

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004

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

Board of Directors  
Kwajalein Atoll Joint Utilities Resources, Inc.:

We have audited the financial statements of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) as of and for the year ended September 30, 2004, and have issued our report thereon dated May 14, 2007, which report was qualified due to inadequacies in KAJUR's accounting records and internal control regarding inventories and operating expenses. Except as discussed in the preceding sentence, 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

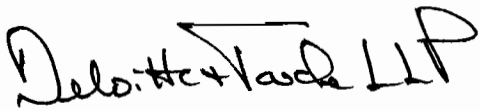
In planning and performing our audit, we considered KAJUR's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect KAJUR's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 5 through 19) as items 2004-1, 2004-4 through 2004-7, and 2004-12.

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. Our consideration of the internal control over financial reporting 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 believe the reportable conditions described above are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether KAJUR'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-2, 2004-3, 2004-8 through 2004-11, and 2004-13.

This report is intended solely for the information and use of management, federal awarding agencies, 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 & Touche LLP". The signature is written in a cursive, flowing style.

May 14, 2007

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

Board of Directors  
Kwajalein Atoll Joint Utilities Resources, Inc.:

### Compliance

We have audited the compliance of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) 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, 2004. KAJUR's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 5 through 19). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of KAJUR's management. Our responsibility is to express an opinion on KAJUR'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 KAJUR'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 KAJUR's compliance with those requirements.

As described in items 2004-8 through 2004-13 in the accompanying Schedule of Findings and Questioned Costs, KAJUR did not comply with requirements regarding allowable costs/cost principles, cash management, and reporting. Compliance with such requirements is necessary, in our opinion, for KAJUR to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, KAJUR 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, 2004.

### Internal Control Over Compliance

The management of KAJUR 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 KAJUR'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.

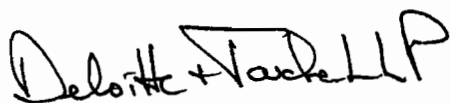
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect KAJUR's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-8 through 2004-13.

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 with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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, of the reportable conditions described above, we consider items 2004-8, 2004-12, and 2004-13 to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of KAJUR as of and for the year ended September 30, 2004, and have issued our report thereon dated May 14, 2007, which report was qualified due to inadequacies in KAJUR's accounting records and internal control regarding inventories and operating expenses. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards could not be presented for purposes of additional analysis as required by OMB Circular A-13 as information necessary to prepare this schedule is unavailable. This schedule is the responsibility of the management of KAJUR.

This report is intended solely for the information and use of management, federal awarding agencies, 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.



May 14, 2007

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to inadequacies in KAJUR's accounting records and internal control regarding inventories and operating expenses.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
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 the one major federal award program were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the one major federal award program expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. KAJUR's one major program is as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Capital Improvement Projects and Technical Assistance Grants	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. KAJUR 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>Page #</u>	<u>Questioned Costs</u>
2004-1	Contractual Services	7	\$ -
2004-2 - 3	Local Noncompliance	8 - 9	\$ -
2004-4	Payables and Accrued Liabilities	10	\$ -
2004-5	External Reporting	11	\$ -
2004-6	Expenditures	12	\$ -
2004-7	Fixed Assets	13	
2004-12	Inventories	18	

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

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

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Page #</u>	<u>Questioned Costs</u>
2004-8	15.875	Allowable Costs/Cost Principles	14	\$ 488,494
2004-9 - 10	15.875	Cash Management	15 - 16	\$ -
2004-11	15.875	Reporting	17	\$ -
2004-12	15.875	Inventories	18	\$ -
2004-13	15.875	Schedule of Expenditures of Federal Awards	19	\$ -

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Contractual Services

Finding No. 2004-1

Criteria: Contractual services should be supported by a valid contract.

Condition: On April 30, 2003, the ASPA management contract expired and three ASPA employees were retained by KAJUR on a contractual basis. Our review of these contracts indicated that a RepMar representative did not sign the contracts. In addition, we noted that the ASPA contracted employees received certain benefits that exceed those normally accorded other employees; namely, tax-exempt living allowances, tuition subsidies for children, and a 25% of base salary hardship allowance.

We noted two paid vacations (check#s 2799 and 3238, amounting to \$7,314 and \$7,562, respectively) for the General Manager and his family, which comprised his wife and four children. This total amounted to \$14,876 which did not include per diem.

Cause: The cause of this condition is that there is no current Board of Directors or other government entity oversee KAJUR's operations.

Effect: The effect of the above condition is that KAJUR may have paid invalid contract expenditures.

Recommendation: We recommend that RepMar or KADA establish a Board of Director to oversee the KAJUR's operations.

Prior Year Status: The lack of approval of the management contracts for KAJUR was reported as a finding in the audit of KAJUR for the fiscal year ended September 30, 2003.

Auditee Response and Corrective Action Plan: MEC Board has already been designated to act on the interim as the KAJUR Board.



KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Local Noncompliance

Finding No. 2004-2

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: KAJUR was delinquent in remitting social security employer and employee contributions during the year ended September 30, 2004.

Cause: The cause of the above condition is that the applicable taxes were not paid.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: Noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 was reported as a finding in the audits of KAJUR for the years ended September 30, 1998 through 2003.

Auditee Response and Corrective Action Plan: Due to unavailability of funds to meet obligations to MISSA, tax remittances were not done. But MEC Board has instructed KAJUR management to sit with MISSA and discuss about formatting a payment plan which KAJUR and MISSA are in the process of reconciling accounts to determine the exact obligation.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Local Noncompliance

Finding No. 2004-3

Criteria: Section 14.3 and appendix N of the management contract state that the contractor is required to maintain liability insurance.

Condition: KAJUR did not maintain insurance for liability and other risks as required in the management contract.

Cause: The cause of the above condition is that the insurance was not obtained.

Effect: The effect of the above condition is noncompliance with the management contract.

Recommendation: We recommend that management comply with provisions of the management contract.

Prior Year Status: Noncompliance with the management contract regarding liability insurance was reported as a finding in the audit of KAJUR for the years ended September 30, 2000 through 2003.

Auditee Response and Corrective Action Plan: No management contract is at the moment existing and whenever there will be compliance to this effect will be made.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Payables and Accrued Liabilities

Finding No. 2004-4

Criteria: Employee allotments should be remitted on a timely basis.

Condition: KAJUR is delinquent with regard to employee allotments.

Cause: The cause of the above condition is that the allotments were not timely paid.

Effect: The effect of the above condition is that allotments are not paid.

Recommendation: We recommend that KAJUR implement policies and procedures to ensure the timely payment of employee allotments.

Prior Year Status: This matter was reported as a finding in the audits of KAJUR for the years ended September 30, 2000 through 2002.

Auditee Response and Corrective Action Plan: KAJUR is now remitting employee allotments on a timely manner.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

External Reporting

Finding No. 2004-5

Criteria: The MAS 90 system should be backed up on a regular basis and be stored offsite. Additionally, KAJUR should utilize the fox pro module to generate billings.

Condition: We were informed that the MAS 90 system is not being backed up and stored offsite. Additionally, the fox pro module is not being utilized to generate billings; instead, KAJUR uses an excel spreadsheet for the purpose.

Cause: The cause of the above condition is due to noncompliance with the criteria.

Effect: The effect of the above condition is that electric billings can be easily altered.

Recommendation: We recommend that management maintain an offsite back-up of the accounting system and utilize the fox pro system to generate billings.

Auditee Response and Corrective Action Plan: KAJUR will comply on the recommendation regarding offsite back-up of the accounting system and the use of the fox pro system to generate billings.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Expenditure

Finding No.2004-6

Criteria: Expenditures should be supported by valid documentation.

Condition: Of twenty-five expenditures tested, five instances occurred where documents supporting IP-R001, AP-R1078, AP-R0928, AP-R0583, and AP-R0918 for \$137,162, \$24,881, \$6,678, \$5,560, and \$3,363, respectively were not located. Journal voucher GJ-J0056 was created to support the recording of \$60,000 per a bank reconciliation; however, no invoice or other supporting document available to substantiate the basis of this entry. Additionally, GJ-J0012 for \$7,300 was also unsupported.

Cause: The cause of the above condition is noncompliance with the criteria.

Effect: The effect of the above condition is that expenditures are unsupported.

Recommendation: We recommend that management ensure that documentation is filed and maintained to support expenditures.

