

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated June 28, 2019. 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 2018-004, 2018-010 and 2018-011 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 2018-001 to be significant deficiencies.

Compliance and Other Matters

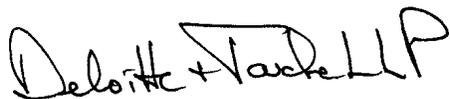
As part of obtaining reasonable assurance about whether RepMar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2018-005.

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 28, 2019

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, 2018. 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, 2018. 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 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 items 2018-003, 2018-004, 2018-007 and 2018-009 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2018-004	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2018-003	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Cash Management
2018-007	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Reporting
2018-009	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	Subrecipient Monitoring

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, 2018.

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 2018-001, 2018-002, 2018-005, 2018-006 and 2018-008. 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 2018-003, 2018-004, 2018-007 and 2018-009 to be material weaknesses.

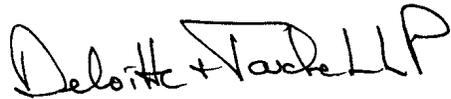
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 2018-001, 2018-002, 2018-005, 2018-006 and 2018-008 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, 2018, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements. We issued our report thereon dated June 28, 2019, 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 28, 2019

REPUBLIC OF THE MARSHALL ISLANDS

Summary Schedule of Expenditures of Federal Awards, By Grantor Year Ended September 30, 2018

<u>Agency</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture	\$ 529,727
U.S. Department of Commerce	484,194
U.S. Department of the Interior	64,467,586
U.S. Department of Education	1,682,515
U.S. Department of Health and Human Services	5,623,326
U.S. Department of Homeland Security	40,929
	<u>\$ 72,828,277</u>

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

Reconciliation to the 2018 financial statements is as follows:

General Fund (Reimbursable Fund)	(1) \$ 484,194
U.S. Federal Grants Fund	(2) 9,853,732
Compact Sector Grants Fund	(3) 40,384,092
Section 212 Kwajalein Landowners Fund	(4) 21,791,868
Section 213 Audit Fund	(5) 314,391
	<u>\$ 72,828,277</u>

- (1) Included within total expenditures for the Reimbursable Fund of \$661,822 presented on page 112 of the 2018 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$8,419,052 and \$1,434,680, respectively, presented on page 102 of the 2018 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$39,591,890 and \$792,202, respectively, presented on page 107 of the 2018 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$21,791,868 presented on page 92 of the 2018 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$314,391 presented on page 102 of the 2018 financial statements.

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, 2018

Federal CFDA#	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
	<u>U.S. Department of Agriculture:</u>		
10.582	Fresh Fruit and Vegetable Program		\$ 529,727
	<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects		484,194
	<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 211(a)(1) Education Sector	\$ 1,579,205	11,244,183
	Supplemental Education Grant	265,905	5,322,665
	Section 211(a)(2) Health Sector		7,382,110
	Section 211(a)(5) Environment	180,766	180,766
	Section 211(b)(1) Ebeye Special Needs	325,000	5,408,644
	Section 211(b)(2) Landowners Special Needs	1,546,140	2,039,687
	Section 211(b)(3) Kwajalein Environment		189,887
	Section 211(d)(1) Public Infrastructure Development	500,000	8,237,258
	Section 211(d)(2) Infrastructure Maintenance		378,892
	Section 212 Kwajalein Impact and Use		21,791,868
	Section 213 Audit		314,391
	Sub-total Compact of Free Association, As Amended, Sector Grants		62,490,351
	Four Atoll Health Care		1,434,680
	Kili/Bikini/Ejit Local Government - Island Supply and Safety Vessel		275,000
	A Long-Term Solution for Household Water in Light of Climate Changes at Enewetak Atoll		98,000
	Kili and Ejit Climate Change Resilience Development		95,987
	Office of the Auditor General - APIPA Peer Reviews		31,876
	RMI Trust Fund Capacity Building		8,690
	National Broadcaster Radio V7AB Upgrade Project		5,285
	Sub-total CFDA # 15.875		64,439,869
15.904	Historic Preservation Fund Grants-In-Aid		27,717
	Total U.S. Department of the Interior		64,467,586
	<u>U.S. Department of Education:</u>		
	Special Education Cluster (IDEA):		
84.027	Special Education-Grants to States		1,682,515
	Total Special Education Cluster (IDEA) and Total U.S. Department of Education		1,682,515
	<u>U.S. Department of Health and Human Services:</u>		
93.073	Birth Defects and Developmental Disabilities - Prevention and Surveillance		101,376
93.074	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements		484,362
93.110	Maternal and Child Health Federal Consolidated Programs		48,962
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		407,191
93.127	Emergency Medical Services for Children		52,350
93.217	Family Planning-Services		98,095
	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)		1,039,408
	Sub-total Health Center Program Cluster		1,039,408
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance		1,231,569
93.268	Immunization Cooperative Agreements		824,028
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance		217,969
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases		80,859
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		30,376
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds		30,191
93.817	Hospital Preparedness Program Ebola Preparedness and Response Activities		19,831
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations		48,676
93.917	HIV Care Formula Grants		33,887
93.945	Assistance Programs for Chronic Disease Prevention and Control		175,632
93.958	Block Grant for Community Mental Health Services		83,584
93.959	Block Grants for Prevention and Treatment of Substance Abuse		394,046
93.994	Maternal and Child Health Services Block Grant to the States		220,934
	Total U.S. Department of Health and Human Services		5,623,326
	<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants		40,929
	TOTAL EXPENDITURES OF FEDERAL AWARDS	\$ 4,397,016	\$ 72,828,277

