

RONGELAP ATOLL LOCAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2006

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, 2006, 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 17) as items 2006-1 through 2006-3.

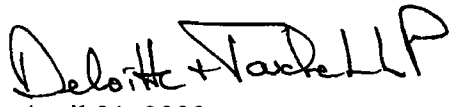
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-4 through 2006-7.

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.


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, 2006. 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 items 2006-6 and 2006-7 in the accompanying Schedule of Findings and Questioned Costs, RALGOV did not comply with requirements regarding procurement and suspension and debarment, and reporting that are applicable to its one major federal program. Compliance 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 proceeding 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, 2006.

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.

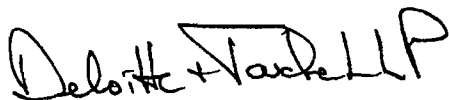
We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect RALGOV's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-6 and 2006-7.

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 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 material weaknesses. However, of the reportable conditions described above, we consider item 2006-6 to be a material weakness.

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, 2006, 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, 2006

<u>CFDA#</u>	<u>Agency/Program</u>	Prior Year			Available Funds September 30, 2006
		Fund Carried Over October 1, 2005	Federal Cash Receipts and Adjustments	Net Earnings on Funds	
	<u>U.S. Department of the Interior</u>				
	Funds 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	\$ 31,669,800	\$ -	\$ 2,211,293	\$ 2,279,875
					\$ 31,601,218

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 \$31,601,218 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2006, are represented by fund manager fees of \$196,275 and a transfer out to the Rongelap Local Distribution Authority of \$2,083,600 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, 2006

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2005	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2006
	<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
	Rongelap Atoll Teasibility Study for Strategic				
15.875	Conservation and Environment Master Plan	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
	Direct award:				
15.875	Rongelap Visitors Compound Project	<u>-</u>	<u>157,500</u>	<u>295,892</u>	<u>138,392</u>
	Total U.S. Department of the Interior	<u>\$ 28,124</u>	<u>\$ 157,500</u>	<u>\$ 295,892</u>	<u>\$ 166,516</u>
	<u>U.S. Department of Energy</u>				
	Direct award:				
	Environmental Monitoring Support Plan	\$ 27,828	\$ 61,930	\$ 41,073	\$ 6,971
	Total U.S. Department of Energy	<u>\$ 27,828</u>	<u>\$ 61,930</u>	<u>\$ 41,073</u>	<u>\$ 6,971</u>
	TOTAL U.S. FEDERAL GRANTS	<u>\$ 55,952</u>	<u>\$ 298,613</u>	<u>\$ 416,148</u>	<u>\$ 173,487</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, 2006

(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, 2006

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. 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 findings 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>
2006-1	Payroll	9
2006-2	Purchases/Disbursements	10
2006-3	Disbursements	11
2006-4-5	Local Noncompliance	12-14

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2006-6	Procurement and Suspension and Debarment	\$ 295,892	15
2006-7	Reporting	\$ -	17

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Payroll

Finding No. 2006-1

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 a fixed 80 hours bi-weekly. Further, there are no policies governing sick or annual leave.

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

Effect: The lack of internal control policies and procedures over payroll processing, specifically governing employee work hours, sick leave or 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.

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 2005.

Auditee Response and Corrective Action Plan: Although there is no timesheet, RALGov assures that all 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.

What: Policy on Time Reports and Leaves

When: Effective July 1, 2008

Who: All employees except the elected and honorary (alabs) council members

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Purchases/Disbursements

Finding No. 2006-2

Criteria: Disbursements should be supported by valid invoices, contracts, approved travel request forms, and other relevant documentation.

Condition: Of seventy one (71) check vouchers examined, the following exceptions were noted:

- 1) Vendor invoices for checks # 33068, 34747, and 35254 were not locatable.
- 2) Death donations paid through checks# 33069, 33193, and 34376 were not supported by certificates as required by RALGOV policy.

Cause: The cause of the above condition is an apparent lack of internal control policies and procedures over disbursements.

Effect: The lack of internal control policies and procedures over processing of disbursements may result in a misstatement of expenditures or in a misappropriation of funds.

Recommendation: We recommend that management establish internal control policies and procedures over the processing of disbursements.

Auditee Response and Corrective Action Plan:

- 1) Check 33068 was for two units of desktop for the Finance Office that were sighted during the auditors' field work. Only quotations however were available as support because the invoice was lost in transit. CK 34747 was paid to the Social Services Executive Councilman for the Mejatto Liberation Day cash prizes. CK34376 was paid to the Education Executive Councilman for graduation awards to honor students. No possible invoices could be provided from these two disbursements as these were cash prizes awarded to different recipients. There is no bank in Mejatto to cash checks if checks were to be paid to individual recipients. Completeness of reports, however, is the most that RALGOV could require from the payees of any such checks. For CK34747, a report from the Executive Councilman was attached to the voucher, while for CK34376, a graduation program with the list of awardees was attached, albeit not clear owing to photocopying machine breakdown.
- 2) Aids to the family of the deceased Rongelapese were given expeditiously due to the need of respective bereaved families. Death certificates were being asked for to follow.

