

**KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.**

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

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

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**YEAR ENDED SEPTEMBER 30, 2005**

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

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

We were engaged to audit the financial statements of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) as of and for the year ended September 30, 2005. Our report dated June 25, 2009 stated that the scope of work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that receivables, inventories, plant and equipment, accounts payable, accrued liabilities, revenues and expenses were fairly stated, and the inability to obtain written representations from management.

**Internal Control Over Financial Reporting**

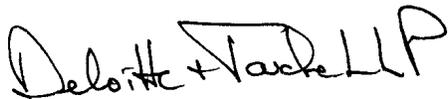
In planning our audit, we considered KAJUR's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted 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 6 through 30) as items 2005-3 through 2005-18.

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 that the reportable conditions described above are material weaknesses.

## Compliance and Other Matters

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, require that an audit be planned and performed to obtain reasonable assurance about whether KAJUR's financial statements are free of material misstatement. We performed tests of KAJUR's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-1 and 2005-2.

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.

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June 25, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM  
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, 2005. 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 30). 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 2005-19 through 2005-21 in the accompanying Schedule of Findings and Questioned Costs, KAJUR did not comply with requirements regarding allowable costs/cost principles, procurement and suspension and debarment, cash management, and reporting. Compliance with such requirements is necessary, in our opinion, for KAJUR to comply with the requirements applicable to its one major federal 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, 2005.

### 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.

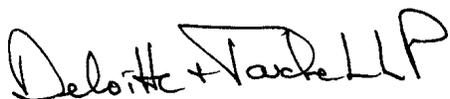
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 2005-19 through 2005-21.

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 item 2005-19 to be a material weakness.

### Schedule of Expenditures of Federal Awards

We were engaged to audit the basic financial statements of KAJUR as of and for the year ended September 30, 2005. Our report dated June 25, 2009, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that receivables, inventories, plant and equipment, accounts payable, accrued liabilities, revenues and expenses were fairly stated, and the inability to obtain written representations from management. 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. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2005.

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.

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

June 25, 2009

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Program Title	Program or Award Amount	Expenditures FY05
Funds passed through the Republic of the Marshall Islands (RepMar)		
<u>U.S. Department of the Interior:</u>		
<u>Compact of Free Association, As Amended:</u>		
<u>Section 211(d)(1) Public Infrastructure Sector Grant</u>		
<u>CFDA #15.875</u>		
Generator Overhaul	\$ 200,000	\$ 131,545
Ebeye Water Rehabilitation Project	228,094	228,094
Ebeye Sewer Rehabilitation Project	160,616	160,616
Total Public Infrastructure Sector Grant	588,710	520,255
<u>Section 211(d)(2) Infrastructure Maintenance Fund Grant</u>		
<u>CFDA #15.875</u>		
Ebeye Water Maintenance Project	17,148	17,148
Ebeye Sewer Maintenance Project	28,211	28,211
Total Infrastructure Maintenance Fund Grant	45,359	45,359
	\$ 634,069	\$ 565,614

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

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

Capitalized in construction work-in-progress	\$ 565,614
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KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

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

1. The Independent Auditors' Report on the financial statements expressed a disclaimer of opinion due to inadequacies in KAJUR's accounting records and internal control regarding receivables, inventories, plant and equipment, accounts payable, accrued liabilities, revenues and expenses, and the inability to obtain written representations from management.
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>
Compact of Free Association, as amended, Public Infrastructure Sector	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>
2005-1 - 2	Local Noncompliance	8 - 9	\$ -
2005-3 - 6	External Financial Reporting	10 - 13	\$ -
2005-7 - 8	Utility Revenues	14 - 15	\$ -
2005-9	Grant Revenues	16	\$ -
2005-10	Purchases/Disbursements	17	\$ -
2005-11	Payroll Expenses	18 - 20	\$ -
2005-12	Non-payroll Expenses	21	\$ -
2005-13	Receivables	22	\$ -
2005-14	Other Receivables	23	\$ -
2005-15 - 16	Fixed Assets	24 - 25	\$ -
2005-17	Accrued Liabilities	26	\$ -
2005-18	Deferred Revenue	27	\$ -

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

**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>
2005-19	15.875	Allowable Costs/Cost Principles and Procurement and Suspension and Debarment	28	\$ 434,069
2005-20	15.875	Cash Management	29	\$ -
2005-21	15.875	Reporting	30	\$ -

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-1

Local Noncompliance

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, and 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: KAJUR did not prepare and file Employer's Quarterly Tax Returns nor remit social security employer and employee contributions during the year ended September 30, 2005. The required returns were eventually prepared and filed in August 2007; however, the contributions due together with related penalties and interest, totaling \$603,524, remain unpaid.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

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. Furthermore, KAJUR has incurred related penalties and interest due to noncompliance.

