

**REPUBLIC OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2017**

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated June 29, 2018. Our report includes emphasis-of-matter paragraphs concerning collectability of federal grants receivable and social security obligations.

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

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify 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 2017-003, 2017-009, 2017-010 and 2017-011 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 to be significant deficiencies.

## **Compliance and Other Matters**

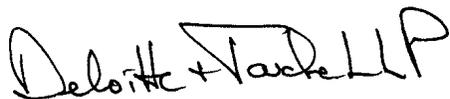
As part of obtaining reasonable assurance about whether RepMar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 item 2017-005.

## **RepMar's Response to Findings**

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

## **Purpose of this Report**

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



June 29, 2018

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the Republic of the Marshall Islands' (RepMar's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2017. RepMar's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in note 3 to the Schedule of Expenditures of Federal Awards, RepMar's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2017. Our audit, described below, did not include the operations of the entities identified in note 3 as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of RepMar's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RepMar's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of RepMar's compliance.



**Basis for Qualified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants**

As described in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants as described in finding numbers 2017-002 for Cash Management, 2017-003 for Equipment and Real Property Management, and 2017-006 for Reporting. Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to that programs.

**Qualified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants**

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 CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants for the year ended September 30, 2017.

**Unmodified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Section 212 Kwajalein Impact and Use**

In our opinion, RepMar complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Section 212 Kwajalein Impact and Use for the year ended September 30, 2017.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-004, 2017-005, 2017-007 and 2017-008 as follows:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2017-001	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Allowable Costs/Cost Principles
2017-001	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Section 212 Kwajalein Impact and Use	Allowable Costs/Cost Principles
2017-004	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Period of Availability of Federal Funds; Period of Performance
2017-005	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment
2017-007	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Subrecipient Monitoring
2017-008	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Special Tests and Provisions

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

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

## Report on Internal Control Over Compliance

Management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RepMar's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-002, 2017-003 and 2017-006 to be material weaknesses.

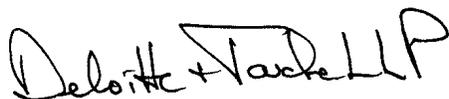
*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 2017-001, 2017-004, 2017-005, 2017-007 and 2017-008 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements. We issued our report thereon dated June 29, 2018, which contained unmodified opinions on those financial statements and included emphasis-of-matter paragraphs concerning collectability of federal grants receivable and social security obligations. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 29, 2018

**REPUBLIC OF THE MARSHALL ISLANDS**

Summary Schedule of Expenditures of Federal Awards, By Grantor  
Year Ended September 30, 2017

<u>Agency</u>	<u>Federal Expenditures</u>
U.S. Department of Commerce	\$ 517,150
U.S. Department of Agriculture	718,316
U.S. Department of the Interior	67,921,119
U.S. Department of Education	1,594,956
U.S. Department of Health and Human Services	5,368,269
U.S. Department of Homeland Security	38,838
	<u>\$ 76,158,648</u>

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

See accompanying notes to schedule of expenditures of federal awards.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal CFDA#	<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal Expenditures</u>
<b>GENERAL FUND AND REIMBURSABLE FUND:</b>		
<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects	\$ 517,150
	Total U.S. Department of Commerce	<u>517,150</u>
<b>U.S. FEDERAL GRANTS FUND:</b>		
<u>U.S. Department of Agriculture:</u>		
10.582	Fresh Fruit and Vegetable Program	\$ 718,316
	Total U.S. Department of Agriculture	<u>718,316</u>
<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	1,394,774
	A Long-Term Solution for Household Water in Light of Climate Changes at Enewetak Atoll	292,000
	Kili and Ejit Climate Change Resilience Development	185,826
	Office of the Auditor General Grants	36,958
	Kwajalein Atoll Sustainable Food Security Program	25,013
	National Broadcaster Radio V7AB Upgrade Project	5,285
	Ministry of Finance IT Improvements Project	4,500
	Register of Persons Improvement Project	<u>1,358</u>
	Sub-total CFDA # 15.875	1,945,714
15.904	Historic Preservation Fund Grants-In-Aid	<u>39,657</u>
	Total U.S. Department of the Interior	<u>1,985,371</u>
<u>U.S. Department of Education:</u>		
Special Education Cluster (IDEA):		
84.027	Special Education-Grants to States	1,594,956
	Total Special Education Cluster (IDEA) and Total U.S. Department of Education	<u>1,594,956</u>
<u>U.S. Department of Health and Human Services:</u>		
93.074	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements	483,780
93.110	Maternal and Child Health Federal Consolidated Programs	28,604
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	441,454
93.127	Emergency Medical Services for Children	40,684
93.217	Family Planning-Services	80,178
Health Center Program Cluster:		
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Health Centers)	<u>886,008</u>
	Subtotal Health Center Program Cluster	886,008
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,098,103
93.268	Immunization Cooperative Agreements	791,342
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	213,386
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases	220,753
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Diseases and Emerging Infections Program Cooperative Agreements	9,126
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds	27,404
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	377
93.817	Hospital Preparedness Program Ebola Preparedness and Response Activities	88,934
93.889	National Bioterrorism Hospital Preparedness Program	53,278
93.917	HIV Care Formula Grants	5,760
93.945	Assistance Programs for Chronic Disease Prevention and Control	272,065
93.958	Block Grant for Community Mental Health Services	86,559
93.959	Block Grants for Prevention and Treatment of Substance Abuse	338,115
93.994	Maternal and Child Health Services Block Grant to the States	<u>202,359</u>
	Total U.S. Department of Health and Human Services	<u>5,368,269</u>
<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants	<u>38,838</u>
	<b>TOTAL U.S. FEDERAL GRANTS FUND</b>	<b>\$ <u>9,705,750</u></b>

