

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2015

**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 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, 2015, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated November 18, 2016. Our report includes emphasis-of-matter paragraphs concerning social security obligations and a debt guarantee. Our report also includes a reference to other auditors who audited the financial statements of the Marshall Islands National Telecommunications Authority, as described in our report on RepMar's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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, with the exception of the Marshall Islands National Telecommunications Authority, as discussed above. 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 the entities that were audited by us. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Marshall Islands National Telecommunications Authority. 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 were not 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 2015-004 and 2015-014 through 2015-019 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 2015-001 to be significant deficiencies.

Compliance and Other Matters

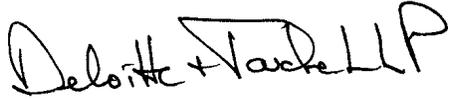
As part of obtaining reasonable assurance about whether RepMar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2015-006 through 2015-008, 2015-013 and 2015-020.

RepMar's Responses to Findings

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.

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

November 18, 2016

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 OMB CIRCULAR A-133

Her Excellency 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, 2015. 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 2 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, 2015. Our audit, described below, did not include the operations of the entities identified in note 2 as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 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 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 each major federal program. 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 2015-002 through 2015-004, 2015-008 and 2015-010 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
2015-002	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Cash Management
2015-004	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2015-010	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Reporting
2015-003	84.027	Special Education – Grants to States	Cash Management
2015-004	84.027	Special Education – Grants to States	Equipment and Real Property Management
2015-008	84.027	Special Education – Grants to States	Procurement and Suspension and Debarment

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, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-005 through 2015-007, 2015-009, 2015-011 and 2015-012 as follows:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2015-006	10.567	Food distribution Program on Indian Reservations	Procurement and Suspension and Debarment
2015-005	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Period of Availability of Federal Funds
2015-007	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment
2015-011	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Subrecipient Monitoring
2015-012	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Special Tests and Provisions
2015-001	84.027	Special Education – Grants to States	Allowable Costs/Cost Principles
2015-009	84.027	Special Education – Grants to States	Period of Availability of Federal Funds

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

RepMar’s responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133, 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 were not 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 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 2015-002 through 2015-004, 2015-008 and 2015-010 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 2015-001, 2015-005 through 2015-007, 2015-009, 2015-011 and 2015-012 to be significant deficiencies.

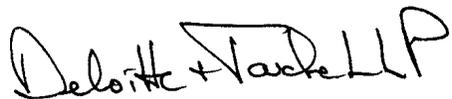
RepMar's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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, 2015, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements. We issued our report thereon dated November 18, 2016, which contained unmodified opinions on those financial statements.

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 OMB Circular A-133 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 + Tatchell LLP". The signature is written in a cursive, flowing style.

November 18, 2016

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

<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	\$ 578,003
U.S. FEDERAL GRANTS FUND:		
<u>U.S. Department of Agriculture:</u>		
10.567	Food Distribution Program on Indian Reservations	\$ 388,305
10.664	Cooperative Forestry Assistance	7,315
	Total U.S. Department of Agriculture	<u>395,620</u>
<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	1,253,714
	HPO USAKA	2,997
	Office of the Auditor General Grants	127,854
	Storm Sewer Project	1,643
	Sub-total CFDA # 15.875	<u>1,386,208</u>
15.904	Historic Preservation Fund Grants-In-Aid	<u>123,676</u>
	Total U.S. Department of the Interior	<u>1,509,884</u>
<u>U.S. Small Business Administration:</u>		
59.037	Small Business Development Centers	<u>25,066</u>
<u>U.S. Department of Education:</u>		
84.027	Special Education-Grants to States	<u>1,818,733</u>
<u>U.S. Department of Health and Human Services:</u>		
93.110	Maternal and Child Health Federal Consolidated Programs	24,531
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	622,556
93.127	Emergency Medical Services for Children	129,374
93.136	Injury Prevention and Control Research and State and Community Based Programs	-
93.217	Family Planning-Services	(760)
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Health Centers)	673,374
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,277,798
93.268	Immunization Cooperative Agreements	1,064,784
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	259,013
93.292	National Public Health Improvement Initiative	46,719
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	12,594
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	15,507
93.889	National Bioterrorism Hospital Preparedness Program	403,466
93.917	HIV Care Formula Grants	12,244
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	-
93.945	Assistance Programs for Chronic Disease Prevention and Control	161,292
93.958	Block Grant for Community Mental Health Services	75,063
93.959	Block Grants for Prevention and Treatment of Substance Abuse	386,836
93.994	Maternal and Child Health Services Block Grant to the States	<u>210,978</u>
	Total U.S. Department of Health and Human Services	<u>5,375,369</u>
<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants	<u>38,307</u>
	TOTAL U.S. FEDERAL GRANTS FUND	\$ <u>9,162,979</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, 2015

<u>CFDA#</u>	<u>Agency/Program</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	\$ 12,064,662
	Supplemental Education Grant	5,468,835
	Section 211(a)(2) Health Sector	7,467,881
	Section 211(a)(4) Capacity Building	39,999
	Section 211(a)(5) Environment	325,000
	Section 211(b)(1) Ebeye Special Needs	3,797,607
	Section 211(b)(2) Landowners Special Needs	2,734,993
	Section 211(b)(3) Kwajalein Environment	161,673
	Section 211(d)(1) Public Infrastructure Development	2,645,865
	Section 211(d)(2) Infrastructure Maintenance	<u>1,273,631</u>
	TOTAL COMPACT SECTOR GRANTS FUND	\$ 35,980,146
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	<u>\$ 20,827,317</u>
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	<u>\$ 322,620</u>
	TOTAL FEDERAL PROGRAM EXPENDITURES	\$ 66,871,065
Reconciliation to the 2015 financial statements is as follows:		
	General Fund (Reimbursable Fund)	(1) \$ 578,003
	U.S. Federal Grants Fund	(2) 9,162,979
	Compact Sector Grants Fund	(3) 35,980,146
	Section 212 Kwajalein Landowners Fund	(4) 20,827,317
	Section 213 Audit Fund	(5) <u>322,620</u>
		\$ 66,871,065

- (1) Included within total expenditures for the Reimbursable Fund of \$687,175 presented on page 107 of the 2015 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$7,909,265 and \$1,253,714, respectively, presented on page 97 of the 2015 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$35,125,231 and \$854,915, respectively, presented on page 102 of the 2015 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$20,827,317 presented on page 87 of the 2015 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$322,620 presented on page 97 of the 2015 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, 2015

(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 OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as RepMar's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Small Business Administration

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RepMar 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. All expenses and capital outlays are reported as expenditures.

