KWAJALEIN ATOLL LOCAL GOVERNMENT

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2007

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

The Honorable Interim Mayor Card Subillie
Kwajalein Atoll Local Government:

We were engaged to audit the financial statements of the governmental activities and the General Fund of the Kwajalein Atoll Local Government (KALGOV) as of and for the year ended September 30, 2007, which collectively comprise KALGOV's basic financial statements. Our report dated July 6, 2015, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the respective financial statements of the governmental activities and the general fund due to: 1) our inability to determine the propriety of receivables, liabilities, revenues and expenditures/expenses recorded for the governmental activities and the general fund; and 2) our inability to determine the propriety of capital assets, related accumulated depreciation and depreciation expense for the governmental activities.

Internal Control Over Financial Reporting

In planning our audit, we considered KALGOV'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. Accordingly, we do not express an opinion on the effectiveness of KALGOV'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 Responses (pages 3 through 20) as items 2007-1 through 2007-14 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 as items 2007-2, 2007-3, 2007-4, 2007-6, 2007-7, 2007-8, 2007-9, 2007-10, 2007-11, 2007-12 and 2007-14 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2007-7, 2007-10 and 2007-11.

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

This report is intended solely for the information and use of management, the Honorable Council members, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

July 6, 2015

Cash and Cash Equivalents

Finding No. 2007-1

Criteria: Cash accounts should be reconciled on a monthly basis and supported by bank statements. Bank reconciliations should evidence approval by the Finance Director.

Condition: Our testing of cash accounts determined the following:

- Although year-end reconciliations are performed, adjustments resulting from those reconciliations are not recorded in the general ledger. Submitted reconciliations contained numerous required adjustments going back several years. This condition was corrected through two proposed audit adjustments.

- The bank statement and bank reconciliation for the month ended September 30, 2007 for a BOG account was not provided.

- Secondary approval of bank reconciliations is not evidenced.

Cause: The cause of the above condition is the lack of appropriate filing of bank reconciliations and supporting bank statements. Furthermore, procedures for secondary approval by the Finance Director have not been established.

Effect: The effect of the above condition is the potential for misappropriation.

Recommendation: We recommend that KALGOV develop and maintain procedures to require that bank reconciliations are performed on a monthly basis, filed, and supported by bank statements and bank reconciliations that evidence approval of the Finance Director.

Prior Year Status: The lack of appropriate filing of bank reconciliations and supporting bank statements, and the lack of established procedures for secondary approval of bank reconciliations by the Finance Director was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing and approval of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Capital Assets

Finding No. 2007-2

Criteria: Accounting principles generally accepted in the United States of America require that government entities account for and maintain control of their general fixed assets.

Condition: Our testing of KALGOV's capital assets determined the following:

- KALGOV does not account for general fixed assets acquired before fiscal year 2004.
- KALGOV does not record fixed asset additions or depreciation. Audit adjustments were proposed to record $3,143 in fixed asset additions, $26,168 in depreciation expense and $51,011 in beginning fixed asset balances.
- Fixed assets are not identified by a control number or equivalent (e.g. model and serial # of item) in the fixed assets register and no tags are used on the items.
- There is no record of where capital assets are located.
- No policies and procedures for maintaining capital assets or for documenting disposals has been established.
- No capitalization policy has been established.
- Of $3,143 in capital asset additions tested, we noted one item (procured through check numbers 5763, 5786 and 5802) for which a supporting invoice was not available.
- Of two vehicles (with total cost of $42,565 and net book value of $18,987 and acquired on February 3, 2006 and August 30, 2005) selected for existence tests, both were no longer in service. No adjustment was proposed as the date the vehicles went out of service was unknown.

Cause: The cause of the above condition is that KALGOV has not established policies and procedures to require proper control and accountability for fixed assets. Management assumes that capital assets acquired before fiscal year 2004 have a zero net book value.

Effect: The effect of the above condition is the potential for misappropriation and misstatement of capital assets.

Recommendation: We recommend that formal policies and procedures be implemented to establish accountability for and control of fixed assets. A physical count should be taken periodically to determine if adjustments should be made for lost, stolen, or damaged items.