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, 2017

Federal CFDA#	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
<b>COMPACT SECTOR GRANTS FUND:</b>			
	<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants:		
	Section 211(a)(1) Education Sector	\$ 1,579,204	\$ 11,238,385
	Supplemental Education Grant	288,325	5,629,821
	Section 211(a)(2) Health Sector		7,025,106
	Section 211(a)(5) Environment	319,219	319,219
	Section 211(b)(1) Ebeye Special Needs	325,000	4,868,518
	Section 211(b)(2) Landowners Special Needs	1,327,860	2,659,738
	Section 211(b)(3) Kwajalein Environment		197,670
	Section 211(d)(1) Public Infrastructure Development	1,150,270	11,241,986
	Section 211(d)(2) Infrastructure Maintenance		847,875
	<b>TOTAL COMPACT SECTOR GRANTS FUND</b>	<u>\$ 4,989,878</u>	<u>\$ 44,028,318</u>
<b>SECTION 212 KWAJALEIN LANDOWNERS FUND:</b>			
	<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>21,509,544</u>
<b>SECTION 213 AUDIT FUND:</b>			
	<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>397,886</u>
	<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>	<u>\$ 4,989,878</u>	<u>\$ 76,158,648</u>
Reconciliation to the 2017 financial statements is as follows:			
	General Fund (Reimbursable Fund)	(1)	\$ 517,150
	U.S. Federal Grants Fund	(2)	9,705,750
	Compact Sector Grants Fund	(3)	44,028,318
	Section 212 Kwajalein Landowners Fund	(4)	21,509,544
	Section 213 Audit Fund	(5)	397,886
			<u>\$ 76,158,648</u>

- (1) Included within total expenditures for the Reimbursable Fund of \$694,710 presented on page 112 of the 2017 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$8,310,976 and \$1,394,774, respectively, presented on page 102 of the 2017 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$43,238,156 and \$790,162, respectively, presented on page 107 of the 2017 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$21,509,544 presented on page 92 of the 2017 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$397,886 presented on page 102 of the 2017 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, 2017

#### (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 Single Audit. The U.S. Department of the Interior has been designated as RepMar's cognizant agency for the Single Audit.

#### (2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of RepMar under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of RepMar, it is not intended to and does not present the financial positions or changes in financial positions of RepMar.

#### (3) Summary of Significant Accounting Policies

##### a. Basis of Accounting

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

##### b. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, RepMar's reporting entity is defined in Note 1A to its September 30, 2017 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Marshall Islands Judiciary Fund, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2017.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2017

#### (3) Summary of Significant Accounting Policies, Continued

##### b. Reporting Entity, Continued

The federal award totals for the excluded component units as of September 30, 2017, are as follows:

<u>Component Unit</u>	<u>Federal Award Total</u>
Air Marshall Islands, Inc.	\$ -
College of the Marshall Islands	\$ 6,582,577
Health Care Revenue Fund	\$ -
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,327,860
Majuro Atoll Waste Company	\$ 969,490
Majuro Resort, Inc.	\$ -
Majuro Water and Sewer Company, Inc.	\$ -
Marshall Islands Development Bank	\$ -
Marshall Islands Health Fund	\$ -
Marshall Islands Judiciary Fund	\$ -
Marshall Islands Marine Resources Authority	\$ -
Marshall Islands National Telecommunications Authority	\$ -
Marshall Islands Postal Service Authority	\$ -
Marshall Islands Scholarship, Grant and Loan Board	\$ 817,550
Marshall Islands Shipping Corporation	\$ -
Marshall Islands Social Security Administration	\$ -
Marshall Islands Visitors Authority	\$ -
Marshall Islands Energy Company, Inc.	\$ 3,449,832
RMI Office of Commerce and Investment	\$ -
RMI Ports Authority	\$ 1,423,382
Tobolar Copra Processing Authority	\$ -

##### c. Matching Costs

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

##### d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2017. RepMar did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance and did not charge federal programs for indirect costs during fiscal year 2017.

