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December 20, 2019

Mr. Neil Flores
City Manager
Enewetak/Ujelang Local Government
P.O. Box 1199
Majuro, MH 96960

Dear Mr. Flores:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Enewetak/Ujelang Local Government (the "Government"), as of and for the year ended September 30, 2011, which collectively comprise the Government's basic financial statements, (on which we have issued our report dated December 20, 2019), 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 the Government'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 the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in Attachment I, deficiencies related to the Government's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Mayor Jackson Ading, also dated December 20, 2019, on our consideration of the Government'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 Attachment 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 Attachment II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Council, management, 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.

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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 the Government for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

**ATTACHMENT I**

## SECTION I –DEFICIENCIES

We identified the following deficiencies involving the Government's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention.

### Accrued Expenditures

Comment: At September 30, 2011, liabilities of $9,374 and $12,500, respectively, were not recorded for payroll expenditures and legal services incurred during the year and paid subsequent to year end. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend that management establish internal control procedures requiring expenditures be recorded in the period in which the related fund liability is incurred.

### Employee Withholding Tax Liability

Comment: At September 30, 2011, the Government recorded a $37,121 withholding tax liability representing unremitted employee income taxes, which included withholdings relating to pre-April 2006. During the year ended September 30, 2011, the Government timely withheld and remitted employee income taxes to the RMI Division of Taxation in accordance with enabling legislation; however, the Government has not reconciled this liability account in order to identify whether the balance represents a valid obligation.

Recommendation: We recommend that management communicate with the RMI Division of Taxation for the purpose of reconciling the employee withholding tax liability account and remit unpaid income taxes in a timely manner.

### Boat Charter Revenue

Comment: During the year ended September 30, 2011, the Government recorded boat charter revenue from voyage charters whereby charter rates were not formally adopted by the Government. Instead, informal rates of $7,800 per steaming day, $5,000 per sailing day and $3,000 per for standby day were utilized. In addition, charter party agreements were not negotiated to formalize the respective responsibilities of the Government and the charterer.

Recommendation: We recommend that the Government require that boat charters be supported by charter party agreements outlining terms and conditions of the charter, including negligence clauses, so as to limit the liability of the Government in the event of a catastrophe. In addition, we recommend that the Government formalize daily charter rates and require that rates charged be sufficient to cover boat charter costs.

## SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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.

## 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

The Government'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.