KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

Deloitte.

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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, 2008, and have issued our report thereon dated August 24, 2009, which report was qualified due to inadequacies of accounting records over receivables. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KAJUR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KAJUR'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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 22) as items 2008-2 through 2008-14 to be significant deficiencies 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 deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KAJUR's basic 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1.

We also noted certain matters that we reported to management of KAJUR in a separate letter dated August 24, 2009.

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

This report is intended solely for the information and use of the Board of Directors, 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.

Deloitte & Touche LLP

August 24, 2009

Deloitte.

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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, 2008. 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 6 through 22). 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.

In our opinion, 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, 2008.

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 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 KAJUR'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 basic financial statements of KAJUR as of and for the year ended September 30, 2008, and have issued our report thereon dated August 24, 2009, which report was qualified due to inadequacies of accounting records over receivables. Our audit was performed for the purpose of forming an opinion on the basic financial statements 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 statements. This schedule is the responsibility of the management of KAJUR. 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 the Board of Directors, 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.

Deloitte + Touche LLP

August 24, 2009

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Program Title	Expenditures FY08
U.S. Department of the Interior	
Compact of Free Association, As Amended:	
Section 211(b)(2) Kwajalein Atoll Landowners Special Needs	
CFDA #15.875	
Kwajalein Development Fund	$ 3,237,299

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

The above expenditures reconcile to the underlying basic financial statements as follows:

Capitalized in capital assets (included within the total capital asset additions of $1,266,128)	$ 750,199
Expenses (included within total operating expenses of $6,341,298)	2,487,100
	$ 3,237,299

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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:	Qualified
	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?	Yes

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:	

CFDA #	Name of Federal Program
15.875	Compact of Free Association, as Amended, Kwajalein Atoll Landowners Special Needs

10. 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.

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

Section II - Financial Statement Findings

Reference Number	Findings	Page #	Questioned Costs
2008-1	Local Noncompliance	7	$ -
2008-2	External Financial Reporting	8	$ -
2008-3	Revenues	9 – 10	$ -
2008-4 - 6	Purchases/ Disbursements	11 – 13	$ -
2008-7	Payroll	14	$ -
2008-8 - 9	Receivables	15 – 16	$ -
2008-10	Other Receivables	17	$ -
2008-11	Inventories	18	$ -
2008-12	Fixed Assets	19 – 20	$ -
2008-13	Deferred Grant Revenue	21	$ -
2008-14	Deferred Utility Revenue	22	$ -

Finding No. 2008-1

Local Noncompliance

Criteria: Section 5 of the RepMar Income Tax Act of 1989, as amended, states that employers shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: As of September 30, 2008, KAJUR recorded a liability of $70,835, which represented withholding taxes together with related penalties and interest for pay periods ended October 21, 2006 through July 28, 2007. KAJUR did not remit the aforementioned unpaid employee withholding taxes as of September 30, 2008.

Cause: The cause of the above condition the lack of established policies and procedures that ensure compliance with the Income Tax Act of 1989, as amended.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended. Furthermore, KAJUR incurred related penalties and interest due to noncompliance.

Recommendation: We recommend that management comply with the Income Tax Act of 1989, as amended.

Prior Year Status: Noncompliance with the RepMar Income Tax Act of 1989, as amended, was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: Management concur with the finding and the new Accounting Manager will take the necessary steps to resolve the issue.

Finding No. 2008-2

External Financial Reporting

Criteria: Adequate accounting controls necessitate that journal entries and adjustments be independently approved and recorded by separate individuals to ensure accuracy and authorization.

Condition: Journal entries and adjustments during the year ended September 30, 2008 were initiated and recorded by the same accounting personnel with the absence of independent review. Additionally, the general journal vouchers provided were not signed and most appeared to have been prepared subsequent to September 30, 2008.

Furthermore, relevant documentation such as invoices, contract, and supporting calculations were not made available for journal entry #s GJ-0175 and GJ-0148, which recorded expenditures totaling $41,852.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure adequate segregation of duties pertaining to journal entries.