##### e. CFDA # 15.875

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2017

(3) Summary of Significant Accounting Policies, Continued

f. Subrecipients

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subrecipient</u>	<u>2017 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	\$ 987,002
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	288,325
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	College of the Marshall Islands	125,000
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	500,000
Compact of Free Association, As Amended, Landowners Special Needs Grant	Kwajalein Atoll Joint Utilities Resources, Inc.	1,327,860
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company	319,219
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Atoll Waste Company	650,270
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	592,202
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	<u>200,000</u>
		<u>\$ 4,989,878</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

**Section I - Summary of Auditors' Results**

*Financial Statements*

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

Internal control over financial reporting:

2. Material weakness(es) identified? Yes

3. Significant deficiency(ies) identified? Yes

4. Noncompliance material to financial statements noted? Yes

*Federal Awards*

Internal control over major federal programs:

5. Material weakness(es) identified? Yes

6. Significant deficiency(ies) identified? Yes

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

Economic, Social and Political Development of the Territories:  
Compact of Free Association, As Amended, Sector Grants Qualified

Economic, Social and Political Development of the Territories:  
Compact of Free Association, As Amended, Section 212 Kwajalein  
Impact and Use Unmodified

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

9. Identification of major federal programs:

<u>CFDA #</u>	<u>Name of Federal Program</u>
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15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants
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15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Section 212 Kwajalein Impact and Use
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10. Dollar threshold used to distinguish between Type A and Type B programs: \$ 2,284,759

11. Auditee qualified as low-risk auditee? No

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>
2017-001	Allowable Costs/Cost Principles
2017-003	Equipment and Real Property Management
2017-005	RMI Procurement Code
2017-009	Embassy Imprest Accounts
2017-010	Accounts Receivable
2017-011	Compact Trust Fund Investments

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

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2017-001	15.875	Allowable Costs/Cost Principles	\$ 620
2017-002	15.875	Cash Management	Undeterminable
2017-003	15.875	Equipment and Real Property Management	\$ -
2017-004	15.875	Period of Availability	\$ -
2017-005	15.875	Procurement and Suspension and Debarment	\$ 188,265
2017-006	15.875	Reporting	\$ -
2017-007	15.875	Subrecipient Monitoring	\$ 208,929
2017-008	15.875	Special Tests and Provisions	\$ -

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-001  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories:  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$620

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories:  
Federal Award No.: Section 212 Kwajalein Impact and Use  
Questioned Costs: \$0

Area: Allowable Costs/Cost Principles

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

Condition # 1: Of \$15,524,652 in payroll expenditures for the Compact Sector Grants, sixty (60) items totaling \$39,568 were tested, with the following deficiency noted:

- Employee # 57648 was overpaid by 88 hours (or \$620) for pay period ended 9/30/2017. Such has been extrapolated to determine a projected questioned cost, which exceeds the \$25,000 threshold.

Condition # 2: Of \$21,528,783 in land use distribution expenditures for Section 212 Kwajalein Impact and Use Grant, twenty-five (25) items totaling \$6,456,445 were tested, with the following deficiency noted:

- Check # 145379 amounting to \$19,239 was paid in error. Such was extrapolated to determine a projected questioned cost, which exceeded the \$25,000 threshold. The expenditure was subsequently adjusted and transferred to the General Fund, therefore, no questioned costs are reported.

Cause: The cause of the above conditions is the lack of verification of the validity and allowability of expenditures.

Effect: The effect of the above conditions is noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs of \$620 result.

Identification as a Repeat Finding: Finding 2016-001

Recommendation: Management should require that expenditures be verified for validity and allowability.

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-002  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: Undeterminable

Area: Cash Management

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

Condition: Eight (8) Compact Sector Grants draws, totaling \$9,220,706, were tested. For the following two draws (or 25%), we were unable to perform required cash management tests as the detailed federal draws and supporting disbursements were not available for examination:

<u>Fund</u>	<u>Drawdown #</u>	<u>Amount</u>
410102	SEG-03-2016	\$ 1,559,229
410102	SEG-06-2016	\$ 1,655,184

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

The above condition is also reported as a matter of noncompliance within Finding No. 2017-006.

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

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

Identification as a Repeat Finding: Finding 2016-002

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-003  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$0

Area: Equipment and Real Property Management

Criteria: Article VI, Section 1(f)(4) of the FPA states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will follow state laws and procedures. The following requirements are applicable:

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

Additionally, the carrying amount of long-lived assets and the estimated useful lives of assets should be periodically re-assessed and adjusted as appropriate, based on actual experience, and relevant factors and circumstances.