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, 2018

(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, 2018. 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* (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, 2018 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, 2018.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2018

(3) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

The federal award totals for the excluded component units as of September 30, 2018, are as follows:

<u>Component Unit</u>	<u>Federal Award Total</u>
Air Marshall Islands, Inc.	\$ -
College of the Marshall Islands	\$ 7,352,947
Health Care Revenue Fund	\$ -
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,327,860
Majuro Atoll Waste Company	\$ -
Majuro Resort, Inc.	\$ -
Majuro Water and Sewer Company, Inc.	\$ -
Marshall Islands Development Bank	\$ -
Marshall Islands Health Fund	\$ -
Marshall Islands Judiciary Fund	\$ -
Marshall Islands Marine Resources Authority	\$ -
Marshall Islands National Telecommunications Authority	\$ -
Marshall Islands Postal Service Authority	\$ -
Marshall Islands Scholarship, Grant and Loan Board	\$ 887,677
Marshall Islands Shipping Corporation	\$ -
Marshall Islands Social Security Administration	\$ -
Marshall Islands Visitors Authority	\$ -
Marshall's Energy Company, Inc.	\$ 2,436,391
RMI Office of Commerce, Investment and Tourism	\$ -
RMI Ports Authority	\$ 812,711
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 2018. 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 2018.

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, 2018

(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>2018 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	\$ 987,003
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	265,905
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.	1,546,140
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company	180,766
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>\$ 4,397,016</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

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

9. Identification of major federal programs:

<u>CFDA #</u>	<u>Name of Federal Program</u>
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance

10. Dollar threshold used to distinguish between Type A and Type B programs: \$ 2,184,848
11. Auditee qualified as low-risk auditee? No

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2018-001	Allowable Costs/Cost Principles
2018-004	Equipment and Real Property Management
2018-005	RMI Procurement Code
2018-010	Embassy Imprest Accounts
2018-011	Accounts Receivable

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2018-001	15.875	Allowable Costs/Cost Principles	\$ 552
2018-002	15.875	Cash Management	13,813
2018-004	15.875	Equipment and Real Property Management	-
2018-005	15.875	Procurement and Suspension and Debarment	17,929
2018-006	15.875	Reporting	189,236
2018-008	15.875	Subrecipient Monitoring	177,234
2018-003	93.243	Cash Management	Undeterminable
2018-007	93.243	Reporting	-
2018-009	93.243	Subrecipient Monitoring	-
			<u>\$ 398,764</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-001
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: \$552

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 \$16,716,452 in payroll expenditures for the Compact Sector Grants, sixty (60) items totaling \$45,529 were tested, with the following deficiencies noted:

- For one (or 2%), leave hours paid for employee # 221526 for pay period ended 11/25/2017 amounting to \$552 was not supported by an approved leave form, resulting in questioned costs of \$552.

