

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

**(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

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

YEAR ENDED SEPTEMBER 30, 2007

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

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.:

We have audited the statement of net assets of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) as of September 30, 2007, and have issued our report thereon dated June 25, 2009, which report was qualified due to inadequacies of accounting records over receivables and 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 revenues, expenses and changes in net assets and of cash flows for the year ended September 30, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered KAJUR's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KAJUR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KAJUR's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 24) as items 2007-3 through 2007-15 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

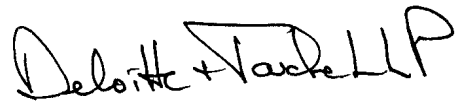
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KAJUR's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-1 and 2007-2.

KAJUR's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit KAJUR's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

June 25, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON 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, 2007. 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 7 through 24). 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.

As described in item 2007-16 in the accompanying Schedule of Findings and Questioned Costs, KAJUR did not comply with the requirement regarding cash management. Compliance with such requirement is necessary, in our opinion, for KAJUR to comply with the requirements applicable to its one major federal program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KAJUR's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2007-16 to be a significant deficiency.

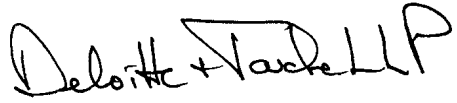
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. However, we believe that the significant deficiency described above is a material weakness.

KAJUR's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit KAJUR's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the basic statement of net assets of KAJUR as of September 30, 2007, and have issued our report thereon dated June 25, 2009, which report was qualified due to inadequacies of accounting records over receivables and 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 revenues, expenses and changes in net assets and of cash flows for the year ended September 30, 2007. 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 6) 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had the accounting records been adequate for us to satisfy ourselves about receivables, 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 the Board of Directors, 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, somewhat stylized font.

June 25, 2009

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

<u>Program Title</u>	<u>Expenditures FY07</u>
<u>U.S. Department of the Interior</u> <u>Compact of Free Association, As Amended:</u> <u>Section 211(b)(2) Kwajalein Atoll Landowners Special Needs</u> <u>CFDA #15.875</u> Kwajalein Development Fund	 <u>\$ 3,257,745</u>

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

The above expenditures reconcile to the underlying financial statements as follows:

Capitalized in construction in progress	\$ 354,804
Expenses	<u>2,902,941</u>
	<u>\$ 3,257,745</u>

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the statement of net assets as of September 30, 2007 was qualified with respect to inadequacies of accounting records over receivables and disclaimed an opinion on the financial statements for the year ended September 30, 2007.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to 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 a qualified opinion.
6. The audit disclosed 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>
Compact of Free Association, as amended, Public Infrastructure Sector	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 Number</u>	<u>Findings</u>	<u>Page #</u>	<u>Questioned Costs</u>
2007-1 - 2	Local Noncompliance	9 - 10	\$ -
2007-3 - 4	External Financial Reporting	11 - 12	\$ -
2007-5 - 6	Utility Revenues	13 - 14	\$ -
2007-7	Purchases/Disbursements	15	\$ -
2007-8	Payroll Expenses	16	\$ -
2007-9 - 10	Receivables	17 - 18	\$ -
2007-11	Other Receivables	19	\$ -
2007-12	Inventories	20	\$ -
2007-13	Fixed Assets	21	\$ -
2007-14	Accrued Liabilities	22	\$ -
2007-15	Deferred Revenue	23	\$ -

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Page #</u>	<u>Questioned Costs</u>
2007-16	15.875	Cash Management	24	\$ Undeterminable

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-1

Local Noncompliance

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 did not prepare and file Employer's Quarterly Tax Returns nor remit social security employer and employee contributions for quarters ended December 31, 2006 and March 31, 2007 as required. The required returns were eventually prepared and filed in June 2007; however, the contributions due, including those of prior years, together with related penalties and interest, totaling \$939,612, remain unpaid.

Cause: The cause of the above condition the lack of established policies and procedures that ensure compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

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. Furthermore, KAJUR has incurred related penalties and interest due to noncompliance.

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 fiscal years 1998 through 2006.

