

RONGELAP ATOLL LOCAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2004

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

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands:

We have audited the financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2004, which collectively comprise RALGOV's basic financial statements and have issued our report thereon dated April 21, 2008. 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 RALGOV'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 an opinion 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 RALGOV'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 and Questioned Costs (pages 8 through 20) as items 2004-1 through 2004-7.

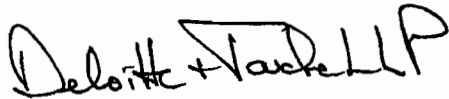
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 that the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RALGOV's 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 is required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-8 and 2004-9.

We noted certain matters that we reported to management of RALGOV in a separate letter dated April 21, 2008.

This report is intended solely for the information and use of the Council, management, 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.

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

April 21, 2008

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

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Rongelap Atoll Local Government (RALGOV) 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, 2004. RALGOV's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 20). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of RALGOV's management. Our responsibility is to express an opinion on RALGOV'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 RALGOV'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 RALGOV's compliance with those requirements.

As described in item 2004-9 in the accompanying Schedule of Findings and Questioned Costs, RALGOV did not comply with single audit reporting requirements that are applicable to its major federal programs. Compliance with such requirements is necessary for RALGOV to comply with the requirements applicable to its one major federal program.

In our opinion, except for the noncompliance described in the preceding paragraph RALGOV 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, 2004.

Internal Control Over Compliance

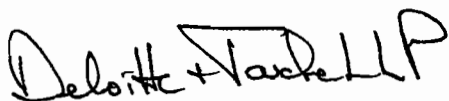
The management of RALGOV is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RALGOV's internal control over compliance 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 reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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 no noted 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 financial statements of the governmental activities and each major fund of RALGOV as of and for the year ended September 30, 2004, and have issued our report thereon dated April 21, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise RALGOV's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 5 and 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 RALGOV. 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 the Council, management, federal awarding agencies, and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



April 21, 2008

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
Compact of Free Association, Public Law 99-239
Year Ended September 30, 2004

CFDA#	Agency/Program	Prior Year	Federal Cash	Net Earnings	Federal	Available
		Fund Carried	Receipts and			Funds
		Over October 1,	Adjustments	on Funds	Expenditures	September 30,
		2003				2004
	<u>U.S. Department of the Interior</u>					
	Funds passed through the Republic of the Marshall Islands:					
15.875	The Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association	\$ 30,010,710	\$ -	\$ 2,795,744	\$ 2,299,342	\$ 30,507,112

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$30,507,112 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2004, are represented by fund manager fees of \$199,342 and a transfer out to the Rongelap Local Distribution Authority of \$2,100,000 for distribution to the people of Rongelap based on an approved distribution scheme.

See accompanying notes to schedule of expenditures of federal awards.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
U.S. Federal Grants
Year Ended September 30, 2004

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2003	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2004
<u>U.S. Department of Agriculture</u>					
Funds passed through the Republic of the Marshall Islands:					
10.852	Commodity Assistance Program	\$ -	\$ 79,183	\$ 79,183	\$ -
	Total U.S. Department of Agriculture	<u>\$ -</u>	<u>\$ 79,183</u>	<u>\$ 79,183</u>	<u>\$ -</u>
<u>U.S. Department of the Interior</u>					
Funds passed through the Republic of the Marshall Islands:					
15.875	Rongelap Atoll Tourism Promotion Project	\$ 17,834	\$ 36,125	\$ 26,415	\$ 8,124
	Total U.S. Department of the Interior	<u>\$ 17,834</u>	<u>\$ 36,125</u>	<u>\$ 26,415</u>	<u>\$ 8,124</u>
<u>U.S. Department of Energy</u>					
Direct award:					
	Bioassay Facility	\$ 17,500	\$ 17,500	\$ -	\$ -
	Environmental Monitoring Support Plan	<u>-</u>	<u>71,351</u>	<u>71,351</u>	<u>-</u>
	Total U.S. Department of Energy	<u>\$ 17,500</u>	<u>\$ 88,851</u>	<u>\$ 71,351</u>	<u>\$ -</u>
	TOTAL U.S. FEDERAL GRANTS	<u>\$ 35,334</u>	<u>\$ 204,159</u>	<u>\$ 176,949</u>	<u>\$ 8,124</u>

