

April 21, 2008

CONFIDENTIAL

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

Dear Mayor Matayoshi:

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) for the year ended September 30, 2006, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated April 21, 2008, we developed the following recommendations concerning certain matters related to RALGOV's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our principal recommendations are summarized below:

(1) Cash

During fiscal year 2006, RALGOV established an account with a Bank under an employee's name. It appears that the bank account was opened for the use of council members and authorized employees in case of emergency cash needs. However, we noted that RALGOV did not have internal or accounting control over the bank account having not received any bank statements, signature card and other relevant documents. According to the general ledger, the account balance is \$500 and no transactions occurred on the account during the year. We recommend that management ensure that it has control over its assets. Bank accounts and other properties of RALGOV should be held in the name of RALGOV.

(2) Cash

As of September 30, 2006, stale dated checks under General Fund and Local Distribution Authority cash accounts aggregated to \$28,258 and \$21,095, respectively. RALGOV, adjusted cash and accounts payable for the foregoing stale dated checks as of September 30, 2006. However, we recommend that management investigate the cause for significant amount of outstanding checks and stale dated checks to determine validity.

(3) Accounts Receivables – Others

As of September 30, 2006, accounts receivable – other has a balance of \$291,342 comprising of various receivables from grantor, employees, landowners and other entities that originated from fiscal years 2002 through 2006. In addition, as of April 2, 2008, audit inquiry date, we noted that receivable of \$138,392 recorded as of September 30, 2006 have not yet been received from a grantor. We recommend that management examine the detail of accounts receivable – others to determine collectibility and propriety of balances. Further, management should ensure that reimbursements and invoices are timely billed to customers or grantors.

(4) Distribution Checks/Disbursements

During our testing of distribution payments, we noted that the following numbers were missing from the series used during fiscal year 2006. No physical copy or originals of checks were made available for examination. It appears that the checks have been cancelled or voided but were not properly kept on file. We will recommend that management ensures that all pre-numbered and blank checks are adequately accounted for.

Check#'s 50003, 50306, 50325, 50357, 50370, 50381, and 50413

(5) Capitalization Policy

RALGOV currently does not have a formal capitalization policy for fixed assets. We recommend that management establish a formal capitalization policy for fixed assets.

(6) Segregation of Duties

There appears to be lack of segregation of duties as far as processing transactions to reconciliations. City Manager may perform conflicting duties, from initiation to approval of transactions. While he signs checks, he can also prepare/write checks in the absence of other accounting staff. He also approves bank reconciliation, enter journal entries and post the entries. We recommend that management ensure counter signature on all approvals of the City Manager.

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We have previously communicated certain matters noted during our audit of the financial statements of RALGOV for the year ended September 30, 2006, which we considered to be reportable conditions, in our report dated April 21, 2008.

This report is intended solely for the information and use of management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours

