

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM
(A GOVERNMENTAL FUND OF THE ENEWETAK/
UJELANG LOCAL GOVERNMENT)**

**FINANCIAL STATEMENT
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2010

INDEPENDENT AUDITORS' REPORT

Mayor Jackson Ading
Enewetak/Ujelang Local Government
Republic of the Marshall Islands:

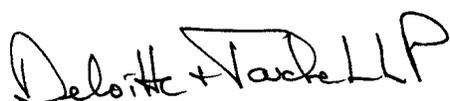
We have audited the accompanying statement of revenues, expenditures and changes in fund balance of the Enewetak/Ujelang Local Government (EULGOV) Food and Agriculture Support Program (the Program), a governmental fund of EULGOV, for the year ended September 30, 2010. This financial statement is the responsibility of the Program's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of 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 Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the EULGOV Food and Agriculture Support Program and is not intended to present fairly the results of operations of the Enewetak/Ujelang Local Government in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of operations of the Program for the year ended September 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012, on our consideration of the Program'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 purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



May 4, 2012

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended September 30, 2010

Revenues:	
Federal program receipts	\$ <u>1,946,640</u>
Expenditures:	
Direct food costs	618,744
Personnel services	588,928
Petroleum, oil and lube	351,842
Drydock	89,285
Materials and supplies	86,557
Repairs and maintenance	54,508
Insurance	51,983
Constructual services	35,650
Accomodation and other benefits	15,845
Warehouse rental	11,892
Kawewa subsistence	10,634
Travel	9,621
Communication	4,304
Office supplies	3,791
Office rental	3,600
Bank charges	1,233
Temporary labor fees	1,128
Equipment rental	543
Miscellaneous	<u>6,552</u>
Total expenditures	<u>1,946,640</u>
Changes in fund balance	-
Fund balance at beginning of year	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>

See accompanying notes to financial statement.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Notes to Statement of Revenues, Expenditures and
Changes in Fund Balance
September 30, 2010

(1) Organization

The Enewetak/Ujelang Local Government (EULGOV) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands, and operates under the Constitution of the Enewetak/Ujelang Local Government. EULGOV is governed by an elected mayor and a fifteen-member council. The EULGOV Food and Agriculture Support Program (the Program) is considered a governmental fund of EULGOV and was established to account for funding received pursuant to Section 103(f)(2) of the Compact of Free Association Amendments Act of 2003.

The accompanying financial statement relates solely to those accounting records maintained by the Program, and does not incorporate any accounts related to any other departments or agencies of EULGOV.

(2) Summary of Significant Accounting Policies

The financial statement of the Program has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Program's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

The Program reports the results of its operations in one governmental fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

B. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurement" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Notes to Statement of Revenues, Expenditures and
Changes in Fund Balance
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

C. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) Risk Management

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Program has elected to purchase commercial automobile and marine insurance from independent third parties for the risks of loss to which it is exposed. For other risks of loss to which it is exposed, the Program has elected not to purchase commercial insurance. Instead, the Program's management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Program reports all of its risk management activities in the General Fund of EULGOV. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from the Program's risk management activities for the past three years.

(4) Contingency

Questioned Costs

The Program is subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$2,318,962 exist as of September 30, 2010. In addition, the Program is considered to have responsibility for any questioned costs that may result from Single Audits of the Program for the fiscal years for which audits have not been performed. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of these matters has been made in the accompanying financial statement.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM
(A GOVERNMENTAL FUND OF THE ENEWETAK/
UJELANG LOCAL GOVERNMENT)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2010

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON THE
ENGAGEMENT TO AUDIT FINANCIAL STATEMENTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor Jackson Ading
Enewetak/Ujelang Local Government
Republic of the Marshall Islands:

We have audited the financial statement of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) for the year ended September 30, 2010, and have issued our report thereon dated May 4, 2012. Our report includes an explanatory paragraph that the financial statements of the Program are not intended to present the financial position and results of operations of the Enewetak/Ujelang Local Government. 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.

Internal Control Over Financial Reporting

Management of the Program is responsible for maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

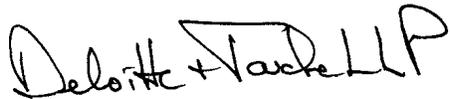
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 10) as item 2010-2.

The Program's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Program's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 4, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Mayor Jackson Ading
Enewetak/Ujelang Local Government
Republic of the Marshall Islands:

Compliance

We have audited the Enewetak/Ujelang Local Government Food and Agriculture Support Program's (the Program) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Program's one major federal program for the year ended September 30, 2010. The Program's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 10). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of the Program's management. Our responsibility is to express an opinion on the Program'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 the Program'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 of the Program's compliance with those requirements.

As described in item 2010-1 in the accompanying Schedule of Findings and Responses, the Program did not comply with requirements regarding procurement and suspension and debarment that is applicable to its Enewetak Food and Agriculture Support Program (CFDA # 15.875). Compliance with such requirements is necessary, in our opinion, for the Program to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its one major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the Program 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 the Program's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

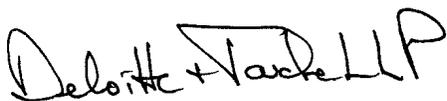
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

The Program's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Program's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statement of the Program for the year ended September 30, 2010, and have issued our report thereon dated May 4, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statement 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 basic financial statement. This schedule is the responsibility of the Program's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities 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.



