

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2016

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Her Excellency Dr. Hilda C. Heine
President
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated June 28, 2017. Our report includes emphasis-of-matter paragraphs concerning implementation of new accounting standards, collectability of federal grants receivable, social security obligations and a debt guarantee.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Marshall Islands Judiciary Fund, the Marshall Islands Social Security Administration, and the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RepMar's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-004 and 2016-011 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 to be significant deficiencies.

Compliance and Other Matters

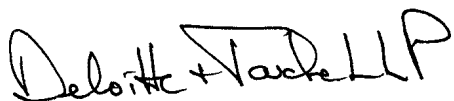
As part of obtaining reasonable assurance about whether RepMar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2016-006, 2016-010 and 2016-012.

RepMar's Responses to Findings

RepMar's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. RepMar's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 28, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Her Excellency Dr. Hilda C. Heine
President
Republic of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited the Republic of the Marshall Islands' (RepMar's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2016. RepMar's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in note 3 to the Schedule of Expenditures of Federal Awards, RepMar's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2016. Our audit, described below, did not include the operations of the entities identified in note 3 as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (the Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of RepMar's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 RepMar'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 on compliance for major federal programs. However, our audit does not provide a legal determination of RepMar's compliance.



Basis for Qualified Opinion on Each Major Federal Program

As described in Findings 2016-002 through 2016-004 and 2016-007 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-002	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Cash Management
2016-004	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2016-007	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Reporting
2016-003	84.027	Special Education – Grants to States	Cash Management
2016-004	84.027	Special Education – Grants to States	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to each of its major federal programs.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, RepMar complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-005, 2016-006, 2016-008 and 2016-009 as follows:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-001	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Allowable Costs/Cost Principles
2016-005	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Period of Availability of Federal Funds; Period of Performance
2016-006	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment
2016-008	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Subrecipient Monitoring
2016-009	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Special Tests and Provisions
2016-001	84.027	Special Education – Grants to States	Allowable Costs/Cost Principles

Our opinion on each major federal program is not modified with respect to these matters.

RepMar’s response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. RepMar’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RepMar's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 RepMar's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 through 2016-004 and 2016-007 to be material weaknesses.

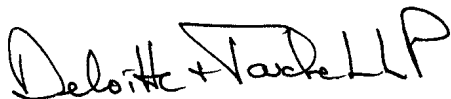
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-005, 2016-006, 2016-008 and 2016-009 to be significant deficiencies.

RepMar's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. RepMar's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements. We issued our report thereon dated June 28, 2017, which contained unmodified opinions on those financial statements and included emphasis-of-matter paragraphs concerning implementation of new accounting standards, collectability of federal grants receivable, social security obligations and a debt guarantee. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

June 28, 2017

REPUBLIC OF THE MARSHALL ISLANDS

Summary Schedule of Expenditures of Federal Awards, By Grantor
Year Ended September 30, 2016

<u>Agency</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce	\$ 518,247
U.S. Department of Agriculture	543,354
U.S. Department of the Interior	56,450,958
U.S. Department of Education	1,673,876
U.S. Department of Health and Human Services	5,734,447
U.S. Department of Homeland Security	55,825
	<u>\$ 64,976,707</u>

Note: All awards are received direct from the Federal Agency.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
GENERAL FUND AND REIMBURSABLE FUND:		
<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects	\$ 518,247
U.S. FEDERAL GRANTS FUND:		
<u>U.S. Department of Agriculture:</u>		
10.567	Food Distribution Program on Indian Reservations	\$ 411,479
10.582	Fresh Fruit and Vegetable Program	131,875
	Total U.S. Department of Agriculture	<u>543,354</u>
<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	1,298,206
	National Broadcaster Radio V7AB Upgrade Project	29,567
	Register of Persons Improvement Project	12,979
	Kwajalein Atoll Sustainable Food Security Program	50,000
	Reservoir Lining and Cover Project	60,000
	Confined Spaces Safety Project	12,800
	Kili and Ejit Climate Change Resilience Development	45,305
	Ministry of Finance IT Improvements Project	35,365
	Office of the Auditor General Grants	90,025
	Storm Sewer Project	1,642
	Sub-total CFDA # 15.875	1,635,889
15.904	Historic Preservation Fund Grants-In-Aid	197,187
	Total U.S. Department of the Interior	<u>1,833,076</u>
<u>U.S. Department of Education:</u>		
84.027	Special Education-Grants to States	<u>1,673,876</u>
<u>U.S. Department of Health and Human Services:</u>		
93.074	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements	55,219
93.110	Maternal and Child Health Federal Consolidated Programs	15,650
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	491,920
93.127	Emergency Medical Services for Children	71,104
93.217	Family Planning-Services	89,023
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Health Centers)	995,320
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,459,154
93.268	Immunization Cooperative Agreements	908,217
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	186,948
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Diseases and Emerging Infections Program Cooperative Agreements	12,332
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds	47,124
93.817	Hospital Preparedness Program Ebola Preparedness and Response Activities	65,896
93.889	National Bioterrorism Hospital Preparedness Program	569,692
93.917	HIV Care Formula Grants	15,141
93.945	Assistance Programs for Chronic Disease Prevention and Control	219,810
93.958	Block Grant for Community Mental Health Services	53,806
93.959	Block Grants for Prevention and Treatment of Substance Abuse	339,925
93.994	Maternal and Child Health Services Block Grant to the States	138,166
	Total U.S. Department of Health and Human Services	<u>5,734,447</u>
<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants	55,825
	TOTAL U.S. FEDERAL GRANTS FUND	\$ <u>9,840,578</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
COMPACT SECTOR GRANTS FUND:			
	<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants:		
	Section 211(a)(1) Education Sector	\$ 1,517,212	\$ 11,851,677
	Supplemental Education Grant	396,751	5,308,161
	Section 211(a)(2) Health Sector		6,731,992
	Section 211(a)(5) Environment	320,760	320,760
	Section 211(b)(1) Ebeye Special Needs	325,000	857,535
	Section 211(b)(2) Landowners Special Needs	1,602,860	2,181,510
	Section 211(b)(3) Kwajalein Environment		214,144
	Section 211(d)(1) Public Infrastructure Development	650,000	3,740,542
	Section 211(d)(2) Infrastructure Maintenance	250,000	1,972,363
	TOTAL COMPACT SECTOR GRANTS FUND	<u>\$ 5,062,583</u>	<u>\$ 33,178,684</u>
SECTION 212 KWAJALEIN LANDOWNERS FUND:			
	<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended: Section 212 Kwajalein Impact and Use		\$ 21,038,890
SECTION 213 AUDIT FUND:			
	<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended: Section 213 Audit		\$ 400,308
	TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$ 5,062,583</u>	<u>\$ 64,976,707</u>

Reconciliation to the 2016 financial statements is as follows:

General Fund (Reimbursable Fund)	(1)	\$ 518,247
U.S. Federal Grants Fund	(2)	9,840,578
Compact Sector Grants Fund	(3)	33,178,684
Section 212 Kwajalein Landowners Fund	(4)	21,038,890
Section 213 Audit Fund	(5)	400,308
		<u>\$ 64,976,707</u>

- (1) Included within total expenditures for the Reimbursable Fund of \$691,197 presented on page 112 of the 2016 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$8,542,372 and \$1,298,206, respectively, presented on page 102 of the 2016 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$35,778,460 and \$792,202, respectively, presented on page 107 of the 2016 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$21,038,890 presented on page 92 of the 2016 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$400,308 presented on page 102 of the 2016 financial statements.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2016

(1) Scope of Audit

The Republic of the Marshall Islands (RepMar) is a governmental entity governed by its own Constitution. All significant operations of RepMar are included in the scope of the audit (the "Single Audit"). The U.S. Department of the Interior has been designated as RepMar's cognizant agency for the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of RepMar under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of RepMar, it is not intended to and does not present the financial positions or changes in financial positions of RepMar.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which RepMar maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

b. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, RepMar's reporting entity is defined in Note 1A to its September 30, 2016 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Marshall Islands Judiciary Fund, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2016.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

(3) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

The federal award totals for the excluded component units as of September 30, 2016, are as follows:

<u>Component Unit</u>	<u>Federal Award Total</u>
Air Marshall Islands, Inc.	\$ -
College of the Marshall Islands	\$ 5,107,382
Health Care Revenue Fund	\$ -
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,327,860
Majuro Atoll Waste Company	\$ -
Majuro Resort, Inc.	\$ -
Majuro Water and Sewer Company, Inc.	\$ -
Marshall Islands Development Bank	\$ -
Marshall Islands Health Fund	\$ -
Marshall Islands Judiciary Fund	\$ -
Marshall Islands Marine Resources Authority	\$ -
Marshall Islands National Telecommunications Authority	\$ -
Marshall Islands Postal Service Authority	\$ -
Marshall Islands Scholarship, Grant and Loan Board	\$ 750,531
Marshall Islands Shipping Corporation	\$ -
Marshall Islands Social Security Administration	\$ -
Marshall Islands Energy Company, Inc.	\$ -
RMI Office of Commerce and Investment	\$ -
RMI Ports Authority	\$ 7,091,808
Tobolar Copra Processing Authority	\$ -

c. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2016. RepMar did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance and did not charge federal programs for indirect costs during fiscal year 2016.

e. CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

(3) Summary of Significant Accounting Policies, Continued

f. Subrecipients

Certain program funds are passed through RepMar to subrecipient organizations. The Schedule does not contain separate schedules disclosing how the subrecipients, outside of RepMar's control, utilized the funds. The following is a summary of program funds that are passed through to subrecipient organizations:

<u>Grantor/Grant Title CFDA No.</u>	<u>Subrecipient</u>	<u>2016 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 925,010
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 396,751
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	College of the Marshall Islands	\$ 125,000
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 500,000
Compact of Free Association, As Amended, Infrastructure Maintenance Grant	College of the Marshall Islands	\$ 250,000
Compact of Free Association, As Amended, Landowners Special Needs Grant	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,602,860
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company, Inc.	\$ 320,760
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Water and Sewer Company, Inc.	\$ 150,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

(3) Summary of Significant Accounting Policies, Continued

f. Subrecipients, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subrecipient</u>	<u>2016 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories, Continued:		
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 592,202
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 200,000

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

2. Material weakness(es) identified? Yes

3. Significant deficiency(ies) identified? Yes

4. Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

5. Material weakness(es) identified? Yes

6. Significant deficiency(ies) identified? Yes

7. Type of auditors' report issued on compliance for major federal programs: Qualified

8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

9. Identification of major federal programs:

<u>CFDA #</u>	<u>Name of Federal Program</u>
84.027	Special Education - Grants to States
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants

10. Dollar threshold used to distinguish between Type A and Type B Programs: \$ 1,949,301

11. Auditee qualified as low-risk auditee? No

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Section II - Financial Statement Findings

Finding Number	Findings
2016-001	Allowable Costs/Cost Principles
2016-004	Equipment and Real Property Management
2016-006	RMI Procurement Code
2016-010	RMI Procurement Code
2016-011	Accounts Receivable
2016-012	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

Finding Number	CFDA #	Findings	Questioned Costs
2016-001	15.875	Allowable Costs/Cost Principles	\$ 30,592
2016-002	15.875	Cash Management	Undeterminable
2016-004	15.875	Equipment and Real Property Management	\$ -
2016-005	15.875	Period of Availability and Period of Performance	\$ 3,886
2016-006	15.875	Procurement and Suspension and Debarment	\$ 31,974
2016-007	15.875	Reporting	\$ -
2016-008	15.875	Subrecipient Monitoring	\$ 370,136
2016-009	15.875	Special Tests and Provisions	\$ -
2016-001	84.027	Allowable Costs/Cost Principles	\$ 809
2016-003	84.027	Cash Management	Undeterminable
2016-004	84.027	Equipment and Real Property Management	\$ -

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$30,592

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Federal Award No.: H027A150011
Questioned Costs: \$809

Area: Allowable Costs/Cost Principles

Criteria: Federal program expenditures should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives.

Condition #1: Of \$21,108,338 in non-payroll expenditures for the Compact Sector Grants, fifty-eight (58) items totaling \$6,222,975 were tested, with the following deficiencies noted:

- Item # 1 – Check # 132037 for per diem of \$1,134 was not supported by an approved travel authorization form.
- Item # 2 – Check # 133906 included an overpayment which was not refunded by the vendor. We were informed by Ministry of Finance personnel that such is to be applied as a prepayment on contract #C09850 with the same vendor; however, since such prepayment is not authorized, questioned costs of \$29,458 result.
- Item # 3 – Check # 135895 for airfare of \$1,169 was not evidenced by a trip report as required by RepMar’s travel regulations or by other appropriate documentation. This item is also reported as a matter of noncompliance within Finding 2016-006, including associated questioned costs.
- Item # 4 – Check # 136119 for airfare of \$4,997 related to a trip that was cancelled and has yet to be refunded. This item is also reported as a matter of noncompliance within Finding 2016-006, including associated questioned costs.

Condition #2: Of \$1,266,235 in payroll expenditures for the Special Education – Grants to States, sixty (60) items totaling \$34,011 were tested, with the following deficiency noted:

- Item # 6 - Employee # 213442 was paid 160 annual leave hours for which no approval was made available for the pay period ended 04/30/2016. In a subsequent payroll, 80 regular hours were withheld from the employee to offset payment of the annual leave hours. The remaining 80 hours (or \$809) has yet to be collected or offset. Such has been extrapolated to determine a projected questioned cost, which exceeds the \$25,000 threshold.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$30,592

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Federal Award No.: H027A150011
Questioned Costs: \$809

Area: Allowable Costs/Cost Principles

Cause: The cause of the above conditions is the lack of attendant documentation indicating that expenditures charged are directly related to the program and are in accordance with program intent and objectives.

Effect: The effect of the above conditions is noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs of \$30,592 for CFDA 15.875 and \$809 for CFDA 84.027 result.

Identification as a Repeat Finding: CFDA 84.027 Finding 2015-001

Recommendation: Management should require that expenditures are evidenced by documentation supporting that the expenditures directly relate to and are in accordance with program intent and objectives.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-002
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: Undeterminable

Area: Cash Management

Criteria: Article IV, Section 5(b)(2) of the Fiscal Procedures Agreement (FPA) states that all infrastructure projects and projects that are not funded by Operational Grants will be paid on the basis of accrued expenditures, provided RepMar maintains procedures to minimize the time elapsing between transfer of funds and their disbursement.

Condition: Eight (8) Compact Sector Grants draw downs, totaling \$7,691,047, were tested. For the following three draws, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not available for examination:

<u>Fund</u>	<u>Drawdown #</u>	<u>Amount</u>
410102	SEG-02-2015	\$ 1,318,230
410102	SEG-03-2015	\$ 607,926
410102	SEG-04-2015	\$ 2,055,477

For another draw (CD-05-2016, \$777,299), the reimbursement documentation for \$110,592 was not available for examination.

Due to the lack of available information, the amount of a potential interest liability and questioned costs, if any, is undeterminable.

The above condition is also reported as a matter of noncompliance within Finding No. 2016-007.

Cause: The cause of the above condition is the lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with FPA cash management requirements.

Effect: The effect of the above condition is noncompliance with FPA cash management requirements.

Identification as a Repeat Finding: Finding 2015-002

Recommendation: The Ministry of Finance should establish a formal methodology governing the drawdown of federal funds to minimize the time elapsed between the receipt of federal funds and the date applicable payments clear the bank.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Federal Award No.: H027A150011
Questioned Costs: Undeterminable

Area: Cash Management

Criteria: Section 305 of 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards*, prescribes the basic standards and the methods by which a Federal agency will make payments to grantees and grantees will make payments to subrecipients and contractors. Methods and procedures for payments shall minimize the time elapsing between the transfer of funds and the disbursement by the grantee or subgrantee in accordance with Treasury regulations at 31 CFR Part 205.