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, 2015 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 of Expenditures of Federal Awards presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2015.

c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2015

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2015 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	\$ 1,078,871
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 303,500
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	College of the Marshall Islands	\$ 125,000
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.	\$ 2,580,624
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company, Inc.	\$ 325,000
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Atoll Waste Company, Inc.	\$ 201,842

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2015

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2015 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, Public Infrastructure Development	Majuro Water and Sewer Company, Inc.	\$ 300,000
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 600,000
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 54,915
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 200,000

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2015. RepMar did not charge federal programs for indirect costs during fiscal year 2015.

f. 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 as major programs.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | 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 section 510(a) of OMB Circular A-133? | Yes | | | | | | |
| 9. | Identification of major federal programs: | | | | | | | |
| | <table><thead><tr><th><u>CFDA #</u></th><th><u>Name of Federal Program</u></th></tr></thead><tbody><tr><td>84.027</td><td>Special Education - Grants to States</td></tr><tr><td>15.875</td><td>Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants</td></tr></tbody></table> | <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 | |
| <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: | \$ 2,006,132 | | | | | | |
| 11. | Auditee qualified as low-risk auditee? | No | | | | | | |

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2015-001	Allowable Costs/Cost Principles
2015-004	Equipment and Real Property Management
2015-006	RMI Procurement Code
2015-007	RMI Procurement Code
2015-008	RMI Procurement Code
2015-013	RMI Procurement Code
2015-014	General Ledger Account Reconciliations
2015-015	Revenues
2015-016	Accounts Receivable
2015-017	Construction-in-Progress/Retention Payable
2015-018	Encumbrances
2015-019	General Ledger Journal Entries
2015-020	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2015-006	10.567	Procurement and Suspension and Debarment	\$ 30,155
2015-002	15.875	Cash Management	Undeterminable
2015-004	15.875	Equipment and Real Property Management	\$ -
2015-005	15.875	Period of Availability of Federal Funds	\$ 440
2015-007	15.875	Procurement and Suspension and Debarment	\$ 522,797
2015-010	15.875	Reporting	\$ -
2015-011	15.875	Subrecipient Monitoring	\$ 200,000
2015-012	15.875	Special Tests and Provisions	\$ -
2015-001	84.027	Allowable Costs/Cost Principles	\$ 692
2015-003	84.027	Cash Management	Undeterminable
2015-004	84.027	Equipment and Real Property Management	\$ -
2015-008	84.027	Procurement and Suspension and Debarment	\$ 72,162
2015-009	84.027	Period of Availability of Federal Funds	\$ -

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-001
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A140011
Questioned Costs: \$692

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: Of \$1,283,706 in payroll expenditures for the Special Education – Grants to States, twenty-five (25) items totaling \$12,247 were tested. Evidence of workshop attendance was not available to support a \$692 item (or 80 hours) paid to employee # 216718 for the pay period ended 07/25/2015. Such has been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

Cause: The cause of the above condition 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 condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$692 result.

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.

Prior Year Status: Noncompliance with allowable costs/cost principles requirements was reported as a finding in prior single audits as items 2009-1, 2009-2, 2010-1, 2011-1, 2012-01, 2013-001 and 2014-001.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. The Ministry of Finance is improving and strengthening internal control measures in handling of various expenditures to ensure validity of claims and completeness of relevant supporting documents.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-002
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: 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 the Government of the Republic of the Marshall Islands maintains procedures to minimize the time elapsing between transfer of funds and their disbursement.

Condition: Of \$5,116,285 in non-payroll expenditures for the Compact Sector Public Infrastructure and the Landowners Special Needs Grants, eleven (11) items, totaling \$3,732,772, 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>
122429	234735	\$ 66,742
123120	236374	\$ 22,795
123589	237133	\$ 22,610
125214	240686	\$ 223,020
125572	241248	\$ 100,880
127050	244161	\$ 300,000
127170	244537	\$ 129,643

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

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.

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: Management agrees with the findings and recommendations. Strict compliance with FPA cash management requirements with the existing Ministry of Finance Cash Management Handbook shall be enforced to address the problem. During FY16, there were procedures formulated to cover the reimbursement of expenditure that is to be paid from federal funds. These procedures are now in place and will be enforced to the point where expenditure will not be authorized by Finance unless all specified criteria in the new procedures are complied with. This will have a significant effect on the timing of transactions and supporting documentation for the transactions.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Questioned Costs: Undeterminable
Area: Cash Management

Criteria: Section 21 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, prescribes the basic standards and the methods by which a Federal agency will make payments to grantees and grantees will make payments to subgrantees 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 \$390,359 in non-payroll expenditures, twenty-four (24) items totaling \$164,138 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>
121683	231636	\$ 6,025
121769	233229	\$ 1,683
121989	233542	\$ 3,960
122032	233805	\$ 4,187
122718	235374	\$ 2,324
123049	236039	\$ 24,500
123054	236040	\$ 17,055
123157	236343	\$ 15,152
123831	237272	\$ 1,129
124208	238456	\$ 3,600
124710	239302	\$ 2,750
125107	240151	\$ 3,960
125962	241837	\$ 24,000
126555	243366	\$ 1,885
126718	243573	\$ 5,175
127373	245101	\$ 212
127588	245529	\$ 15,000
127658	245629	\$ 600
128619	247782	\$ 3,306
128705	248163	\$ 4,049

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, 2015

Finding No.: 2015-003, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
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.

