

November 14, 2008

CONFIDENTIAL

Mayor John Kaiko  
Utrik Atoll Local Government  
Republic of the Marshall Islands

Dear Mayor Kaiko:

In planning and performing our audit of the combined balance sheet for all fund types and account groups of the Utrik Atoll Local Government (UALGOV) as of September 30, 2003, on which we have issued our report dated November 14, 2008, and which report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements of all fund types for the year ended September 30, 2003, we developed the following recommendations concerning certain matters related to UALGOV's internal control and certain observations and recommendations on other accounting, administrative, and operating matters. Our principal recommendations are summarized below:

(1) Land Compensation Per Capita Distribution

The UALGOV Council authorized the distribution of \$500,000 for land compensation to the people of Utrik in accordance with Section 177 of the Compact of Free Association and the Fiscal Year 2003 Appropriation Ordinance Act. During fiscal year 2003, a total of \$515,646 was actually distributed; however, management was unable to explain the reason for the variance. We recommend that management ensure that actual distributions are based on authorized amounts and that distributions exceeding authorized amounts be formally documented through Council minutes.

(2) Distributions and Accounts Payable

The Local Distribution Authority (LDA) Fund currently reflects distributions payable of \$52,619 that relate to stale-dated checks for distributions made in previous fiscal years. We recommend that management scrutinize and investigate these stale-dated checks to determine the validity of distributions payable. Furthermore, we recommend that management perform a reconciliation of the distribution payable account on a quarterly basis.

As of September 30, 2003, management wrote-off \$33,214 of the \$52,619 to correct the balance for items for which validity could not be determined.

(3) Accounting and Internal Control Policies and Procedures

There is no written accounting and internal control policies and procedures manual to govern the financial reporting process and other business cycles (expenditures, revenues and payroll). We recommend that management consider formally documenting accounting and internal control policies and procedures over financial reporting and other significant business cycles.

(4) Segregation of Duties

There appears to be lack of segregation of duties. The fiscal officer performs conflicting duties, from initiation to approval of transactions. The fiscal officer is a check signatory and performs bank reconciliation, enters journal entries and posts such to the general ledger. Due to this lack of segregation of duties, we recommend that management consider independent verification of transactions initiated and recorded by the fiscal officer.

(5) Council Resolutions and/or Ordinances

We were not able to obtain a complete set of signed Council Resolution and Ordinances pertaining to 2003 and subsequent years as such could not be located. We recommend that management ensure that council resolutions and ordinances are maintained intact on file to support authorizations and decisions of the Council.

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We have previously communicated certain matters noted during our audit of the combined balance sheet for all fund types and account groups of UALGOV as of September 30, 2003, which we considered to be reportable conditions, in our report dated November 14, 2008.

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

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

Very truly yours,

