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August 18, 2009

Mayor John Kaiko
Utrõk 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 Utrõk Atoll Local Government (UALGOV) for the year ended September 30, 2008, on which we have issued our report dated August 18, 2009), 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, we considered UALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to UALGOV's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to UALGOV, also dated August 18, 2009, on our consideration of UALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of UALGOV for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving UALGOV's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

(1) Non-payroll Expenditures

File copy of seven (7) distribution checks (#'s 8869, 8924, 9195, 9266, 10284, 10572, 10596 and 11072) were not made available for examination as they could not be located. We recommend that management ensures that copies of issued checks are kept intact on file to support the disbursements.

(2) Non-payroll Expenditures

During fiscal year 2008, payments to a service contractor were made in four quarterly prepayments. However, liquidation of such prepayments were not evidenced by an invoice or billing from the contractor. We recommend that management ensures that prepayments are monitored and liquidated through invoices or billings from the vendor or contract to support the recorded expenditures.

(3) Local Distribution Authority Payments

Of seventy-six (76) distribution payments tested from the LDA Fund, the following exceptions were noted:

1) Six (6) payments (check #'s 8869, 8924, 9195, 9266, 9608, and 10284) showed no indication of the recipient signing as evidence of receipt of the check.

2) Eight (8) payments (check #'s 8643, 9590, 9598, 9629, 9699, 10516, 10556, and 10842) were received by financial institutions or individuals other than the designated payee. An approved assignment agreement was not available for review for these disbursements authorizing the assignment.

We recommend that management obtain written authorization and that such be kept on file before per capita distribution checks can be released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge all disbursements received in writing.

SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Segregation of Duties

One of the main objectives of internal accounting control is to safeguard the entity's assets. An effective means to achieving this objective is to segregate accounting duties such that an individual who has access to assets (e.g., cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records supporting those assets. Proper segregation of duties can provide reasonable assurance that an individual would be prevented from removing an asset from the organization and concealing that activity by altering the related accounting records. UALGOV's current level of staffing limits the number of personnel available for accounting duties.

SECTION II — OTHER MATTERS, CONTINUED

(1) Segregation of Duties, Continued

Accordingly, an appropriate segregation of duties is not practical which results in a weakness in internal controls specifically in the roles of the Fiscal Officer who has access to assets, has approving authority for disbursements, and also has full access to accounting records. To mitigate this weakness, a critical element in UALGOV's internal control system is the close involvement of management in the day-to-day operations and close review of accounting activities and financial reports.

We encourage close involvement of management on a continuing basis and their thorough review of accounting activities and financial reports as a means to maintain effective internal controls until a more structured control environment becomes cost effective.

(2) Accounting and Internal Control Policies and Procedures

UALGOV currently does not have a formal accounting policies and procedures manual. A comprehensive accounting policies and procedures manual should be readily accessible to accounting personnel to ensure that accounting policies are followed and consistently applied. This manual would also benefit the entity when there is turnover of key personnel. Thoroughly documented policies and procedures can reduce the learning period for new employees and provide management with increased assurance that accounting policies and procedures are understood and consistently followed.

The objectives of an accounting policies and procedures handbook are to document the accounting systems and processes, thus minimizing disruption caused by growth or turnover, and to assist new employees in their job performance. We recommend that management consider adopting an accounting manual to govern the financial reporting process and other significant business cycles within the entity such as expenditures, revenue and payroll cycles.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

UALGOV's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.