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.

Prior Year Status: Lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements was reported as a finding in prior single audits as items 2005-7, 2006-4, 2007-8, 2008-1, 2009-3, 2012-03, 2013-003 and 2014-002.

Auditee Response and Corrective Action Plan: Management agrees with the findings and recommendations. Management realizes the responses to the recommendations have continuously been the same with minimum or actual implementation. However, there has been multiple efforts implemented and put in place to improve overall performance including establishing of an Internal Audit function unit and Human resources Management Unit for better performance monitoring and evaluation beginning FY2017.

Moreover, the Ministry of Finance will be hiring a junior level accountant to assist the Accounting Department to ensure proper monitoring of federal draw downs and relative transactions.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-004
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Questioned Costs: \$0

Area: Equipment and Real Property Management

Criteria: Article VI, Section 1(f)(4) of the Fiscal Procedures Agreement (FPA) and Section 80.32 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

- a. Property records must be maintained, which include (1) a description of the property, (2) a serial number or other identification number, (3) the source of property, (4) who holds title, (5) the acquisition date and cost of the property, (6) the percentage of United States funding used in the purchase, (7) the location, use and condition of the property, and (8) any ultimate disposition data including the date of disposal and sale price;
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee 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: No inventory of fixed assets has been performed in accordance with the criteria above to satisfy compliance with applicable equipment management requirements. Capital outlay expenditures incurred by RepMar within the Compact Sector Grants Fund (CFDA 15.875) and the Special Education - Grants to States (CFDA 84.027) for fiscal years 2015, 2014 and 2013 were as follows:

	<u>CFDA</u> <u>15.875</u>	<u>CFDA</u> <u>84.027</u>
Fiscal Year 2015	\$ 3,501,695	\$ 79,672
Fiscal Year 2014	\$ 2,056,806	\$ 36,356
Fiscal Year 2013	\$ 4,399,331	\$ 58,324

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-004, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Questioned Costs: \$0

Area: Equipment and Real Property Management

Condition, Continued:

We noted the following fixed assets that are currently inoperable and for which consideration of impairment has not been ascertained:

<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	\$ 109,662
Japan Grant	N/A	Hitachi Loader ZW250	Public Works	\$ 148,573
Japan Grant	N/A	Hitachi Excavator	Public Works	\$ 147,943
Compact	15.875	School Bus	Education	\$ 97,635
ROC Grant	N/A	Fire Truck	Police	\$ 108,000

A reconciled fixed assets register as of September 30, 2015 was not available until August 2016. Additionally, estimated useful lives of assets are not periodically re-assessed and adjusted.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to satisfy compliance with federal property rules and regulations including inadequately designed maintenance procedures.

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

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 and should complete such inventory in accordance with applicable federal property rules and regulations. Furthermore, we recommend that RepMar develop adequate maintenance procedures in order to keep property in good condition.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-004, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Questioned Costs: \$0

Area: Equipment and Real Property Management

Prior Year Status: Lack of a fixed asset listing that reconciles with an inventory of RepMar's fixed assets was reported as a finding in prior single audits for fiscal years 1988 through 2000 and as items 2001-8, 2002-28, 2003-28, 2004-12, 2005-11, 2006-10, 2007-9, 2008-3, 2009-5, 2010-3, 2011-3, 2012-04, 2013-004 and 2014-003.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. Management highly notes that this has been a repeated and recurring finding since 1988. The Ministry of Finance will undertake necessary measures such as the creation of a task force group to conduct a physical inventory of all registered fixed assets to be headed by the Chief Procurement. It is planned to start the physical inventory starting CY2017. Once completed, the existing asset register will be updated accordingly.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-005
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$440

Area: Period of Availability of Federal Funds

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

Condition: Of \$18,783,107 in non-payroll expenditures for the Compact Sector Grants, fifty-four (54) items totaling \$5,725,012 were tested. For a \$440 item with an award period of 10/01/13 to 09/30/14 (Fund 410100, encumbrance # T1378001, cost center # CE2213), the associated obligation was liquidated past the cut-off deadline.

Additionally, we noted the following exceptions:

- For a \$676 item (Fund 410102, encumbrance # P5541801, cost center # CD2122), the invoice date of 10/03/14 is liquidated past the cut-off deadline. This item is also reported as a matter of noncompliance within Finding No. 2015-007, including associated questioned costs.
- For a \$511,440 item (Fund 510100, encumbrance # C0965801, cost center # C88171), the encumbrance date of 02/24/2015 is outside of the funding period of the associated grant. This item is also reported as a matter of noncompliance within Finding No. 2015-007, including associated questioned costs.

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

Effect: The effect of the above condition is noncompliance with period of availability requirements as stipulated in grant awards and questioned costs of \$440 result.

Recommendation: We recommend RepMar establish controls requiring compliance with the period of availability requirements of the program.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. On top of various efforts currently in pace to improve processes and internal control, the Ministry of Finance will establish an Internal Audit function unit.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-006
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.567 Food Distribution Program on Indian Reservations
Grant Number: 7MI810MI8
Questioned Costs: \$30,155

Area: Procurement and Suspension and Debarment

Criteria: Section 3016.36 of 7 CFR Part 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by the government or by its Sub-Grantees, provided that they meet the standards identified in this section.

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 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: Of \$388,305 in non-payroll expenditures for the Food Distribution Program on Indian Reservations program, procurement for one (1) item (check # 126445) tested totaling \$30,155 did not comply with Section 124 of RepMar's Procurement Code. For this purchase, two separate purchase requisitions were processed using the same set of price quotations. It appears that the purchase was artificially divided to qualify for small purchase procedures.

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 federal procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$30,155 result for this non-major program.