Condition # 1: We noted the following deficiencies:

- Fixed assets records do not meet the criteria above and are not effectively maintained since updates to the records occur only once a year. A reconciled fixed assets register as of September 30, 2017 was not available until February 23, 2018.
- An inventory of fixed assets has not been performed in accordance with the above criteria; therefore, a reconciliation of the fixed assets records and a physical inventory has not occurred.
- As the fixed assets records are not effectively maintained, it does not appear that RepMar has effectively developed means to adequately safeguard fixed assets from loss, damage, theft, or to reasonably investigate such occurrences.
- RepMar has not established policies and procedures governing property maintenance and has not effectively implemented an entity-wide maintenance plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-003, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$0

Area: Equipment and Real Property Management

Condition # 1, Continued

Capital outlays by RepMar within the Compact Sector Grants Fund (CFDA 15.875) for fiscal years 2017, 2016 and 2015 were as follows:

Fiscal Year 2017	\$ 8,921,587
Fiscal Year 2016	\$ 4,721,869
Fiscal Year 2015	\$ 3,501,695

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

<u>Funding Source</u>	<u>CFDA #</u>	<u>Asset Description</u>	<u>Department</u>	<u>Net Book Value</u>
Compact	15.875	School Bus P46018	Education	\$ 69,739

Additionally, long-lived assets are not evaluated for possible impairment.

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

Effect: The effect of the above conditions is noncompliance with applicable equipment management requirements and possible misstatement of fixed assets and related accounts. No questioned costs are reported as conditions relate to inadequate property records, maintenance procedures, and the absence of timely reconciliations rather than unallowable asset acquisitions.

Identification as a Repeat Finding: Finding 2016-004

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-004  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$0

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 \$32,184,200 in non-payroll expenditures for the Compact Sector Grants, fifty-three (53) items totaling \$14,132,754 were tested, with the following deficiency noted:

- For contract # C09844 (fund 510100, cost center # CD8012), the remaining seventy-five percent (75%) payment (or \$73,440) was processed outside of the associated grant's period of availability. Payment was withheld from the contractor due to issues encountered with the equipment purchased. This item is also reported as a matter of noncompliance within Finding No. 2017-005. The associated check # 147725 was subsequently voided and reversed; therefore, no questioned costs are reported.

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

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

Identification as a Repeat Finding: Finding 2016-005

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-005  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$188,265

Area: Procurement and Suspension and Debarment

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

RepMar’s Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$32,184,200 in non-payroll expenditures for the Compact Sector Grants, fifty-three (53) items totaling \$14,132,754 were tested. For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Contract #</u>	<u>APV #</u>	<u>Amount</u>
1	410110	-	278595	\$ 2,255
2	510100	C09844	-	24,480
3	510110	C10004	-	<u>161,530</u>
				\$ <u>188,265</u>

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

For item # 2, the vendor supplied refurbished hospital equipment which was not accepted by RepMar; however, the invitation for bid did not specify supply of new equipment. Total contract price was \$97,920, of which \$73,440, reported as a matter of noncompliance within Finding No. 2017-004, was subsequently reversed. Therefore, questioned costs for the difference of \$24,480 result.

For item # 3, the method of procurement utilized was sole source as allowed by Section 128 of RepMar’s Procurement Code; however, no documentation was provided to justify use of this procurement method. Furthermore, a variation order at a cost in excess of 150% of the original contract price was approved three weeks after the original contract was supposed to have been completed.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-005, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$188,265

Area: Procurement and Suspension and Debarment

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

Effect: The effect of the above condition is noncompliance with applicable procurement requirements, and questioned costs of \$188,265 result.

Identification as a Repeat Finding: Finding 2016-006

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-006  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
 Federal Award No.: Compact Sector Grants  
 Questioned Costs: \$0

Area: Reporting

Criteria: Article VI, Section 1(b)(1) of the FPA requires financial reports Standard Form SF-269 and SF-272, or any successor thereto, as issued by the Government of the United States from time to time, to be prepared quarterly for each sector grant and submitted by RepMar 30 days after the end of each fiscal quarter. Article VI, Section 1.(b)(2) of the FPA further requires a final cash transactions report for each sector or other grant 90 days after the end of the funding period. Drawdowns for reimbursement of actual or accrued expenditures shall be accomplished using the Request for Advance or Reimbursement (SF-270) form. Additionally, reports submitted should reconcile with underlying accounting records.

Condition # 1: Accounting records underlying Fund 410102 expenditures reported on SF-270 drawdown #s SEG-DD03-2016 and SEG-DD06-2016 for \$1,559,229 and \$1,655,184, respectively, were not available for examination. The above condition is also reported as a matter of noncompliance within Finding No. 2017-002.

Condition # 2: The following variances between the quarter ended September 30, 2017 SF-425 reports submitted on October 31, 2017 and the accounting records were noted:

Fund	Grant No.	Expenditures			Unliquidated Obligations		
		SF-425	4Gov	Variance	SF-425	4Gov	Variance
410100	D17AF00023	\$ 10,472,502	\$ 10,472,502	\$ -	\$ 91,156	\$ 91,563	\$ (407)
410102	D16AF00059	\$ 4,808,657	\$ 4,768,526	\$ 40,131	\$ 229,609	\$ 229,609	\$ -
410150	D17AF00026	\$ 3,908,340	\$ 3,865,919	\$ 42,421	\$ 477,783	\$ 548,557	\$ (70,774)
510100	D17AF00020/34	\$ 3,233,541	\$ 3,155,825	\$ 77,716	\$ 4,947,774	\$ 4,745,723	\$ 202,051

Additionally, accounting records underlying quarter ended September 30, 2017 SF-425 reports submitted on October 31, 2017 for grant #s D15AF00026-00010 and D15AF00026-00020 were not available for examination. We were informed by Ministry of Finance that no expenditures were incurred during fiscal year 2017 under these grants, and no explanation was provided as to why the SF-425 reports were prepared and submitted.