Condition #2: Of \$26,657,042 in non-payroll expenditures for the Compact Sector Grants, sixty (60) items totaling \$12,934,138 were tested, with the following deficiencies noted:

- For three (or 5%), passed-through funding was advanced to the following subrecipients rather than paid based on actual costs incurred, and no project records or financial statements were provided in support of these specified amounts:

<u>Item #</u>	<u>Subrecipient</u>	<u>Check #</u>	<u>Questioned Amount</u>	<u>Questioned Costs at this Finding</u>
1	Assumption School	157040	\$ 33,315	
2	Ebeye SDA School	22667	<u>24,727</u>	
			\$ <u>58,042</u>	

Item #s 1 and 2 are also reported as matters of noncompliance within Finding No. 2018-008, including associated questioned costs.

Cause: RepMar did not effectively monitor the validity and allowability of expenditures.

Effect: RepMar is in noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs of \$58,594 result, of which \$552 are presented at this finding for reasons set forth above.

Identification as a Repeat Finding: Finding 2017-001

Recommendation: RepMar management should strengthen monitoring controls so that expenditures are 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, 2018

Finding No.: 2018-002
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: \$13,813

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 #1: Nine (9) Compact Sector Grants draws, totaling \$7,018,123, were tested. For the following three draws (or 33%), the estimated potential interest earned on advances is as follows:

<u>Item #</u>	<u>Fund #</u>	<u>Drawdown #</u>	<u>Estimated Interest</u>
1	410102	SEG-03-2017	\$ 9,561
2	410160	KIF-DD03-2018	1,524
3	510100	CD-15-2018	<u>727</u>
			\$ <u>11,812</u>

For item # 1, the underlying detailed federal draws and supporting disbursements for the \$958,645 drawn were not available for examination. This is also reported as a matter of noncompliance within Finding No. 2018-006.

Condition #2: As of September 30, 2018, grant # D17AF00049 had been overdrawn by \$189,236, resulting in estimated potential interest earned of \$2,001. This condition is also reported as a matter of noncompliance within Finding No. 2018-006.

Cause: RepMar lacks a formal methodology and procedures over federal cash draws to satisfy compliance with FPA cash management requirements.

Effect: RepMar is in noncompliance with FPA cash management requirements, and questioned costs of \$13,813 result because the projected interest liability exceeds \$25,000.

Identification as a Repeat Finding: Finding 2017-002

Recommendation: The Ministry of Finance, Banking and Postal Services should establish a formal methodology governing federal cash draws to verify and retain underlying financial records and 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, 2018

Finding No.: 2018-003
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health –
Projects of Regional and National Significance
Federal Award No.: 5U79SP020711-04
Questioned Costs: Undeterminable

Area: Cash Management

Criteria: In accordance with applicable cash management requirements, procedures should be implemented to minimize the time elapsing between the receipt and pass-through of Federal funds and their disbursement.

Condition: Agreements between RepMar and its subrecipients indicated that grant funds are to be advanced to subrecipients based on a pre-determined schedule rather than on actual needs. Therefore, it appears that RepMar did not implement procedures to minimize the time elapsing between the receipt and pass-through of funds and their disbursement.

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

Cause: RepMar lacks a formal methodology and procedures over federal cash draws to satisfy compliance with applicable cash management requirements.

Effect: RepMar is in noncompliance with applicable cash management requirements.

Recommendation: The Ministry of Finance, Banking and Postal Services 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, 2018

Finding No.: 2018-004
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: 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: Capital assets records do not meet the criteria above and are not effectively maintained since updates to the records occur only once a year. Specifically, we noted the following deficiencies:

- An inventory of capital assets has not been performed in the recent past in accordance with the above criteria; therefore, a reconciliation of the capital asset records and a physical inventory has not occurred at least once in the last two years.
- As the capital assets records are not effectively maintained, it does not appear that RepMar has effectively developed means to adequately safeguard capital 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.
- Long-lived assets are not routinely evaluated for possible impairment.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2018

Finding No.: 2018-004, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Questioned Costs: \$0

Area: Equipment and Real Property Management

Condition, Continued:

Capital outlays within the Compact Sector Grants Fund for fiscal years 2018, 2017 and 2016 were as follows:

Fiscal Year 2018	\$ 6,242,085
Fiscal Year 2017	\$ 7,998,839
Fiscal Year 2016	\$ 4,721,869

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

Effect: RepMar is in noncompliance with applicable equipment management requirements and possible misstatement of capital 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 2017-003

Recommendation: The Ministry of Finance, Banking and Postal Services should perform an inventory of RepMar's capital 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 capital 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, 2018

Finding No.: 2018-005
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: \$17,929

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, Banking and Postal Services 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 \$26,657,042 in non-payroll expenditures for the Compact Sector Grants, sixty (60) items totaling \$3,184,012 were tested.

