

April 22, 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, 2007, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated April 22, 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 while on business trip outside RepMar. 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. As of September 30, 2007, the general ledger balance is \$2,500. 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, 2007, stale dated checks under General Fund and Local Distribution Authority cash accounts aggregated to \$31,692 and \$30,916, respectively. RALGOV, adjusted cash and accounts payable for the foregoing stale dated checks as of September 30, 2007. However, we recommend that management investigate the cause for significant amount of outstanding checks and stale dated checks to determine their validity.

(3) Accounts Receivables – Others

As of September 30, 2007, accounts receivable – other has a balance of \$279,093, net of allowance for uncollectible of \$234,778, comprising of various receivables from grantor, employees, landowners and other entities that originated from fiscal years 2002 through 2006. In addition, as of April 16, 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) Withholding Taxes

Of \$7,577 withholding taxes payable balance as of September 30, 2007, \$3,438 originated from fiscal year 2004 that RALGOV failed to remit. We recommend that management ensures that all withholding taxes are reported and paid, timely.

(5) Claims Distribution

Distribution checks to adopted minor Rongelapese are given to the minor's legal parent or designee. However, there is currently no policy requiring certification from the court to determine the legal parent or designee. We recommend that RALGOV management consider making the certification from court a requirement for check distribution for adopted minors to ensure that only legal par

(6) Capital Assets

During fiscal year 2007, RALGOV implemented a capitalization threshold policy of \$5,000. However, as of September 30, 2007, recorded fixed assets included a total of \$40,398 of assets that were below the threshold amount. Total net book value of these assets was \$5,831. We recommend that management establish procedures to ensure that only assets that meet the \$5,000 threshold are capitalized.

(7) Account Reconciliations and Analysis

During the fiscal ended September 30, 2007, various adjustments were proposed to correct balances of the following various general ledger accounts such as receivables, accounts payable, interfund transactions, revenues and expense. We recommend that management ensures that general ledger accounts are analyzed and reconciled to subsidiary ledger to ensure accuracy and propriety of balances.

(8) 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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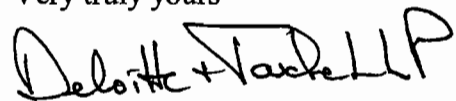
We have previously communicated certain matters noted during our audit of the financial statements of RALGOV for the year ended September 30, 2007, which we considered to be significant deficiencies, in our report dated April 22, 2008.

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.

Mayor James Matayoshi  
Rongelap Atoll Local Government  
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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

Handwritten signature of Deloitte + Touche LLP in cursive script.