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 fiscal years 1998 through 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-2

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: KAJUR did not remit employee withholding taxes to RepMar in a timely manner during the year ended September 30, 2005. As a result, KAJUR recorded a liability of \$55,856, which represented withholding taxes together with related penalties and interest for pay periods ended April 9, 2005 through September 24, 2005.

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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-3

External Financial Reporting

Criteria: To ensure timeliness of financial information, adequate accounting controls necessitate that all transactions be properly recorded and reconciled in a timely manner.

Condition: KAJUR does not periodically reconcile general ledger control totals to subsidiary ledgers; consequently, the trial balance and subsidiary ledgers for fiscal year 2005 were not provided until July and August 2007, nearly two years after year end.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure transactions are properly recorded and reconciled in a timely manner.

Effect: The effect of the above information is the absence of timely financial information throughout the fiscal year and the inability to detect errors and irregularities until after year end.

Recommendation: We recommend that proper policies and procedures be established pertaining to timeliness of financial information.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-4

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, 2005 were initiated and recorded by the same accounting personnel with an absence of independent review. Moreover, journal entry #s GJ-0001 through GJ-0112 could not be located. Additionally, the general journal vouchers provided were not signed and most appeared to have been prepared subsequent to September 30, 2005.

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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No.2005-5

External Financial Reporting

Criteria: The Board of Directors should meet on a periodic basis to set policies and objectives, evaluate performance, and take appropriate action.

Condition: KAJUR was not under the direction of a Board of Directors during fiscal year 2005 and through May 2006, when the Board of Directors from the Marshalls Energy Company, Inc. was tasked with oversight responsibility. Consequently, KAJUR operated without defined policies and objectives, including accounting policies and procedures.

Cause: The cause of the above condition is the lack of an appointed Board during fiscal year 2005.

Effect: The effect of the above condition is the lack of established policies and objectives governing KAJUR's daily operations.

Recommendation: We recommend compliance with the criteria.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-6

External Financial Reporting

Criteria: An adequate system of internal control ensures that the MAS 90 accounting system is backed up on a regular basis and that the back-ups are stored offsite.

Condition: We were informed that the MAS 90 system is not backed up on a regular basis and stored offsite.

Cause: The cause of the above condition is the lack of established policies and procedures governing security over accounting system information.

Effect: The effect of the above condition is the possible loss of critical data.

Recommendation: We recommend that management perform back-ups of the accounting system on a regular basis and maintain such offsite.

Prior Year Status: Lack of back-up and offsite storage of the accounting system was reported as a finding in the audit of KAJUR for fiscal year 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-7

Utility 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. Additionally, meter reading reports for fiscal year 2005 could not be located and duplicate copies of customer billings for the year were not retained.

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

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

Recommendation: We recommend that policies and procedures be established pertaining to utility 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 audit of KAJUR for fiscal year 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-8

Utility Revenues

Criteria: Revenues should be supported by transactional source documentation.

Condition: Source documentation was not available for water sales and other revenues. In addition, of eighty-four residential electric revenue items tested, we noted the following:

- Source documentation was not made available for forty-nine items.
- The Meter Cash Collection Report was not signed as reviewed and approved for eighty-three items.
- No explanations were provided for the cash overages and shortages noted on the Debit Meter Collection sheets nor were the variances recorded to the general ledger.

We also noted that collection reports for other receipts are not signed to evidence review.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure source documentation is maintained.

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

Recommendation: We recommend that proper policies and procedures be established pertaining to revenues.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-9

Grant Revenues

Criteria: Financial assistance through grants should be correctly recorded.

