were no other proposals related to our request for proposal for insurance services.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2001

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 8).