Condition # 3: The fiscal year 2017 annual SF-425 report for grant # D16AF00059 was not available for examination.

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

Effect: The effect of the above conditions is noncompliance with reporting requirements. No questioned costs are reported as conditions relate to reconciliation between amounts recorded and reported and unavailable reports rather than from requested cash draws exceeding expenditures incurred.

Identification as a Repeat Finding: Finding 2016-007

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-007  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$208,929

Area: Subrecipient Monitoring

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

Condition: RepMar has not established formal policies and procedures over subrecipient monitoring, including compliance with related Compact provisions. During the year ended September 30, 2017, RepMar sub-granted Compact funding to various subrecipients, of which we tested eight (8) and noted the following deficiencies:

<u>Item #</u>	<u>Subrecipient</u>	<u>Fund</u>	<u>Sub-Grant Amount</u>
1	Queen of Peace School	410150	\$ 43,618
2	Majuro Co-op School	410100	60,776
3	Canvasback Mission	410110	50,000
4	Ebeye Gem Christian School	410150	41,762
5	Saint Joseph Elementary School	410100	12,773
			<u>\$208,929</u>

Although financial reports were submitted, as required by the underlying Memoranda of Agreements (MOAs), there is no documented evidence of review and verification by the Ministry of Finance to ascertain compliance with the MOA, Compact Agreement, grant award, and FPA. For item #3, the Sub-Grant Agreement or MOA made no reference to the Compact Agreement, grant award, or FPA.

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

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 \$208,929 result.

Identification as a Repeat Finding: Finding 2016-008

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-008  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Questioned Costs: \$0

Area: Special Tests and Provisions

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

Condition: Of fifteen (15) Compact Sector Grants reprogram requests tested, grantor approval or evidence of submission of a reprogram request to OIA for the following were not available for examination:

	<u>Ministry</u>	<u>Fund</u>	<u>Cost Center</u>	<u>Amount</u>
1	Education/PSS	410100	CH2410	\$ 2,500
2	Education/PSS	410102	CG2235	\$ 7,000
3	Health	410110	CH3482	\$ 26,090
4	Health	410110	CH3210	\$ 36,000
5	Education/PSS	410102	CG2235	\$ 8,500
6	Education/PSS	410102	CH2523	\$ 5,000
7	Public Works	510100	CH8171	\$ 6,928
8	Education/PSS	410150	CH2760	\$ 10,000
9	Education/PSS	410150	CH2760	\$ 65,552

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

Effect: The effect of the above condition is technical noncompliance with specific provisions of the FPA and special terms and conditions of grant awards. No questioned costs are reported as the condition relates to undocumented grantor approval of reprogrammed funds rather than unallowable expenditures.

Identification as a Repeat Finding: Finding 2016-009

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-009  
Area: Embassy Imprest Accounts

Criteria: Replenishment requests for embassy imprest accounts should be supported by imprest account reconciliations, with reconciling items investigated and properly accounted for.

Condition: At September 30, 2017, the Ministry of Finance recorded embassy imprest accounts, for which the September 2017 imprest account reconciliations reported unknown shortages as follows:

<u>Embassy</u>	<u>GL A/c #</u>	<u>Imprest Fund</u>	<u>Unknown Shortage</u>
Fiji	950000-12010	\$ 89,700	\$ (45,308)
Japan	950000-12020	\$ 200,000	\$ (63,212)
Taiwan	950000-12025	\$ 40,000	\$ (253)
UN Mission	950000-12030	\$ 125,000	\$ (16,781)
Washington, D.C.	950000-12035	\$ 50,000	\$ (12,595)
Arkansas Consulate	950000-12045	\$ 20,000	\$ (1,335)
Honolulu Consulate	950000-12070	\$ 25,000	\$ (1,089)

Additionally, the following reconciliations included reconciling items that received neither investigation nor proper accounting:

- The Fiji Embassy September 2017 reconciling items:
  - \$119,545 disallowed amounts, of which \$64,482 are from prior year
  - \$95,324 deposits from various sources, of which \$48,435 are from prior year
  - \$1,441 unrecorded disbursements from prior year
  - \$3,244 due from embassy staff from prior year
- The Japan Embassy September 2017 reconciling items:
  - \$18,983 unrecorded wire deposit from prior year
  - \$122,490 unrecorded deposits, of which \$112,183 are unknown
  - \$221,940 advances to the embassy from various sources, of which \$126,094 are from prior year
  - \$313,162 disallowed amounts, of which \$221,006 are from prior year
  - \$271,621 net unknown withdrawals
- The Taiwan Embassy September 2017 reconciling items:
  - \$68,520 disallowed amounts
  - \$19,394 unrecorded disbursements from prior year
- The UN Mission September 2017 reconciling items:
  - \$196,103 unrecorded receipts, of which \$148,547 are from prior year
  - Four missing checks (#s 10286, 10400, 10406 and 10432) for \$5,525 each
  - \$26,817 overpayment to the Mission in 2011 (initially paid on June 30, 2011 and paid again on July 15, 2011), which has not been offset against subsequent reimbursement requests
  - \$299,677 disallowed amounts, of which \$214,555 are from prior year.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-009, Continued  
Area: Embassy Imprest Accounts

#### Condition, Continued:

- The Washington, D.C. Embassy September 2017 reconciling items:
  - \$131,252 unrecorded receipts
  - \$65,687 disallowed amounts, of which \$1,502 are from prior year
- The Korea Embassy \$25,000 imprest fund was not supported by a September 2017 reconciliation or associated bank statements.
- The Arkansas Consulate September 2017 reconciling items:
  - \$8,260 disallowed amounts
  - \$5,174 unrecorded disbursements, of which \$4,127 are from prior year.
- The Honolulu Consulate September 2017 reconciling items:
  - \$4,101 unrecorded deposits
  - \$11,841 disallowed amounts, of which \$3,505 are from prior year.

Cause: The cause of the above condition is the lack of prescribed rules and regulations governing reconciliation of embassy imprest accounts and resolution of reconciling items.

Effect: The effect of the above condition is possible misappropriation of RepMar assets by custodians and possible misstatement of cash balances pertaining to embassy imprest accounts.

Recommendation: The Secretary of Finance, pursuant to Section 151 of the Financial Management Act of 1990, should issue rules and regulations governing reconciliation of embassy imprest accounts and resolution of reconciling items.

#### Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2017

Finding No.: 2017-010  
Area: Accounts Receivable

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

Condition: Resubmission of drawdown request # DD06-2017 for \$2,318 for the Landowners Special Needs Grant and submission of drawdown request for \$514,884 for the Supplemental Education Grant had not occurred five months after year end. In addition, it appears that other grants may not be timely billed and collected. Specifically, over fifty percent (50%) of the following federal grant receivables recorded by the Ministry of Finance have yet to be billed and collected as of our report date:

<u>Fund</u>	<u>Grant</u>	<u>Receivables</u>
510100	Public Infrastructure Sector	\$ 8,159,091
510130	Single Audit	\$ 1,038,396
600350	Non-Compact	\$ 3,396,098

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

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

Identification as a Repeat Finding: Finding 2016-011

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

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-011  
Area: Compact Trust Fund Investments

Criteria: Withdrawals from and movement of funds within the Compact Trust Fund investment accounts should be supported by duly verified authorizations.

Condition: During fiscal year 2017, unauthorized withdrawals from and movement of funds occurred within the Compact Trust Fund investment accounts, including the RMI2 (or "D" account). We were informed that the unauthorized withdrawals were processed by the fund custodian based on fraudulent withdrawal requests.

Unauthorized movement of funds amounted to \$1,445,357, of which \$913,796 was paid out by the fund custodian. The unauthorized payments were subsequently reimbursed by the custodian in fiscal years 2017 and 2018 in the amounts of \$136,849 and \$776,947, respectively.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures governing withdrawals and movement of funds within the Compact Trust Fund investment accounts. Furthermore, the lack of policies and procedures governing use of information technology and general security of electronic information and data, resulting in Ministry of Finance staff's use of personal email accounts to conduct business, exposed the Ministry to various cybersecurity risks.

Effect: The effect of the above condition was misappropriation of RepMar assets.

Recommendation: Management should establish policies and procedures governing use of information technology, general security of electronic information and data, data ownership, and access rights.

Views of Auditee and Planned Corrective Actions:

RepMar describes corrective action in the Corrective Action Plan.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2017

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, 2017:

	Questioned Costs		
	RepMar	Subrecipient	Total
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	877,841	-	877,841
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	22,126	22,287	44,413
Fiscal year 2015 Single Audit	103,009	200,000	303,009
Fiscal year 2016 Single Audit	<u>67,261</u>	<u>370,136</u>	<u>437,397</u>
	1,917,560	592,423	2,509,983
Less questioned costs resolved in fiscal year 2017:			
Questioned costs of fiscal year 2008 Single Audit reported in Finding No. 2008-006 (1)	(14,966)	-	(14,966)
Questioned costs of fiscal year 2011 Single Audit reported in Finding No. 2011-006 (3)	(9,502)	-	(9,502)
Questioned costs of fiscal year 2012 Single Audit reported in Finding No. 2012-006 (4)	(3,402)	-	(3,402)
Questioned costs of fiscal year 2013 Single Audit reported in Finding No. 2013-006 (4)	(7,649)	-	(7,649)
Questioned costs of fiscal year 2014 Single Audit reported in:			
Finding No. 2014-001 (3)	(946)	-	(946)
Finding No. 2014-005 (4)	(8,259)	-	(8,259)
Finding No. 2014-006 (5)	-	(22,287)	(22,287)
Questioned costs of fiscal year 2015 Single Audit reported in:			
Finding No. 2015-001 (3)	(692)	-	(692)
Finding No. 2015-008 (4)	(72,162)	-	(72,162)
Finding No. 2015-011 (5)	-	(200,000)	(200,000)
Questioned costs of fiscal year 2016 Single Audit reported in:			
Finding No. 2016-001 (3)(5)	(1,943)	-	(1,943)
Finding No. 2016-005 (2)	(3,886)	-	(3,886)
Finding No. 2016-006 (5)	(31,974)	-	(31,974)
Finding No. 2016-008 (5)	<u>-</u>	<u>(370,136)</u>	<u>(370,136)</u>
	1,762,179	-	1,762,179
Questioned costs of fiscal year 2017 Single Audit	<u>188,885</u>	<u>208,929</u>	<u>397,814</u>
Unresolved questioned costs at September 30, 2017	\$ <u>1,951,064</u>	\$ <u>208,929</u>	\$ <u>2,159,993</u>

- (1) Resolved through a grantor agency determination dated June 11, 2010.
- (2) Resolved through a grantor agency determination dated November 20, 2017.
- (3) Resolved through a grantor agency determination dated December 7, 2017.
- (4) Resolved through a grantor agency determination dated December 18, 2017.
- (5) Resolved through a grantor agency determination dated June 14, 2018.



**Republic of the Marshall Islands**  
**Ministry of Finance, Banking and Postal Services**

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Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2017

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2008-5	15.875	\$ 74,318	Refer Note 1.
2008-7	15.875/ 93.110	294,900 8,927	Refer Note 1. 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.
2010-4	10.567/ 84.027/ 93.003/ 93.069/ 93.110/ 93.118/ 93.163/ 93.268/ 93.889/ 93.938/ 93.958/ 93.959/ 93.977/ 93.988/	18,706 26,305 8,671 47,659 15,336 16,450 38,450 94,554 31,995 14,082 2,552 4,906 51,690 2,062	Refer Note 1. Refer Note 1.
2010-5	93.069/ 93.217/ 93.889/ 93.003	170,600 8,323 155,500 170,000	Refer Note 1. Refer Note 1. Refer Note 1. Refer Note 1.
2011-05	11.460/ 93.959	50,705 59,400	Refer Note 1. Refer Note 1.
2012-01	15.875	2,203	Refer Note 1.
2012-05	15.875	30,252	Refer Note 1.
2013-001	15.875	642	Refer Note 1.
2013-002	93.889	58,278	Refer Note 1.
2013-005	15.875	4,725	Refer Note 1.
2014-001	15.875	2,871	Refer Note 1.
2014-004	15.875	10,050	Refer Note 1.
2015-006	10.567	30,155	Refer Note 1.
2016-001	15.875	<u>29,458</u>	Refer Note 1.
		\$ <u>1,762,179</u>	

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



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### CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2017

Finding Number	CFDA No.	Compliance Requirement	Questioned Cost	Corrective Action Plan	Completion Date	Responsible Person
2017-001	15.875	Allowable Costs/Cost Principles	\$620	<p>MOF agrees however, restitution of the amount could not be made possible because vendor is deceased.</p> <p>MOF continuously strive to effectively implement all existing applicable policies and regulations.</p> <p>The PFM-RCU* is currently supporting MOF in line with the implementation of RMI PFM Reform Roadmap which includes improvement of internal controls and the payroll management. PFM-RCU will develop a manual of procedures after conducting process review and consultations, and subsequently hold training workshops to ensure efficient execution of proper controls and procedures.</p>	<p>September 30, 2018</p> <p>December 31, 2018</p>	Spencer Joe <i>Assistant Secretary MOF Accounting and Admin.</i>
2017-002	15.875	Cash Management	Undeterminable	<p>The Compliance and Monitoring Officer of MOF is starting to perform monitoring of draw downs of all grant awards to ensure corresponding policies are strictly adhered to.</p> <p>The PFM-RCU* has started to develop a Procedures Manual on Grants Management (Grants Monitoring and Drawdown) and conducted simultaneous training workshops well participated by MOF Accounting and Budget &amp; Procurement/Supply officers and staff.</p>	<p>June 2018 henceforth</p> <p>September 30, 2018</p>	<p>Spencer Joe <i>Assistant Secretary MOF Accounting and Admin.</i></p> <p>Ywao Elanzo <i>Assistant Secretary MOF Budget &amp; Procurement/Supply</i></p>



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### CORRECTIVE ACTION PLAN, CONTINUED 2 CFR § 200.511(c) Year Ended September 30, 2017