Prior Year Status: The lack of established policies and procedures to require proper control of and accountability for fixed assets was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Finding No. 2007-2, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Expenditures/Disbursements

Finding No. 2007-3

Criteria: All disbursements should be evidenced by a check copy, supporting original vendor invoice, receiving report, vendor receipt, and purchase requisition. Purchase requisitions should be approved by two individuals (Mayor, Finance Director, City Manager or requesting department head). Cash payments to venders should be limited and such payments, and petty cash reimbursements, should not be made through checks cut to the Chief Accountant. Receipt of per diem should be evidenced by all travelers involved.

Condition: Of thirteen cash disbursements tested, we noted the following:

- Original vendor invoices were not provided for three disbursements (check numbers 5111, 5232 and 5279). Check number 5279 was for the purchase of a copier which was not capitalized. Additionally, we tested one item in a petty cash reimbursement (check number 5180) and noted no supporting invoice.
- Related cancelled checks for all disbursements (check numbers 5243, 5005, 5054, 5099, 5111, 5159, 5180, 5232, 5243, 5257, 5279, 5282 and 5284) were not provided.
- Purchase requisitions were only approved by one individual (check numbers 5243, 5054, 5159, 5180, 5243 and 5279).
- Check numbers 5054 and 5180 (for utilities and petty cash reimbursement) were written to the Chief Accountant.
- Check number 5099 (for per diem for the City Manager and the Mayor) was written to the City Manager. There was no indication that the Mayor received per diem.

Cause: The cause of the above condition is the lack of established control procedures over supporting documents. Additionally, controls over purchases are not followed.

Effect: The effect of the above condition is the lack of support for disbursements, improper authorization of purchases, potential misappropriation of cash, and the possibility of expenditure recognition in the improper period.

Recommendation: We recommend that all disbursements be properly supported.

Prior Year Status: The lack of established control procedures over disbursements was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing and approval of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Payroll

Finding No. 2007-4

Criteria: Salaries and wages should be processed accurately so that employees are paid for hours approved and reflected on the timesheet. All timesheets should be approved by the City Manager. Additionally, personnel action forms should be properly authorized.

Condition: Of thirty-nine payroll disbursements tested, we noted the following:

- The pay rates used for eight disbursements (check numbers 22447, 22672, 22732, 22741, 22782, 22807, 22828 and 22865) did not agree to pay rates indicated on the personnel action forms.

- The timesheet for one employee (check number 22693) was not approved by the City Manager and the timesheet hours did not agree to the payroll register.

- We were not provided evidence of net pay (cancelled checks or deposit to the bank with employee net pay listing) for nineteen disbursements (check numbers 22424, 22447, 22464, 22469, 22488, 22496, 22508, 22511, 22544, 22615, 22618, 22672, 22679, 22705, 22799, 22807, 22911, 22913 and 22916).

- Salaried employees are not required to complete timesheets and there is no alternative monitoring procedure to document if the employees worked.

- Although the salary of the Mayor is within the range allowed by ordinance, we were not provided with Council's approval of the Mayor's salary.

- Timesheets were not approved by the Assistant City Manager or City Manager for two employees (check numbers 22705 and 22708).

- A comp time ledger monitors hours earned (overtime hours not paid) and used by employees. Comp time is expensed when used and there is no set policy in place for the accumulation and pay out of comp time upon termination/retirement. A comp time liability of $19,898 as of September 30, 2007 was recorded through a proposed audit adjustment.

- Payroll register totals did not agree to general ledger entries for the pay periods ended June 30, 2007, July 14, 2007, August 11, 2007 and September 22, 2007. We determined that the Chief Accountant performs reconciliations of each payroll register and records necessary adjustments on excel spreadsheets. These adjustments are not retained leaving no audit trail from the payroll register to general ledger recordings.

Cause: The cause of the above condition is the lack of adherence to control procedures.

Effect: The effect of the above condition is the potential misstatement of salaries and wages.

Recommendation: We recommend that KALGOV adhere to established control procedures.

Prior Year Status: The lack of adherence to control procedures over salaries and wages was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Finding No. 2007-4, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing and approval of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Travel

Finding No. 2007-5

Criteria: Travel expenditures should be supported by airline tickets, boarding passes, and vendor invoices for all related expenditures. Additionally, per diem should be supported by approved rates.

Condition: Council approved per diem rates were not provided. Cash disbursement vouchers for travel related expenditures were only supported by travel authorizations. Related boarding passes, airline tickets/invoices, and car and hotel rental invoices were not provided.

Cause: The cause of the above condition is the lack of appropriate filing and maintaining of an approved per diem rate listing, and lack of procedures requiring support for travel expenditures (boarding passes and vendor invoices) be maintained.

Effect: The effect of the above condition is the possibility of overstated travel expenditures and unauthorized transactions.

Recommendation: We recommend that KALGOV establish procedures requiring supporting documents for travel be maintained and travel advances to employees be initially recorded as an advance until such time that required documents are received.

Prior Year Status: The lack of appropriate filing and maintaining of an approved per diem rate listing and the lack of procedures requiring that support for travel expenditures (boarding passes and vendor invoices) be maintained was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing and approval of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Revenue/Receipts

Finding No. 2007-6

Criteria: Fines, taxes, and fees assessed should be supported by tickets, assessments, invoices, applications, and Ordinances or their equivalent. Furthermore, cash collected should be deposited in a timely manner and related cash collection reports should evidence the approval of the Finance Director or a designated personnel other than the cashier.

Condition: Of forty-seven cash receipts tested, we noted the following:

- Approval (ordinance or equivalent) was not provided to support fees charged for a hanging boat (CR# 5777), vehicle stickers (CR# 5521) and vehicle plate (CR# 6071).

- Ticket or equivalent for a fine collected was not provided for three receipts (CR#s 4965, 5731 and 4965). Public Safety issues tickets for fines and send copies to the prosecutor but not to KALGOV's Finance office.

- Total collections related to CR 5398 totaled $1,482; however, only $1,443 was deposited to the bank.

- Tax assessment forms with related invoices and bill of lading were not provided for two receipts (CR#s 5398 and 6723).

- Cash collection reports were not certified by the Finance Director. Additionally, the cash collection report related to cash receipt 5616 was not signed by the preparer.

- Per Ordinance 1987-25, the following rates were adopted:

  a) Jeeps, trucks, automobiles, motorcycles, scooters, phonographs, tape recorders, radios, television sets, stereos, walkman stereos, cassette recorders, cassette and video tapes, refrigerators, freezers, washing machines, air conditioners, and dryers are charged a property tax of 6% of import freight on board (FOB) price.

  b) Watches, clocks, perfumery, cosmetics, toiletries, pomades, powders, lipsticks, jewelry, rings, bracelets, necklaces, pins, decorative hair pieces, earrings, tie clips, and cuff links are charged a property tax of 12% of import FOB price.

  KALGOV has represented that a flat rate of 10% is used for the above items. However, we were not provided an Ordinance repealing the above rates or specifically repealing the above Ordinance 1987-25.

- Ordinance 2006-4, related to Business License Fees, was passed on December 11, 2006 but was not approved by the Republic of the Marshall Islands Ministry of Internal Affairs or a Cabinet minute. KALGOV continued to assess business license fees based on Ordinance 2004-8. No explanation was given as to why Ordinance 2006-4 was not approved.

- KALGOV charges $14 for alcohol drinking permits; however Ordinance 1988-40 indicates the amount should be $10. No ordinance was provided to support the $14 rate.

Finding No. 2007-6, Continued

Condition, Continued:

Our tests of $107,680 of cash receipts subsequent to September 30, 2007 noted the following:

- One item for $17,046 (collected on October 24, 2007, transaction ID 00272) for which a cash receipt could not be provided.
- Three items (CR#s 8302, 8361 and the missing CR item noted above), totaling $52,010, where the tax assessment form did not agree to the cash receipt by $442, $991 and $900, respectively.
- Four items (CR#s 8147, 8152, 8337 and 8338), totaling $13,113, where the tax assessment form and bill of lading could not be provided.
- One item (CR# 8259) for $500 where the bill of lading could not be provided.

Cause: The cause of the above condition is the lack of appropriate filing and maintaining of supporting documents and established control procedures over the cash receipting process.

Effect: The effect of the above condition is the possibility of understated revenue, unauthorized rates used, and misappropriation of cash.