Effect: The effect of the above condition is a possible misstatement of the financial statements.

Recommendation: We recommend that KAJUR adopt policies and procedures to ensure adequate segregation of duties pertaining to journal entries.

Prior Year Status: Lack of adequate segregation of duties pertaining to journal entries was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-3

Revenues

Criteria: Management is responsible for establishing adequate internal control to ensure that revenues are accurately identified, recorded, and collected.

Condition: KAJUR maintains its utility billing system, including monthly meter reading and billing generation, in Microsoft Excel and does not utilize standard utility billing software, which may assist accuracy and recording. KAJUR's set up of excel spreadsheets is open to errors, without worksheet protection, lacks automatic numbering system for invoices and data integrity checks are not available.

Additionally, the following were noted during our examination of sales - electric, water and other:

- Of sixty nine (69) electric and water invoices tested, the following were noted:

  Rates used in billing customers for electric and water sales were different from published rates for thirty (30) invoices (#s 22841, 23163, 23182, 23189, 24677, 24746, 25523, 25797, 25814, 25819, 25823, 25873, 25947, 25952, 25978, 26011, 26037, 26061, 26064, 26070, 26081, 26086, 26105, 26143, 26208, 26230, 26237, 26264, 26403, and 26520). This was due to lack of update of rates in the billing system.

  Eleven (11) invoices (#s 22841, 25797, 25873, 25952, 26061, 26086, 26105, 26237, 26264, 26403, and 26520) were billed based on incorrect meter readings.

  Five (5) invoices (#s 23125, 25779, 25900, 25958, and 26301) were zero while the meter readings showed consumption for the month.

  Invoice# 26301 showed negative $72,541 balance for the customer, which we verified with management to be incorrect.

  Two (2) customers (account#s 121542 or121530 and 120520 or 120522) were noted to have different customer numbers between the reading log and the invoices issued.

- All 14 water sales invoices tested (#s 217965, 218023, 218056, 218069, 218180, 218181, 218222, 218332, 218336, 218342, 218368, 218478, 218582, and 218789) were billed based on an incorrect rate per gallon.

- Water meter readings for the months of October 2007, November 2007 and March 2008 were not made available for examination as they could not be located.

- Prices for other sales such as fuel, meters, and water were not formally set. No written price list were made available for examination.

Finding No. 2008-3, Continued

Revenues, Continued

Cause: The cause of the above condition is the lack of established policies and procedures over utility and other operating revenues.

Effect: The effect of the above condition is a possible misstatement of utility and other operating revenues.

Recommendation: We recommend that policies and procedures be established pertaining to utility and other operating revenues, including utilization of appropriate software to assist in the validity and accuracy of the customer database and billing information.

Prior Year Status: Non-utilization of utility billing software to generate billings was reported as a finding in the audits of KAJUR for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-4

Purchases/Disbursements

Criteria: Receiving reports document evidence of the receipt of materials and supplies into inventory.

Condition: During fiscal year 2008, we noted that KAJUR began utilizing a receiving report form. However, such was not consistently used throughout the year. Receiving reports were not provided for purchases of supplies and materials paid through check #s 6267 and 6241.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation to evidence receipt of materials and supplies into inventory.

Effect: The effect of the above condition is possible payment for materials and supplies not received and for invalid expenditures.

Recommendation: We recommend that receiving reports be completed for all purchases.

Prior Year Status: Lack of receiving reports for materials and supplies received into inventory was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: Management concur with the finding and the new Accounting Manager will take the necessary steps to resolve the issue.

Finding No. 2008-5

Purchases/Disbursements

Criteria: Purchases/disbursements should be supported by valid invoices, contracts, and/or other relevant documentation.

Condition: Of twenty two (22) disbursements tested, three (3) payments made through check#s 5947, 5960 and 6267 were not supported by a valid vendor invoice.