1. For seven (or 12%), supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Encumbrance #</u>	<u>Amount</u>
1	410100	P708420	\$ 16
2	410100	P734510	2,931
3	410102	P724760	199
4	410102	P733180	11
5	410110	P741150	90
6	410150	Q202990	4,585
7	410150	Q203750	<u>2,358</u>
			\$ <u>10,189</u>

For item # 1, the vendor selected provided the lowest quotation of \$5.00 per gallon for 800 gallons of fuel; however, invoices indicated actual price charged of \$5.10 per gallon, which was the rate quoted by the other two fuel vendors. Therefore, questioned costs for the difference in price result.

For item # 2, purchase requisition and purchase order were for gas at \$5.35 per gallon and diesel at \$5.80 per gallon. Gallons of gas or diesel that would be purchased were not specified; rather a total purchase amount of \$3,127 was indicated. Further, justification for not selecting the lowest quotation was that the vendor does not have fuel available all the time. Therefore, questioned costs for the difference in price result.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-005, 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: \$17,929

Area: Procurement and Suspension and Debarment

Condition, Continued:

For item # 3, requests for price quotations were solicited from three vendors, including a vendor, which does not accept purchase orders from RepMar. No additional price quotations were solicited; therefore, it appears that the required number of quotations was not obtained from responsive vendors. Thus, questioned costs for the difference in price result.

For item # 4, the quotation request specifically stated a brand name (Dell XPS) 13-inch laptop. The justification for not selecting the lowest quotation was because the item was not in stock; however, there was no indication on the quotation response that the item was indeed not in stock. Further, the lowest quotation was obtained after the purchase requisition (PR) was prepared. The PR was dated June 18, 2018 and the quotation was submitted July 4, 2018. Therefore, questioned costs for the difference in price result.

For item # 5, the lowest quotation was selected for purchase of fuel; however, based on the purchase requisition and the actual invoices, the price charged per gallon was higher than what was quoted. It appears that the basis for vendor selection was invalid. Therefore, questioned costs for the difference in price result.

For item # 6, the purchase of medical supplies was sole sourced as an Emergency Procurement. However, the medical supplies could have been competitively purchased if appropriate planning occurred as opposed to purchasing when the hospital ran out of the supplies.

For item # 7, there was no written documentation to justify why the purchase was sole sourced.

2. For 13 (or 22%), supporting documentation for the travel authorization (TA) was not provided to substantiate that the most economical fare was procured:

<u>Item #</u>	<u>Fund #</u>	<u>TA #</u>	<u>Amount</u>
1	410100	A204730	\$ 296
2	410102	A202900	306
3	410102	A203020	306
4	410102	A204700	286
5	410102	A205880	264
6	410150	A202430	1,136
7	410150	A204130	2,620
8	410150	K127460	90
9	410150	K128580	512
10	410150	K129200	418
11	410150	K129780	512
12	410150	K129890	482
13	410150	K130090	<u>512</u>
			\$ <u>7,740</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-005, 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: \$17,929

Area: Procurement and Suspension and Debarment

Cause: RepMar lacks adequate internal control policies and procedures over the documentation of procurement procedures to satisfy compliance with applicable procurement requirements.

Effect: RepMar is in noncompliance with applicable procurement requirements, and questioned costs of \$17,929 result because projected questioned costs exceed \$25,000.

Identification as a Repeat Finding: Finding 2017-005

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, 2018

Finding No.: 2018-006
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: \$189,236

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 # SEG-DD03-2017 for \$958,645 were not available for examination. This condition is also reported as a matter of noncompliance within Finding No. 2018-002.

Additionally, SF-270 for drawdown # CD-05-2018 was not signed by the Secretary of Finance, Banking and Postal Services.

Condition # 2: For the quarter ended March 31, 2018 SF-425 reports submitted on April 30, 2018, grant expenditures reported for 2017 Public Infrastructure grants were not supported by underlying accounting reports (DILOG-240P).

Condition # 3: 4gov accounting system is not routinely updated for grant award amendments and new grants awarded throughout the year, resulting in inaccurate reporting per DILOG 240P reports of grant amounts authorized/budgeted and unobligated balances.

Condition # 4: As of September 30, 2018, grant # D17AF00049 had been overdrawn (KDF-DD09-2017) by \$189,236.

