

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2005

Independent Auditors' Report

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

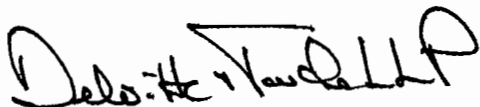
We have audited the accompanying statement of revenues, expenditures and changes in fund balance of the Enewetak/Ujelang Local Government (EULGOV) Food and Agriculture Support Program (the Program), a special revenue fund of EULGOV, for the year ended September 30, 2005. This financial statement is the 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, 2005 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 September 8, 2006, on our consideration of the Program's internal control over financial reporting and 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 the 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.



September 8, 2006

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

Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended September 30, 2005

Revenues:	
Federal grants	\$ 1,793,000
Total revenues	<u>1,793,000</u>
Expenditures:	
Direct food costs	534,267
Personnel services	592,547
Contractual services	147,273
Materials and supplies	152,263
Petroleum, oil and lube	215,449
Travel	30,600
Equipment rental	8,397
Insurance	39,645
Repairs and maintenance	37,509
Warehouse rental	9,000
Office rental	2,700
Communication	3,734
Miscellaneous	20,140
2004 expenditures charged in the current year:	
Salaries and wages	29,572
Contractual services	23,167
Other	<u>(15,176)</u>
Total expenditures	<u>1,831,087</u>
Deficiency of revenues under expenditures	(38,087)
Fund balance at beginning of year	<u>40,853</u>
Fund balance at end of year	<u>\$ 2,766</u>

See accompanying notes to financial statement.

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

Notes to Financial Statements
September 30, 2005

(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 type-special revenue fund of EULGOV and was established to account for funding received pursuant to Section 103(f)(2) of the Compact of Free Association.

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 have 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 Special Revenue 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 Special Revenue 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 Financial Statements
September 30, 2005

(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. It is the policy of the Program not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Program 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 during 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. Expenditures of \$595,058 were questioned in the fiscal year 2005 Single Audit of the Program and prior year questioned costs of \$1,519,805 exist. 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 statements.

(5) 2004 Expenditures Charged in 2005

During the year ended September 30, 2005, management discovered certain 2004 expenditures applicable to the Program that were not previously charged. Therefore, these amounts have been charged to the Program during the year ended September 30, 2005.

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

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

YEAR ENDED SEPTEMBER 30, 2005

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED 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, 2005 and have issued our report thereon dated September 8, 2006. 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.

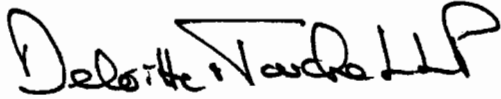
Internal Control Over Financial Reporting

In planning and performing audit, we considered the Program's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial would not necessarily disclosed all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statement is free of material misstatements, 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 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 items 2005-1 and 2005-2.

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 & Touche LLP". The signature is written in a cursive, stylized font.

September 8, 2006

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
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 compliance of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) 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, 2005. 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 (page 7). 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 on the Program's compliance with those requirements.

As described in items 2005-1 and 2005-2 in the accompanying Schedule of Findings and Questioned Costs, the Program did not comply with requirements regarding allowable costs/cost principles, procurement, suspension and debarment, and reporting that are applicable to its major federal program. 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 requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2005.

Internal Control Over Compliance

The 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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

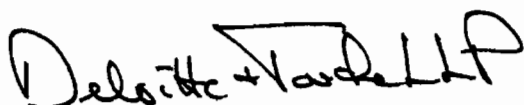
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Program's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1 and 2005-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance caused by error or fraud with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2005-1 and 2005-2 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statement of the Program for the year ended September 30, 2005 and have issued our report dated September 8, 2006. 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.



September 8, 2006

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

	<u>Prior Year Fund Balance</u>	<u>2005 Funds Received</u>	<u>Other Receipts</u>	<u>2005 Funds Expended</u>	<u>Excess of Funds Available Over Funds Expended</u>
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>					
Fund received in a direct capacity:					
Operation of the Enewetak Food and Agricultural Support Program	\$ <u>40,853</u>	\$ <u>1,793,000</u>	\$ <u> </u> -	\$ <u>1,831,087</u>	\$ <u>2,766</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, 2005

(1) Organization

The Program is the recipient of non-Compact 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, 2005

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report on the basic financial statement expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, all of which were considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.

