

**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, 2005**

**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 financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2005, which collectively comprise RALGOV's basic financial statements 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 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 financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 20) as items 2005-1 through 2005-5.

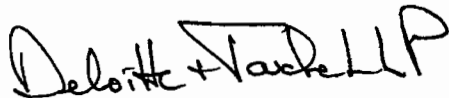
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being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

As part of obtaining reasonable assurance about whether RALGOV'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 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 is described in the accompanying Schedule of Findings and Questioned Costs as items 2005-6 through 2005-8.

We noted certain matters that we reported to management of RALGOV in a separate letter dated April 21, 2008.

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.

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

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, 2005. 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 20). 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 2005-8 in the accompanying Schedule of Findings and Questioned Costs, RALGOV did not comply with single audit reporting requirements that are applicable to its major federal programs. Compliance with such requirements is necessary for RALGOV to comply with the requirements applicable to its one major federal 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, 2005.

### Internal Control Over Compliance

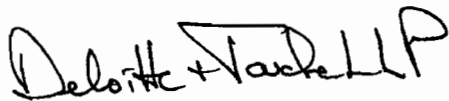
The management of RALGOV is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RALGOV's internal control over compliance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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We no noted matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of RALGOV as of and for the year ended September 30, 2005, and have issued our report thereon dated April 21, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise RALGOV's basic financial statements. 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 basic 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 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 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, 2005

<u>CFDA#</u>	<u>Agency/Program</u>	Prior Year Fund Carried Over October 1, 2004	Federal Cash Receipts and Adjustments	Net Earnings on Funds	Federal Expenditures	Available Funds September 30, 2005
	<u>U.S. Department of the Interior</u>					
	Fund passed through the Republic of the Marshall Islands:					
15.875	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	\$ 30,507,112	\$ -	\$ 3,498,396	\$ 2,335,708	\$ 31,669,800

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 \$31,669,800 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2005, are represented by fund manager fees of \$195,458 and a transfer out to the Rongelap Local Distribution Authority of \$2,140,250 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, 2005

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2004	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2005
<u>U.S. Department of Agriculture</u>					
Fund passed through the Republic of the Marshall Islands:					
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>					
Fund passed through the Republic of the Marshall Islands:					
15.875	Rongelap Atoll Tourism Promotion Project	\$ 8,124	\$ -	\$ -	\$ 8,124
15.875	Rongelap Atoll Teasibility Study for Strategic Conservation and Environment Master Plan	-	-	20,000	20,000
	Total U.S. Department of the Interior	<u>\$ 8,124</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 28,124</u>
<u>U.S. Department of Energy</u>					
Direct award:					
	Environmental Monitoring Support Plan	\$ -	\$ 22,210	\$ 50,038	\$ 27,828
	Total U.S. Department of Energy	<u>\$ -</u>	<u>\$ 22,210</u>	<u>\$ 50,038</u>	<u>\$ 27,828</u>
	<b>TOTAL U.S. FEDERAL GRANTS</b>	<u>\$ 8,124</u>	<u>\$ 101,393</u>	<u>\$ 149,221</u>	<u>\$ 55,952</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, 2005

### (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, 2005

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

1. The Independent Auditors' Report on the financial statements of the governmental activities and each major fund 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. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No 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 major federal award programs expressed a qualified opinion.
6. The audit disclosed a 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>
2005-1-2	Payroll	9-10
2005-3-5	Disbursements	12-15
2005-6-7	Local Noncompliance	17-18

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

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2005-8	Reporting Requirements	20

## **RONGELAP ATOLL LOCAL GOVERNMENT**

### **Schedule of Findings and Question Costs, Continued Year Ended September 30, 2005**

#### Payroll

##### Finding No. 2005-1

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

Condition: RALGOV does not monitor hours worked by employees. There are no timesheets, timecards or any other means to report hours worked. Employees are paid fix 80 hours bi-weekly. Further, there are no policies on sick leave and annual leave as these, too are not being 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 on employees work hours, sick leave or vacation leave may result to abuse and 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 properly 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 2004.