Furthermore, of twenty eight (28) subsequent disbursements tested, two (2) payments made through check #s 267 and 6672 were not supported by a vendor invoice.

Cause: The cause of the above condition is the lack of policies and procedures to ensure that payments are made only for purchases that are adequately supported by a valid vendor invoice, contract, and/or other relevant documentation.

Effect: The effect of the above condition is a possible misstatement of expenditures.

Recommendation: We recommend that management establish policies and procedures to ensure that payments are made only for adequately supported purchases of goods or services.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-6

Purchases/Disbursements

Criteria: KAJUR policy does not allow Company purchase orders to be issued to obtain personal goods and materials.

Condition: At September 30, 2008, KAJUR recorded $3,314 of employee advances. This total does not include $928 paid through check #6307 that expensed purchases of goods that may not normally comprise or may represent excessive amounts of supplies. Examination of check# 6307 also indicated that Company purchase orders were used to acquire goods for personal use or consumption by KAJUR employees. There were no procedures in place to ensure that all such purchases are recorded as a receivable from employees. Additionally, the accounting for advances of $1,892 is inappropriate as upon acquisition of the goods or services, an expense and a payable was recognized and when a billing to the employee was recorded, an advance and income was recorded.

Cause: The cause of this condition appears to be the absence of compliance with KAJUR rules and regulations.

Effect: The effect of this condition is that override of KAJUR policy occurred and that personal items may have been expensed.

Recommendation: Compliance with KAJUR policy should be met and we recommend that management determine whether reimbursement has occurred for all such personal items.

Auditee Response and Corrective Action Plan: As stated in the finding the KAJUR policies do not allow this action, prior to receiving the 2008 draft audit an internal investigation was being undertaken with regards to this issue and the employee in question has been subsequently terminated from employment with KAJUR.

Finding No. 2008-7

Payroll

Criteria: Payroll expenses should be authorized and supported by appropriate documentation.

Condition: Of twenty three (23) payroll expenses tested, the following exceptions were noted:

- Timesheets for the following employees were not provided

Employee#	PPE
HOST	4/5/08
TIBT	5/3/08
BATJ	7/26/08
THOL	7/12/08

- Personnel action forms for the following employees were not provided:

Employee#
ANJR
JELS
TOKD

- Pay rate was not indicated in the contract for employee# LOET. Additionally, the pay rate paid to employee was based on a personnel action form that was not signed by relevant parties.

Furthermore, the accounting clerk who processes payroll transactions also has access to and editing authority over the payroll master files.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to payroll.

Effect: The effect of the above condition is a possible misstatement of payroll expenses.

Recommendation: We recommend that management ensure that employees' hours are supported by approved timesheets and accurately paid and that hourly rates are supported by approved personnel action forms. We also recommend that management ensure that appropriate segregation of duties is in place over the payroll function.

Prior Year Status: Lack of payroll supporting documentation was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: Management concur with the finding and the new Accounting Manager will take the necessary steps to resolve the issue.

Finding No. 2008-8

Receivables

Criteria: Utility receivables should be supported by reconciled subsidiary ledgers.

Condition: At September 30, 2008, KAJUR recorded electric, water and sewer utility receivables (A/c # 13211-200, totaling $2,962,862, #13211-300 and 13211-400, totaling $1,851,000) that did not reconcile to the supporting subsidiary ledger balance of $2,624,094 and $895,585, respectively.

Furthermore, negative receivable balances in electric utility receivables totaled $826,937, for which management could not provide explanation.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that receivables are supported by reconciled subsidiary ledgers.

Effect: The effect of the above condition is a possible misstatement of receivable balances.

Recommendation: We recommend that KAJUR establish policies and procedures to require that receivables are supported by reconciled subsidiary ledgers.