Auditee Response and Corrective Action Plan: KAJUR has taken action on this and is paying over dues to Social Security as well as paying the quarterly taxes.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-2

Local Noncompliance

Criteria: Section 5 of the RepMar Income Tax Act of 1989, as amended, states that employers shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: KAJUR did not remit employee withholding taxes to RepMar in a timely manner during the year ended September 30, 2007. As a result, KAJUR recorded a liability of \$70,835, which represented withholding taxes together with related penalties and interest for pay periods ended October 21, 2006 through July 28, 2007.

Cause: The cause of the above condition the lack of established policies and procedures that ensure compliance with the Income Tax Act of 1989, as amended.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended. Furthermore, KAJUR incurred related penalties and interest due to noncompliance.

Recommendation: We recommend that management comply with the Income Tax Act of 1989, as amended.

Prior Year Status: Noncompliance with the RepMar Income Tax Act of 1989, as amended, was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: KAJUR is now paying all RMI taxes on a monthly basis.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-3

External Financial Reporting

Criteria: Adequate accounting controls necessitate that journal entries and adjustments be independently approved and recorded by separate individuals to ensure accuracy and authorization.

Condition: Journal entries and adjustments during the year ended September 30, 2007 were initiated and recorded by the same accounting personnel with an absence of independent review. Additionally, the general journal vouchers provided were not signed and most appeared to have been prepared subsequent to September 30, 2007.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure adequate segregation of duties pertaining to journal entries.

Effect: The effect of the above condition is a possible misstatement of the financial statements.

Recommendation: We recommend that KAJUR adopt policies and procedures to ensure adequate segregation of duties pertaining to journal entries.

Prior Year Status: Lack of adequate segregation of duties pertaining to journal entries was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: All journal and adjustment entries are now being properly authorized.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-4

External Financial Reporting

Criteria: An adequate system of internal control ensures that the MAS 90 accounting system is backed up on a regular basis and that the back-ups are stored offsite.

Condition: We were informed that the MAS 90 system is not backed up on a regular basis and stored offsite.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure security of the accounting system information.

Effect: The effect of the above condition is the possible loss of critical data.

Recommendation: We recommend that management perform back-ups of the accounting system on a regular basis and maintain such offsite.

Prior Year Status: Lack of back-up and offsite storage of the accounting system was reported as a finding in the audits of KAJUR for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan: KAJUR is now backing up files on a regular basis and keeping a copy off site.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-5

Utility Revenues

Criteria: Management is responsible for establishing adequate internal control to ensure that revenues are accurately identified, recorded, and collected.

Condition: KAJUR maintains its utility billing system, including monthly meter reading and billing generation, in Microsoft Excel and does not utilize standard utility billing software, which may assist accuracy and recording.

Cause: The cause of the above condition is the lack of established policies and procedures over utility revenues.

Effect: The effect of the above condition is a possible misstatement of utility revenues.

Recommendation: We recommend that policies and procedures be established pertaining to utility revenues, including utilization of appropriate software to assist in the validity and accuracy of the customer database and billing information.

Prior Year Status: Non-utilization of utility billing software to generate billings was reported as a finding in the audits of KAJUR for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan: KAJUR is looking at new billing systems for conventional metered accounts and will convert once a suitable system has been identified.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-6

Utility Revenues

Criteria: Revenues should be supported by transactional source documentation.

Condition: Of forty-nine residential electric and sixteen other revenue items tested, we noted the following:

- The daily cash collection reports were not independently verified.
- No explanations were provided for the cash overages and shortages noted on the Debit Meter Collection sheets nor were the variances recorded to the general ledger.
- Daily cash collection reports and/or deposit slips for November 4, November 18, November 25, November 27, November 30, 2006, February 17 and August 4, 2007, were not available.
- Daily cash reconciliation report for June 30, 2007 was not available.
- Journal voucher # 0499 was not available.

We also noted that collection reports for other receipts were not independently verified.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure source documentation is maintained.

Effect: The effect of the above condition is a possible misstatement of utility revenues.

Recommendation: We recommend that proper policies and procedures be established pertaining to revenues.