Recommendation: We recommend that KALGOV develop and maintain procedures to require that collections are supported, approval of rates used are maintained, cash is deposited in a timely manner, and that collection reports are consistently approved by the Finance Director or an appropriate designate, and to require that sound control procedures are established and followed.

Prior Year Status: The lack of appropriate filing and maintaining of supporting documents and established control procedures over the cash receipting process was reported as a finding in the audits of KALGOV for the fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing and approval of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Compensated Absences

Finding No. 2007-7

Criteria: Per Rule XVII , "Leave Privileges", of the policy adopted by the Civil Service Commission, annual leave is to accumulate based on years of service (employees with one to three years of service, three through five years, and more than five years of service accrue four hours, six hours, and eight hours, respectively, for every two week pay period worked). Maximum annual leave accumulated cannot exceed 240 hours after calendar year end. For sick leave, employees accrue four hours for every 40 hours completed in each pay period with total accumulation not to exceed 960 hours. Additionally, an employee, upon normal or medical retirement, or his/her beneficiary, upon death, shall be paid fifty percent of the sick leave accumulated.

Condition: Management has represented that the above policy may no longer be in effect (that KALGOV now follows RepMar Public Service Commission Policy) but official amendments have not been provided.

KALGOV records annual and sick leave liabilities outside of its general ledger accounting system. Audit adjustments were proposed to reconcile annual leave and sick leave balances to general ledger control totals by $14,870 and $6,703, respectively.

We were not provided the annual leave schedule from the payroll accounting system as of calendar year January 15, 2007 to test compliance with the 240 hour limit. KALGOV does not monitor the 960 hour limit set for sick leave. The amount of sick leave in excess of the 960 hours maximum could not be determined.

Our tests of the recording of annual and sick leave noted the following:

- All employees accrue eight hours of annual leave per two week pay period despite the number of years of service.
- Certain employees continued to accrue annual and sick leave while they were using annual and sick leave hours.
- Certain employees did not accrue annual and sick leave hours and there was no documentation justifying the non-accrual.

Cause: The cause of the above condition is the lack of procedures to monitor and control annual and sick leave accruals.

Effect: The effect of the above condition is noncompliance with the annual and sick leave policy and potential malfeasance.

Recommendation: We recommend that management establish procedures to require that the adopted policies and all related amendments are filed and complied with.

Prior Year Status: Lack of established compensated absences procedures and compliance with adopted policies was reported as a finding in the audits of KALGOV for the fiscal years 2004 through 2006.

Finding No. 2007-7, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Receivables

Finding No. 2007-8

Criteria: KALGOV should establish receivable sub-ledgers for businesses, residences and non-profit organizations to require that revenue is assessed and collectible. Further, receivables should be assessed for collectability on a periodic basis with doubtful receivables included in an allowance for doubtful accounts.

Condition: KALGOV does not maintain an accounts receivable sub-ledger for customers who do not pay in full for property taxes, fines, and other statutory fees (e.g. garbage fees). Additionally, KALGOV does not monitor receivables, that are recorded in the general ledger, for collectability.

Cause: The cause of the above condition is that policies and procedures that would require accounts receivable sub-ledgers, their reconciliation to general ledger control totals and the periodic assessment of collectability has not been established.

Effect: The effect of the above condition is misstated receivables. An audit adjustment was proposed to record bad debts of $53,281. The adjustment included $38,244 from the Kwajalein Atoll Ports Authority and $500 from the City Manager.

Recommendation: We recommend that KALGOV establish policies and procedures that would require accounts receivable sub-ledgers that are reconciled to general ledger control totals and the periodic assessment of the collectability of receivables.

Prior Year Status: The lack of procedures over the set-up, reconciliation, and review of accounts receivable was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Liabilities

Finding No. 2007-9

Criteria: KALGOV should establish liability sub-ledgers that are periodically reconciled to general ledger control totals.

Condition: KALGOV does not maintain liability sub-ledgers.

Cause: The cause of the above condition is that policies and procedures that would require liability sub-ledgers and their reconciliation to general ledger control totals have not been established.

Effect: The effect of the above condition is misstated liability amounts. An audit adjustment was proposed to record $5,932 in unrecorded liabilities.

Recommendation: We recommend that KALGOV establish policies and procedures that would require liability sub-ledgers that are reconciled to general ledger control totals.