What: Strict monitoring of support documents for disbursements

When: Always

Who: Finance Department

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 Alabs regarding the death of the subject of the aid.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Disbursements

Finding No. 2006-3

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

Condition: Of one hundred forty four (144) disbursements to the people of Rongelap tested, twenty (20) disbursements paid under the following check numbers were either remitted directly to financial institutions or to companies or were received by individuals other than the designated payee without an approved assignment agreement.

Check#'s 45571, 45628, 46800, 46825, 46907, 47084, 47132, 47198, 47242, 47304, 47379, 47401, 47438, 47609, 49213, 50029, 50731, 51647, 51651, and 51752

Additionally, RALGOV does not have 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 potential 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 a potential inability to determine whether the designated payees actually received per capital distribution payments or whether the per capital distribution payments were executed in accordance with prescribed policies and procedures.

Recommendation: We recommend that management obtain written authorization and that such be kept on file before per capital distribution checks are released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge receipt of the disbursement in writing. Furthermore, we recommend that management update the Quarterly Distribution Listing prior to calculation and issuance of per capital 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 2005. 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 2005.

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 has been trying to document all these authorizations.

RALGov, as per policy, removes individuals 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.

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

When: Always

Who: The Chief Accountant

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-4

Criteria: According to Section 7.2 (2) of the Claims Trust Fund (the fund) Agreement, the trustee shall retain and add to the corpus of the Trust not less than 30% but not more than 85% of the net income of the Fund and pay to the Local Distribution Authority (LDA) for distribution to people of Rongelap the balance of the net income, at least annually.

Condition: During fiscal year 2006, the LDA drew down \$2,083,600 from the Claims Trust Fund for distribution. The draw down exceeded the allowable amount by \$673,087.

Cause: The cause the above condition is potential inadequate internal control policies and procedures to ensure compliance with the condition.

Effect: The effect of the above condition is potential noncompliance with Section 7.2 (2) of the Claims Trust Agreement.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure compliance with provisions of the Claim Trust Fund Agreement.

Auditee Response and Corrective Action Plan:

What: RALGov will establish adequate internal control policies and procedures to ensure compliance with the provision of the Claims Trust Fund Agreement

When: RALGov will establish draft policies 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 (FY2008).

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-5

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. Further, according to Local Government Act Section 118 (1), no money shall be expended unless appropriated by Ordinance for the purpose or for the purpose for which it is to be expended.

Condition: Disbursements aggregating to \$160,000 from Resettlement Trust Fund representing prepayments to a service contractor were paid prior to performance of service. Further, prepayment was not adequately supported by documentation of authorization and justification for advance payment. In addition, of the aforementioned disbursements, \$70,000 was expended prior to approval of the Appropriation Ordinance that authorizes such disbursement.

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:

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

When: RALGov will establish draft policies 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.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Local Noncompliance, Continued

Finding No. 2006-5, Continued

3. **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 Questioned Costs, Continued
Year Ended September 30, 2006**

Procurement and Suspension and Debarment – All Federal Programs

U.S. Department of the Interior – Compact of Free Association, CFDA# 15.875

Finding No. 2006-6

Criteria: The Common Rule states that when procuring property and services under a grant, a state will follow the same policies and procedures it uses for procurement from its non-federal funds.

RepMar's Procurement Code Section applies to RALGov per Section 106 (3), being a political subdivision of RepMar. The 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.

According to Section 106 (3) of RepMar's Procurement Code, the Procurement Code applies to all political subdivisions including Local Government Councils.

Condition: Of a total of \$341,892 of federal award expenditures during the year, expenditures relating to a contract with a vendor for the construction of bungalows at the Rongelap Tourism Compound of \$350,000, of which \$295,892 was funded by federal funds, and no evidence of competitive sealed bidding was noted. As supporting documentation was not maintained indicating the history of the procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the purchase price, questioned costs of \$295,892 are reported.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

**Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006**

Procurement and Suspension and Debarment – All Federal Programs, Continued

U.S. Department of Interior – Compact of Free Association, CFDA# 15.875, Continued

Finding No. 2006-6, Continued

Recommendation: We recommend that RALGov ensure supporting documentation is adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of a procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: A written justification by the Executive Council members is available for this project. This was a sole-sourced contract. The project was awarded to the contractor upon consideration of the fact that he had built the same type of bungalows for his own company, giving him comparative advantage over others when it comes to reliability of contacting suppliers from Indonesia and the US. Further, the contractor offered a reasonable contract amount and he has a proven track record of keeping up with contracts.

RALGov will continue to adhere to RMI procurement act.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Reporting

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

Finding No. 2006-7

Criteria: According to OMB Circular A-133, Subpart C, Auditee responsibilities. Section 320, single audits shall be completed and data collection forms submitted within the earlier of 30 days after receipt of the auditors' report or nine months after the end of the 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 is lack of adequate controls to ensure that financial reporting deadlines are met.

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 deadlines.

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, 2006**

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, 2006:

Questioned costs of RALGOV, as previously reported	\$ -
Questioned costs for fiscal year 2006 Single Audit	<u>295,892</u>
Unresolved questioned costs of RALGOV at September 30, 2006	\$ <u>295,892</u>

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).