Prior Year Status: Lack of revenue source documentation was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: KAJUR staff are being trained to overcome these shortcomings.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-7

Purchases/Disbursements

Criteria: Receiving reports document evidence of the receipt of materials and supplies into inventory.

Condition: KAJUR does not utilize receiving reports to evidence receipt of materials and supplies into inventory.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation to evidence receipt of materials and supplies into inventory.

Effect: The effect of the above condition is possible payment for materials and supplies not received and for invalid expenditures.

Recommendation: We recommend that receiving reports be completed for all purchases.

Prior Year Status: Lack of receiving reports for materials and supplies received into inventory was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: KAJUR staff are being trained to overcome these shortcomings.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-8

Payroll

Criteria: Payroll expenses should be authorized and supported by appropriate documentation.

Condition: Of twenty-two payroll expenses tested, the following exceptions were noted:

- Timesheets were not signed as approved for the following employees:

<u>Employee #</u>	<u>PPE</u>
SAIN	12/02/06
JACM	2/24/07
DUMJ	4/07/07
HOST	8/11/07

- Timesheet for employee # SUBC for pay period ended February 24, 2007 was not available.

Furthermore, the accounting clerk who processes payroll transactions also has access to and editing authority over the payroll master files.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to payroll.

Effect: The effect of the above condition is a possible misstatement of payroll expenses.

Recommendation: We recommend that management ensure that employees' hours are supported by approved timesheets and accurately paid and that hourly rates are supported by approved personnel action forms. We also recommend that management ensure that proper segregation of duties is in place over the payroll function to ensure accuracy and authorization.

Prior Year Status: Lack of payroll supporting documentation was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: KAJUR staff are being trained to overcome these shortcomings.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9

Receivables

Criteria: Utility receivables should be supported by reconciled subsidiary ledgers.

Condition: At September 30, 2007, KAJUR recorded electric utility receivables (A/c # 13211-200, totaling \$2,578,022) that did not reconcile to the supporting subsidiary ledger balance of \$2,245,767. In addition, no subsidiary ledgers were available to support water and sewer utility receivables.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that receivables are supported by reconciled subsidiary ledgers.

Effect: The effect of the above condition is a possible misstatement of receivables.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that receivables are supported by reconciled subsidiary ledgers.

Auditee Response and Corrective Action Plan: Staff are being trained and reconciliations are in progress.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-10

Receivables

Criteria: The allowance for doubtful accounts should be stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

Condition: At September 30, 2007, KAJUR recorded an allowance for doubtful accounts in the amount of \$2,992,497, for which no supporting analysis was provided. This condition was alleviated through alternative audit procedures that resulted in a proposed adjustment of \$1,064,291 to increase the allowance for doubtful accounts to \$4,056,788.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that the allowance for doubtful accounts is adequately supported.

Effect: The effect of the above condition is a possible misstatement of receivables and the related allowance for doubtful accounts.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that the allowance for doubtful accounts is adequately supported.

Prior Year Status: Lack of an analysis to support allowance for doubtful accounts was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Management will be monitoring this in future and making necessary adjustments to the allowance.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11

Other Receivables

Criteria: Other receivables should be supported by reconciled subsidiary ledgers.

Condition: At September 30, 2007, KAJUR recorded other receivables, totaling \$198,527, which included \$164,590 for which no supporting subsidiary ledgers were provided.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that other receivables are supported by reconciled subsidiary ledgers.

Effect: The effect of the above condition is a possible misstatement of other receivables.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that other receivables are supported by reconciled subsidiary ledgers.

Prior Year Status: Lack of a supporting subsidiary ledger for other receivables was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Staff are being trained and reconciliations are in progress.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12

Inventories

Criteria: Materials and supplies should be inventoried on a regular basis and reconciled to the general ledger.

Condition: We were informed that inventory issuances for the year ended September 30, 2007, were not recorded until the records were adjusted in preparation for audit.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that subsidiary ledger inventory balances are updated and reconciled to the general ledger on a regular basis.

Effect: The effect of the above condition is a possible misstatement of inventories.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that subsidiary ledger inventory balances are updated and reconciled to the general ledger on a regular basis.