Prior Year Status: Lack of internal control policies and procedures to ensure that receivables are supported by reconciled subsidiary ledgers was reported as a finding in the audit of KAJUR for fiscal year 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-9

Receivables

Criteria: The allowance for doubtful accounts should be stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

Condition: At September 30, 2008, KAJUR recorded an allowance for doubtful accounts in the amount of $4,280,687, for which no adequate supporting analysis was provided. This condition was alleviated through alternative audit procedures that resulted in a proposed adjustment of $557,502 to increase the allowance for doubtful accounts to $4,838,189.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that the allowance for doubtful accounts is adequately supported.

Effect: The effect of the above condition is a possible misstatement of receivable balances and the related allowance for doubtful accounts.

Recommendation: We recommend that KAJUR establish policies and procedures to require that the allowance for doubtful accounts is adequately supported.

Prior Year Status: Lack of an analysis to support allowance for doubtful accounts was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-10

Other Receivables

Criteria: Other receivables should be supported by reconciled subsidiary ledgers.

Condition: At September 30, 2008, KAJUR recorded other receivables, totaling $276,813, which included $212,494 for which no supporting subsidiary ledgers were provided.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that other receivables are supported by reconciled subsidiary ledgers.

Effect: The effect of the above condition is a possible misstatement of other receivable balances.

Recommendation: We recommend that KAJUR establish policies and procedures to require that other receivables are supported by reconciled subsidiary ledgers.

Prior Year Status: Lack of a supporting subsidiary ledger for other receivables was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-11

Inventories

Criteria: Physical count of inventories and reconciliation to subsidiary ledger and general ledger should be performed on a regular basis.

Condition: During fiscal year 2008, periodic inventory physical count and reconciliation to the general ledger was not performed. Although a physical count was performed at September 30, 2008, no reconciliation of physical count to subsidiary ledger and general ledger occurred.

In addition, as of September 30, 2008, the materials and supplies inventory valuation report had a variance of $18,264 after reduction of obsolete inventory items totaling to $66,451 that were included in the valuation report.

Lubricants inventory, on the other hand, had a variance of $47,533 between the general ledger and inventory valuation report. An adjustment was proposed and error was corrected as of September 30, 2008.

Cause: The cause of the above condition is the lack of internal control policies and procedures to ensure that subsidiary ledger inventory balances are updated and reconciled to the general ledger on a regular basis.

Effect: The effect of the above condition is a possible misstatement of inventories.

Recommendation: We recommend that KAJUR establish policies and procedures to require that subsidiary ledger inventory balances are updated and reconciled to the general ledger on a regular basis. Additionally, we recommend that management separately account for obsolete or impaired inventories and are consider such in the inventory valuation process.

Prior Year Status: Lack of internal control policies and procedures over subsidiary ledger inventory balances was reported as a finding in the audit of KAJUR for fiscal year 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-12

Fixed Assets

Criteria: An established fixed asset policies and procedures should govern property acquisition, capitalization, disposals, reconciliation, physical inventory and depreciation. Additionally, fixed assets should be inventoried on a regular basis and fixed asset register should provide sufficient detail to locate and identify assets.

Condition: Per tests performed on fixed assets, the following were noted:

- There was no physical inventory of all fixed assets for fiscal year 2008.
- No reconciliation between fixed asset register and the general ledger occurred during the year.
- The fixed asset register does not contain sufficient information and assets are not tagged to allow for asset location and identification.
- KAJUR does not have a capitalization policy detailing a minimum level of expenditure to necessitate capitalization. There is also no formal policy on assigning useful life to the assets.
- KAJUR does not periodically assess the recorded amounts of long-lived assets to determine whether a reserve is required, when compared to future expected cash flows to be generated from the asset. During fiscal year 2008, certain impaired generators which had a net book value of $415,177 was kept in the fixed asset and not removed from the accounting records as of September 30, 2008. This resulted to a proposed adjustment of $415,177 for asset disposal and recognition of impairment loss.
- The fixed asset register does not provide for identification of assets acquired through federal funds and non-federal resources.