7. The Program's one major program was as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Enewetak Food and Agricultural Support Program	15.875

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. The Program did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2005-1	Allowable Costs/Procurement and Suspension and Debarment	\$ 595,058	8
2005-2	Reporting	\$ -	10

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-1
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Allowable Costs/Procurement and Suspension and Debarment
Questioned Costs: \$595,058

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires that all purchases less than \$100,000 require evidence of informal bidding procedures. For purchases greater than \$100,000, formal bidding procedures are required. Furthermore, OMB Circular A-87 requires that allowable costs be evidenced by adequate supporting documentation.

Condition: Of nineteen non-payroll expenditures tested, totaling \$806,235, procurement of supplies and equipment from vendors from the following check numbers did not evidence support of either informal or formal procurement procedures.

21633	\$ 45,000
29021	60,587
30486	64,004
30618	19,300
31616	6,972
31853	44,471
31990	80,119
33760	79,591
36310	<u>124,591</u>
	<u>\$524,635</u>

The following check numbers did not evidence contracts, invoices, purchase orders or other authoritative source documents.

29009	\$ 7,850
33046	6,193
34761	<u>45,500</u>
	<u>\$59,543</u>

Of fifteen payroll expenditures tested, totaling \$43,677, we could not perform tests of check #37559 amounting to \$480, as the timesheet, personnel action form, and check copy were not available. Additionally, for check # 36205, which was issued in the amount of \$400 or (\$10,400 per annum), we noted in the personnel action form that the employee is a council member. We were informed that the individual is also a field technician for the Program; however, no such documentation supporting this matter is present in the personnel action form.

Cause: The cause of the above condition is the lack of support evidencing informal and formal bidding procedures for procurement of goods and services. Additionally, there is a lack of source documentation for payment.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-1, Continued
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Allowable Costs/Procurement and Suspension and Debarment
Questioned Costs: \$595,058

Effect: The effect of the above condition is the lack of informal formal procurement procedures. Additionally, we are unable to determine if costs were allowed as there were no supporting invoices, contracts, etc. Therefore, questioned costs result from this finding.

Prior Year Status: The lack of informal bidding procedures was reported as a finding in the Single Audits of EULGOV for fiscal years 1994 through 1998, 2003 and 2004.

Recommendation: We recommend that the Program comply with the Common Rule with respect to the procurement of supplies and equipment, and with OMB Circular A-87 with respect to the maintenance of supporting invoices, contracts, etc., evidencing reported expenditures.

Auditee Response and Corrective Action Plan: Starting Fiscal Year 2006, a Notice to BID for the supplies EULG Food Program for the FY2006 is published in the newspaper for 3 consecutive issues.

Standard guidelines for the procurement of supplies and equipment are being followed.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-2
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Reporting
Questioned Costs: \$0

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires the quarterly submission of financial status reports (SF-269) and federal cash transactions reports (SF-272) based upon the financial accounting system of the grantee.

Condition: EULGOV was unable to provide copies of all quarterly financial status and federal cash transactions reports for the year ended September 30, 2005.

Cause: The cause of the above condition is due to the inability to provide these reports to document that such are in agreement with the underlying books and records.

Effect: The effect of the above condition is that EULGOV cannot produce the required reports to ensure compliance with the criteria.

Recommendation: We recommend that EULGOV provide requested reports.

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the audit of EULGOV for the fiscal year ended September 30, 2004.

Auditee Response and Corrective Action Plan:

Required quarterly and monthly reports are submitted to the Funding Agency.

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

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2005

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, 2005:

Questioned costs of fiscal year 2003 audit	\$ 1,125,696
Questioned costs of fiscal year 2004 audit	394,109
Questioned costs of fiscal year 2005 audit	<u>595,058</u>
Unresolved questioned costs at September 30, 2005	\$ <u>2,114,863</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).