Condition: At September 30, 2005, KAJUR recorded operating subsidy and capital contribution revenues from RepMar of \$271,614 and \$915,040, respectively; however, based on records obtained from RepMar's Ministry of Finance, operating subsidy and capital contribution revenues for KAJUR during fiscal year 2005 totaled \$904,357 and \$565,614, respectively. Audit adjustments were proposed to reconcile the variances.

Cause: The cause of the above condition is the lack of established policies and procedures over recordation of operating subsidy and capital contribution revenues.

Effect: The effect of the above condition is the possibility of misstatement of operating subsidy and capital contribution revenues.

Recommendation: Compliance with the criteria should be met.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-10

Purchases/Disbursements

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

Condition: KAJUR does not utilize receiving reports to evidence receipt of materials and supplies into inventory.

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.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-11

Payroll

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

Condition: Of thirty payroll expenses tested, the following exceptions were noted:

- Timesheets were not signed as approved for the following employees:

<u>Employee #</u>	<u>PPE</u>
MATI	11/20/04
MATI	3/26/05
AMUE	5/7/05
LOET	5/7/05
JOHW	9/10/05
ROKT	9/24/05

Additionally, the following employees did not sign their timesheets:

<u>Employee #</u>	<u>PPE</u>
SAMJ	1/15/05
MATI	3/26/05
KABJ	5/7/05

- Timesheets for the following employees were not available:

<u>Employee #</u>	<u>PPE</u>
SAIN	1/1/05
ATUH	4/23/05
LUCJ	7/30/05
FAAT	8/13/05

- Timesheets did not support the hours paid for the following employees:

<u>Employee #</u>	<u>PPE</u>	<u>Actual Hours</u>	<u>Paid Hours</u>
TAAT	2/26/05	70 regular hours	142 regular hours
MATI	4/23/05	80 regular hours	112 regular hours
		No holiday hours	8 holiday hours
AMUE	5/7/05	100 regular hours	72 regular hours
		No overtime hours	8 overtime hours
		No holiday hours	8 holiday hours
KAIB	5/21/05	25 overtime hours	17 overtime hours
		8 sick leave hours	No sick leave hours
		No holiday hours	8 holiday hours

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-11, Continued

Payroll

Condition, Continued:

- Overtime approval was not available for the following employees:

<u>Employee #</u>	<u>PPE</u>
LANL	10/9/04
JACM	10/23/04
LOKS	10/23/04
JOHJ	1/29/05
SAIN	3/12/05
AMUE	5/7/05
TOKD	5/21/05
SAMT	7/2/05
JOHW	9/10/05

- For employee # ATUH for pay period ended January 15, 2005, the amount of retroactive earnings paid (1,232 hours at \$0.75 and 80 hours at \$1.25, amounting to \$1,024) varied from the actual amount (1,148 hours at \$0.75, amounting to \$861), resulting in an overpayment of \$163.
- The hourly rate paid varied from the approved rate for the following employees:

<u>Employee #</u>	<u>PPE</u>	<u>Approved Rate</u>	<u>Paid Rate</u>
KALJ	2/26/05	\$3.50	\$5.00
MALJ	3/26/05	\$4.90	\$6.25
TOKD	5/21/05	\$9.20	\$9.25
ROKT	9/24/05	\$5.50	\$5.60

- Approved personnel action forms were not available for the following employees:

<u>Employee #</u>	<u>PPE</u>
LANL	10/9/04
MATI	11/20/04
FAAT	8/13/05

- The personnel action form for employee # LOET effective January 2005 was not signed as approved.
- Employee #s ATUH and MATI were paid for Good Friday holiday on March 25, 2005 and again on April 8, 2005.

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

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-11, Continued

Payroll

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 proper segregation of duties is in place over the payroll function to ensure accuracy and authorization.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-12

Non-payroll Expenses

Criteria: Non-payroll expenses should be supported by transactional source documentation.

Condition: Of twenty-eight non-payroll expense items tested, the following exceptions were noted:

- Source documentation was not made available for the following items:

A/P or JV#  
AP-R0124  
AP-R0183  
AP-R0217  
AP-R0226  
AP-R0290  
AP-R0291  
AP-R0306  
AP-R0389  
AP-R0637  
AP-R1131  
GJ-J0139  
GJ-J0140  
GJ-J0141  
GJ-J0143  
GJ-J0144  
GJ-J0149  
GJ-J0200

- For one item (GJ-J0211), the check # was not made available; therefore, we could not verify payment.