Prior Year Status: The lack of procedures over the set-up, reconciliation, and review of accounts payable was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Local Noncompliance

Finding No. 2007-10

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

Condition: A balanced owed of $371,893 as of September 30, 2006 was confirmed with RepMar during the fiscal year 2006 audit of KALGOV. RepMar later revised the balance owed as of September 30, 2006 to $2,733,422, with which KALGOV agreed. As such, fund balance/net assets beginning of year have been restated as of October 1, 2006. A balance owed of $2,740,509 was confirmed with RepMar as of September 30, 2007. An audit adjustment was proposed to reconcile the withholding taxes payable to the balance confirmed by RepMar.

Cause: The cause of the above condition is the lack of recording penalties and interest due to RepMar.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended.

Recommendation: We recommend that management comply with the Income Tax Act of 1989, as amended and require proper reconciliation of amounts due to RepMar.

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended, was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Local Noncompliance

Finding No. 2007-11

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 employer, under Sections 129 and 130, and 213 and 214, respectively, and pay into the Fund the contributions due.

In mid-2003, the court ordered KALGOV to pay MISSA $2.8 million for unpaid contributions from 1996 to 2000. In a post judgment agreement, all penalty charges were waived with the condition that KALGOV pay a fixed monthly amount to cover the delinquent amounts and keep current on its quarterly obligations.

MISSA has filed a civil action against KALGOV and on February 21, 2011 a subpoena was issued requiring KALGOV to produce documents.

Condition: We were not provided the agreement with MISSA and management has represented that monthly fixed payments have not been complied with. A balance owed of $5,536,278 was confirmed with MISSA and an audit adjustment to increase the liability to MISSA by $2,172,947 was proposed.

Cause: The cause of the above condition is the lack of appropriate filing of agreements with MISSA, and the lack of recording penalties and interest due to MISSA.

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

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 and require proper reconciliation of amounts owed to MISSA.

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 KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Contributions

Finding No. 2007-12

Criteria: Title to land and facilities used should be supported by land lease agreements and related market rental value should be assessed.

Condition: Management has represented that the land on which KALGOV'S facilities and equipment are located belong to the Iroij of Kwajalein Atoll. Additionally, management represents that KALGOV's main office building was originally constructed by the Kwajalein Atoll Development Authority. There are no land and facility lease agreements or deeds to property and building on file to verify ownership. As a result, market rental values related to these properties have not been assessed or recorded.

Cause: The cause of the above condition is the lack of procedures in place to require that land and building lease agreements are obtained or that deeds to title of property are maintained.

Effect: The effect of the above condition is the possibility of understated contributions and related expenditures.

Recommendation: We recommend that management establish procedures to require that land and building lease agreements are obtained and that deeds to title of property are maintained.

Prior Year Status: The lack of land lease agreements or deeds to title of property and the lack of market rental value assessment was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce proper filing of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Encumbrances

Finding No. 2007-13

Criteria: Encumbrance accounting should be utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

Condition: KALGOV does not encumber contracts or purchase commitments still open as of year-end.

Cause: The cause of the above condition is the lack of an encumbrance system.

Effect: The effect of the above condition is ineffective budgetary control.

Recommendation: We recommend that an encumbrance system be established for the remaining balances of contracts and other purchase commitments not yet expensed as of year-end.

Prior Year Status: The lack of an encumbrance system was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

General Journals

Finding No. 2007-14

Criteria: General journal entries should be reviewed and approved by management.

Condition: General journal entries are not used on a consistent basis and are not approved by management.

Cause: The cause of the above condition is the lack of policies and procedures regarding the use of general journal vouchers and their approval by management.

Effect: The effect of the above condition is that incorrect journal entries could be executed.

Recommendation: We recommend that general journal vouchers be subject to approval of management.

Prior Year Status: The lack of policies and procedures regarding the use of general journal vouchers and their approval by management was reported as a finding in the audits of KALGOV for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mario Viloria, Finance Director

Corrective Action: We accept this finding. We will enforce approval of all documents and transactions. Procedures will be established to effect resolution.

Proposed Completion Date: Ongoing

Unresolved Prior Year Findings
Year Ended September 30, 2007

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 through 20).