See accompanying notes to schedule of expenditures of federal awards.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2004

(1) Organization

The Rongelap Atoll Local Government (RALGOV) is a governmental entity governed by its own Constitution. All significant operations of RALGOV 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 RALGOV's cognizant agency for the Single Audit. RALGOV is the subrecipient of funds received through Section 177 of the Compact of Free Association from the Republic of the Marshall Islands (RepMar). These funds must be distributed in accordance with 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 Marshall Islands, dated July 31, 1986. It has been determined these funds are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be expended in compliance with local laws and regulations and Compact intent.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RALGOV and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs Year Ended September 30, 2004

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements of the governmental activities and each major fund 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 major federal award programs expressed a qualified opinion.
6. The audit disclosed a finding required to be reported by OMB Circular A-133.
7. RALGOV's major program is as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Economic, Social and Political Development of the Territories and the Freely Associated States: Section 177 of the 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. RALGOV 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>Refer Page #</u>
2004-1-2	Payroll	9-10
2004-3-5	Purchases/Disbursements	12-16
2004-6	Journal/Adjusting Entries	17
2004-7	Disbursements	18
2004-8	Local Noncompliance	19

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2004-9	Reporting	20

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Payroll

Finding No. 2004-1

Criteria: Payroll processing should be based upon internal control policies and procedures that ensure accuracy of information and authorization of transactions.

Condition: RALGOV does not monitor employee hours. There are no timesheets, timecards or any other means to report hours worked. Employees are paid a fixed eighty hours bi-weekly. Further, there are no policies governing sick and annual leave as these balances are also not monitored.

Cause: The cause of the above condition is the lack of established internal control policies and procedures over payroll processing.

Effect: The lack of internal control policies and procedures over payroll processing, specifically over employee work hours, sick leave and vacation leave may result in abuse or misuse of government funds.

Recommendation: We recommend that management establish internal control policies and procedures over payroll processing to ensure that accurate payroll information is processed and authorized.

Prior Year Status: The lack of established internal control policies and procedures over payroll processing was reported as a finding in the Single Audits of RALGOV for fiscal years 1998 through 2003.

Auditee Response and Corrective Action Plan: Although there is no timesheet, RALGov assures that all the employees in the payroll are active. Majority of the employees are in Mejatto serving as Teachers, Policemen, Social Services Assistants, Sailors and Maintenance personnel. Due to the location, there is difficulty in maintaining and transmitting of documents. Sick Leave and Vacation Leave are assumed used and are not provisioned for commutation.

What: Policy on Time Report and Leaves

When: Effective July 1, 2008

Who: All employees except the elected councilmember

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Payroll

Finding No. 2004-2

Criteria: Employee salary disbursements should be based on pay rates authorized through personnel action forms and voluntary employee allotment deductions should be supported by signed allotment authorizations.

Condition: Of twenty five (25) General Fund payroll disbursements tested, the following exceptions were noted:

- 1) Personnel file folders were not available for two (2) employees (check #s 25293 and 25392).
- 2) Personnel action forms were not available to support check #s 24625, 25962, and 27916.
- 3) Employee allotment authorizations for nine (9) disbursements (check #s 24523, 24625, 24769, 25031, 25293, 25392, 25898, 26557, and 26823) were not available to support voluntary allotment deductions.
- 4) Deductions for voluntary allotments for three (3) payroll disbursements differed from the amount in the allotment authorization form (check #s 27084, 27298, and 28356).

Cause: The cause of the above condition is the lack of established policies and procedures over the review and maintenance of payroll related documents.

