

November 14, 2008

CONFIDENTIAL

Mayor John Kaiko
Utrik Atoll Local Government
Republic of the Marshall Islands

Dear Mayor Kaiko:

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Utrik Atoll Local Government (UALGOV) for the year ended September 30, 2007, on which we have issued our report dated November 14, 2008, we developed the following recommendations concerning certain matters related to UALGOV's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our principal recommendations are summarized below:

(1) Accounts Receivable

Loans of \$4,309 to members of Utrik community dating back to fiscal year 2001 and earlier are outstanding as of 9/30/07. Although the amount was fully allowed for, we recommend that management investigate the balance to determine the possibility of collection or if the receivables should be written-off

(2) Capital Asset Disposal

Disposal of a vehicle with a zero net book value was not recorded or authorized in writing. We recommend that management ensure that all asset disposals are recorded and authorized.

(3) Investment Fees

UALGOV did not maintain copies of agreements with its investment advisor and fund custodian/s. Signed lease agreements were also not maintained on file. We recommend that management ensure that all relevant agreements and contracts are kept on file. This matter was discussed in our previous letters to management for the audit of fiscal years 2004 through 2006.

Furthermore, UALGOV does not monitor liquidation of advances for legal fees as there were no billings or invoices on file to evidence work performed during the period. We recommend that management establish policies and procedures to ensure that all advances are appropriately liquidated.

(4) Accounting and Internal Control Policies and Procedures

There is no written accounting and internal control policies and procedures manual to govern the financial reporting process and other business cycles (expenditures, revenues and payroll). We recommend that management consider formally documenting accounting and internal control policies and procedures over financial reporting and other significant business cycles. This matter was discussed in our previous letters to management for the audit of fiscal years 2003 through 2006.

(5) Segregation of Duties

There appears to be lack of segregation of duties. The fiscal officer performs conflicting duties, from initiation to approval of transactions. The fiscal officer is a check signatory and performs bank reconciliation, enters journal entries and posts such to the general ledger. Due to this lack of segregation of duties, we recommend that management consider independent verification of transactions initiated and recorded by the fiscal officer. This matter was discussed in our previous letters to management for the audit of fiscal years 2003 through 2006.

(6) Council Resolutions and/or Ordinances

We were not able to obtain a complete set of signed Council Resolution and Ordinances pertaining to 2007 and subsequent years as such could not be located. We recommend that management ensure that council resolutions and ordinances are maintained intact on file to support authorizations and decisions of the Council. This matter was discussed in our previous letters to management for the audit of fiscal years 2003 through 2006.

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We have previously communicated certain matters noted during our audit of the financial statements of UALGOV for the year ended September 30, 2007, which we considered to be significant deficiencies, in our report dated November 14, 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,

