

**RONGELAP ATOLL LOCAL GOVERNMENT**

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

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**YEAR ENDED SEPTEMBER 30, 2003**

**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 James Matayoshi  
Rongelap Atoll Local Government  
Republic of the Marshall Islands:

We have audited the general purpose financial statements of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2003, and have issued our report thereon dated April 21, 2008. 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 RALGOV's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 RALGOV's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 17) as items 2003-1 through 2003-7.

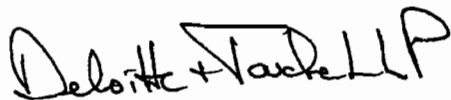
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial 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.

We also noted certain matters involving the internal control over financial reporting, which we have reported to management of RALGOV in a separate letter dated April 21, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RALGOV's general purpose 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 general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 17) as item 2003-8.

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

  
April 21, 2008

**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**

Mayor James Matayoshi  
Rongelap Atoll Local Government  
Republic of the Marshall Islands:

**Compliance**

We have audited the compliance of the Rongelap Atoll Local Government (RALGOV) 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, 2003. RALGOV'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 17). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of RALGOV's management. Our responsibility is to express an opinion on RALGOV'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 RALGOV'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 on RALGOV's compliance with those requirements.

As described in item 2003-8 in the accompanying Schedule of Findings and Questioned Costs, RALGOV did not comply with the requirement regarding reporting that is applicable to its one major federal program. Compliance with such requirement is necessary, in our opinion, for RALGOV to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, RALGOV 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, 2003.

### Internal Control Over Compliance

The management of RALGOV 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 RALGOV'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.

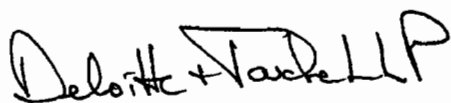
We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect RALGOV's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2003-8.

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, we consider item 2003-8 to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of RALGOV as of and for the year ended September 30, 2003, and have issued our report thereon dated April 21, 2008. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 5 and 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of RALGOV. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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



April 21, 2008

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards  
Compact of Free Association, Public Law 99-239  
Year Ended September 30, 2003

	<u>Total</u>	<u>Fund Balance</u>	<u>2003</u>	<u>Net</u>	<u>2003</u>	<u>Fund Balance</u>
	<u>Authorization</u>	<u>Beginning</u>	<u>Funds</u>	<u>Earnings</u>	<u>Funds</u>	<u>End of Year</u>
		<u>of Year</u>	<u>Received</u>	<u>on Funds</u>	<u>Expended</u>	
<u>U.S. Department of the Interior</u>						
<u>CFDA #15.875</u>						
Funds passed through the Republic of the Marshall Islands (RepMar):						
The Agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association	\$ 37,500,000	\$ 28,847,514	\$ -	\$ 3,730,350	\$ 2,567,154	\$ 30,010,710

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$30,010,710 remains invested in the Rongelap Claims Trust Fund, a nonexpendable trust fund of RALGOV. Funds expended during the year ended September 30, 2003, are represented by fund manager fees of \$167,154 and a transfer out to the Rongelap Local Distribution Authority of \$2,400,000 for distribution to the people of Rongelap based on an approved distribution scheme.

See accompanying notes to schedule of expenditures of federal awards.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards

U.S. Federal Grants

Year Ended September 30, 2003

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2002	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2003
<u>U.S. Department of Agriculture</u>					
Funds passed through RepMar:					
10.852	Commodity Assistance Program	\$ -	\$ 79,183	\$ 79,183	\$ -
	Total U.S. Department of Agriculture	<u>\$ -</u>	<u>\$ 79,183</u>	<u>\$ 79,183</u>	<u>\$ -</u>
<u>U.S. Department of the Interior</u>					
Funds passed through RepMar:					
15.875	Rongelap Atoll Tourism Promotion Project	\$ -	\$ -	\$ 17,834	\$ 17,834
	Total U.S. Department of the Interior	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,834</u>	<u>\$ 17,834</u>
<u>U.S. Department of Energy</u>					
Direct award:					
	Bioassay Facility	\$ -	\$ 32,500	\$ 50,000	\$ 17,500
	Environmental Monitoring Support Plan	-	36,519	36,519	-
	Total U.S. Department of Energy	<u>\$ -</u>	<u>\$ 69,019</u>	<u>\$ 86,519</u>	<u>\$ 17,500</u>
	<b>TOTAL U.S. FEDERAL GRANTS</b>	<u>\$ -</u>	<u>\$ 148,202</u>	<u>\$ 183,536</u>	<u>\$ 35,334</u>

See accompanying notes to schedule of expenditures of federal awards.