##### 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 Mejatto 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 Question Costs, Continued Year Ended September 30, 2005

#### Payroll

#### Finding No. 2005-2

Criteria: Employee salary disbursement should be based on pay rate authorized through personnel action forms and voluntary employee allotment deductions should be supported by signed allotment authorizations.

Condition: Of twenty five (25) payroll disbursements from the General Fund tested, the following exceptions were noted:

- 1) Personnel file folders was not made available for five (5) employees (check #s 29214, 29885, 31105, 31397, and 31578)
- 2) Personnel action forms for three (3) employees (check #s 28620, 30959, and 32059)
- 3) Employee allotment authorizations for ten (10) disbursements (check#s 28827, 29448, 30266, 30542, 30959, 31287, 31397, 31578, 32187, and 32508) were not made available to support voluntary allotment deductions
- 4) Deductions for voluntary allotments in five (5) payroll disbursements were different from amount in allotment authorization forms (check#s 29714, 29885, 30074, 31867 and 32626)
- 5) Pay rates are not specified in personnel action forms for three (3) payroll disbursements (check#s 29448, 30542, and 30825) while pay rates for two (2) payroll disbursements (check#s 29586 and 32626) did not match pay rates in personnel action forms

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 were misstated and that allotment deductions were 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 properly 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 2004.

**RONGELAP ATOLL LOCAL GOVERNMENT**

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

Payroll

Finding No. 2005-2, continued

Auditee Response and Corrective Action Plan:

RALGov is now ensuring completeness of the personnel action forms and allotment authorizations. As of this date, all Personnel Action forms have been completed and allotment authorizations are being filed intact.

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 Question Costs, Continued Year Ended September 30, 2005**

#### **Disbursements**

#### **Finding No. 2005-3**

**Criteria:** Disbursements should be supported by valid invoices, contracts, approved travel request form for travel related expenditures, and other relevant documentation.

**Condition:** Of total \$1,744,212 expenditures under the General Fund, one hundred one (101) items were tested and the following exceptions were noted:

- 1) Approved travel request forms for travel expenditures under check #s 29139 and 29140 were not made available to support disbursements. Further, no evidence of attendance at training/conferences such as travel reports and boarding passes were provided.
- 2) Vendor invoices or receipts for reimbursements to employees paid through check #s 31770 and 3128 were not available to support disbursements.
- 3) Death donations paid through check#s 29522, 31339, 28746, 28745, 28886 and 28884 were not supported by certificates as required by RALGOV.

**Cause:** The cause of the above condition is the lack of internal control policies and procedures over disbursements to ensure that payments are made only for properly supported expenditures.

**Effect:** The lack of internal control policies and procedures over processing of disbursements may result to misstatement of expenditures and misappropriation of local government funds.

**Recommendation:** We recommend that management establish internal control policies and procedures over processing of disbursements to ensure that payments are made only for properly supported expenditures

#### **Auditee Response and Corrective Action Plan:**

- (1) Travels mentioned in item 1 for the Chief Accountant and the clerk to attend MIP training in Honolulu are approved and documented. The participants have their certificates kept personally.
- (2) The vendor invoice questioned in check 31770 is the donation RALGov gave to the Mejatto Boy Scouts when they went to Honolulu Hawaii. The Scout Masters reported to RALGov the activities they had in the camping. Check 31218 was paid to the Education Executive Councilman for graduation awards to honor students. A copy of the program signed by the Mejatto School head, with the list of the student awardees and the corresponding amount each is entitled is attached to the check
- (3) Aids to the family of the deceased Rongelapese were given expeditiously due to the need of bereaved family. Death certificates are being asked to follow.

**RONGELAP ATOLL LOCAL GOVERNMENT**

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

Disbursements , Continued

Finding No. 2005-3, Continued

Auditee Response and Corrective Action Plan, Continued:

Who: Finance Department

What: Strict monitoring of support documents for disbursements

When: Always

RALGov is now strictly monitoring completeness of support documents prior to processing disbursements. A compliance officer is designated to monitor the completeness of documents.

Death Certificates will be replaced by the certification from among senior members of Rongelap Alab regarding the death of the subject of the aid.

## **RONGELAP ATOLL LOCAL GOVERNMENT**

### **Schedule of Findings and Question Costs, Continued Year Ended September 30, 2005**

#### Disbursements

##### Finding No. 2005-4

Criteria: Disbursements should be supported by valid invoices, contracts, approved travel request form for travel related expenditures, and other relevant documentation.

Condition: Of total \$1,949,919 expenditures under the Resettlement Projects Fund, twenty two (22) items were tested. We noted three (3) instances of disbursements (check#s 3843, 3852 and 3892) where invoices, agreements or other relevant documentation were not made available to support the payments.

Cause: The cause of the above condition is the lack of internal control policies and procedures over disbursements to ensure that payments are made only for properly supported expenditures.

Effect: The lack of internal control policies and procedures over processing of disbursements may result to misstatement of expenditures and misappropriation of local government funds.

Recommendation: We recommend that management establish internal control policies and procedures over processing of disbursements to ensure that payments are made only for properly supported expenditures

#### Auditee Response and Corrective Action Plan:

One of the three exceptions noted has invoice available on file and has been showed to the auditor. The other one is for the tribute to one of the Iroijs. The other one is for matching the grant-in-kind of the CMI Land Grant program as stipulated in the MOU.

RALGov is now strictly monitoring completeness of support documents prior to processing disbursements. A compliance officer is designated to monitor the completeness of documents.

## RONGELAP ATOLL LOCAL GOVERNMENT

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

#### Disbursements

#### Finding No. 2005-5

**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 total expenditure of \$2,112,692 under the Local Distribution Authority Fund, sixty three (63) items were tested and the following exceptions were noted:

1. Nine (9) disbursements (check #s 38672, 39500, 41265, 42109, 42111, 42112, 42956, 43810, and 43804) were either remitted directly to financial institutions or companies for payment of loan or were received by individuals other than the designated payee. An approved assignment agreement to evidence authorization was not available for review.
2. A disbursement (check# 42110) was made payable to a person other than recipient but no evidence of authorization or assignment was made available for review.
3. Four (4) disbursements (check #s 42198, 42239, 42795 and 42266) 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 the lack of adequate controls over the 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 actually received their 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 can be 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 2004. 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 Audit of RALGOV for fiscal year 2001 and 2004.



**RONGELAP ATOLL LOCAL GOVERNMENT**

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

Disbursements, Continued

Finding No. 2005-5, 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: The Chief Accountant

What: Strict monitoring and filing of allotment authorizations and power of attorneys.

When: Always

The Chief Accountant was instructed to strictly ensure the completeness of the file of Authorization for pick up, allotment assignment and signature at the receipt of checks.

## RONGELAP ATOLL LOCAL GOVERNMENT

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

#### Procurement/Disbursement

#### Finding No. 2005-6

Criteria: RepMar's Procurement code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for a simply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of the \$1,232,810 non-payroll expenditures, totaling \$505,561, were tested. We noted that expenditures for \$16,969 paid through check # 01014 under a \$74,199 contract with a vendor had no evidence of competitive sealed bidding as required by Section 124.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement to ensure compliance with RepMar Procurement Code.

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend RALGOV management to ensure supporting documentation is adequate to comply with RepMar Procurement Code. Specifically, supporting documentation should indicate the history of procurement, including rationale for and method of procurement, the contractor selection or rejection, and the basis for contract price.

#### Auditee Response and Corrective Action Plan:

The project referred to is the Piggery Project, the cost of which was negotiated with the contractor. This is a sole-sourced contract wherein the award to the contractor is justifiable given several factors like the contractor's logistical capacity, reputation with donor agency, willingness to negotiate a price advantageous to RALGov. A written justification acknowledged by the Executive Council members is available for this project.