Auditee Response and Corrective Action Plan: KAJUR will comply on proper documentation and filing.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Fixed Assets

Finding No. 2004-7

Criteria: Fixed assets should be inventoried on a regular basis. Additionally, the fixed asset register should provide sufficient detail to identify the assets or assign tag #s to the assets and make reference to them in the fixed asset register.

Condition: We were informed that there was no physical inventory of fixed assets in the current year. Additionally, we were unable to sight certain assets identified as miscellaneous equipment as the description was not sufficient to identify the asset. KAJUR does not assign tag #s to their assets and the reference to them in the fixed asset register makes them unidentifiable. Additionally, two assets (design for underground cable and electric meters) were purchased in the current year; however supporting vendor invoices were not locatable.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that fixed assets be physically inventoried and tagged and be referenced in the fixed asset register.

Effect: The effect of the above condition is that fixed assets may have been misstated throughout the year and the current practice of describing assets in the fixed asset register is not sufficient to identify the assets.

Recommendation: We recommend that management ensure that fixed assets are physically inventoried and that the assets are tagged for identification and are referenced in the fixed asset register.

Auditee Response and Corrective Action Plan: KAJUR will comply on the taking of physical inventory on a periodic basis and will affix identification tags and references.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Finding No. 2004-8  
CFDA No: 15.875  
Grantor Agency: U.S. Department of the Interior/Office of Insular Affairs  
Program Name: Capital Improvement Program/OMIP  
Requirement: Allowable Costs/Costs Principles  
Questioned Costs: \$488,494

Criteria: OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment A, establishes principles for determining the allowable costs incurred by government units and under grants with the Federal Government. Specifically, costs must be necessary and reasonable for proper and efficient performance and administration of the federal awards.

Condition: Of \$522,376 in non-payroll expenditures, eighteen expenditures totaling \$491,006 were tested. The following documents 405-4, 405-5, MIT-T 2004, 40706, 12002, Ltr-081104, JobSW26-0420000 M, 8551582, ID0050672, EW23-01, 8551346, 2004-018, Cost 000304, Cost 000306, ew23-02 20000 T, in 2003, PR-R00031, and 40011 which totals \$25,100, \$48,742, \$22,080, \$79,681, \$51,750, \$158,871, \$22,075, \$9,633, \$10,743, \$9,545, \$6,563, \$5,218, \$2,280, \$4,280, \$4,689, \$5,600, \$2,214, \$1,498, \$1,370, and \$16,562, respectively, were not supported by a vendor invoice. Invoice #s A31101, A31102 totaling \$ 1,498 and \$2,214, respectively, did not show evidence of price comparison.

Cause: The cause of the above condition is noncompliance with the criteria.

Effect: The effect of the above condition is questioned costs of \$488,494.

Recommendation: We recommend that management ensure that expenditures are supported by valid invoices and that evidence of price comparison is maintained and filed.

Auditee Response and Corrective Action Plan: KAJUR will comply.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Finding No. 2004-9  
CFDA No: 15.875  
Grantor Agency: U.S. Department of the Interior/Office of Insular Affairs  
Program Name: Capital Improvement Program/OMIP  
Requirement: Cash Management  
Questioned Costs: Undeterminable

Criteria: Drawdowns for reimbursement of actual or accrued expenditures shall be accomplished in accordance with Office of Insular Affairs (OIA) drawdown procedures. All drawdown requests shall include a completed OIA drawdown form.

Condition: Drawdown requests for the year ended September 30, 2004 were not locatable.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that drawdown requests be maintained and filed.

Effect: The effect of the above condition is that grant revenues were not supported by authorized drawdown requests and we were not able to determine the dollar amount of questioned costs that may result from the finding.

Recommendation: We recommend that management ensure that drawdown requests are maintained and filed.

Auditee Response and Corrective Action Plan: Drawdown requests are being maintained and filed-electronically and physically for all requests from any subsidy/grant.



KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Finding No. 2004-10  
CFDA No: 15.875  
Grantor Agency: U.S. Department of the Interior/Office of Insular Affairs  
Program Name: Capital Improvement Program/OMIP  
Requirement: Cash Management  
Questioned Costs: Undeterminable

Criteria: Per the grant awards, grant funds are not to be used for any purpose other than that for which they are offered without prior approval from the Office of Insular Affairs. Federal grants should be expended for the purposes intended in the grant agreements.