May 4, 2012

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

	<u>Beginning Fund Balance</u>	<u>2010 Funds Received</u>	<u>2010 Funds Expended</u>	<u>Ending Fund Balance</u>
<u>U.S. Department of the Interior</u>				
<u>CFDA #15.875</u>				
Funds received in a direct capacity:				
Operation of the Enewetak Food and Agriculture Support Program	\$ <u> -</u>	\$ <u>1,946,640</u>	\$ <u>1,946,640</u>	\$ <u> -</u>

See accompanying notes to schedule of expenditures of federal awards.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

(1) Organization

The Program is the recipient of non-Compact of Free Association related funds received from the U.S. Department of the Interior. These funds must be expended in accordance with grant awards and are subject to general U.S. federal requirements, including OMB's Circular A-87 and Circular A-102.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Program and is presented on the modified 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*.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | | |
|---|--|---------------|
| Internal control over major programs: | | |
| 5. Material weakness(es) identified? | | Yes |
| 6. Significant deficiency(ies) identified? | | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | | Yes |
| 9. Identification of major programs: | | |
| <u>CFDA #</u> <u>Name of Federal Program</u> | | |
| 15.875 Enewetak Food and Agriculture Support Program | | |
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | | \$ 300,000 |
| 11. Auditee qualified as a low-risk auditee? | | No |

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2010-2	Reporting	10

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2010-1	Procurement and Suspension and Debarment	\$ 65,872	9
2010-2	Reporting	\$ -	10

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-1
Grantor Agency: U.S. Department of the Interior
CFDA #.: 15.875
Area: Procurement and Suspension and Debarment
Questioned Costs: \$65,872

Purchases/Disbursements

Criteria: Section 12.76 of 43 CFR 12 Subpart C, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that the grantee may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in this section. Purchases less than \$100,000 require evidence of informal bidding procedures. For purchases greater than \$100,000, formal bidding procedures are required.

Condition: Of \$1,357,712 in non-payroll expenditures for the Program, we tested twenty-two items, totaling \$932,318, and noted the following expenditures that were not supported by adequate documentation evidencing the procurement process:

<u>Check #</u>	<u>Amount</u>
JV201000930-01	\$ 650
39389	3,661
JV20100930-05	56,421
JV201000930-01	<u>5,140</u>
	<u>\$ 65,872</u>

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures facilitating compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend that the Program require supporting documentation be adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Prior Year Status: The lack of informal procurement procedures was reported as a finding in the Single Audits of the Program of fiscal years 1994 through 1998 and 2003 through 2009.

Auditee Response and Corrective Action Plan:

Who: Neil Flores (City Manager).

What: Adherence to the procurement procedure will be strictly followed.

When: Immediately.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-2
Grantor Agency: U.S. Department of the Interior
CFDA #.: 15.875
Area: Reporting
Questioned Costs: \$0

Reporting

Criteria: Pursuant to OMB Circular A-133, the Program's audit is required to be submitted to the grantor agency within nine months of the close of its fiscal year.

Condition: The Program's audit was not submitted in the required time frame.

Cause: The cause of this condition is due to the late submission of the audit report.

Effect: The effect of this condition is noncompliance with the criteria.

Recommendation: Audits should be submitted in accordance with the criteria.

Auditee Response and Corrective Action Plan:

Who: Neil Flores (City Manager)

What: Timely submission of audit report.

When: Immediately.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

Questioned Costs

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2010:

Questioned costs, fiscal year 2003 audit	\$ 1,125,696
Questioned costs, fiscal year 2004 audit	394,109
Questioned costs, fiscal year 2005 audit	595,058
Questioned costs, fiscal year 2006 audit	53,133
Questioned costs, fiscal year 2007 audit	27,551
Questioned costs, fiscal year 2008 audit	21,562
Questioned costs, fiscal year 2009 audit	35,981
Questioned costs, fiscal year 2010 audit	<u>65,872</u>
Unresolved questioned costs at September 30, 2010	\$ <u>2,318,962</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 through 10).

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM
(A GOVERNMENTAL FUND OF THE ENEWETAK/
UJELANG LOCAL GOVERNMENT)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2010

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON THE
ENGAGEMENT TO AUDIT FINANCIAL STATEMENTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mayor Jackson Ading
Enewetak/Ujelang Local Government
Republic of the Marshall Islands:

We have audited the financial statement of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) for the year ended September 30, 2010, and have issued our report thereon dated May 4, 2012. Our report includes an explanatory paragraph that the financial statements of the Program are not intended to present the financial position and results of operations of the Enewetak/Ujelang Local Government. 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.