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

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. MOF will reinforce compliance with federal procurement requirements. The Ministry of Finance is in the process of improving and strengthening internal control measures including proper documentation and strict adherence to procurement standards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$522,797

Area: Procurement and Suspension and Debarment

Criteria: Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (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 \$18,783,107 in non-payroll expenditures for the Compact Sector Grants, fifty-four (54) items totaling \$5,725,012 were tested. For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>Encumbrance #</u>	<u>APV #</u>	<u>Amount</u>
1	410100	127166	P5729401	244546	\$ 3,550
2	410100	128319	P5802501	247060	2,838
3	410102	122032	P5541801	233803	676
4	410102	127600	A1681501	245561	1,159
5	410110	126726	M0989201	243654	69
6	410110	130638	P5874801	251720	3,065
7	510100	Various	C0965801	various	<u>511,440</u>
					<u>\$ 522,797</u>

For item # 1, the more expensive vendor was selected, and there was no documentation on file to justify the procurement decision. Therefore, a questioned cost of \$3,550 for the difference in price results.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$522,797

Area: Procurement and Suspension and Debarment

Condition, Continued:

For item #s 2 and 3, the more expensive vendor was selected and there was no documentation on file to justify the procurement decision. Therefore, for item # 2, questioned costs for the difference in price result. Item # 3 is also reported as a matter of noncompliance within Finding No. 2015-005; therefore, questioned costs for the entire purchase price result.

For item # 4, documentation was not provided to substantiate that the most economical fare was procured.

For item #s 5 and 6, no evidence of obtaining informal price quotations was provided.

For item # 7, procurement was not supported by competitive sealed bidding or another appropriate procurement methodology; thus, the purchase appears to have been sole sourced.

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 federal procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$522,797 result.

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

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2003-20, 2003-21, 2003-22, 2003-23, 2004-08, 2004-09, 2005-09, 2005-10, 2006-07, 2006-08, 2006-09, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2008-04, 2008-05, 2008-06, 2008-07, 2009-08, 2009-09, 2010-04, 2010-05, 2011-04, 2011-05, 2011-06, 2012-05, 2012-06, 2013-005 and 2014-004.

Auditee Response and Corrective Action Plan: Management partially agrees with the finding and recommendation. The Ministry of Finance will reinforce compliance with procurement requirements. The Ministry of Finance is in the process of improving and strengthening internal control measures including proper documentation and strict adherence to procurement standards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$522,797

Area: Procurement and Suspension and Debarment

Auditee Response and Corrective Action Plan, Continued:

Item # 2 – Three price quotations were obtained for Ministry of Health purchase requisition comprising of multiple items. The selection of more expensive vendor is evident on the comparison provided being the most responsive calculated quotation. The other two quotations were considered non-responsive for non-availability of some purchase items.

Item # 4 - The single quotation obtained is believed to be the most reasonable and economical fare with a single airline flying in and out of Majuro. Also, airline ticket reservation was made with preference to a single ticketing agency that allowed issuance of airline tickets without being paid yet to avoid inconvenience of seat unavailability especially having a short period of reservation from the date of travel authorization until the day before the scheduled flight. On the other hand, online ticket reservation also requires credit card or similar mode of payment.

However, moving forward to satisfy compliance with the procurement requirements, the Ministry of Finance will strictly enforce adherence to procurement standards of obtaining price quotations and necessary documentation to procurement decision.

Item #5 – Ministry of Health purchase local foods from various local vendors to be served in Majuro Hospital hence, no price quotation was required. These local foods are mostly perishable goods not readily available in local markets and purchase cost is of known reasonable and economical price. Independent validation of purchases is done by the Supply Unit.

The management noted some issues in the procurement act provisions and having no proposed revisions for the time being, the management aims to adopt necessary measures in developing internal control policies to ensure uniformity and consistency in the execution of procurement procedures.

Auditor Response: We reiterate the recommendation requiring that documentation be adequate to comply with federal procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for vendor selection.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-008
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Area: Procurement and Suspension and Debarment
Questioned Costs: \$72,162

Criteria: Section 80.36 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by the government or by its Sub-Grantees, provided that they meet the standards identified in this section.

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 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: Of \$390,359 in non-payroll expenditures for the Special Education – Grants to States, twenty-four (24) items totaling \$164,138 were tested. For the following items, documentation supporting the procurement process was either not available for examination or indicated noncompliance with RepMar's Procurement Code.

<u>Item #</u>	<u>Grant #</u>	<u>Check #</u>	<u>Encumbrance #</u>	<u>APV #</u>	<u>Amount</u>
1	H027A130141	121769	A1615401	233229	\$ 1,683
2	H027A120011	123049	P5542701	236039	24,500
3	H027A120011	123157	P5528301	236343	15,152
4	H027A130141	123831	P5638001	237272	1,129
5	H027A140011	125962	P5714401	241837	24,000
6	H027A130141	126555	P5705001	243366	1,885
7	H027A140011	128619	A1696201	247782	<u>3,306</u>
					<u>\$ 71,655</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-008, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Area: Procurement and Suspension and Debarment
Questioned Costs: \$72,162

Condition, Continued:

For item #s 1 and 7, no documentation was provided to substantiate that the most economical fare was procured.

For item #s 2 and 5, the requests for price quotation specified brand names and other requirements which do not appear to be necessary for the proposed use of the vehicles. Furthermore, there was no evidence that other vendors were contacted despite certain vendor responses being unresponsive. For item # 2, while the request for quotation was provided to vendors on 09/17/2014, the underlying purchase requisition was dated 09/16/2014, and the maximum passenger capacity for this vehicle is seven as compared to item # 5 which seats up to nine. For item # 5, the request for quotation was provided to the selected vendor on 02/04/2015 while the other two vendors both received the request five days later on 02/09/2015. It appears that the vendor had already been selected when the request for quotation was processed.

Item # 3 was for the purchase of cleaning and bathroom supplies; however, quotations were requested from hardware and office supplies stores. None of the three vendor responses received had all the desired items on stock but instead of contacting other vendors, the selected vendor was allowed time to backorder items (the purchase order was dated September 2014 while the invoice was dated January 2015). Additionally, differences in unit price and quantity were noted in the purchase requisition, purchase order, and vendor invoice yet the total purchase amount remained constant.

For item #s 4 and 6, documentation supporting the procurement process was not available for examination.

In addition, a \$507 item (check # 14747) was not evidenced by underlying invoice or other pertinent documentation to support the expenditure, including the procurement process.

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 federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards and questioned costs of \$72,162 result.

Recommendation: RepMar should require that documentation be adequate to comply with federal procurement standards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-008, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Area: Procurement and Suspension and Debarment
Questioned Costs: \$72,162

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2011-06, 2012-06, 2013-006 and 2014-005.

Auditee Response and Corrective Action Plan: Management agrees with the finding. Furthermore, management agrees with the recommendation.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-009
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A120011
H027A130141
H027A140011
Area: Period of Availability of Federal Funds
Questioned Costs: \$0

Criteria: Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

Condition: Of \$390,359 in non-payroll expenditures for the Special Education - Grants to States, twenty-four (24) items totaling \$164,138 were tested. For a \$15,152 item (check # 123157, APV # 236343) expended under grant number H027A120011, the vendor invoice was dated in January 2015, which is after the de-obligation deadline. The budget period for grant number H027A120011 is from July 1, 2012 through September 30, 2013, with a de-obligation cut-off of December 31, 2014. This item is also reported as a matter of noncompliance within Finding 2015-008, including associated questioned costs.

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

Effect: The effect of the above condition is noncompliance with period of availability requirements as stipulated in grant awards.

Recommendation: We recommend RepMar establish internal controls requiring compliance with the period of availability requirements of the program.

Auditee Response and Corrective Action Plan: Management partially agrees with the finding and recommendation. Expenditures charged to the grant was made within the funding period. Purchase Order was served on September 30, 2014 to Ace Hardware as the winning bidder. Payment was made on December 31, 2014 (within the grant period). Actual delivery of goods was made in partial on December 22, 2014 and completed on January 19, 2015. However prior notice by the said supplier was received with the underlying reason that was endorsed and subsequently approved for payment with a condition that issued check will not be released until the completion of such delivery. The situation called for acceptance of the appeal so not to further delay and hamper the program by conducting another and the same procurement process of the same purchase requisitions.

On top of various efforts currently in pace to improve processes and internal control, the Ministry of Finance will establish an Internal Audit function unit.

Auditor Response: We reiterate the recommendation requiring that internal controls be adequate to comply with period of availability requirements. Specifically, the vendor invoice was dated in January 2015, which is after the de-obligation deadline.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-010
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Area: Reporting

Criteria: Article VI, Section 1(b)(1) of the Fiscal Procedures Agreement (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.

Additionally, reports submitted should reconcile with underlying accounting records.

Condition: The final fiscal year 2015 cash transactions report and financial reports for quarters ended 12/31/2014, 03/31/2015 and 09/30/2015, as submitted to the grantor agency, were not available for examination.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures over retention and filing of quarterly financial reports submitted to grantors.

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

Recommendation: The Ministry of Finance should establish adequate internal control policies and procedures governing retention and filing of quarterly financial reports submitted to grantors.

Auditee Response and Corrective Action Plan: The Ministry of Finance agrees with the finding and recommendation. The Ministry is improving and strengthening internal control measures governing the retention and filing of periodic reports and is now implementing documentation of accomplishments and reportorial compliance on a monthly basis to improve performance and timely monitoring of compliance.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-011
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$200,000

Area: Subrecipient Monitoring

Criteria: Article VI, Section 1(a)(1) of the Fiscal Procedures Agreement (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: During the year ended September 30, 2015, RepMar sub-granted Compact funding to various subrecipients. We examined the underlying Sub-Grant Agreements or Memorandums of Agreement (MOA) and noted exceptions whereby no Sub-Grant Agreement nor MOA was available or the MOA made no reference to the Compact Agreement, grant award, or FPA:

- College of the Marshall Islands was sub-granted \$1,078,871 in Education Sector Grant, \$303,500 in Supplemental Education Grant, \$125,000 in Ebeye Special Needs Sector Grant, and \$250,000 in Infrastructure Maintenance Grant funding.
- Kwajalein Atoll Joint Utilities Resources, Inc. was sub-granted \$2,580,624 in Landowners Special Needs funding.
- Majuro Atoll Waste Company (MAWC) was sub-granted \$201,842 in Infrastructure Sector Grant funding and \$325,000 in Environment Sector Grant funding.
- Marshall Islands Scholarship, Grant and Loan Board was sub-granted \$600,000 in Education Sector Grant, \$54,915 in Supplemental Education Grant and \$200,000 in Ebeye Special Needs funding.
- Majuro Water and Sewer Company, Inc. was sub-granted \$300,000 in Infrastructure Sector Grant funding.

As separate OMB Circular A-133 audits are performed on these entities, no questioned costs are reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-011, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$200,000

Area: Subrecipient Monitoring

Condition, Continued:

In addition, RepMar has not established formal policies and procedures over subrecipient monitoring. During fiscal year 2015, Pacific Wellness Center was sub-granted \$200,000 in Ebeye Special Needs Sector Grant funding. No financial reports were submitted to the Secretary of Finance relative to expenditure of the sub-granted funds, as required by the underlying MOA. As a result, questioned costs of \$200,000 are reported.

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

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 \$200,000 result.

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.

Prior Year Status: Lack of adequate internal control policies and procedures requiring execution of Sub-Grant agreements with Sub-Grantees and compliance with special tests and provisions of the FPA was reported as a finding in prior single audits as items 2009-10, 2010-07, 2011-07, 2012-07, 2013-007 and 2014-006.

Auditee Response and Corrective Action Plan: The Ministry does not dispute the finding. The corrective action to put reference to the Compact FPA has been done for the Fiscal Year 2016. The FY2017 MOAs will continue to reference the Compact FPA.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-012
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Area: Special Tests and Provisions

Criteria: Article VII, Section 7(a) of the Fiscal Procedures Agreement (FPA) requires that the Infrastructure Maintenance Fund (IMF) contributions be deposited in an operations and maintenance assistance account established by the Government of the Republic of the Marshall Islands. Furthermore, Section 7(b) requires that the Government of the United States shall deposit its contribution upon certification by the Government of the Republic of the Marshall Islands that local matching funds have been deposited.

Condition: The IMF contributions from the Government of the United States for fiscal years 2013 and 2014 of \$532,845 and \$506,537, respectively, received in fiscal years 2014 and 2015, respectively, were not deposited to the separately established operations and maintenance assistance account. Instead, these contributions were deposited to a General Fund bank account established for the deposit of Compact sector drawdowns.

Cause: The cause of the above condition is the lack of transfer of IMF contributions from the Compact sector drawdown bank account to the separately established operations and maintenance assistance account.

Effect: The effect of the above condition is technical noncompliance with specific provisions of the FPA over deposit of IMF contributions. Thus, no questioned costs result.

Recommendation: The Ministry of Finance should establish adequate internal control policies and procedures requiring the timely transfer of IMF contributions to the separately established bank account.

Auditee Response and Corrective Action Plan: The Ministry agrees both with the Finding and Recommendation. Strict compliance with FPA requirements and proper monitoring shall be enforced to address the problem.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-013
Area: RMI Procurement Code

Criteria: Procurement of goods and services should be in accordance with RepMar's 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: During the year ended September 30, 2015, the RepMar Cabinet authorized through Cabinet Minutes 173(2014), dated November 7, 2014, and 049(2015), dated March 25, 2015, for certain locally funded purchases to be exempt from complying with Section 124 of the RMI Procurement Code.

Additionally, for locally funded check # 124889 (APV # 239776, \$21,517) only one price quote was obtained.

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.

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.

Prior Year Status: Noncompliance with the requirements of the RMI Procurement Code was reported as a finding in prior single audits as items 2013-009 and 2014-007.

Auditee Response and Corrective Action Plan: Management agrees both with the finding and recommendation. The Ministry of Finance no longer accepts Cabinet Minutes for waiving the conditions set in the Procurement Code and instead ensure compliance thereof.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-014
Area: General Ledger Account Reconciliations

Criteria: Adequate internal control policies and procedures should be established to require periodic and timely reconciliation of all significant general ledger accounts, independent supervisory approval of reconciliations, and timely recording of transactions and adjustments identified through the reconciliation process to facilitate accurate financial reporting.

Condition # 1: As of May 31, 2016, although reconciliations of the general and other major bank accounts had been completed by the Ministry of Finance, reconciliations for the following cash and investment accounts had not been performed:

<u>Item #</u>	<u>G/L Account #</u>	<u>Account Name</u>
1	300614-19060	NCT Investments
2	300618-15020	Compact Trust Fund
3	950000-11095	Asia Pacific Disaster Response Fund
4	950000-12060	Dengue Fever Account
5	950000-12065	Severe Drought 2013
6	950000-13035	RMI/ADB Program Account
7	950000-13091	44 th Annual Pacific Islands Forum
8	950000-15085	RMI 9 th Micro President's Summit
9	950000-15086	Micro President/Chief Summit
10	950000-15087	2 nd Taiwan Pacific Allies Summit

For item # 2, the September 30, 2015 reconciliation was completed on June 14, 2016.

Audit procedures identified the following exceptions with management's reconciliations:

- Reconciliations identified errors and dated reconciling items which remained unadjusted as of September 30, 2015. As such errors/items were not considered material to the financial statements, no audit adjustments were proposed.

For item # s 1, 4, 6 and 7 through 10, bank confirmation responses indicated that the associated bank accounts had been closed. Management proposed adjustments to close out item #s 4 and 7 after this matter was brought to their attention.

Stale-dated checks totaling \$25,782 which had been adjusted to cash and a liability account in a prior year were included as reconciling items for G/L Account # 950000-13018, Ebeye USAKA bank account. This amount was not considered material; therefore, no audit adjustment was proposed to correct the error.

Condition # 2: As of May 31, 2016, various general ledger account reconciliations had not been completed by the Ministry of Finance, including the following accounts, which were not reconciled during the entire fiscal year:

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-014, Continued
Area: General Ledger Account Reconciliations

Condition # 2, Continued:

<u>Item</u>	<u>G/L Account #</u>	<u>Account Name</u>
1	100100-07505	Foreign Operating
2	100100-20010	A/R Taxes
3	100100-21020	A/R ROC Grants
4	100100-22032	ADV to MEC – ADB
5	100100-28010	Travel Advances
6	200090-22010	A/R Weather Station
7	Various	A/R – Compact
8	600350-21010	A/R – Federal Grants
9	700360-22040	Non Fed/Other Grants
10	700370-07505	Foreign Operating
11	700370-21020	A/R ROC Grants
12	985000-77010	ADB Loans Payable

Reconciliations were completed by July 2016 and audit adjustments were proposed to correct identified reconciliation errors.

We further noted a lack of reconciliation of significant vendor statements.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of general ledger account reconciliations.

Effect: The effect of the above condition is material misstatements of account balances, increased risk of undetected errors and fraud, and inaccurate financial reporting. Furthermore, delays in performance of audit procedures occurred due to modifications to the trial balances submitted for audit.

Recommendation: Management should establish policies and procedures requiring periodic and timely performance of and independent supervisory verification of significant general ledger accounts reconciliations. Furthermore, such policies and procedures should also require timely resolution of errors and recording of unrecorded transactions identified through the reconciliation process.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-014, Continued
Area: General Ledger Account Reconciliations

Prior Year Status: Lack of adequate internal control policies and procedures requiring periodic and timely performance of reconciliations and independent supervisory verification of significant general ledger accounts was reported as a finding in prior single audits as items 2010-09, 2010-12, 2011-11, 2012-08, 2013-010 and 2014-008.