Cause: The cause of the above condition is the lack of established policies and procedures over accounting for fixed assets.

Effect: The effect of the above condition is that fixed assets may be 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 adopt fixed asset policies and procedures to govern property acquisition, capitalization, disposals, reconciliation, physical inventory and depreciation. Additionally, the policies and procedures should assist in ensuring that fixed assets are physically inventoried, identified and referenced in the fixed asset register.

Prior Year Status: Lack of a physical inventory of fixed assets and tagging and adequate description of fixed asset register was reported as a finding in the audits of KAJUR for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Finding No. 2008-12, Continued

Fixed Assets, Continued

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-13

Deferred Grant Revenue

Criteria: Deferred revenue should reflect amounts received but not expended or earned.

Condition: At September 30, 2008, deferred revenue includes $112,800 for federal grants drawn in fiscal year 2003 that have been expended.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that expended grants funds are accurately recorded.

Effect: The effect of the above condition is the possible misstatement of deferred revenue.

Recommendation: We recommend that KAJUR establish policies and procedures to require that expended grants funds are accurately recorded.

Prior Year Status: Misstatement of deferred revenue was reported as a finding in the audits of KAJUR for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

Finding No. 2008-14

Deferred Utility Revenue

Criteria: Deferred revenue should reflect amounts received but not earned.

Condition: At September 30, 2008, deferred revenue includes $14,880 for unused tokens for electric debit meters. However, this amount only represents tokens not obtained by customers (mid-corridor residents) whose electricity are paid for by RepMar. There are actually no procedures in place to estimate unused tokens as of year-end.

Furthermore, we noted that KAJUR bills RepMar for 1,000 kwh per mid-corridor customers. However, actual consumptions of such customers could not be determined but estimated by management to an average of 300 to 400 per household. KAJUR continues to issue 1,000 kwh tokens to these customers on a monthly basis despite such. Consequently, there are potential unrecorded deferred revenues for tokens issued to mid-corridor customers, for which KAJUR lacks the ability to determine.

Additionally, since certain collection from RepMar pertaining to mid-corridor customers was not recorded as sales and corresponding estimated deferred revenues was also no calculated, we determined potential unrecorded sale and unrecorded deferred revenue of $41,234 and $38,688, respectively.

Cause: The cause of the above condition is the lack of established policies and procedures for the recognition of unused tokens end of fiscal year or any reporting period.

Effect: The effect of the above condition is the possible misstatement of deferred revenue.

Recommendation: We recommend that KAJUR establish policies and procedures to enable estimation of unused token as of fiscal year end.

Auditee Response and Corrective Action Plan: We concur with the recommendations. MEC Accounting Staff were sent from Majuro to assist the KAJUR accounting staff and the Auditor to complete the FY05, 06 and 07 outstanding audits so as to establish opening balances for FY08. The MEC staff were also mandated to review existing procedures and implement new policies and procedures as applicable and in line with good accounting practices.

Due to the consideration amount of work during the first 12 months with regards to FY05, 06 and 07 audits, MEC were unable to review existing procedures and or implement new procedures.

The final audits for FY05, 06 and 07 were released in July 2009 identifying the deficiencies with procedures and the need for management to review and implement new procedures, in August 2009 the draft audit for FY08 was received identifying the unresolved prior year findings.

Though every effort will be made to implement and monitor new and existing procedures within the remaining 2 months of FY09 it is anticipated that there may still be some unresolved findings for FY09. An Accounting Manager has been hired for KAJUR and will focus on policies and procedures in conjunction with MEC senior accounting staff.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2008:

Questioned costs of KAJUR as previously reported:	
Fiscal year 2004 Single Audit	$ 488,494
Fiscal year 2005 Single Audit	434,069
Fiscal year 2006 Single Audit	452,893
	1,375,456
Questioned costs of fiscal year 2008 Single Audit	-
Unresolved questioned costs of KAJUR at September 30, 2008	$ 1,375,456

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 6 through 22).