RALGov will continue to adhere to RMI procurement act.

## **RONGELAP ATOLL LOCAL GOVERNMENT**

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

#### Local Noncompliance

##### Finding No. 2005-7

Criteria: Financial Management Act of 1990 Section 147 states that checks on account of contracts shall only be made after presentation of certification that work has been performed or goods has been received as specified in contracts.

Condition: Disbursement of \$320,000 from Resettlement Trust Fund representing prepayments to a service contractors were paid prior to performance of service. Further, prepayment was not adequately supported by documentation of authorization and justification for advance payment.

Cause: The cause of the above condition is the lack of policies and procedures governing prepayments or advances to contractors and employees.

Effect: The effect of the above condition is potential unauthorized disbursements of public funds.

Recommendation: We recommend that management establish internal control policies and procedures to govern prepayments or advances to contractors and employees.

#### Auditee Response and Corrective Action Plan:

**Who:** The Office of the City Manager will manage and monitor the implementation of these policies and procedures.

**What:** RALGov will establish internal control policies and procedures to govern prepayments or advances to contractors and employees.

**When:** RALGov staff will establish draft policy and procedures for consideration by the Executive Committee and then the full Council. These policies and procedures are expected to be implemented this fiscal year.

As part of its on-going local government institutional capacity building program, RALGov is reviewing its procurement policies and procedures. In addition to other procurement policies that may be developed based on advice of audit professionals, the following procurement policies are hereby adopted to address recommendations for improvement of RALGov practices at this time:

**1. Salary and Fee Advances.** In the past RALGov has made advances of salary or fees to RALGov staff or providers of services. This practice has been allowed on a limited discretionary basis in consideration of special circumstances, including compassionate reasons. In all cases the services provider concerned has provided services paid for in compliance with all contractual obligations and in a fully manner satisfactory to RALGov, so there has been no detriment to the local government. However, on advice of procurement experts RALGov will not consider requests for payment of any advances for construction contracts to avoid risk of loss in the event such a service provider became unable to perform services as intended. Advances to employees will be considered only under extenuating circumstances and for amounts no greater than one pay period. For

## **RONGELAP ATOLL LOCAL GOVERNMENT**

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

### Local Noncompliance, Continued

#### Finding No. 2005-7, Continued

##### Auditee Response and Corrective Action Plan, Continued:

professional services of attorneys, however, RALGov will continue to follow generally accepted practice of paying retainer fees, as are the other nuclear-affected atolls.

**2. Documentation of Services.** RALGov has retained professional consultants, advisors and counsel, who have provided services under close supervision of local government officials. Most professionals hired by RALGov are “solo practitioners” who keep costs low by not maintaining administrative staffs, so contracting and procurement procedures have been kept as simple as possible to promote efficiency. RALGov has documented and been satisfied by the work product and results obtained from services provided. However, in addition to review of the performance of such contractors by RALGov in public as well as Executive Committee and Council meetings, it has been recommended and is hereby adopted as RALGov procurement policy that each such service provider shall prepare and submit a monthly activity report to provide administrative documentation to support payments for services rendered. This will require additional administrative work for RALGov staff and contractors, but appears necessary to document services provided to RALGov by its professional contractors. As is normal practice for attorneys, any unused retainer fees will be returned to RALGov in case the attorney’s services are terminated before the contract end date.

**RONGELAP ATOLL LOCAL GOVERNMENT**

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

Reporting

CFDA#15.875 U.S. Department of Interior/Compact of Free Association Title I, Article VII, Section 177

Finding No. 2005-8

Criteria: According to OMB Circular A-133, Subpart C, Auditee Responsibilities, Section 320, single audits shall be completed and data collection form 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 that financial reporting deadlines are complied with.

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.

RALGov will see to it that the deadline of submission of trial balances to audit will be met at all times.

**RONGELAP ATOLL LOCAL GOVERNMENT**

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

Questioned Costs

There are no prior year questioned costs that were unresolved at September 30, 2005.

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 20).