Cause: RepMar lacks adequate internal control policies and procedures to facilitate compliance with reporting requirements.

Effect: RepMar is noncompliance with reporting requirements. No questioned costs are reported for condition #s 1 through 3 as such relate to reconciliation between amounts recorded and reported and to unavailable reports rather than from requested cash draws exceeding expenditures incurred. Questioned costs of \$189,236 result for condition # 4.

Identification as a Repeat Finding: Finding 2017-006

Recommendation: The Ministry of Finance, Banking and Postal Services 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, 2018

Finding No.: 2018-007
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services –
Projects of Regional and National Significance
Federal Award No.: 5U79SP020711-04
Questioned Costs: \$0

Area: Reporting

Criteria: Section III of the Substance Abuse and Mental Health Services Administration Grant award letter requires the Federal Financial Report (FFR) (SF-425) to be submitted on an annual basis no later than 90 days after the end of the budget period. It further states that the annual FFR should reflect only cumulative actual federal funds authorized and disbursed.

Condition: The September 30, 2018 FFR was submitted on January 30, 2019, which is 120 days after the budget period. Furthermore, the FFR reported expenditures based on the budget rather than on actual expenditures incurred, resulting in over-reported expenditures of \$74,431.

Cause: RepMar lacks adequate internal control policies and procedures to facilitate compliance with reporting requirements.

Effect: RepMar is in noncompliance with applicable reporting requirements. No questioned costs are reported as actual cash draws did not exceed recorded expenditures.

Recommendation: The Ministry of Finance, Banking and Postal Services 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 and timely submission of required reports.

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, 2018

Finding No.: 2018-008
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: \$177,234

Area: Subrecipient Monitoring

Criteria #1: 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, 2018, RepMar sub-granted Compact funding to various subrecipients, of which we tested nine (9) and noted deficiencies with the following three (3) (or 33%):

<u>Item #</u>	<u>Subrecipient</u>	<u>Fund</u>	<u>Sub-Grant Amount</u>
1	Assumption School	410100	\$ 52,112
2	Majuro SDA School	410100	75,669
3	Ebeye SDA School	410150	<u>49,453</u>
			<u>\$177,234</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, Banking and Postal Services to ascertain compliance with the MOA, Compact Agreement, grant award, and FPA.

Cause: RepMar lacks 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: RepMar is in noncompliance with specific provisions of the FPA over subgrant agreements and subrecipient monitoring, and questioned costs of \$177,234 result.

Identification as a Repeat Finding: Finding 2017-007

Recommendation: RepMar should comply with the specific provisions of the FPA, execute Sub-Grant agreements with all Sub-Grantees, and comply with subrecipient monitoring 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, 2018

Finding No.: 2018-009
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services –
Projects of Regional and National Significance
Federal Award No.: 5U79SP020711-04
Questioned Costs: \$0

Area: Subrecipient Monitoring

Criteria: In accordance with applicable subrecipient monitoring requirements, the pass-through entity is responsible for establishing formal policies and procedures over subrecipient monitoring, including compliance with related grant terms.

Condition: RepMar has not established formal policies and procedures over subrecipient monitoring, including compliance with related grant terms. During the year ended September 30, 2018, RepMar passed funds through to various subrecipients, of which the following five (5) were tested:

<u>Item #</u>	<u>Subrecipient</u>	<u>Pass-Through Amount</u>
1	Kumit Bobrae Coalition	\$ 973,216
2	MIEPI	80,000
3	WUTMI	92,097
4	Wellness Center	18,815
5	Youth to Youth	<u>50,160</u>
		\$ <u>1,214,288</u>

Financial reports from these subrecipients were submitted for our examination; however, there is no documented evidence of review and verification by the Ministry of Finance, Banking and Postal Services to ascertain compliance with the underlying subrecipient agreements and the grant award.

Cause: RepMar lacks adequate internal control policies and procedures governing subrecipient monitoring, specifically with respect to: 1) execution of subrecipient agreements, 2) compliance with related cash management requirements, and 3) resolution and corrective action of subrecipient audit reports.

Effect: RepMar is in noncompliance with applicable subrecipient monitoring requirements. No questioned costs are reported since the financial reports substantiate the use of funds.

Recommendation: RepMar should comply with applicable subrecipient monitoring 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, 2018

Finding No.: 2018-010
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, 2018, the Ministry of Finance, Banking and Postal Services recorded embassy imprest accounts, for which all the September 2018 imprest account reconciliations reported unknown variances or shortages. A September 2018 reconciliation was not available for the Korea Embassy.