Effect: The effect of the above condition is the possibility that payroll expenditures are misstated and that allotment deductions are unauthorized.

Recommendation: We recommend that management establish policies and procedures over review and maintenance of payroll related documents to ensure that payroll disbursements are accurate and allotment deductions are authorized.

Prior Year Status: The lack of established policies and procedures over review and maintenance of payroll related documents was reported as a finding in the Single Audits of RALGOV for fiscal years 1998 through 2003.

Auditee Response and Corrective Action Plan:

- (1) There are personnel file folders for the two employees sampled.
- (2) Of the three employees checks mentioned above, Kebenli Eknlang's (#24625) Personnel Action Form was on file.
- (3) The allotments deducted from the employees are actually requested by the employees. RALGov does not just deduct allotment from employees without their authorization. All of our employees are watchful of their paychecks and do complain once a deduction is made from their payroll without their knowledge.
- (4) Of the three checks mentioned, only the deduction on the check 27084 does not agree with the allotment authorization.

RONGELAP ATOLL LOCAL GOVERNMENT

**Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004**

Payroll, Continued

Finding No. 2004-2, Continued

Auditee Response and Corrective Action Plan, Continued:

What: Personnel Action Form/ Allotment Forms/Deduction Authorization

When: Effective immediately

Who: Finance Department Compliance Officer

RALGov maintains all employees' Personnel Action Form as of this date.

Written Allotment authorizations are now being maintained in individual employee file. RALGov will see to it that all Personnel Action Forms and Allotment Authorization files are intact. A Senior Accountant has been designated to be a Compliance Officer.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Purchases/Disbursements

Finding No. 2004-3

Criteria: Disbursements should be supported by valid invoices, contracts, approved travel request forms and other relevant documentation. .

Condition: Of twenty five (25) check vouchers examined, the following exceptions were noted:

- 1) Vendor invoices, airline receipts, and/or approved travel request forms for travel expenditures under check #s 24554, 25095, 25659, 25936, 27424, and 27725 were not available to support the disbursements. Further, no evidence of attendance at trainings/conferences such as travel reports and boarding passes was provided.
- 2) Vendor invoices for check #s 24959, 25240, 26196, 26772, 27164 and 3783 were not available to support disbursements.
- 3) A scholarship payment under check # 25403 was not supported by a school registration form that should be required to release scholarship allowances.
- 4) Copies of checks and supporting documents were not available for check #'s 25445 and 26074.
- 5) Check # 3758, paid to match a grant award for the Rongelap Pearl Farming project, was not supported with the basis of establishing the amount expended.

Cause: The cause of the above condition is the lack of internal control policies and procedures over disbursements to ensure that payments are properly supported.

Effect: The lack of internal control policies and procedures over processing of disbursements may result in the misstatement of expenditures or in a misappropriation of local government funds.

Recommendation: We recommend that management establish internal control policies and procedures over the processing of disbursements to ensure that payments are only made for properly supported expenditures

Auditee Response and Corrective Action Plan:

- (1) All the trips mentioned in item # 1 are valid and authorized travels. Training certificates for check 24554 to validate the trip is available.
- (2) Three of the vendor invoices that were not on file are from Ebeye vendors. Sometimes the invoices are lost in transit or misplaced by personnel that are supposed to surrender the invoices to us. Copies of these invoices can be requested from the vendors to regularize the finding.
- (3) The registration form was misplaced at the office. However, Mr. Dustin Bantol, the student recipient of the scholarship was actually in college by the time of the award.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Purchases/Disbursements, Continued

Finding No. 2004-3, Continued

Auditee Response and Corrective Action Plan, Continued:

- (4) Check 26074 paid to Continental for the Mayor and a Councilman travel to DC meeting is on file. The other check for Justin Edmond was misplaced.
- (5) The match paid to CMI Land Grant is to match the professional services that the CMI Pearl Farming experts will contribute in establishing the Pearl Farm at Rongelap Atoll. An MOU between RALGov and CMI Land Grant was executed for this undertaking.

What: Strict monitoring of support documents for disbursements

When: Always

Who: Finance Department

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Purchases/Disbursements

Finding No. 2004-4

Criteria: Disbursements from the Local Distribution Authority (LDA) should be made to the designated payee and be based on the number of eligible household members per the Quarterly Distribution Listing.

Condition: Of twenty-five disbursements to the people of Rongelap tested, the following exceptions were noted:

1. Thirteen disbursements (check #s 31165, 31950, 31951, 33762, 33763, 33764, 34581, 35830, 35379, 37837, 38659, 31957, and 33758) were either remitted directly to financial institutions or companies for loan payments or were received by individuals other than the designated payee. An approved assignment agreement evidencing the authorization was not in file.
2. Two disbursements (check #s 35377 and 35378) showed no indication of the recipients signing as evidence of the check receipt.

Additionally, RALGOV has not established a policy that excludes Rongelapese-born children who are later adopted by non-Marshallese citizens from the quarterly distributions.

Cause: The cause of the above condition is the lack of adequate controls over per capita distribution payments and the lack of an updated Quarterly Distribution Listing.

Effect: The effect of the above condition is the inability to determine whether the designated payees received per capita distribution payments or whether the per capita distribution payments were made in accordance with prescribed policies and procedures.

Recommendation: We recommend that management obtain written authorization and that such be kept on file before per capita distribution checks are released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge all disbursements received in writing. Furthermore, we recommend that management update the Quarterly Distribution Listing prior to the calculation and issuance of per capita distribution payments.

Prior Year Status: The lack of adequate controls over the disbursement of per capital distribution payments was reported as a finding in the Single Audits of RALGOV for fiscal years 1997 through 2003. The lack of an updated distribution list to ensure that per capita distribution payments are made in accordance with prescribed policies and procedures was reported as a finding in the Single Audit of RALGOV for fiscal year 2001 through 2003.

Auditee Response and Corrective Action Plan: All allotments or payments of recipients' checks to financial institutions or individuals/relatives are authorized by the recipients either in writing, verbal or through radio communications. RALGov as much as possible is trying to documents all those authorizations.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Purchases/Disbursements, Continued

Finding No. 2004-4, Continued

Auditee Response and Corrective Action Plan, Continued:

RALGov, as per policy, removes individual from Distribution Listing only upon death of that individual. Rongelapese adopted by non-Marshallese are still entitled to receive their share of the Distribution payments and RALGov believes that they should not be taken out from the listing.

What: Strict monitoring and filing of allotment authorizations and power of attorneys.

When: Always

Who: The Chief Accountant

The Chief Accountant was instructed to strictly ensure the completeness of the file of Authorization for pick up, allotment assignment and signature at the receipt of checks.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Purchases/Disbursements

Finding No. 2004-5

Criteria: Disbursements should be supported by valid invoices, contracts, approved travel request forms and other relevant documentation.

Condition: Of \$4,890,747 disbursements from the Resettlement Trust Fund, disbursements of \$585,000 do not appear to have been appropriately monitored by RALGOV. Funds were transferred to an employee's personal account for further distribution to vendor accounts. Although contracts with vendors exist, the disbursement process appears to lack sufficient internal control to ensure that RALGOV's funds are utilized only for valid and approved transactions. A payment of \$25,000 from these funds was not supported by a vendor contract.

Cause: The cause of the above condition is the lack of adequate controls over the abovementioned disbursements of the Resettlement Trust Fund.

Effect: The effect of the above condition is a potential for unauthorized disbursements and potential inadequate documentation.

Recommendation: We recommend that management establish internal control policies and procedures over disbursements of funds to ensure that only authorized and documented disbursements are processed.

Auditee Response and Corrective Action Plan: RALGov will immediately establish better internal control policies and procedures over disbursement of funds particularly to professional services.