Condition: Of \$287,527 in non-payroll expenditures, fifty (50) items totaling \$189,876 were tested. For the following expenditures, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not available for examination:

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>	<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
14866	14866	\$ 507	138341	266606	\$ 3,960
20380	20380	\$ 625	138348	266608	\$ 440
131345	253346	\$ 3,552	138548	266922	\$ 1,872
131913	254707	\$ 8,000	139328	268152	\$ 3,960
132593	255788	\$ 1,714	139331	268147	\$ 4,500
132593	255789	\$ 1,698	139549	268630	\$ 3,960
132620	255956	\$ 1,673	140126	269884	\$ 4,500
133270	256053	\$ 6,288	140150	269890	\$ 3,209
133747	257875	\$ 2,009	140150	269891	\$ 3,209
133797	257975	\$ 3,224	140763	271235	\$ 17,000
133804	257978	\$ 13,341	140934	271677	\$ 3,960
134355	259225	\$ 3,210	142013	274025	\$ 2,630
134464	258027	\$ 2,977	142256	274521	\$ 363
134464	258028	\$ 11,880	142318	274600	\$ 5,051
135184	259732	\$ 1,500	142362	274881	\$ 2,824
135624	261430	\$ 1,726	142478	275243	\$ 3,960
135828	259771	\$ 1,663	142484	275239	\$ 4,500
135885	262204	\$ 1,884	142710	275707	\$ 1,408
136625	261174	\$ 2,574	143011	276335	\$ 4,389
136626	261176	\$ 440	143632	278162	\$ 2,020
136856	263300	\$ 3,229	143741	278510	\$ 750
137053	264402	\$ 14,500	143794	278512	\$ 750

Due to the lack of available information, the amount of a potential interest liability and questioned costs, if any, is undeterminable.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-003, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Federal Award No.: H027A150011
Questioned Costs: Undeterminable

Area: Cash Management

Cause: The cause of the above condition is the lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements.

Effect: The effect of the above condition is noncompliance with cash management requirements.

Identification as a Repeat Finding: Finding 2015-003

Recommendation: The Ministry of Finance should establish a formal methodology governing the drawdown of federal funds to minimize the time elapsed between the receipt of federal funds and the date applicable payments clear the bank.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2016

Finding No.: 2016-004
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Federal Award No.: H027A150011
Questioned Costs: \$0

Area: Equipment and Real Property Management

Criteria: Article VI, Section 1(f)(4) of the FPA and Section 313 of 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards*, states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will follow state laws and procedures. The following requirements are applicable:

- a. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Additionally, estimated useful lives of assets should be periodically re-assessed and adjusted as appropriate, based on actual experience.

Condition # 1: We noted the following deficiencies:

- Fixed assets records do not meet the criteria above and are not effectively maintained since updates to the records occur only once a year. A reconciled fixed assets register as of September 30, 2016 was not available until April 4, 2017.
- No inventory of fixed assets has been performed in accordance with the criteria above; therefore, a reconciliation of the fixed assets records and a physical inventory has not occurred.
- As the fixed assets records are not effectively maintained, it does not appear that RepMar has effectively developed means to adequately safeguard fixed assets from loss, damage, theft, or to reasonably investigate such occurrences.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-004, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact Sector Grants
 Questioned Costs: \$0

Federal Agency: U.S. Department of Education
 CFDA Program: 84.027 Special Education - Grants to States
 Federal Award No.: H027A150011
 Questioned Costs: \$0

Area: Equipment and Real Property Management

Condition # 1, Continued

- RepMar has not established policies and procedures governing property maintenance and has not effectively implemented an entity-wide maintenance plan.

Capital outlays by RepMar within the Compact Sector Grants Fund (CFDA 15.875) and the Special Education - Grants to States (CFDA 84.027) for fiscal years 2016, 2015 and 2014 were as follows:

	<u>CFDA 15.875</u>	<u>CFDA 84.027</u>
Fiscal Year 2016	\$ 4,721,869	\$ 15,110
Fiscal Year 2015	\$ 3,501,695	\$ 79,672
Fiscal Year 2014	\$ 2,056,806	\$ 36,356

Condition # 2: Impairment conditions have not been ascertained for the following inoperable equipment which are recorded in the fixed assets register:

<u>Funding Source</u>	<u>CFDA #</u>	<u>Asset Description</u>	<u>Department</u>	<u>Net Book Value</u>
ROC Grant	N/A	Holland Motor Grader	Public Works	\$ 93,996
Japan Grant	N/A	Hitachi Loader ZW250	Public Works	\$ 127,348
Japan Grant	N/A	Hitachi Excavator	Public Works	\$ 126,808
Compact	15.875	School Bus	Education	\$ 83,687
ROC Grant	N/A	Fire Truck	Police	\$ 94,500
ROC Grant	N/A	YFU-82	Public Works	\$ 720,000

Cause: The cause of the above conditions is the lack of adequate internal control policies and procedures to satisfy compliance with federal property rules and regulations and the lack of procedures governing property maintenance. Moreover, internal control policies and procedures requiring periodic and timely performance and independent review of fixed assets reconciliations and related general ledger accounts are lacking.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-004, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Federal Award No.: H027A150011
Questioned Costs: \$0

Area: Equipment and Real Property Management

Effect: The effect of the above conditions is noncompliance with applicable equipment management requirements and possible misstatement of fixed assets and related accounts.