Auditee Response and Corrective Action Plan: Management agrees with the finding. The Ministry of Finance's "Standard Operating Procedures" (SOP) sections 3, 11 and 12 include numerous accounting practices and procedures to cover various account reconciliations, monthly reporting deadlines. The Ministry of Finance placed positions that are responsible for each designated activity. Whilst the above may not have been fully adhered to in the past, MOF is in the process of improving compliance with these SOP policies and procedures. The Ministry is also moving forward to include much more detailed requirements for reconciliations, authorization of entries and overall management of the data base. A performance monitoring method has been adopted by the Ministry starting FY2017, requiring monthly reporting of scheduled reconciliations done.

On top of various efforts currently in pace to improve processes and internal control, MOF will establish an Internal Audit function unit and Human Resources Management Unit for performance monitoring and evaluation starting FY2017.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-015
Area: Revenues

Criteria: Adequate internal control policies and procedures should be established to require timely and accurate recording of revenues and cash receipts.

Condition: Unidentified deposits totaling \$1,212,585 were recorded as other revenue in the General Fund. Such included non-General Fund revenue receipts of \$640,108 and various General Fund tax collections of \$572,477. Furthermore, contributions from the Marshall Islands Marine Resources Authority of \$2,083,333 and \$360,000, respectively, were recorded as ship registry and other revenue in the General Fund. Additionally, fuel tax revenues of \$314,318 were incorrectly recorded as import tax revenues. Audit adjustments were proposed to reclassify and correct these errors.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring timely and accurate recording of revenues and cash receipts.

Effect: The effect of the above condition is material misstatement of revenues.

Recommendation: Management should establish internal control policies and procedures requiring timely and accurate recording of revenues and cash receipts, including determining nature of direct deposits to facilitate proper recording.

Auditee Response and Corrective Action Plan: The Ministry of Finance agrees with the finding. Again the Ministry's SOP in section 3 deals with regular GL reconciliations, as well as, prompt and accurate recording of cash receipts. Various time frames for various reconciliations are specified. Responsibilities for various procedures are also assigned in the SOP. It is planned to update the SOP to include much more specific reference to GL and subsidiary account balances to ensure accuracy of reporting.

Again the management is moving forward to improve compliance with the SOP. On top of various efforts currently in pace to improve processes and internal control, the Ministry of Finance will establish an Internal Audit function unit and Human resources Management Unit beginning FY2017.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-016
Area: Accounts Receivable

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

Condition: Drawdown request # 6-2015 amounting to \$579,988 for the Supplemental Education Grant was not processed and collected before the grant closed. Accordingly, this may 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, the Ministry of Finance recorded receivables due from federal agencies for the Public Infrastructure Sector Grant and the Single Audit Grant amounting to \$3,525,303 and \$752,740, respectively, which have yet to be billed and collected as of our report date.

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.

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

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

Prior Year Status: Lack of adequate policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur was reported as a finding in prior single audits as items 2012-09, 2013-11 and 2014-009.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. With strict adherence to the SOP, the Ministry of Finance expects to see much improvement in the handling of grantors funds. It is planned to include more detailed procedures for the control and management of grants funds into the SOP. This will include procedures that govern the timeliness of drawdowns of grants and reconciliation of all grants on a monthly basis rather than at the year end. This will provide a safeguard against drawdowns being overlooked as has sometimes occurred in the past.

On top of various efforts currently in pace to improve processes and internal control, the Ministry of Finance will establish an Internal Audit function unit and Human Resources Management unit starting FY2017.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-017
Area: Construction-In-Progress/Retention Payable

Criteria: Adequate internal control policies and procedures should be established to require that fixed asset and retention payable subsidiary ledgers are updated in accordance with the progress of construction projects.

Condition: The construction-in-progress (CIP) and retention payable subsidiary ledgers (SL) were not updated throughout fiscal year 2015.

Cause: The cause of the above condition is the lack of policies and procedures requiring timely and periodic update of CIP and retention payable subsidiary ledgers and reconciliation with general ledger accounts. A further cause for the errors in valuation of both completed and ongoing projects is the lack of reconciliations with contractor billings, which are inclusive of retention and gross receipts taxes, and with RepMar's Project Management Unit's monthly project status reports.

Effect: The effect of the above condition is the misstatement of capital assets, retention payable, and expenditures which resulted in inaccurate interim financial reporting.

Recommendation: Management should establish policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts.

Prior Year Status: Lack of policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts was reported as a finding in prior single audits as items 2011-13, 2012-10, 2013-012 and 2014-011.

Auditee Response and Corrective Action Plan: Management agrees with the finding. It is intended to expand the existing SOP section 4.13 to include details of required fixed asset reconciliations including capital work in progress and retentions payable to align with the Project Management Unit's regular reports.

On top of various efforts currently in pace to improve processes and internal control, the Ministry of Finance will establish an Internal Audit function unit and Human resources Management unit starting FY2017.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-018
Area: Encumbrances

Criteria: Encumbrances should be periodically reviewed for validity, and encumbrance subsidiary ledgers and the general ledger should be timely reconciled.

Condition: Encumbrances were not reviewed and reconciled throughout fiscal year 2015. In excess of thirty-two percent (32%) of September 30, 2015 encumbrances were over a year old. The subsidiary ledgers also included undated encumbrances totaling \$322,672. Accordingly, a \$4,545,057 audit adjustment was proposed to reduce recorded encumbrances.

Cause: The cause of the above condition is the lack of policies and procedures requiring periodic review and reconciliation of encumbrances.

Effect: The effect of the above condition is a misstatement of encumbrance balances.

Recommendation: Management should periodically review the subsidiary encumbrance ledgers for invalid encumbrances and timely reconcile the general ledger to the subsidiary ledgers.

Prior Year Status: Lack of policies and procedures requiring timely and periodic review and reconciliation of encumbrances was reported as a finding in the prior single audits as item 2013-013 and 2014-012.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. During FY16, reviews of the encumbrances commenced and a long overdue systematic cleanup of encumbrances began.