Cause: The cause of the above condition is the lack of established policies and procedures that ensure source documentation is maintained.

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

Recommendation: We recommend that proper policies and procedures be established pertaining to non-payroll expenses.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-13

Receivables

Criteria: Authorization of receivables written off should be documented. Furthermore, 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: During the year ended September 30, 2005, KAJUR wrote off receivables of \$50,186. No authorization of this write-off was located. Additionally, no analysis was available for an additional allowance for doubtful debts during the year of \$111,951.

Cause: The cause of the above condition is the lack of established policies and procedures over the write-off of receivables and the periodic analysis of the allowance for doubtful debts.

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

Recommendation: We recommend that KAJUR establish policies and procedures to comply with the criteria.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-14

Other Receivables

Criteria: Supporting subsidiary ledgers should contain sufficient detail.

Condition: At September 30, 2005, subsidiary ledgers for other receivables included beginning balances of \$138,671 for which no detail was available.

Cause: The cause of the above condition is the lack of detail.

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

Recommendation: We recommend that KAJUR research this balance and ensure appropriate disposition.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-15

Fixed Assets

Criteria: Fixed assets should be inventoried on a regular basis. Additionally, the subsidiary fixed asset register should provide sufficient detail to identify the assets, including the assignment of identification numbers to individual assets, and documentation of the location of such individual assets.

Condition: There was no physical inventory of fixed assets for fiscal year 2005. Additionally, the subsidiary fixed asset register does not always contain sufficient information to allow for asset location and identification. KAJUR does not assign identification numbers to individual assets nor does the fixed asset register indicate the location of such assets.

Furthermore, we noted that the beginning accumulated depreciation amounts for certain assets in the fixed asset register do not agree with the 2004 register and that the useful lives of certain assets (laptop computers and miscellaneous equipment) seem excessive.

We also noted an incinerator belonging to the hospital and inventory items included in KAJUR's fixed asset register.

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

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 ensure 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 in the fixed asset register was reported as a finding in the audit of KAJUR for fiscal year 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-16

Fixed Assets

**Criteria:** Fixed asset acquisitions should be adequately supported by vendor invoices or other appropriate documentation.

**Condition:** Of fifteen additions to fixed assets tested, the supporting vendor invoices and/or the payroll records were not available for the following items:

<u>Item #</u>	<u>Category</u>	<u>Asset</u>	<u>Amount</u>
1	CWIP	Fuel Tanks	\$ 55,000
2	CWIP	Fuel Tanks (labor costs)	\$ 6,646
3	CWIP	New Landfill (labor costs)	\$ 14,809
4	CWIP	Fuel Line	\$ 32,342
5	CWIP	Sewer System Improvement (labor costs)	\$ 5,555
6	CWIP	Sewer System Improvement	\$ 85,430
7	CWIP	Sewer Maintenance	\$ 57,269
8	CWIP	Water Maintenance (labor costs)	\$ 7,304
9	CWIP	Water Maintenance	\$ 126,757
10	CWIP	New Water Metering (labor costs)	\$ 10,963

For item #s 2, 3, 5, 8 and 10, the payroll records did not indicate the related project; for item #s 5 and 10, the project costs included holiday and/or sick leave hours paid to employees; and for item # 4, project costs totaled \$138,125 as of September 30, 2005, however, we were informed that no work had occurred on the project.

Three additions (sewer treatment plant relocation, new landfill, and reverse osmosis unit 3) had acquisition dates prior to fiscal year 2005, which affected depreciation expense calculation for the assets.

Furthermore, a reverse osmosis unit amounting to \$65,393 was recorded directly to the general ledger and was not included within the fixed asset register.

**Cause:** The cause of the above condition is the lack of internal control policies and procedures to ensure that fixed asset additions are adequately supported by vendor invoices and payroll records and properly recorded in the fixed asset register.

**Effect:** The effect of the above condition is the possible misstatement of fixed assets.

**Recommendation:** We recommend that KAJUR establish policies and procedures to ensure that fixed asset additions are adequately supported by vendor invoices and payroll records. We also recommend that additions are properly recorded in the fixed asset register.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-17

Accrued Liabilities

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

Condition: At September 30, 2005, KAJUR recorded accrued liabilities (A/c # 22411-200-0) of \$169,921 representing employee allotments of fiscal years 1998 and 1999. The account balance has not changed since fiscal year 2001.