What: Internal Control policies over disbursement of funds to Professional contractors

When: Within Fiscal Year 2008

Who: City Manager

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Journal Entries/Adjustments

Finding No. 2004-6

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Further, an independent review of journal vouchers should also occur.

Condition: Authorizations of journal entries and other adjustments during the year ended September 30, 2004 were not documented. Further, documentation supporting the following journal vouchers was not available:

jvi0409-04c
jvi0409-14

Cause: The cause of the above condition is the lack of policies and procedures over processing journal entries and adjustments.

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

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

Auditee Response and Corrective Action Plan: The support for the two Journal Vouchers are referenced and are available or attached to the other related JV. These two adjustments pertained to the RTF adjustments supported by TF schedules maintained every month.

What: Journal Vouchers

When: Immediately

Who: RALGov Finance

This issue has been addressed eventually with the addition of two staff at finance office.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Disbursements

Finding No. 2004-7

Criteria: Disbursements for project expenses should be supported by a project billing approved by the RALGOV project manager.

Condition: Of twenty five (25) disbursements tested from the Capital Projects Fund, two project billings paid by check #'s 03606 and 03618, were not approved by the project manager prior to payment.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that payments are only made for approved billings or invoices.

Effect: The lack of adequate internal control policies and procedures may result to misstatement of expenditures and potential unauthorized disbursement.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure that only approved billings and invoices are paid.

Auditee Response and Corrective Action Plan: The interim Project Manager was off –island at that time. The status of the project i.e. Fuel Farm, however was properly coordinated between Finance and office of the Mayor. The Mayor has verbal approval of the project upon periodic project briefings of the contractor.

What: Approval of Project Billings

When: Always

Who: Project Manager/Project Inspector

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2004

Local Noncompliance

Finding No. 2004-8

Criteria: According to Section 7.2 (2) of the Claims Trust Fund (the fund) Agreement, the trustee shall retain and add to the corpus of the Trust not less than 30% but not more than 85% of the net income of the Fund and pay to the Local Distribution Authority (LDA) for distribution to people of Rongelap the balance of the net income, at least annually.

Condition: During fiscal year 2004, the LDA drew down a total of \$2,100,000 from the Claims Trust Fund for distribution to people of Rongelap. Draw down exceeded allowable amount by \$282,519.

Cause: The cause the above condition is inadequate internal control policies and procedures to ensure compliance with the requirements of the Trust Agreement.

Effect: The effect of the above condition is noncompliance with Section 7.2 (2) of the Claims Trust Agreement.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure compliance with provisions of the Claim Trust Fund Agreement.

Auditee Response and Corrective Action Plan:

What: RALGov will establish adequate internal control policies and procedures to ensure compliance with the provision of the Claims Trust Fund Agreement.

When: RALGov staff will establish draft policy and procedures for consideration by the Executive Committee and then the full council. These policies and procedures are expected to be implemented this fiscal year.

Who: The office of the City Manager will manage and monitor the implementation of these policies and procedures.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Reporting

CFDA#15.875 U.S. Department of Interior/Compact of Free Association Title I, Article VII, Section 177

Finding No. 2004-9

Criteria: According to OMB Circular A-133, Subpart C, Auditee responsibilities. Section 320, Single Audits shall be completed and data collection form be submitted within the earlier of 30 days after receipt of auditors' report or nine months after the end of audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition: RALGOV is not compliance with the single audit nine month deadline.

Cause: The cause of the above condition was lack of adequate internal controls to ensure that financial reporting deadlines are complied with.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that RALGOV establish procedures to ensure compliance with A-133 reporting deadline.

Auditee Response and Corrective Action Plan: RALGov had missed the deadline as prescribed in OMB Circular a-133, subpart C Section 320.

RALGov will see to it that the deadline of submission of trial balances to audit will be met at all times.

What:

When:

Who:

RONGELAP ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings and Questioned Costs Year Ended September 30, 2004

Questioned Costs

There are no prior year questioned costs that were unresolved at September 30, 2004.

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 through 20).