## **RONGELAP ATOLL LOCAL GOVERNMENT**

### **Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2003**

#### **(1) Organization**

The Rongelap Atoll Local Government (RALGOV) is a governmental entity governed by its own Constitution. All significant operations of RALGOV are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as RALGOV's cognizant agency for the Single Audit. RALGOV is the subrecipient of funds received through Section 177 of the Compact of Free Association from the Republic of the Marshall Islands (RepMar). These funds must be distributed in accordance with the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Marshall Islands, dated July 31, 1986. It has been determined these funds are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be expended in compliance with local laws and regulations and Compact intent.

#### **(2) Summary of Significant Accounting Policies**

##### **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RALGOV and is presented on the 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*.



**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2003

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

1. The Independent Auditors' Report on the general purpose financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. No instances of noncompliance considered material to the general purpose financial statements were disclosed by the audit.
4. One reportable condition in internal control over compliance with requirements applicable to the one major federal award program was identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed one finding required to be reported by OMB Circular A-133.
7. RALGOV's major program is as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Economic, Social and Political Development of the Territories and the Freely Associated States: Section 177 of the Compact of Free Association	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. RALGOV 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>Refer Page #</u>
2003-1-2	Payroll	9-10
2003-3	Purchases/Disbursements	11-12
2003-4	Journal Entries/Adjustments	13
2003-5	Fixed Assets	14
2003-6	Accounts Payable	15
2003-7	External Financial Reporting	16

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Cost</u>	<u>Refer Page #</u>
2003-8	Reporting	\$ -	17

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

#### Payroll

#### Finding No. 2003-1

Criteria: Payroll processing should be based upon internal control policies and procedures that ensure accuracy of information and authorization of transactions.

Condition: RALGOV does not monitor employee hours. There are no timesheets, timecards or any other means to report hours worked. Employees are paid a fixed eighty hours bi-weekly. Further, there are no policies governing sick and annual leave as these balances are also not monitored.

Cause: The cause of the above condition is the lack of established internal control policies and procedures over payroll processing.

Effect: The lack of internal control policies and procedures over payroll processing, specifically over employee work hours, sick leave and vacation leave may result in abuse or misuse of government funds.

Recommendation: We recommend that management establish internal control policies and procedures over payroll processing to ensure that accurate payroll information is processed and authorized.

Prior Year Status: The lack of established internal control policies and procedures over payroll processing was reported as a finding in the Single Audits of RALGOV for fiscal years 1998 through 2002.

#### Auditee Response and Corrective Action Plan:

Although there is no timesheet, RALGov assures that all the employees in the payroll are active. Majority of the employees are in Mejjatto serving as Teachers, Policemen, Social Services Assistants, Sailors and Maintenance personnel. Due to the location, there is difficulty in maintaining and transmitting of documents. Sick Leave and Vacation Leave are assumed used and are not provisioned for commutation.

Who: All employees except the elected councilmember

What: Policy on Time Report and Leaves

When: Effective July 1, 2008

RALGov will establish policies on Time Report and Leave effective July 1, 2008.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Payroll

Finding No. 2003-2

Criteria: Payroll disbursements should be supported by authorized personnel action forms. Voluntary employee allotment deductions should be supported by signed allotment authorizations.

Condition: Of twenty-five payroll disbursements tested, the following exceptions were noted:

1. Personnel actions forms for ten disbursements (check #s 20701, 20717, 21304, 21845, 22709, 22808, 23225, 23691, 23733 and 23972) were not available to support hourly rates paid.
2. Employee allotment authorizations for fourteen disbursements (check #s 20717, 20851, 21731, 21746, 21845, 22527, 22709, 22808, 23437, 23567, 23582, 23691, 23733 and 23972) were not available to support voluntary allotment deductions.

Cause: The cause of the above condition is the lack of established policies and procedures over the review and maintenance of payroll related documents.

Effect: The effect of the above condition is the possibility that payroll expenditures are misstated and that allotment deductions are unauthorized.

Recommendation: We recommend that management establish policies and procedures over review and maintenance of payroll related documents to ensure that payroll disbursements are accurate and allotment deductions are authorized.