Cause: The cause of the above condition is the lack of detail support whether an adjustment of the account should occur.

Effect: The effect of the above condition is nonpayment of employee allotments.

Recommendation: We recommend that this account be investigated and cleared in a timely manner.

Prior Year Status: Nonpayment of employee allotments was reported as a finding in the audits of KAJUR for fiscal years 2000 through 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-18

Deferred Revenue

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

Condition: At September 30, 2005, 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 ensure that expended grants funds are accurately recorded.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-19

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment  
U.S. Department of the Interior  
CFDA # 15.875  
Compact Infrastructure Sector Grants

Questioned Costs: \$434,069

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and be in accordance with program intent and objectives. Additionally, Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (FPA) states that the Government of the Republic of the Marshall Islands (RepMar) (including its component units) may use its own procedures for procurement, whether done by the government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

KAJUR does not have its own procurement policy; therefore, KAJUR is required to comply with RepMar's Procurement Code.

Condition: KAJUR received \$565,614 in Compact funding passed-through from RepMar during fiscal year 2005. Of this amount, \$434,069 was not supported by vendor invoices and underlying procurement records. Accordingly, we were unable to determine whether the monies were expended for program needs and whether these expenditures were related to and in accordance with program intent and objectives.

Cause: The cause of the above condition is the lack of vendor invoices supporting expenditures and the lack of established policies and procedures requiring documentation of procurement procedures.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards.

Recommendation: We recommend that management ensure that grant expenditure documentation is adequate to comply with allowable costs/cost principles and procurement requirements as stipulated in the FPA.

Prior Year Status: Lack of supporting vendor invoices and procurement records was reported as a finding in the audit of KAJUR for fiscal year 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-20

Cash Management

U.S. Department of the Interior

CFDA # 15.875

Compact Infrastructure Sector Grants

Questioned Costs: Undeterminable

Criteria: Drawdown requests should be maintained and filed. Further, the time elapsed between the receipt of federal funds and disbursements shall be minimized.

Condition: We were unable to perform required cash management tests as the detailed drawdown requests were not available.

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

Effect: The effect of the above condition is noncompliance with cash management requirements. Additionally, we were not able to determine the dollar amount of questioned costs that may result from this finding.

Recommendation: We recommend that KAJUR establish policies and procedures to ensure that drawdown requests are maintained and filed.

Prior Year Status: Lack of drawdown requests was reported as a finding in the audit of KAJUR for fiscal year 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

Finding No. 2005-21

Reporting

U.S. Department of the Interior

CFDA # 15.875

Compact Infrastructure Sector Grants

Questioned Costs: \$0

Criteria: Article VI, Section 1(b)(1)(iii) of the Fiscal Procedures Agreement (FPA) states that the Government of the Republic of the Marshall Islands (RepMar) (including its component units) shall submit a quarterly financial status report on form SF-269 and a quarterly federal cash transactions report on form SF-272. This reporting requirement is also stipulated in Section 8 of the sub-award agreements that RepMar executed with KAJUR for fiscal year 2005.

Condition: We were unable to determine whether KAJUR complied with reporting requirements as the quarterly financial status reports (SF-269) and federal cash transactions reports (SF-272) for the year ended September 30, 2005 were not available.

Cause: The cause of the above condition is lack of established policies and procedures to comply with reporting requirements.

Effect: The effect of the above condition is noncompliance with reporting requirements.

Recommendation: We recommend that KAJUR establish policies and procedures to comply with reporting requirements.

Prior Year Status: Lack of the required quarterly financial status reports (SF-269) and federal cash transactions reports (SF-272) were reported as a finding in the audit of KAJUR for fiscal year 2004.

KWAJALEIN ATOLL JOINT UTILITIES RESOURCES, INC.

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

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, 2005:

Questioned costs of KAJUR as previously reported:	
Fiscal year 2004 Single Audit	\$ 488,494
Questioned costs of fiscal year 2005 Single Audit	<u>434,069</u>
Unresolved questioned costs of KAJUR at September 30, 2005	\$ <u>922,563</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 6 through 30).