Identification as a Repeat Finding: Finding 2015-004

Recommendation: The Ministry of Finance should perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements, complete such inventory in accordance with applicable property rules and regulations, and develop adequate maintenance procedures in order to keep property in good condition. Furthermore, we recommend that RepMar develop adequate internal control policies and procedures requiring periodic and timely performance and independent review of fixed assets reconciliations and related general ledger accounts.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-005
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$3,886

Area: Period of Availability of Federal Funds; Period of Performance

Criteria: The Compact Sector Grants stipulate the period of availability of federal funds and the period of performance during which time only costs resulting from obligations of the funding period may be charged.

Condition #1: Of \$21,108,338 in non-payroll expenditures for the Compact Sector Grants, fifty-eight (58) items totaling \$6,222,975 were tested, with the following deficiency noted:

- For a \$150,000 item (Fund 510100, encumbrance # M0808901, cost center # CC8371), the liquidation date of 09/07/2015 was past the 12/31/2014 cut-off deadline. This expenditure was subsequently adjusted and transferred to the General Fund.

Condition #2: Of \$15,178,734 in payroll expenditures for the Compact Sector Grants, five (5) out of sixty (60) items totaling \$50,477 tested were liquidated outside of the associated grant's period of availability and period of performance:

<u>Fund</u>	<u>Cost Center</u>	<u>Employee #</u>	<u>PPE</u>	<u>Amount</u>
410100	CF2552	210410	01/23/2016	\$ 846
410100	CF2650	223509	03/05/2016	502
410160	CE6013	88638	04/30/2016	1,346
510100	CD8171	93004	01/23/2016	<u>1,192</u>
				\$ <u>3,886</u>

Total questioned costs noted amount to \$3,886. Such has been extrapolated to determine a projected questioned cost, which exceeds the \$25,000 threshold.

Cause: The cause of the above conditions is the lack of established internal controls enabling noncompliance to go undetected.

Effect: The effect of the above conditions is noncompliance with period of availability and period of performance requirements as stipulated in federal awards, and questioned costs of \$3,886 result.

Identification as a Repeat Finding: Finding 2015-005

Recommendation: We recommend RepMar establish controls requiring compliance with federal programs period of availability and period of performance requirements.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-006
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$31,974

Area: Procurement and Suspension and Debarment

Criteria: Article VI, Section 1(j)(1) of the FPA states that RepMar may use its own procedures for procurement, whether done by the government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

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 promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, 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 \$21,108,338 in non-payroll expenditures for the Compact Sector Grants, fifty-eight (58) items totaling \$6,222,975 were tested, with the following deficiencies noted:

- For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
1	410102	135895	261952	\$ 1,169
2	410102	137763	265543	809
3	410110	136119	262597	<u>4,997</u>
				<u>\$ 6,975</u>

For item #s 1 and 3, documentation was not provided to substantiate that the most economical fare was procured.

For item # 2, the more expensive quotation was selected and the justification for the procurement decision is not adequately supported. Therefore, questioned costs for the difference in price result.

- Check # 142424 (APV # 274982, \$24,999) was for the purchase of a pre-owned vehicle. Although three informal price quotations were on file, the other two were for new vehicles. Moreover, the selected contractor’s quotation and the purchase requisition predate the other two quotations by a month and 11 days, respectively.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-006, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$31,974

Area: Procurement and Suspension and Debarment

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

Effect: The effect of the above condition is noncompliance with applicable procurement requirements, and questioned costs of \$31,974 result.

Identification as a Repeat Finding: Finding 2015-007

Recommendation: RepMar should require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for contractor selection.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2016

Finding No.: 2016-007
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$0

Area: Reporting

Criteria: Article VI, Section 1(b)(1) of the FPA requires the following financial reports to be prepared quarterly for each sector grant and submitted by RepMar 30 days after the end of each fiscal quarter:

- A statement of revenues and expenditures for governmental fund types and a comparison of budget and actual expenditures by function for governmental fund types. Quarterly reports for all Operational Grants shall contain a budget execution report for each function and include major office, cost centers and budget activities.
- Standard Form SF-269 and SF-272, or any successor thereto, as issued by the Government of the United States from time to time.

Article VI, Section 1.(b)(2) of the FPA further requires a final cash transactions report for each sector or other grant 90 days after the end of the funding period.

Drawdowns for reimbursement of actual or accrued expenditures shall be accomplished using the Request for Advance or Reimbursement (SF-270) form.

Additionally, reports submitted should reconcile with underlying accounting records.

Condition #1: Expenditures for a Public Infrastructure Sector Grant (D16AF00033-00010) were not reported during the year due to use of an incorrect cost center #. A revised Federal Financial Report (SF-425) form was subsequently submitted in May 2017 for this error.

Condition #2: Drawdown requests underlying Fund 410102 expenditures reported on drawdown #s SEG-02-2015, SEG-03-2015 and SEG-04-2015 for \$1,318,230, \$607,926 and \$2,055,477, respectively, were not available for examination. Additionally, drawdown # CD-05-2016 for \$777,299 included \$110,592 for which the reimbursement documentation was not available for examination.

The above condition is also reported as a matter of noncompliance within Finding No. 2016-002.

Cause: The cause of the above conditions is the lack of adequate internal control policies and procedures to facilitate compliance with reporting requirements.

Effect: The effect of the above conditions is possible noncompliance with reporting requirements.

Identification as a Repeat Finding: Finding 2015-010

Recommendation: The Ministry of Finance should establish adequate internal control policies and procedures requiring verification of the accuracy of federal financial reports and consistency of such with the underlying financial records.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2016

Finding No.: 2016-008
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$370,136

Area: Subrecipient Monitoring

Criteria: Article VI, Section 1(a)(1) of the FPA states that fiscal control and accounting procedures of RepMar, as well as its Sub-Grantees, shall be sufficient to: (i) permit the preparation of reports required by the FPA and the Compact, as amended; and (ii) permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used in compliance with the provisions of the Compact, as amended, and applicable agreements. Furthermore Article VI, Section 1(k)(1) of the FPA states that RepMar shall ensure that: (i) every Sub-Grant includes any clauses required by the Compact, as amended, the sector Grant awards, and the FPA; (ii) Sub-Grantees are aware of the requirements imposed upon them by the Compact, as amended, the sector Grants and the FPA; and (iii) Sub-Grantee can meet the financial management standards of the FPA.

Condition: RepMar has not established formal policies and procedures over subrecipient monitoring, including compliance with related Compact provisions. During the year ended September 30, 2016, RepMar sub-granted Compact funding to various subrecipients, of which we tested seven (7) and noted the following deficiencies:

<u>Item #</u>	<u>Subrecipient</u>	<u>Fund</u>	<u>Sub-Grant Amount</u>
1	Assumption Schools	410100	\$ 62,585
2	Rita Christian School	410100	\$ 17,521
3	Canvasback Mission	410110	\$ 50,000
4	Ebeye Seventh Day Adventist	410150	\$ 40,030
5	Pacific Wellness Center	410150	\$ 200,000

Except for item # 5, none of the other sub-grantees tested submitted financial reports to the Secretary of Finance relative to expenditure of the sub-granted funds, as required by the underlying MOAs. We were provided Pacific Wellness Center's quarterly reports for the year; however, there is no documented evidence that such were examined and verified by Ministry of Finance to ascertain compliance with the MOA, Compact Agreement, grant award and FPA.

For item #s 1 and 2, complete Sub-Grant Agreements or Memorandums of Agreement (MOA) were not available for examination.

For item #s 3 and 5, the Sub-Grant Agreements or MOAs made no reference to the Compact Agreement, grant award, or FPA.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures governing subrecipient monitoring, specifically with respect to: 1) execution of Sub-Grant agreements with Sub-Grantees, 2) compliance with cash management requirements and FPA special tests and provisions, and 3) resolution and corrective action of subrecipient audit reports.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-008, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$370,136

Area: Subrecipient Monitoring

Effect: The effect of the above condition is noncompliance with specific provisions of the FPA over subgrant agreements and subrecipient monitoring, and questioned costs of \$370,136 result.

Identification as a Repeat Finding: Finding 2015-011

Recommendation: RepMar should comply with the specific provisions of the FPA and execute Sub-Grant agreements with all Sub-Grantees and comply with subrecipient monitoring procedures.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-009
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$0

Area: Special Tests and Provisions

Criteria #1: Article VI, Section 1.(d)(1) of the FPA states that RepMar may reprogram up to 15% of the total budget or \$500,000, whichever is less, within either an approved Sector Grant or the Supplemental Education Grant to meet unanticipated requirements and make limited program changes to the approved projects. The Compact Sector Grants special terms and conditions require that reprogramming requests be submitted to OIA no later than June 30, 2016 and be provided in the quarterly reports.

Criteria #2: The Environment Sector (# D16AF00009) and Public Infrastructure (# D16AF00045) grants' special terms and conditions state that drawdown of funds is not to occur until RepMar has certified to OIA that user fees are sufficient to fund the operating revenue reflected in the portfolio budget for Majuro Atoll Waste Company and that the additional \$131,712 in operating funding reflected in that same budget has also been provided.

Condition #1: Of ten Compact Sector Grants reprogram requests tested, grantor approval or evidence of submission of reprogram request to OIA for the following were not available for examination:

	<u>Ministry</u>	<u>Fund</u>	<u>Cost Center</u>	<u>Amount</u>
1	Education	410150	CG3481	\$ 35,000
2	Health	410110	CG3210	\$ 13,045
3	Education	410100	CG2410	\$ 10,000
4	Education	410100	CG2530	\$ 32,084
5	Education	410150	CG2760	\$ 9,500
6	Education	410100	CG2850	\$ 73,150
7	Education	410102	CF2235	\$ 6,000
8	Education	410150	CG2760	\$ 107,667
9	Public Works	510100	CG8171	\$ 14,000

Condition #2: While no drawdown has occurred with respect to Public Infrastructure grant # D16AF00045, the Environment Sector grant # D16AF00009 has been fully drawn. The required certification did not occur.

Cause: The cause of the above conditions is the lack of adequate internal control policies and procedures requiring compliance with the FPA and special terms and conditions of the grant awards.

Effect: The effect of the above conditions is technical noncompliance with specific provisions of the FPA and special terms and conditions of grant awards.