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

- The Fiji Embassy September 2018 reconciling items:
 - \$180,330 unsupported disbursements, of which \$119,544 are from prior year
 - \$95,324 unreconciled deposits from prior year
 - \$61,771 unrecorded disbursements, of which \$56,166 are from prior year
 - \$3,244 due from embassy staff from prior year
- The Japan Embassy September 2018 reconciling items:
 - \$303,385 unreconciled deposits, of which \$90,898 are from prior year
 - \$313,048 unreconciled advances, of which \$201,094 are from prior year
 - \$378,361 disallowed amounts, of which \$286,639 are from prior year
 - \$60,185 unknown withdrawals
 - \$137,550 unknown differences
- The Taiwan Embassy September 2018 reconciling items:
 - \$37,422 other deposits, of which \$24,240 are from prior year
 - \$84,973 disallowed amounts, of which \$68,686 are from prior year
 - \$6,107 unknown difference from prior year
- The UN Mission September 2018 reconciling items:
 - \$263,027 unreconciled receipts, of which \$222,917 are from prior year
 - \$384,441 disallowed amounts, of which \$303,890 are from prior year
 - \$16,815 unknown difference from prior year
- The Washington, D.C. Embassy September 2018 reconciling items:
 - \$73,414 other deposits, of which \$70,528 are from prior year
 - \$97,196 disallowed amounts, of which \$50,648 are from prior year
 - \$12,595 unknown differences from prior year
- The Arkansas Consulate September 2018 reconciling items:
 - \$12,940 disallowed amounts, of which \$8,260 are from prior year
 - \$1,047 unreconciled differences from prior year
 - \$19,955 unreconciled deposits/advances
 - \$1,336 unknown differences from prior year.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-010, Continued
Area: Embassy Imprest Accounts

Condition, Continued:

- The Honolulu Consulate September 2018 reconciling items:
 - \$7,470 other deposits
 - \$13,306 disallowed amounts, of which \$12,299 are from prior year
 - \$1,096 unknown differences, of which \$1,075 are from prior year

Cause: RepMar lacks prescribed rules and regulations governing reconciliation of embassy imprest accounts and resolution of reconciling items.

Effect: Possible misappropriation of RepMar assets by custodians and possible misstatement of cash, liabilities and expenditures pertaining to embassy imprest accounts, which are not considered material to the financial statements.

Recommendation: The Secretary of Finance, Banking and Postal Services, 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, 2018

Finding No.: 2018-011
Area: Accounts Receivable

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

Condition: Grants may not be timely billed and collected. Specifically, over eighty percent (80%) of the following federal grant receivables recorded by the Ministry of Finance, Banking and Postal Services have yet to be billed and collected as of our report date:

<u>Fund</u>	<u>Grant</u>	<u>Receivables</u>
510100	Public Infrastructure Sector	\$ 5,961,049
510130	Single Audit	\$ 926,694
600350	Non-Compact	\$ 3,050,364

Cause: RepMar lacks 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 General Fund bears the cost of grant expenditures.

Identification as a Repeat Finding: Finding 2017-010

Recommendation: RepMar 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

Ministry of Finance, Banking and Postal Services

P.O. Box D ~ Majuro ~ Marshall Islands ~ 96960
 Phone No. (692) 625-8311/8370/7420 ~ Email Address: mayabing@gmail.com

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2018

Finding Number	CFDA No.	Compliance Requirement	Questioned Cost	Corrective Action Plan	Completion Date	Responsible Person
2018-001	15.875	Allowable Costs/Cost Principles	\$552	<p>A Payroll Management Procedures Manual has been developed in May 2019 to document controls which included the rule that leave hours being claimed should be supported by approved leave forms otherwise it would not be processed. Since the current payroll process is highly manual, it is prone to manual oversights especially given the high volume of transactions covered and the tight processing time, exacerbated by delayed time sheet submissions from some ministries. MOF has drafted a reminder memo to be sent to all ministries and government agencies reiterating the need to submit time sheets by Friday of the non-payroll week. Otherwise, late submissions will have to be accompanied by a letter addressed to the Secretary of Finance explaining the reason for the delay and a plan of action to prevent recurrence, signed by the concerned Ministry's Secretary. A long-term solution is expected with the ongoing implementation of the PSC-driven HRMIS which is envisioned to have interface capability with the new FMIS funded by the World Bank.</p> <p>Starting Fiscal Year 2019, MOF required all sub-grantees to submit reports and supporting documents for FY2018 subsidies prior to release of the first drawdown of their FY2019 grant. Furthermore, for Compact sector-funded grants which have no actual cost requirement, in compliance with the quarterly allocation</p>	<p>Issuance of reminder memo – September 2019</p> <p>Automation through FMIS – May 2022</p> <p>Internal control and compliance monitoring system – September 2019</p> <p>Other corrective actions in place as of June 2019</p>	<p>Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary- Accounting, MOF Jake Valenzuela, Chief IA, MOF</p>