Auditee Response and Corrective Action Plan: Staff are being trained and reconciliations are in progress.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13

Fixed Assets

Criteria: Fixed assets should be inventoried on a regular basis. Additionally, the subsidiary fixed asset register should provide sufficient detail to identify the assets, including the assignment of identification numbers to individual assets, and documentation of the location of such individual assets.

Condition: There was no physical inventory of fixed assets for fiscal year 2007. Additionally, the subsidiary fixed asset register does not always contain sufficient information to allow for asset location and identification. KAJUR does not assign identification numbers to individual assets nor does the fixed asset register indicate the location of such assets.

We also noted that the beginning accumulated depreciation amounts for certain water assets in the fixed asset register do not agree with the 2006 register and that the useful lives of certain electric assets (laptop computers and miscellaneous equipment) seem excessive.

We also noted an incinerator belonging to the hospital and inventory items included in KAJUR's fixed asset register.

Furthermore, additions totaling \$66,808 were recorded directly in the general ledger instead of in the fixed asset register.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that fixed assets be physically inventoried, tagged and referenced in the fixed asset register.

Effect: The effect of the above condition is that fixed assets may be misstated throughout the year and the current practice of describing assets in the fixed asset register is not sufficient to identify the assets.

Recommendation: We recommend that management ensure that fixed assets are physically inventoried, identified and referenced in the fixed asset register.

Prior Year Status: Lack of a physical inventory of fixed assets and tagging and adequate description in the fixed asset register was reported as a finding in the audits of KAJUR for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan: Staff are being trained and reconciliations are in progress.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14

Accrued Liabilities

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

Condition: At September 30, 2007, KAJUR recorded accrued liabilities (A/c # 22411-200-0), totaling \$169,921, representing employee allotments of fiscal years 1998 and 1999. The account balance has not changed since fiscal year 2001.

Cause: The cause of the above condition is the lack of detail to support whether an adjustment of the account should occur.

Effect: The effect of the above condition is nonpayment of employee allotments.

Recommendation: We recommend that this account be investigated and cleared in a timely manner.

Prior Year Status: Nonpayment of employee allotments was reported as a finding in the audits of KAJUR for fiscal years 2000 through 2006.

Auditee Response and Corrective Action Plan: Allotments from 1998 and 1999 have been determined to be unidentifiable and have been written off in 2009. Staff training is continuing and reconciliations are progressing.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-15

Deferred Revenue

Criteria: Deferred revenue should reflect amounts received but not expended.

Condition: At September 30, 2007, deferred revenue includes \$112,800 for federal grants drawn in fiscal year 2003 that have been expended.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that expended grants funds are accurately recorded.

Effect: The effect of the above condition is the possible misstatement of deferred revenue.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that expended grants funds are accurately recorded.

Prior Year Status: Misstatement of deferred revenue was reported as a finding in the audits of KAJUR for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Drawdowns from 2003 were not identifiable and have been written off in 2009.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16

Cash Management

U.S. Department of the Interior

CFDA # 15.875

Compact Infrastructure Sector Grants

Questioned Costs: Undeterminable

Criteria: Drawdown requests should be maintained and filed. Further, the time elapsed between the receipt of federal funds and disbursements shall be minimized.

Condition: We were unable to perform required cash management tests as the detailed drawdown requests were not available.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that drawdown requests are maintained and filed.

Effect: The effect of the above condition is noncompliance with cash management requirements. Additionally, we were not able to determine the dollar amount of questioned costs that may result from this finding.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that drawdown requests are maintained and filed.

Prior Year Status: Lack of drawdown requests was reported as a finding in the audits of KAJUR for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan: A procedure establishing a Drawdown Register has been formulated and implemented.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2007

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2007:

Questioned costs of KAJUR as previously reported:

Fiscal year 2004 Single Audit	\$ 488,494
Fiscal year 2005 Single Audit	434,069
Fiscal year 2006 Single Audit	<u>452,893</u>
	1,375,456

Questioned costs of fiscal year 2007 Single Audit -

Unresolved questioned costs of KAJUR at September 30, 2007 \$ 1,375,456

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 through 24).