Prior Year Status: The lack of established policies and procedures over review and maintenance of payroll related documents was reported as a finding in the Single Audits of RALGOV for fiscal years 1998 through 2002.

Auditee Response and Corrective Action Plan:

Personnel Action form for all of the employees has been completed as of this date.

Allotment Authorizations are now being filed intact. The allotments deducted from the employees are actually requested by the employees. RALGov does not just deduct allotment from employees without their authorization. All of our employees are watchful of their paychecks and do complain once a deduction is made from their payroll without their knowledge.

Who: Finance Department Compliance Officer

What: Personnel Action Form/ Allotment Forms/Deduction Authorization

When: Effective immediately

RALGov maintains all employees' Personnel Action Form as of this date. Written Allotment authorizations are now being maintained in individual employee file. RALGov will see to it that all Personnel Action Forms and Allotment Authorization files are intact. A Senior Accountant has been designated to be a Compliance Officer.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2003

#### Purchases/Disbursements

#### Finding No. 2003-3

Criteria: Disbursements from the Local Distribution Authority (LDA) should be made to the designated payee and be based on the number of eligible household members per the Quarterly Distribution Listing.

Condition: Of twenty-five disbursements to the people of Rongelap tested, the following exceptions were noted.

1. Fourteen disbursements (check #s 25817, 26697, 26734, 26783, 26955, 28065, 28,227, 28572, 28592, 28658, 29346, 29465, 29814 and 29992) were either remitted directly to financial institutions or private companies for payment of personal loans for which no allotment authorization was made available, or were received by individuals other than the designated payee. An approved assignment agreement was not available for review for those disbursements authorizing the assignment.
2. Three disbursements (check #s 26697, 26955 and 28065) showed no indication of the recipients signing as evidence of receipt of the checks.

Additionally, RALGOV still lacks a policy which excludes Rongelapese-born children who are later adopted by non-Marshallese citizens from the quarterly distributions.

Cause: The cause of the above condition is a lack of adequate controls over per capita distribution payments and the lack of an updated Quarterly Distribution Listing.

Effect: The effect of the above condition is the inability to determine whether the designated payee received per capita distribution payments or whether the per capita distribution payments were made in accordance with prescribed policies and procedures.

Recommendation: We recommend that management obtain written authorization and that such be kept on file before per capita distribution checks are released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge all disbursements received in writing. Furthermore, we recommend that management update the Quarterly Distribution Listing prior to the calculation and issuance of per capita distribution payments.

Prior Year Status: The lack of adequate controls over the disbursement of per capita distribution payments was reported as a finding in the Single Audits of RALGOV for fiscal years 1997 through 2002. The lack of an updated distribution list to ensure that per capita distribution payments are made in accordance with prescribed policies and procedures was reported as a finding in the Single Audits of RALGOV for fiscal year 2001 and 2002.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Purchases/Disbursements, Continued

Finding No. 2003-3, Continued

Auditee Response and Corrective Action Plan:

All allotments or payments of recipients' checks to financial institutions or individuals/relatives are authorized by the recipients either in writing, verbal or through radio communications. RALGov as much as possible is trying to document all those authorizations.

RALGov, as per policy, removes individual from Distribution Listing only upon death of that individual. Rongelapese adopted by non-Marshallese are still entitled to receive their share of the Distribution payments and RALGov believes that they should not be taken out from the listing.

Who: RALGov Finance

What: Policy on Check Releasing/Assignments

When: Effective immediately

Effective immediately, RALGov Finance is making sure all releases/assignments of checks to other than payee are documented. A compliance officer is designated to monitor this

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Journal Entries/Adjustments

Finding No. 2003-4

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Further, an independent review of journal vouchers should also occur.

Condition: Authorizations of journal entries and other adjustments during the year ended September 30, 2003 were not documented.

Cause: The cause of the above condition is the lack of policies and procedures over processing journal entries and adjustments.

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

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

Auditee Response and Corrective Action Plan:

The Journal Entries were not signed due to the medical leave and eventual resignation of the former City Manager. However, regularizing the signatures at the JVs was not done.

Who: Finance Department

What: Strict monitoring of counter signatures on Journal Entries

When: Effective immediately

RALGov has corrected this omission in the succeeding fiscal year. Finance Department will continue to strictly monitor the review and approval signatures at the Journal Entries.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Fixed Assets

Finding No. 2003-5

Criteria: Completed construction projects should be recorded at total final costs. Construction work in progress should be recorded in the correct period.

