

April 21, 2008

CONFIDENTIAL

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

Dear Mayor Matayoshi:

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) for the year ended September 30, 2004, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated April 21, 2008, we developed the following recommendations concerning certain matters related to RALGOV's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our principal recommendations are summarized below:

(1) Payroll

Of 25 payroll checks tested, we found two instances (check#'s 26113 and 26990) where income tax withholding was erroneously calculated due to noncompliance with the \$60 exemption provided by the RepMar Income Tax Act. We recommend that RALGOV comply with applicable tax laws.

(2) Distribution Checks/Disbursements

Of 25 distribution checks tested, we noted three instances where payees were not included in the distribution list used to calculate shares per recipient. These instances occurred due to an automatic system deletion, which was a system error, per management. The deletion caused errors in computation of shares per recipient. We recommend that management investigate the cause of this error and ensure that the distribution list is regularly reviewed and updated.

(3) Travel Advances

The travel and other advances account is not regularly reconciled due to absence of internal control policies and procedures. We recommend that RALGOV management establish adequate internal control policies and procedures to ensure that the travel and other advances account is periodically reconciled.

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(4) Capitalization Policy

RALGOV does not have a fixed asset capitalization policy. We recommend that management establish a formal fixed asset capitalization policy.

(5) Disbursements

A prepayment of \$40,000 from the Resettlement Trust Fund paid to a service contractor was not supported by sufficient documentation and justification of the advance payment. We recommend that management establish policies and procedures to govern prepayments and/or advance payments to contractors and employees.

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We have previously communicated certain matters noted during our audit of the financial statements of RALGOV for the year ended September 30, 2004, which we considered to be reportable conditions, in our report dated April 21, 2008.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours

