

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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 Joint Utilities Resources, Inc.:

We have audited the financial statements of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) as of and for the year ended September 30, 2002, and have issued our report thereon dated May 14, 2003. 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 KAJUR'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 6 through 11) as items 2002-3 through 2002-5.

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 2002-1 and 2002-2.

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, we believe the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, 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 14, 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 Joint Utilities Resources, Inc.:

Compliance

We have audited the compliance of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) 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. KAJUR's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 11). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of KAJUR's management. Our responsibility is to express an opinion on KAJUR'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 KAJUR'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 of KAJUR's compliance with those requirements.

In our opinion, KAJUR 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 KAJUR 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 KAJUR'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of KAJUR as of and for the year ended September 30, 2002, and have issued our report thereon dated May 14, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements 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 statements. This schedule is the responsibility of the management of KAJUR. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, federal awarding agencies, 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 14, 2003

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

| Program Title  | Grant Number           | Program<br>or Award<br>Amount | Cash<br>Receipts<br>FY02 | Expenditures<br>FY02 | Excess<br>(Deficiency) of<br>Authorization<br>Over (Under)<br>Program<br>Expenditures |
|--|------------------------|-------------------------------|--------------------------|----------------------|---|
| <u>U.S. Department of the Interior</u>                         |                        |                               |                          |                      |   |
| <u>Capital Improvement Programs CFDA #15.875</u>               |                        |                               |                          |                      |   |
| Funds passed through the American Samoa Power Authority (ASPA) |                        |                               |                          |                      |   |
| Apprentice Program   | OMIP-ASPA/KAJUR 2001-1 | \$ 56,000                     | \$ 17,522                | \$ 53,656            | \$ (36,134)   |
| Wastewater Operating Training                                  | OMIP-ASPA/KAJUR 2001-1 | 16,000                        | 5,000                    | -                    | 5,000   |
| Water Operator Training  | OMIP-ASPA/KAJUR 2001-1 | 10,000                        | -                        | -                    | -   |
| TWI Training   | OMIP-ASPA/KAJUR 2001-1 | 21,000                        | 8,294                    | 22,536               | (14,242)  |
| Prepaid Debit Meter Training                                   | OMIP-ASPA/KAJUR 2001-1 | 6,000                         | -                        | -                    | -   |
| Customer Service Training                                      | OMIP-ASPA/KAJUR 2001-1 | 10,000                        | -                        | -                    | -   |
| Ebeye Hospital Incinerator                                     | OMIP-ASPA/KAJUR 2001-2 | 100,000                       | 50,000                   | 57,329               | (7,329)   |
| Sewer Treatment Plant Relocation                               | OMIP-ASPA/KAJUR 2001-3 | 1,100,000                     | 90,000                   | 59,416               | 30,584  |
| New Landfill   | OMIP-ASPA/KAJUR 2001-3 | 800,000                       | 112,386                  | 46,145               | 66,241  |
| Repair Water Desalination Plant                                | OMIP-ASPA/KAJUR 2001-3 | 500,000                       | 295,000                  | 170,715              | 124,285   |
| Fuel Storage Tanks   | OMIP-ASPA/KAJUR 2001-3 | 750,000                       | 4,900                    | 4,950                | (50)  |
| Refurbish School Building                                      | OMIP-ASPA/KAJUR 2001-3 | 600,000                       | 597,554                  | 524,521              | 73,033  |
| New Generator Study  | OMIP-ASPA/KAJUR 2001-4 | 400,000                       | 63,016                   | 26,032               | 36,984  |
|  |                        | <u>4,369,000</u>              | <u>1,243,672</u>         | <u>965,300</u>       | <u>278,372</u>  |
| Total Capital Improvement Programs                             |                        | <u>\$ 4,369,000</u>           | <u>\$ 1,243,672</u>      | <u>\$ 965,300</u>    | <u>\$ 278,372</u>   |

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to the one major federal award program were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the one major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. KAJUR's one major program is as follows:

| <u>Name of Federal Program</u>                                  | <u>CFDA Number</u> |
|---|--------------------|
| Capital Improvement Projects and<br>Technical Assistance Grants | 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. KAJUR 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<br/>Number</u> | <u>Findings</u>                  | <u>Refer<br/>Page #</u> |
|-----------------------------|----------------------------------|-------------------------|
| 2002-1                      | Purchases/Disbursements          | 7                       |
| 2002-2                      | Payables and Accrued Liabilities | 8                       |
| 2002-3                      | Local Noncompliance              | 9                       |
| 2002-4                      | Local Noncompliance              | 10                      |
| 2002-5                      | Local Noncompliance              | 11                      |

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

No federal award findings are reported for the year ended September 30, 2002.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

**Section II - Financial Statement Findings**

Purchases/Disbursements

Finding No. 2002-1

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 2001.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Payables and Accrued Liabilities

Finding No. 2002-2

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 audits of KAJUR for the years ended September 30, 2000 and 2001.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Local Noncompliance

Finding No. 2002-3

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 was delinquent in payment of income tax withholdings during the year ended September 30, 2002.

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 2001.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Local Noncompliance

Finding No. 2002-4

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 has been delinquent in remitting social security employer and employee contributions during the year ended September 30, 2002.

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 2001.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Local Noncompliance

Finding No. 2002-5

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, 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 years ended September 30, 2000 and 2001.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Unresolved Prior Year Findings  
Year Ended September 30, 2002

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Questioned Costs section of this report (pages 6 through 11).

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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, 2002

**Financial Statements Findings Section**

Purchases/Disbursements

Finding No. 2002-1

KAJUR is still delinquent with withholding due to its cash flow problem. At present, KAJUR is paying for its delinquency from its subsidy from RMI. RMI is deducting a portion of KAJUR's quarterly subsidy payment to pay for the withholding taxes KAJUR owe to RMI. In addition, KAJUR pays bi-weekly payment to RMI Tax Revenue when there is enough cash available. The deduction of a portion of future subsidies to KAJUR will continue.

Payables and Accrued Liabilities

Finding No. 2002-2

KAJUR paid some of its employee's allotment but not all. The main reason for this is the cash flow. KAJUR still trying to get its employee's allotments paid off.

Local Noncompliance

Finding No. 2002-3

Cash flow problem is the main reason for noncompliance with the Income Tax Act of 1989.

Finding No. 2002-4

KAJUR is delinquent with its Social Security taxes due. The main reason is the cash flow. KAJUR signed a promissory note at year-end with MISSA to settle the delinquency by making installment payment for the debts and making current bi-weekly Social Security taxes.

Finding No. 2002-5

Management contract is required to maintain liability insurance for general liability, property and casualty. At the present, KAJUR is working on getting these various insurances.

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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, 2001:

**Financial Statement Findings Section**

Finding No. 2001-1 - Not corrected. See corrective action plan to Finding 2002-1.

Finding No. 2001-2 - Corrective action was taken.

Finding No. 2001-3 - Not corrected. See corrective action plan to Finding 2002-2.

Finding No. 2001-4 - Not corrected. See corrective action plan to Finding 2002-3.

Finding No. 2001-5 - Not corrected. See corrective action plan to Finding 2002-4.

Finding No. 2001-6 - Not corrected. See corrective action plan to Finding 2002-5.