

**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, 2007**

**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, 2007, and have issued our report thereon dated April 22, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 14) as items 2007-1 through 2007-3 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

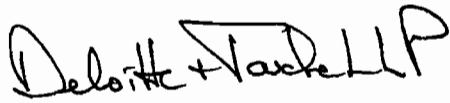
#### Compliance and Other Matters

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 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 as item 2007-4.

We noted certain matters that we reported to management of RALGOV in a separate letter dated April 22, 2008.

RALGOV's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit RALGOV's response and, accordingly, we express no opinion on it.

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

  
April 22, 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, 2007. 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 14). 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.

In our opinion, 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, 2007.

### **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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

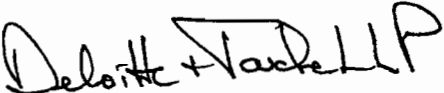
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### 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, 2007, and have issued our report thereon dated April 22, 2008. Our audit was performed for the purpose of forming our opinions 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 management, the Council, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

  
April 22, 2008

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards  
Compact of Free Association, Public Law 99-239  
Year Ended September 30, 2007

CFDA#	Agency/Program	Prior Year			Available Funds September 30, 2007
		Fund Carried Over October 1, 2006	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	\$ 31,601,218	\$ -	\$ 4,539,056	\$ 2,873,779
					\$ 33,266,495

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 \$33,266,495 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2007, are represented by fund manager fees of \$210,879 and a transfer out to the Rongelap Local Distribution Authority of \$2,662,900 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, 2007

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2006	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2007
<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	\$ 14,000	\$ -	\$ (5,876)
	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>138,392</u>	<u>-</u>	<u>-</u>	<u>138,392</u>
	Total U.S. Department of the Interior	<u>\$ 166,516</u>	<u>\$ 14,000</u>	<u>\$ -</u>	<u>\$ 152,516</u>
<u>U.S. Department of Energy</u>					
Direct award:					
	Environmental Monitoring Support Plan	\$ 6,971	\$ 28,157	\$ 33,755	\$ 12,569
	Total U.S. Department of Energy	<u>\$ 6,971</u>	<u>\$ 28,157</u>	<u>\$ 33,755</u>	<u>\$ 12,569</u>
	<b>TOTAL U.S. FEDERAL GRANTS</b>	<u>\$ 173,487</u>	<u>\$ 121,340</u>	<u>\$ 112,938</u>	<u>\$ 165,085</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, 2007

### (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, 2007

**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. Significant deficiencies in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. One instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No significant deficiencies 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 an unqualified opinion.
6. The audit disclosed no 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>
2007-1	Payroll	9
2007-2 - 3	Disbursements	10 - 12
2007-4	Local Noncompliance	13

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

No federal award findings are reported for the year ended September 30, 2007.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

#### Payroll

##### Finding No. 2007-1

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 2006.

##### 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 report and leaves.

When: Effective July 1, 2008.

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

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, 2007

Disbursements

Finding No. 2007-2

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

Condition: Of seventy one (92) check vouchers examined, we noted two (2) instances paid through check #'s 5278 and 37364, wherein travel authorization and travel reports were missing from file. Further, we noted that a fund transfer amounting to \$100,000 from the Resettlement Trust Fund to a service contractor was not supported by an authorization letter from designated signatories.

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:

Check 5278 has an accompanying travel authorization. Both checks don't have travel reports as RALGOV does not require such reports from the individuals traveling. On the \$100,000 payment to a service contractor, there may not be a written approval by the Mayor, but the contract for the service contractor had already been signed prior to the request of the transfer. The Mayor gave an express verbal approval to the fund managers, and the service contractor only confirmed such approval by making the request in writing directly from his end (the service contractor) to the fund managers. As an alternative control procedures, RALGOV Finance monitors these transfers and sees to it that they are made within the approved contract with the aid of the Trust Fund statements that come in monthly.

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.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007

#### Disbursements

#### Finding No. 2007-3

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 and one (101) disbursements to the people of Rongelap tested, the following exceptions were noted.

1. Four (4) disbursements (check #s 55026, 55,035, 56071, and 58512) remitted directly to a financial institution for payment of personal was not supported by assignment agreement and allotment authorization.
2. Twenty seven (27) disbursements (check #s 52765, 53327, 53710, 53853, 53885, 53411, 53567, 53879, 53990, 54013, 54025, 54034, 54154, 54166, 54335, 54541, 54694, 55016, 55465, 56961, 57053, 57220, 57275, 57328, 57629, 58513 and 55249, ) showed no indication of the recipients signing as evidence of receipt of the checks.

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 2006. 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 2006.

## **RONGELAP ATOLL LOCAL GOVERNMENT**

### **Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007**

#### Disbursements, Continued

#### Finding No. 2007-3, 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 has been trying to document all these authorizations. Cancelled checks were made available for the twenty seven (27) checks that showed no indication of recipients signing.

RALGOV, as a 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.

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, 2007

#### Local Noncompliance

##### Finding No. 2007-4

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 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.

Prior Year Status: The lack of policies and procedures governing prepayments or advances to contractors and employees was reported as a finding in the Single Audits for fiscal year 2004 through 2006.

#### 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 staff will establish draft copy 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 polices 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:

## **RONGELAP ATOLL LOCAL GOVERNMENT**

### **Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2007**

#### Local Noncompliance, Continued

#### Finding No. 2007-4, Continued

##### 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 professional services of attorneys, however, RALGOV will continued 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 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**

**Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2007**

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, 2007:

Questioned costs of RALGOV, as previously reported	\$ 295,892
Questioned costs for fiscal year 2007 Single Audit	<u>          -</u>
Unresolved questioned costs of RALGOV at September 30, 2007	\$ <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 14).