

UTRIK ATOLL LOCAL GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
UPON THE AUDIT PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Mayor Joe Saul
Utrik Atoll Local Government
Republic of the Marshall Islands:

We have audited the general purpose financial statements of the Utrik Atoll Local Government (UALGOV) as of and for the year ended September 30, 2001, and have issued our report thereon dated November 20, 2001. 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 UALGOV's general purpose 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 general purpose 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered UALGOV's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the general purpose 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting, which we have reported to management of UALGOV in a separate letter dated November 20, 2001.

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.

Deloitte & Touche

November 20, 2001



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

Mayor Joe Saul
Utrik Atoll Local Government
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Utrik Atoll Local Government (UALGOV) 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, 2001. UALGOV's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (page 7). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of UALGOV's management. Our responsibility is to express an opinion on UALGOV'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 UALGOV'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 UALGOV's compliance with those requirements.

In our opinion, UALGOV 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, 2001.

Internal Control Over Compliance

The management of UALGOV 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 UALGOV'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 general purpose financial statements of UALGOV as of and for the year ended September 30, 2001, and have issued our report thereon dated November 20, 2001. Our audit was performed for the purpose of forming an opinion on the general purpose 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 general purpose financial statements. This schedule is the responsibility of the management of UALGOV. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose 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.

Deloitte & Touche

November 20, 2001

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

	<u>Total Authorization</u>	<u>2001 Funds Received</u>	<u>Prior Year Expenditures</u>	<u>2001 Funds Expended</u>	<u>Excess Authorization Over Funds Expended</u>
<u>U.S. Department of the Interior</u>					
<u>CFDA #15.875</u>					
Funds passed through the Republic of the Marshall Islands:					
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					
	\$ <u>1,500,000</u>	\$ <u>1,500,000</u>	\$ <u>-</u>	\$ <u>720,000</u>	\$ <u>780,000</u>

Of funds received, \$780,000 remains invested in the Utrik Claims Trust Fund, a nonexpendable trust fund of UALGOV.

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2001

(1) Organization and Compact of Free Association

The Utrik Atoll Local Government (UALGOV) is a subrecipient of funds received through the Compact of Free Association, Section 177, 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 RepMar, dated July 31, 1986. Additionally, it has been determined these funds are not subject to general U.S. federal requirements such as OMB Circular A-102 and A-87, but rather must be expended in compliance with local laws and regulations and Compact intent.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of UALGOV 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*.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the general purpose financial statements expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the general purpose financial statements was 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 an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. UALGOV's major program is as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association, Title I, Article VII, Section 177	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. UALGOV qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

No matters are reportable for the year ended September 30, 2001.

Section III - Federal Award Findings and Questioned Costs

No matters are reportable for the year ended September 30, 2001.

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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2001

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, 2001:

Questioned costs of UALGOV, as previously reported	\$ 1,396,798
Questioned costs for fiscal year 2001 Single Audit	<u> -</u>
Unresolved questioned costs of UALGOV at September 30, 2001	\$ <u>1,396,798</u>

Unresolved Findings

There are no unresolved findings from prior year audits of UALGOV.