Internal Control Over Financial Reporting

Management of the Program is responsible for maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

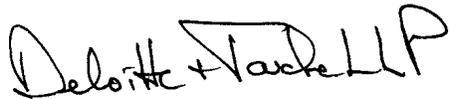
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 10) as item 2010-2.

The Program's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Program's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 4, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Mayor Jackson Ading
Enewetak/Ujelang Local Government
Republic of the Marshall Islands:

Compliance

We have audited the Enewetak/Ujelang Local Government Food and Agriculture Support Program's (the Program) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Program's one major federal program for the year ended September 30, 2010. The Program's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 10). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of the Program's management. Our responsibility is to express an opinion on the Program'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 the Program'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 of the Program's compliance with those requirements.

As described in item 2010-1 in the accompanying Schedule of Findings and Responses, the Program did not comply with requirements regarding procurement and suspension and debarment that is applicable to its Enewetak Food and Agriculture Support Program (CFDA # 15.875). Compliance with such requirements is necessary, in our opinion, for the Program to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its one major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the Program 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 the Program's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

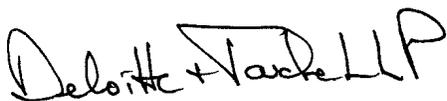
A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

The Program's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Program's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statement of the Program for the year ended September 30, 2010, and have issued our report thereon dated May 4, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statement 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 basic financial statement. This schedule is the responsibility of the Program's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities 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.



May 4, 2012

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

	<u>Beginning Fund Balance</u>	<u>2010 Funds Received</u>	<u>2010 Funds Expended</u>	<u>Ending Fund Balance</u>
<u>U.S. Department of the Interior</u>				
<u>CFDA #15.875</u>				
Funds received in a direct capacity:				
Operation of the Enewetak Food and Agriculture Support Program	\$ <u> -</u>	\$ <u>1,946,640</u>	\$ <u>1,946,640</u>	\$ <u> -</u>

See accompanying notes to schedule of expenditures of federal awards.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

(1) Organization

The Program is the recipient of non-Compact of Free Association related funds received from the U.S. Department of the Interior. These funds must be expended in accordance with grant awards and are subject to general U.S. federal requirements, including OMB's Circular A-87 and Circular A-102.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Program and is presented on the modified 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*.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|---|---------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |
| <u>CFDA #</u> <u>Name of Federal Program</u> | |
| 15.875 Enewetak Food and Agriculture Support Program | |
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$ 300,000 |
| 11. Auditee qualified as a low-risk auditee? | No |

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2010-2	Reporting	10

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2010-1	Procurement and Suspension and Debarment	\$ 65,872	9
2010-2	Reporting	\$ -	10

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-1
Grantor Agency: U.S. Department of the Interior
CFDA #: 15.875
Area: Procurement and Suspension and Debarment
Questioned Costs: \$65,872

Purchases/Disbursements

Criteria: Section 12.76 of 43 CFR 12 Subpart C, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that the grantee may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in this section. Purchases less than \$100,000 require evidence of informal bidding procedures. For purchases greater than \$100,000, formal bidding procedures are required.

Condition: Of \$1,357,712 in non-payroll expenditures for the Program, we tested twenty-two items, totaling \$932,318, and noted the following expenditures that were not supported by adequate documentation evidencing the procurement process:

<u>Check #</u>	<u>Amount</u>
JV201000930-01	\$ 650
39389	3,661
JV20100930-05	56,421
JV201000930-01	<u>5,140</u>
	\$ <u>65,872</u>

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures facilitating compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend that the Program require supporting documentation be adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Prior Year Status: The lack of informal procurement procedures was reported as a finding in the Single Audits of the Program of fiscal years 1994 through 1998 and 2003 through 2009.

Auditee Response and Corrective Action Plan:

Who: Neil Flores (City Manager).

What: Adherence to the procurement procedure will be strictly followed.

When: Immediately.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-2
Grantor Agency: U.S. Department of the Interior
CFDA #.: 15.875
Area: Reporting
Questioned Costs: \$0

Reporting

Criteria: Pursuant to OMB Circular A-133, the Program's audit is required to be submitted to the grantor agency within nine months of the close of its fiscal year.

Condition: The Program's audit was not submitted in the required time frame.

Cause: The cause of this condition is due to the late submission of the audit report.

Effect: The effect of this condition is noncompliance with the criteria.

Recommendation: Audits should be submitted in accordance with the criteria.

Auditee Response and Corrective Action Plan:

Who: Neil Flores (City Manager)

What: Timely submission of audit report.

When: Immediately.

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

Questioned Costs

The prior year report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2010:

Questioned costs, fiscal year 2003 audit	\$ 1,125,696
Questioned costs, fiscal year 2004 audit	394,109
Questioned costs, fiscal year 2005 audit	595,058
Questioned costs, fiscal year 2006 audit	53,133
Questioned costs, fiscal year 2007 audit	27,551
Questioned costs, fiscal year 2008 audit	21,562
Questioned costs, fiscal year 2009 audit	35,981
Questioned costs, fiscal year 2010 audit	<u>65,872</u>
Unresolved questioned costs at September 30, 2010	\$ <u>2,318,962</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 through 10).