Recommendation: The Ministry of Finance should establish adequate internal control policies and procedures requiring compliance with the FPA and special terms and conditions of the grant awards.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2016

Finding No.: 2016-010
Area: RMI Procurement Code

Criteria: Procurement of goods and services should be in accordance with the RMI Procurement Code, which 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 promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that 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 supply, 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: The following non-federally funded heavy machinery purchase, amounting to \$249,500, cited Cabinet Minute 173(2014), dated November 7, 2014, as approval for exemption from the requirements of Section 124 of the RMI Procurement Code. Instead, this item was procured based on the small purchase requirements of Section 127 of the RMI Procurement Code.

<u>Fund</u>	<u>APV #</u>	<u>PO #</u>	<u>Amount</u>
100100	269270	P61872	\$ 23,500
100100	266425	none	36,000
100100	259642	P59903	40,000
200105	258988	P59923	50,000
700360	254675	P59503	<u>100,000</u>
			<u>\$ 249,500</u>

The following deficiencies were also noted:

- For purchase order # P61727 (APV # 269079, \$6,090), the lowest price quotation was not selected, and the documented rationale for the procurement decision is not in accordance with the small purchase policy.
- For purchase order # P62065 (APV # 272424, \$24,935), the contractor invoice predates the purchase requisition and purchase order by five months.
- For contract # C10032 amounting to \$368,415, procurement was done in accordance with Section 128 of the RMI Procurement Code; however, there is no documentation on file to support the procurement decision.

Cause: The cause of the above condition is potential granting of exemptions from compliance with the RMI Procurement Code.

Effect: The effect of the above condition is potential noncompliance with the RMI Procurement Code.

Identification as a Repeat Finding: Finding 2015-013

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-010, Continued
Area: RMI Procurement Code

Recommendation: All purchases should comply with the requirements of the RMI Procurement Code. We recommend that the Cabinet consult with the Office of the Attorney General with respect to this matter.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-011
Area: Accounts Receivable

Criteria: Timely drawdowns of grant expenditures should occur to reimburse the General Fund.

Condition: Resubmission of drawdown request # 10-2016 for \$300,019 for the Single Audit Grant had not occurred six months after year end. Accordingly, this could ultimately result in a direct charge to the General Fund if such is not resolved. In addition, it appears that other grants may not be timely billed and collected. Specifically, ninety percent (90%) of the following federal grant receivables recorded by the Ministry of Finance have yet to be billed and collected as of our report date:

<u>Fund</u>	<u>Grant</u>	<u>Receivables</u>
510100	Public Infrastructure Sector	\$ 5,805,360
510130	Single Audit	\$ 935,439
600350	Non-Compact	\$ 4,150,099

Cause: The cause of the above condition is the lack of adequate policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur. Further, drawdown requests are not monitored for timely reimbursement and resolution of errors.

Effect: The effect of the above condition is that the General Fund bears the cost of grant expenditures.

Identification as a Repeat Finding: Finding 2015-009

Recommendation: Management should establish policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur and to monitor drawdown requests.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2016

Finding No.: 2016-012
Area: External Financial Reporting

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB No. 14 and 34*, requires that the financial statements of the reporting entity include component units for which the primary government is either financially accountable, or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: The following non-major component units were unable to produce audited financial statements in time for inclusion into RepMar's financial statements for 2016:

Marshall Islands Visitors Authority
RMI Environmental Protection Authority

Unaudited financial statements were also not available for these entities.

Cause: The cause of the above condition is the lack of audited financial statements for the respective entities.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14, as amended; however, such does not result in an opinion modification on the financial statements of RepMar since the above entities collectively are not considered material to the overall component unit financial statements.

Recommendation: We recommend that RepMar conform with GASB Statement No. 14, as amended, by obtaining audited financial statements of the above entities for inclusion within the financial statements.

Auditee Response and Corrective Action Plan:

RepMar describes corrective action in the Corrective Action Plan.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2016

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2016:

	<u>Questioned Costs</u>		
	<u>RepMar</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of RepMar as previously reported:			
Fiscal year 2008 Single Audit	\$ 393,111	\$ -	\$ 393,111
Fiscal year 2009 Single Audit	227,454	-	227,454
Fiscal year 2010 Single Audit	1,507,681	-	1,507,681
Fiscal year 2011 Single Audit	119,607	-	119,607
Fiscal year 2012 Single Audit	35,857	-	35,857
Fiscal year 2013 Single Audit	71,294	-	71,294
Fiscal year 2014 Single Audit	316,671	22,287	338,958
Fiscal year 2015 Single Audit	<u>626,246</u>	<u>200,000</u>	<u>826,246</u>
	3,297,921	222,287	3,520,208
Less questioned costs resolved in fiscal year 2016:			
Questioned costs of fiscal year 2010 Single Audit reported in:			
Finding No. 2010-004 (2)	(629,840)	-	(629,840)
Questioned costs of fiscal year 2014 Single Audit reported in:			
Finding No. 2014-001 (3)	(692)	-	(692)
Finding No. 2014-004 (3)	(293,853)	-	(293,853)
Questioned costs of fiscal year 2015 Single Audit reported in:			
Finding No. 2015-005 (1)	(440)	-	(440)
Finding No. 2015-007 (3)	<u>(522,797)</u>	<u>-</u>	<u>(522,797)</u>
	1,850,299	222,287	2,072,586
Questioned costs of fiscal year 2016 Single Audit	<u>67,261</u>	<u>370,136</u>	<u>437,397</u>
Unresolved questioned costs of RepMar at September 30, 2016	<u>\$ 1,917,560</u>	<u>\$ 592,423</u>	<u>\$ 2,509,983</u>

(1) Resolved through a grantor agency determination dated March 17, 2017.

