



August 8, 2003

CONFIDENTIAL

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

Dear Mayor Saul:

In planning and performing the engagement to audit the general purpose financial statements of the Utrik Atoll Local Government (UALGOV) for the year ended September 30, 2002, on which we have issued our report dated August 8, 2003, we developed the following recommendations concerning certain matters related to UALGOV's internal control. Our principal recommendations are summarized below:

(1) Payroll

UALGOV does not maintain personnel action forms (PAFs) for its employees. Authorization of pay rates is evidenced in the fiscal year budget or in Council resolutions. The authorized pay rate for the new fiscal officer was not included in the fiscal year 2002 budget nor was it discussed in Council resolutions. We recommend that UALGOV ensure that authorized pay rates for all employees are included in the fiscal year budget or in Council resolutions.

(2) Expenses

UALGOV does not maintain a written list of its established per diem rates. We recommend that established per diem rates be documented in writing.

(3) Expenses

UALGOV did not maintain copies of lease agreements or service agreements with its legal counsel and consultant. We recommend that UALGOV ensure that lease and service contracts are kept on file.

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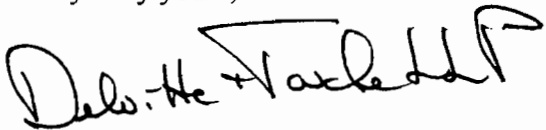
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We have communicated certain matters noted during the engagement to audit the general purpose financial statements of UALGOV for the year ended September 30, 2002, which we considered to be reportable conditions in our report dated August 8, 2003.

This report is intended solely for the information and use of management and others within the Council 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 the engagement to audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dale H. + Vachon". The signature is written in a cursive style with a large, stylized initial "D" and a prominent horizontal line above the "V".