

**ENEWETAK/UJELANG LOCAL GOVERNMENT
FOOD AND AGRICULTURE SUPPORT PROGRAM
(A GOVERNMENTAL FUND OF THE ENEWETAK/
UJELANG LOCAL GOVERNMENT)**

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

YEAR ENDED SEPTEMBER 30, 2008

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

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

We have audited the financial statement of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) for the year ended September 30, 2008 and have issued our report thereon dated April 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program'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 accounting principles generally accepted in the United States of America 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 8 through 11) as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a 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.

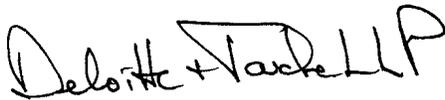
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Deloitte + Stach LLP in black ink.

April 17, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of the Enewetak/Ujelang Local Government Food and Agriculture Support Program (the Program) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2008. The Program's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 11). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of the Program's management. Our responsibility is to express an opinion on the Program's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Program's compliance with those requirements.

In our opinion, the Program complied, in all material respects, with the requirements referred to above that are applicable to its Enewetak Food and Agriculture Support Program (CFDA # 15.875) for the year ended September 30, 2008. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-3.

Internal Control Over Compliance

The management of the Program is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Program's internal control over compliance with 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 the Program's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in the 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-3 to be a significant deficiency.

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. We did not consider the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statement of the Program for the year ended September 30, 2008 and have issued our report dated April 17, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statement taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statement. This schedule is the responsibility of the Program's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the management of the Program, federal awarding agencies, pass-through entities and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 17, 2009

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

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

	<u>Beginning Fund Balance</u>	<u>2008 Funds Received</u>	<u>2008 Funds Expended</u>	<u>Ending Fund Balance</u>
<u>U.S. Department of the Interior</u>				
<u>CFDA #15.875</u>				
Funds received in a direct capacity:				
Operation of the Enewetak Food and Agriculture Support Program	\$ <u> -</u>	\$ <u>1,895,090</u>	\$ <u>1,895,090</u>	\$ <u> -</u>

See accompanying notes to schedule of expenditures of federal awards.

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

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

(1) Organization

The Program is the recipient of non-Compact of Free Association related funds received from the U.S. Department of the Interior. These funds must be expended in accordance with grant awards and are subject to general U.S. federal requirements, including OMB's Circular A-87 and Circular A-102.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Program and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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

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

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report on the financial statement expressed an unqualified opinion.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statement, none of which are considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statement were disclosed by the audit.
4. One significant deficiency in internal control was disclosed by the audit of the major federal award program, which is not considered to be a material weakness.
5. The Independent Auditors' Report on compliance for the major federal award program expressed a qualified opinion.
6. The audit disclosed findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The Program's one major program was as follows:

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

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Program did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENT, WHICH IS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2008-1	Journal Vouchers	9
2008-2	Bank Reconciliations	10

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2008-3	Procurement and Suspension and Debarment	\$ 21,562	11

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

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

Finding No. 2008-1

Journal Vouchers

Criteria: Journal entries and adjustments should be specifically initialed by the preparer and reviewer to ensure accuracy and authorization.

Condition: Journal entries and adjustments are not specifically initialed by the preparer and reviewer.

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

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

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

Auditee Response and Corrective Action Plan:

Who: Neil Flores

What: Segregation of duties for the journal entries will be initialed by the preparer and will be review and approve by myself.

When: Immediately

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

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

Finding No. 2008-2

Bank Reconciliations

Criteria: Bank reconciliations should be initialed by the preparer and reviewer.

Condition: Monthly bank reconciliations are not initialed by the preparer and reviewer.

Cause: The cause of the above condition is the lack of policies and procedures to ensure adequate segregation of duties pertaining to monthly bank reconciliations.

Effect: The effect of the above condition is potential misstatement of cash accounts.

Recommendation: We recommend that EULGOV adopt policies and procedures to ensure adequate segregation of duties pertaining to monthly bank reconciliations.

Auditee Response and Corrective Action Plan:

Who: Neil Flores

What: Segregation of duties in the monthly bank reconciliation will be implemented. The bank reconciliation will be initialed by the preparer and reviewed and approved by myself.

When: Immediately

**ENEWETAK/UJELANG LOCAL GOVERNMENT
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-3
CFDA No.: 15.875
Grantor Agency: U.S. Department of the Interior
Program/Area: Procurement and Suspension and Debarment
Questioned Costs: \$21,562

Criteria: Purchases less than \$100,000 require evidence of informal bidding procedures. For purchases greater than \$100,000, formal bidding procedures are required. Additionally, costs incurred for common or joint purposes should be allocated to the program based on a predetermined methodology.

Condition: Of thirty-one non-payroll expenditures tested, totaling \$1,043,564, procurement of services, supplies and equipment from vendors for the following items did not evidence support of either informal or formal procurement procedures.

<u>Check/JV #</u>	<u>Amount</u>
33419	\$ 576
33986	20,330
35291	<u>656</u>
	\$ <u>21,562</u>

Cause: The cause of the above condition is the lack of support evidencing informal or formal procurement procedures for the procurement of goods and services.

Effect: The effect of the above condition is noncompliance with procurement procedures. Therefore, questioned costs result from this finding.

Recommendation: We recommend that EULGOV comply with requisite procurement standards.

Prior Year Status: The lack of informal procurement procedures was reported as a finding in the Single Audits of the EULGOV Food and Agriculture Support Program for fiscal years 1994 through 1998 and 2003 through 2007.

Auditee Response and Corrective Action Plan:

Who: Neil Flores

What: Informal bidding procedure will be followed

When: Immediately

**ENEWETAK/UJELANG LOCAL GOVERNMENT
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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2008

Questioned Costs

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

Questioned costs, fiscal year 2003 audit	\$ 1,125,696
Questioned costs, fiscal year 2004 audit	394,109
Questioned costs, fiscal year 2005 audit	595,058
Questioned costs, fiscal year 2006 audit	53,133
Questioned costs, fiscal year 2007 audit	27,551
Questioned costs, fiscal year 2008 audit	<u>21,562</u>
Unresolved questioned costs at September 30, 2008	\$ <u>2,217,109</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 8 through 11).