

**UTRŌK ATOLL LOCAL GOVERNMENT**

---

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

---

**YEAR ENDED SEPTEMBER 30, 2008**

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

Mayor John Kaiko  
Utrök Atoll Local Government  
Republic of the Marshall Islands:

We have audited the financial statements of the governmental activities and each major fund of the Utrök Atoll Local Government (UALGOV) as of and for the year ended September 30, 2008, which collectively comprise UALGOV's basic financial statements and have issued our report thereon dated August 18, 2009. 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**

In planning and performing our audit, we considered UALGOV's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs (pages 8 and 9) as item 2008-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

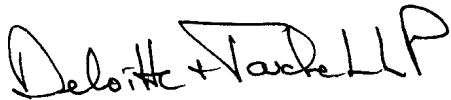
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether UALGOV's financial statements are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of UALGOV in a separate letter dated August 18, 2009.

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

This report is intended solely for the information and use of management, the Council, others within the entity, federal awarding agencies, and the cognizant audit 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.

August 18, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO 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 John Kaiko  
Utrök Atoll Local Government  
Republic of the Marshall Islands:

### Compliance

We have audited the compliance of the Utrök Atoll Local Government (UALGOV) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2008. UALGOV's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 and 9). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of UALGOV's management. Our responsibility is to express an opinion on UALGOV'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 UALGOV'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 UALGOV's compliance with those requirements.

In our opinion, UALGOV complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2008.

### Internal Control Over Compliance

The management of UALGOV 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 UALGOV's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 UALGOV's internal control over compliance.

A *control deficiency* in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

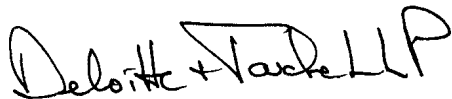
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of the Utrök Atoll Local Government (UALGOV) as of and for the year ended September 30, 2008, and have issued our report thereon dated August 18, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise UALGOV's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 5 and 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of UALGOV. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Council, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



August 18, 2009

**UTRÖK ATOLL LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards  
Compact of Free Association, Public Law 99-239  
Year Ended September 30, 2008

	<u>Beginning of Year</u>	<u>2008 Net Earnings (Loss) on Funds</u>	<u>Net Funds Expended</u>	<u>2008 Fund Balance End of Year</u>
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>				
Funds passed through the Republic of the Marshall Islands (RepMar):				
The Agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association	<u>\$ 17,156,831</u>	<u>\$ (1,255,023)</u>	<u>\$ 2,023,252</u>	<u>\$ 13,878,556</u>

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$13,878,556 remains invested in the Utrök Claims Trust Fund, a permanent fund of UALGOV. Funds expended during the year ended September 30, 2008, are represented by fund manager fees of \$155,642, legal fees of \$140,000, a transfer out to the General Fund of \$507,610 for general operations and a transfer out to the Utrök Local Distribution Authority of \$1,220,000 for distribution to the people of Utrök based on an approved distribution scheme.

See accompanying notes to schedule of expenditures of federal awards.

**UTRŌK ATOLL LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards  
Other U.S. Federal Grants  
Year Ended September 30, 2008

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2007	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2008
	<u>U.S. Department of Agriculture</u>				
	Fund passed through the Republic of the Marshall Islands:				
10.582	Commodity Supplemental Food Program	\$ 9,755	\$ 48,460	\$ 122,091	\$ 83,386
	Total U.S. Department of Agriculture	<u>9,755</u>	<u>48,460</u>	<u>122,091</u>	<u>83,386</u>
	<u>U.S. Department of Commerce</u>				
	Direct award:				
11.P.L.108-219	Utrŏk Atoll Radiological Monitoring Support	(59,375)	-	26,829	(32,546)
	Total U.S. Department of Commerce	<u>(59,375)</u>	<u>-</u>	<u>26,829</u>	<u>(32,546)</u>
		<u>\$ (49,620)</u>	<u>\$ 48,460</u>	<u>\$ 148,920</u>	<u>\$ 50,840</u>

The above federal expenditures are included within the expenditures of the general fund of \$680,000.

See accompanying notes to schedule of expenditures of federal awards.

## UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2008

### (1) Organization

The Utrōk Atoll Local Government (UALGOV) is a governmental entity governed by its own Constitution. All significant operations of UALGOV are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as UALGOV's cognizant agency for the Single Audit. UALGOV is the subrecipient of funds received through Section 177 of the Compact of Free Association from the Republic of the Marshall Islands (RepMar). These funds must be distributed in accordance with the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Marshall Islands, dated July 31, 1986. It has been determined these funds are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be expended in compliance with local laws and regulations and Compact intent.

### (2) Summary of Significant Accounting Policies

#### Basis of Presentation

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



**UTRÖK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2008

**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?  |  | Yes           |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? |  | None reported |
| 4. Noncompliance material to the financial statements noted?                                |  | None reported |

*Federal Awards*

- |  |  |               |
|--|--|---------------|
|  | Internal control over major programs:  |               |
| 5. Material weakness(es) identified?   |  | No            |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness?  |  | None reported |
| 7. Type of auditors' report issued on compliance for major programs:   |  | Unqualified   |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?                |  | No            |
| 9. UALGOV's major programs were as follows:  |  |               |
|  | <u>CFDA #</u> <u>Name of Federal Program</u>   |               |
|  | 15.875      Economic, Social and Political Development of the Territories and the Freely Associated States: Section 177 of the Compact of Free Association |               |
| 8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133. |  |               |
| 9. UALGOV did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.   |  |               |

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2008-1	Payroll Expenditures	9

**Section III - Federal Award Findings and Questioned Costs**

No matters are reportable

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Payroll Expenditures

##### Finding No. 2008-1

Criteria: Payroll processing should be established based upon internal control policies and procedures that would ensure accuracy of information and proper authorization of transactions.

Condition: During fiscal year 2008, UALGOV had no policies and procedures to ensure that employees actually worked during the pay period. Timesheets, timecards or other means of reporting hours worked are not utilized. Instead, employees are paid a fixed rate of 80 hours bi-weekly. Furthermore, there are no policies and procedures governing compensated absences (sick and annual leave) nor a mechanism by which such can be monitored and reported.

Cause: The cause of the above condition is the lack of established internal control policies and procedures over payroll processing.

Effect: The lack of internal control policies and procedures over payroll processing, specifically on employee work hours, sick leave or vacation leave, may result in abuse and misuse of government funds.

Recommendation: We recommend that management establish internal control policies and procedures over payroll processing to ensure that accurate payroll information is processed and authorized.

Prior Year Status: The lack of internal control policies and procedures over payroll processing was reported as a finding in the Single Audits of UALGOV for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan: Starting October 1, 2008, the actual hours worked by all full time employees, except elected officials, shall be monitored using a daily timesheet. The secretary is designated to log the daily time-in and time-out of each employee and to summarize the same covering the two-week payroll period. For policemen who are based in Utrök Atoll, the Acting Mayor is made responsible to monitor the hours worked and to relay the same to Administration office for payroll check preparation.

## **UTRŌK ATOLL LOCAL GOVERNMENT**

### **Unresolved Prior Year Findings and Questioned Costs Year Ended September 30, 2008**

#### Questioned Costs

There are no unresolved questioned costs from prior year Single Audits of UALGOV.

#### Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 and 9).