2017-003	15.875	Equipment and Real Property Management		<p>MOF-Supply &amp; Procurement spearheaded the conduct of physical inventory of fixed assets in coordination with MOF-Accounting and Ministry of Works, Infrastructure and Utilities (MWIU) starting June 2017. The completion of physical inspection is deferred and will resume after asset records are updated and reconciled. Re-assessment of estimated useful lives of assets will be coordinated with the MWIU.</p> <p>PFM-RCU will develop a manual of procedures on fixed asset management covering the criteria provided in FPA. Subsequent training workshop will be conducted to ensure efficient execution of proper controls and procedures.</p> <p>Moreover, the Government Survey Board was reactivated on December 11, 2017 who will manage and ensure appropriate disposal of government property pursuant to CM 095 (1986). MOF-Chief Procurement &amp; Supply will seek determination from the Board on disposition of impaired assets.</p>	<p>December 31, 2018</p> <p>December 31, 2018</p> <p>September 30, 2018</p>	<p>Catalino Kijiner <i>Secretary-MWIU</i></p> <p>Ywao Elanzo <i>Assistant Secretary MOF Budget &amp; Procurement/Supply</i></p> <p>Bruce Loeak <i>Chief of Procurement/Supply MOF Procurement/Supply</i></p>
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### CORRECTIVE ACTION PLAN, CONTINUED 2 CFR § 200.511(c) Year Ended September 30, 2017

2017-004	15.875	Period of Availability of Federal Funds; Period of Performance	\$0	<p>The Compliance and Monitoring Officer of MOF is starting to perform monitoring of draw downs of all grant awards to ensure corresponding policies are strictly adhered to.</p> <p>The PFM-RCU* has started to develop a Procedures Manual on Grants Management (Grants Monitoring and Drawdown) and conducted simultaneous training workshops well participated by MOF Accounting and Budget &amp; Procurement/Supply officers and staff.</p>	<p>June 2018 henceforth</p> <p>September 30, 2018</p>	<p>Spencer Joe Assistant. Secretary MOF Accounting and Admin.</p> <p>Ywao Elanzo Assistant Secretary MOF Budget &amp; Procurement/Supply</p>
2017-005	15.875	Procurement and Suspension and Debarment	\$188,265	<p>The Policy Office under the Chief Secretary's Office is undertaking actions and recommendations to develop a clear procurement policy to address impending issues and concerns. The project will be implemented with the support of key development partners.</p>	<p>March 31, 2019</p>	<p>Spencer Joe Assistant. Secretary MOF Accounting and Admin.</p> <p>Ywao Elanzo Assistant Secretary MOF Budget &amp; Procurement/Supply</p> <p>Bruce Loepak Chief of Procurement/Supply MOF Procurement/Supply</p>
2017-006	15.875	Reporting	\$0	<p>The Compliance and Monitoring Officer of MOF is starting to perform monitoring of draw downs of all grant awards to ensure corresponding policies are strictly adhered to.</p> <p>The PFM-RCU* has started to develop a Procedures Manual on Grants Management (Grants Monitoring and Drawdown) and conducted simultaneous training workshops well participated by MOF Accounting and Budget &amp; Procurement/Supply officers and staff.</p>	<p>June 2018 henceforth</p> <p>September 30, 2018</p>	<p>Spencer Joe Assistant. Secretary MOF Accounting and Admin.</p>



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### CORRECTIVE ACTION PLAN, CONTINUED 2 CFR § 200.511(c) Year Ended September 30, 2017

2017-007	15.875	Subrecipient Monitoring	\$208,929	The PFM-RCU* has started to develop a Procedures Manual on Grants Management (Sub-recipient Monitoring) and conducted simultaneous training workshops participated by MOF Accounting and Budget & Procurement/Supply officers and staff.	September 30, 2018	Spencer Joe Assistant. Secretary MOF Accounting and Admin.
2017-008	15.875	Special Tests and Provisions	\$0	The Compliance and Monitoring Officer of MOF is starting to perform monitoring of draw downs of all grant awards to ensure corresponding policies are strictly adhered to.  The PFM-RCU* has started to develop a Procedures Manual on Grants Management (Grants Monitoring and Drawdown) and conducted simultaneous training workshops well participated by MOF Accounting and Budget & Procurement/Supply officers and staff.	June 2018 henceforth  September 30, 2018	Spencer Joe Assistant. Secretary MOF Accounting and Admin.
2017-009	N/A	Embassy Imprest Funds	\$0	MOFA moved for a proposal to resolve outstanding questioned costs duly approved by the cabinet with certain conditions in its Cabinet Minute No. 113 (2018). MOF is in the process of determination and schedules preparation to comply with the approved CM.  The PFM-RCU* will develop a Procedures Manual on Imprest Fund administration and will conduct simultaneous training workshops and forum to ensure proper execution of guidelines and procedures set.	August 31, 2018  September 30, 2018	Bruce Kijiner MOFA Secretary  Spencer Joe Assistant. Secretary MOF Accounting and Admin.