It is also planned to include a new section in the Ministry's SOP to cover the monitoring and control of encumbrances during FY17. On top of various efforts currently in pace to improve processes and internal control, the Ministry of Finance will establish an Internal Audit function unit and Human resources Management for improved staff performance monitoring and Evaluation Unit beginning FY2017.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-019
Area: General Ledger Journal Entries

Criteria: Adequate accounting controls necessitate segregation of duties. Journal entries and adjustments should be adequately supported and be independently approved.

Condition: Independent review and authorization of journal entries posted for fiscal year 2015 were not consistently documented, and numerous general journal vouchers (GJV) were not supported by underlying documentation. Furthermore, daily batch edit reports run prior and subsequent to posting of journal entries and updates of general ledger accounts are not reviewed to determine timely disposition of errors.

Additionally, there is no system control in place to preclude use of the same GJV # and instances of multiple use of the same GJV # occurred.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring that journal entries and adjustments to the general ledger be subject to independent review and approval.

Effect: The effect of the above condition is a possible misstatement of financial statement balances and the recording of unauthorized transactions.

Recommendation: Management should establish policies and procedures relative to independent authorization and review of journal entries and adjustments.

Prior Year Status: The lack of independent review and approval of journal entries and adjustments was reported as a finding in prior single audits as items 2009-12, 2010-10, 2011-14, 2012-11, 2013-014 and 2014-013.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. Section 3 of the Ministry of Finance's SOP states that general journal transactions will be processed daily, biweekly, bimonthly and monthly depending on the type of journal entries. However, it is planned to expand the sections relating to journal entries to include more detailed procedures to cover the areas of documentation, verification and authorization in ensuring accurate posting of entries. Assignment of unique series of GJV numbers to be used by individual accounting staff is now in place to avoid duplication. Also emphasis on proper documentation to support respective transaction entries is communicated.

Moreover, additional technical personnel has been added to the Finance team to assist with the ongoing internal control issues with the aim of building local capacity and sustainability.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-020
Area: External Financial Reporting

Criteria: Subpart C of OMB Circular A-133 imposes certain auditee responsibilities, which include the following:

- (a) Section 315: The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings.
- (b) Section 320: The audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Condition: RepMar is not in compliance with the requirement to prepare the summary schedule of prior audit findings or to meet the Single Audit nine-month deadline.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures as further outlined in Finding 2015-014 requiring financial reporting deadlines be complied with.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that management establish policies and procedures to require compliance with OMB Circular A-133 financial reporting deadlines.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. Currently, the Ministry of Finance has ongoing undertakings to comply with the reportorial requirements and aims for timely submission of financial reports in succeeding fiscal years. A performance monitoring method has been adopted by the Ministry starting FY2017 requiring monthly reporting of compliance.

On top of various efforts currently in pace to improve processes and internal control, MOF will establish an Internal Audit function unit and Human Resources Management Unit for performance monitoring and evaluation starting FY2017.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2015

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, 2015:

	<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	<u>318,321</u>	<u>22,287</u>	<u>340,608</u>
	2,673,325	22,287	2,695,612
Less questioned costs resolved in fiscal year 2015:			
Questioned costs of fiscal year 2014 Single Audit reported in:			
Finding No. 2014-004 (1)	<u>(1,650)</u>	<u>-</u>	<u>(1,650)</u>
	2,671,675	22,287	2,693,962
Questioned costs of fiscal year 2015 Single Audit	<u>626,246</u>	<u>200,000</u>	<u>826,246</u>
Unresolved questioned costs of RepMar at September 30, 2015	<u>\$ 3,297,921</u>	<u>\$ 222,287</u>	<u>\$ 3,520,208</u>

(1) Resolved through a grantor agency determination dated October 13, 2016

Summary Schedule of Prior Audit Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2008-5	15.875	\$ 74,318	Refer Note 1.
2008-6	84.027	14,966	Refer Note 1.
2008-7	15.875/	294,900	Refer Note 1.
	93.110	8,927	Refer Note 1.
2009-1	15.875	208,243	Refer Note 1.
2009-2	15.875	848	Refer Note 1.
2009-9	15.875	18,363	Refer Note 1.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Summary Schedule of Prior Audit Findings and Questioned Costs, Continued

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2010-4	10.567/	18,706	Refer Note 1.
	15.875/	629,840	Refer Note 1.
	84.027/	26,305	Refer Note 1.
	93.003/	8,671	Refer Note 1.
	93.069/	47,659	Refer Note 1.
	93.110/	15,336	Refer Note 1.
	93.118/	16,450	Refer Note 1.
	93.163/	38,450	Refer Note 1.
	93.268/	94,554	Refer Note 1.
	93.889/	31,995	Refer Note 1.
	93.938/	14,082	Refer Note 1.
	93.958/	2,552	Refer Note 1.
	93.959/	4,906	Refer Note 1.
	93.977/	51,690	Refer Note 1.
2010-5	93.988/	2,062	Refer Note 1.
	93.069/	170,600	Refer Note 1.
	93.217/	8,323	Refer Note 1.
2011-05	93.889/	155,500	Refer Note 1.
	93.003	170,000	Refer Note 1.
2011-06	11.460/	50,705	Refer Note 1.
	93.959	59,400	Refer Note 1.
2012-01	84.027	9,502	Refer Note 1.
2012-05	15.875	2,203	Refer Note 1.
2012-06	15.875	30,252	Refer Note 1.
2013-001	84.027	3,402	Refer Note 1.
2013-002	15.875	642	Refer Note 1.
2013-005	93.889	58,278	Refer Note 1.
2013-006	15.875	4,725	Refer Note 1.
2014-001	84.027	7,649	Refer Note 1.
2014-004	15.875	3,563	Refer Note 1.
2014-006	15.875	303,903	Refer Note 1.
2014-001	15.875	22,287	Refer Note 1.
2014-005	84.027	946	Refer Note 1.
	84.027	<u>8,259</u>	Refer Note 1.

\$ 2,693,962

Note 1: Management is awaiting follow-up and issuance of a management decision from the Federal agency.