Condition: During the year ended September 30, 2003, the capitalized costs of completed projects did not agree with final costs. Furthermore, construction work in progress as of September 30, 2003 included fiscal year 2004 activities. Audit adjustments were proposed to correct the capitalized amounts and construction work in progress.

Cause: The cause of the above condition is the improper recording of completed projects.

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

Recommendation: We recommend that management ensure that completed construction projects are accurately recorded.

Auditee Response and Corrective Action Plan:

RALGov will monitor the budget and the actual costs of its projects.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Accounts Payable

Finding No. 2003-6

Criteria: Expenditures and the related liability should be recorded in the period incurred.

Condition: During the year ended September 30, 2003, RALGOV did not record expenditures totaling \$205,895. Audit adjustments were proposed to record this amount.

Cause: The cause of the above condition is the lack of review and reconciliation of liability accounts.

Effect: The effect of the above condition is the misstatement of expenditures and liability accounts.

Recommendation: We recommend that RALGOV reconcile liability accounts on a periodic basis.

Auditee Response and Corrective Action Plan:

Accrual for the progress bills of Fuel Farm Project and Whole Body Counting Building Project were not taken up in the books as of September 30, 2003. These were taken up when the bill were paid subsequently.

RALGov will take up accrual of projects at year ends.



**RONGELAP ATOLL LOCAL GOVERNMENT**

**Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003**

External Financial Reporting

Finding No. 2003-7

Criteria: The Appropriation Ordinance, as passed by the RALGOV Council, should be reflected within the budget module of the Micro Information Products (MIP) fund accounting system.

Condition: The Appropriation Ordinance for fiscal year 2003 was not incorporated within RALGOV's accounting system.

Cause: The cause of the above condition is the lack policies and procedures for including the Appropriation Ordinance within the MIP budget module.

Effect: The effect of the above condition is that RALGOV cannot ensure effective budgetary control and accountability over its available funds.

Recommendation: We recommend that management incorporate the Appropriation Ordinance, as passed by the RALGOV Council, into the accounting system to ensure effective budgetary control and accountability over available funds.

Prior Year Status: The lack of incorporation of the Appropriation Ordinance into the accounting system was reported as a finding in the Single Audits of RALGOV for fiscal years 1997 through 2002.

Auditee Response and Corrective Action Plan:

Though the budget was not incorporated into the accounting system, RALGov did monitor budget against actual expenses during the Fiscal Year.

RALGov sent its Accountants to MIP training that covers the budget module of the MIP. Afterwards, the budget ordinances were entered into the MIP from then on.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Reporting

U.S. Department of Interior/Compact of Free Association Title I, Article VII, Section 177

CFDA#15.875

Finding No. 2003-8

Criteria: According to *OMB Circular A-133*, Subpart C, Auditee responsibilities, Section 320, Single Audits shall be completed and data collection forms be submitted within the earlier of 30 days after receipt of auditors' report or nine months after the end of audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition: RALGOV is not in compliance with the single audit nine-month deadline.

Cause: The cause of the above condition was lack of adequate internal controls to ensure compliance with the financial reporting deadlines.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that RALGOV establish procedures to ensure compliance with A-133 reporting deadline.

Auditee Response and Corrective Action Plan:

RALGov had missed the deadline as prescribed in OMB Circular a-133, subpart C Section 320.

Who: RALGov Finance Department

What: Timely submission of Trial Balance and accompanying schedules

When: Effective immediately

RALGov will see to it that the deadline of submission of trial balances to audit will be met at all times. The addition of two other staffs at finance helps RALGov to process reports on a timely basis.

**RONGELAP ATOLL LOCAL GOVERNMENT**

**Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2003**

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, 2003:

Questioned costs of RALGOV, as previously reported:

Fiscal year 1995 Single Audit	\$ 1,200,000
Fiscal year 1996 Single Audit	<u>1,200,000</u>
	2,400,000
Less questioned costs resolved in fiscal year 2003	(1) <u>(2,400,000)</u>
Unresolved questioned costs of RALGOV at September 30, 2003	\$ <u>          -</u>

(1) OMB Circular A-133, Section .315(b)(4) – questioned costs resolved as RALGOV considers these findings are no longer valid as they were reported to federal agencies on October 14, 2003, which is in excess of the two year threshold as of the date of this report.

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 through 17).