(2) Resolved through a grantor agency determination dated May 24, 2017.

(3) Resolved through a grantor agency determination dated May 25, 2017.

2016-004	<p>Physical inventory and assessment to ascertain the serviceability of fixed assets situated within Majuro Atoll has started last June 19, 2017, duly conducted by a team composed of the MOF-Supply Division, the MOF-Accounting Division and the MPW-PMU. On the other hand, the Ministry of Public Works-PMU initially reported 80% completion in inspection and assessment for MOE and MOH buildings located off-island.</p> <p>MOF will clearly establish the procedures of inventory and to include the key stakeholders to liaise with on activities such as actual sighting, appraising and drawing resolutions necessary for its registered properties.</p> <p>MOF-Chief Supply and Procurement is currently working with the Attorney General Office in drafting policies and guidelines for government fixed assets including imperative disposal procedures.</p>	November 30, 2017	<p>CatalinoKijiner-MPW Secretary kijiner74@gmail.com</p> <p>Bruce Loeak-MOF Chief Procurement bloeak@gmail.com</p>
2016-005	<p>MOF is improving its documentation and monitoring system to ensure adherence to period of performance requirement as stipulated in the grant award.</p> <p>On April 2017, the Internal Audit Unit was established in MOF to ensure the validity, reasonability and completeness of all transactions prior to approval and processing of payment. The unit will be manned by two personnel. The Internal Audit staff has already started last April 2017 and the Chief Internal Auditor will start on July 2017.</p> <p>In addition, a Compliance and Monitoring Officer is currently being recruited to perform monitoring of all grant awards and to ensure that corresponding policies are strictly adhered to.</p>	Continuing process	<p>Spencer Joe-MOF Asst. Sec. Acctg spencermjoe@gmail.com</p> <p>YwaoElanzo-Asst.Sec.Budget & Proc. elanzo28@gmail.com</p>
2016-006	<p>On April 2017, the Internal Audit Unit was established in MOF to ensure the validity and completeness of all transactions prior to approval and processing of payment. The unit will be manned by two personnel. The Internal Audit staff has already started last April 2017 and the Chief Internal Auditor will start on July 2017.</p>	September 30, 2017	<p>Spencer Joe-Asst. Sec. Acctg spencermjoe@gmail.com</p> <p>YwaoElanzo-Asst.Sec.Budget & Proc. elanzo28@gmail.com</p>
2016-007	<p>A Compliance and Monitoring Officer is currently being recruited to perform monitoring of compact and federal grants draw downs as well as to ensure consistency and accuracy of reporting.</p>	December 31, 2017	<p>Spencer Joe-Asst. Sec. Acctg spencermjoe@gmail.com</p>
2016-008	<p>Compliance and Monitoring Officer's responsibility includes ensuring that reference to the Compact Agreement, grant award, or FPA is incorporated in MOAs as required; and to monitor corrective action/s undertaken by subrecipients to resolve its audit reports.</p> <p>Internal Audit Unit will ensure that sub-agreements' requirements are met by sub-grantees prior to approval of disbursements.</p>	September 30, 2017	<p>Spencer Joe-Asst. Sec. Acctg spencermjoe@gmail.com</p>
2016-009	<p>Compliance and Monitoring Officer's responsibility includes monitoring to ensure that reprogramming requirements and special terms and conditions of grant awards are adhered to.</p>	December 31, 2017	<p>YwaoElanzo-Asst.Sec.Budget & Proc. elanzo28@gmail.com</p> <p>Robin Kios – Budget Director</p>

2016-010	<p>On April 2017, the Internal Audit Unit was established in MOF to ensure the validity, reasonability and completeness of all transactions prior to its approval and processing of payment. The unit will be manned by two personnel. The Internal Audit staff has already started last April 2017 and the Chief Internal Auditor will start on July 2017.</p> <p>A procurement training will take place in September of 2017 to be participated by all RMI ministries/agencies and SOEs.</p> <p>Another step is to revise the existing Ministry of Finance's SOP to detail out the processes and policies including the guidelines for purchases of \$25K and above. Also, to include the changes in MOF organizational structure and workflow.</p>	September 30, 2017	<p>Bruce Loeak-MOF Chief Procurement bloek@gmail.com</p> <p>YwaoElanzo-Asst.Sec.B/S/P elanzo28@gmail.com</p>
2016-011	<p>MOF is in the process of improving implementation of the existing Standard Operating Procedures effectively.</p> <p>Compliance and Monitoring Officer's responsibility includes maintaining periodic analysis of grant expenditures and ensuring timely reimbursements and draw downs.</p>	December 31, 2017	<p>Spencer Joe-Asst. Sec. Acctg spencermjoe@gmail.com</p> <p>Ywao Elanzo-Asst.Sec.B/S/P elanzo28@gmail.com</p>
2016-012	<p>Subsidies will not be released unless reports are provided.</p> <p>Additionally, the next step of action is to resume fiscal responsibility of operations of the noncompliant components</p>	October 1, 2017	<p>Maybelline Bing-SOF mayabing@gmail.com</p> <p>Brenda Alik-MIVA GM gm@visitsmarshallislands.com</p> <p>Moriana Philips-EPA Director morianaphilips@gmail.com</p>