Condition: As of September 30, 2004, KAJUR recorded grant revenues of \$926,292; however, grant expenditures were only \$522,376, which is a variance of \$359,622. The cash balance in the CIP account at September 30, 2004 is \$1,700. We also noted that a total of \$112,800 is also recorded as deferred revenue in the current year for FY2003 federal grants drawn down that was not expended.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that grant cash is expended on grant related activities.

Effect: The effect of the above condition is noncompliance with cash management criteria as it appears that federal cash, which should be used to fund federal expenditures, was used to pay for other operating expenses. We were unable to determine the dollar amount of questioned costs that appear to result from the condition.

Recommendation: We recommend that management ensure that grant revenues are expended in accordance with grant terms and conditions.

Auditee Response and Corrective Action Plan: KAJUR is now spending grants according to an expenditure plan submitted to GRMI.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Finding No. 2004-11  
CFDA No: 15.875  
Grantor Agency: U.S. Department of the Interior/Office of Insular Affairs  
Program Name: Capital Improvement Program/OMIP  
Requirement: Reporting  
Questioned Costs: Undeterminable

Criteria: Per the grant awards, a SF-269, Financial Status Report and a SF-272, Federal Cash Transactions Report shall be prepared semi-annually, reports shall be for the following time period(s): January 1 through June 30 and July 1 through December 31 of every year. Reports should be submitted to the DOI OMIP Program Manager within thirty days (30) of the end of the term. In addition, a brief narrative status of progress for the project must be submitted in conjunction with the report.

Condition: We are unable to verify that KAJUR complied with reporting requirements as no SF-269 and SF-272 could be located. Therefore, we could not determine whether the contents of those reports agreed with the financial statements

Cause: The cause of the above condition is the lack of established policies and procedures requiring the submission of the SF-269 and SF-272 and copies be maintained and filed.

Effect: The effect of the above condition is noncompliance with reporting requirements as stipulated in the grant awards.

Recommendation: We recommend that management ensure that SF-269 and SF-272 are submitted to the Program Manager within the prescribed datelines and that such copies be maintained and filed and that data in those report is in agreement with the Authorize financial records.

Auditee Response and Corrective Action Plan: KAJUR will try its best to comply on the recommendation for those existing grant awards, and for future awards will do the same.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Finding No. 2004-12  
CFDA No: 15.875  
Grantor Agency: U.S. Department of the Interior/Office of Insular Affairs  
Program Name: Capital Improvement Program/OMIP  
Requirement: Inventories  
Questioned Costs: Undeterminable

Criteria: Inventories should be reconciled on a regular basis.

Condition: At September 30, 2004, KAJUR recorded a negative inventory balance of \$70,991. Additionally, due to the lack of inventory records, no audit adjustment could be proposed to correct the account balance.

Cause: The cause of the above condition is the lack of policies and procedures requiring the reconciliation of inventory on a regular basis.

Effect: The effect of the above condition is that inventory was misstated throughout the year.

Recommendation: We recommend that management ensure that inventory is reconciled on a regular basis.

Auditee Response and Corrective Action Plan: Policies and procedures will be established for inventory and that it will be physically counted on a periodic basis and reconciled.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Finding No. 2004-13  
CFDA No: 15.875  
Grantor Agency: U.S. Department of the Interior/Office of Insular Affairs  
Program Name: Capital Improvement Program/OMIP  
Requirement: Schedule of Expenditures of Federal Awards  
Questioned Costs: Undeterminable

Criteria: OMB Circular A-133 requires that the basic financial statements present a schedule of expenditure of federal awards.

Condition: A schedule of expenditure of federal awards could not be presented for purposes of additional analysis of the financial statements.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that information relating to federal expenditures be maintained as required under OMB Circular A-133.

Effect: The effect of the above condition is noncompliance with OMB Circular A-133 as required.

Recommendation: We recommend that management ensure that a schedule of federal expenditures is maintained.

Auditee Response and Corrective Action Plan: KAJUR will comply.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

Unresolved Prior Year Findings  
Year Ended September 30, 2004

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Questioned Costs section of this report (pages 6 through 19).