				<p>provision of the RMI Financial Management Act, sub-grantees were moved to a quarterly MOA. A Grants and Sub-Grants Management Procedures Manual has been developed and became effective on August 1, 2018 and MOF is currently in the transition period of implementing all new controls and templates contained therein.</p> <p>To supplement the routine operational reviews conducted by Division Supervisors and Heads, the MOF will also enforce an internal control and compliance monitoring system.</p>		
2018-002	15.875	Cash Management	\$13,813	<p>MOF has developed a Grants Management Procedures Manual effective August 1, 2018 which clearly discusses the difference in handling of operational and non-operational grants. SEG drawdowns in the year 2018 were already on reimbursement basis.</p> <p>As part of the aforementioned Grants Management Procedures Manual implementation, a new Compact monitoring worksheet was developed for reimbursement-basis grants. This tracker should prevent cases of overdrawn grants and delayed draws moving forward. Furthermore, an Accounting officer was assigned to partner with the Budget fiscal officer for Compact to work on infrastructure, KIF and SEG drawdowns. Both officers received hands-on training on how to use the monitoring worksheet. Remaining overdrawn balance, if any, will be returned to the DOI immediately after the end of the grant liquidation period.</p>	Return of remaining overdrawn amount, if any – January 2020	Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary- Accounting, MOF
2018-003	93.243	Cash Management	Undeterminable	<p>Starting Fiscal Year 2019, MOF required all sub-grantees to submit reports and supporting documents prior to release of subsidy payments. A Grants and Sub-Grants Management Procedures Manual has been developed and became effective on August 1, 2018 and MOF is currently in the transition period of implementing all new controls and templates contained therein.</p>	Done	Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary- Accounting, MOF Robin Kios, Budget Director, MOF

2018-004	15.875	Equipment and Real Property Management		<p>The draft of the MOF Fixed Assets Management Manual has been circulated to MOF management for further comments in June 2019. The manual covers procedures ensuring compliance with the criteria required by the FPA. The relevant government officers will be trained on additional control and reporting procedures once the manual is approved.</p>	Fixed Assets Manual implementation – December 2019	Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary- Accounting, MOF Bruce Loek, Chief of Procurement, MOF Catalino Kijiner, Secretary, MWIU
2018-005	15.875	Procurement and Suspension and Debarment	\$17,929	<p>The RMI's Procurement Regulations Pursuant to the Procurement Code Act 1988 draft is ongoing review. The regulations provides for bulk and centralized purchasing. Once approved, activities to operationalize the regulations shall be conducted which would include training and creation of procedures manual and templates as needed. For the mean time, procurement training will be conducted to refresh GRMI staff on the requirements of the Procurement Code and related Circulars covering the preparation of request for quotations, proper evaluation of the same and sole source procurement.</p>	December 2019	Jefferson Barton, Policy Office, OCS Maybelline Bing, Secretary, MOF Bruce Loek, Chief of Procurement, MOF
2018-006	15.875	Reporting	\$189,236	<p>SEG drawdowns beginning year 2018 were already on reimbursement basis and should no longer be an issue reporting-wise moving forward.</p> <p>The review process for SF-425 reporting has been strengthened as evidenced by error-free reports since fourth quarter of 2018.</p> <p>In compliance with the Grants Management Procedures Manual in place, Budget officers have been ensuring that NGAs have corresponding cost center / budget setup and vice versa. MOFA OCI was also advised to always copy MOF-Asst. Secretary Accounting and MOF-Asst. Secretary Budget/Budget Director on all new NGAs received.</p> <p>The new Compact monitoring worksheet developed for reimbursement-basis grants should prevent cases of overdrawn grants moving forward.</p>	Internal control and compliance monitoring system – September 2019	Maybelline Bing, Secretary, MOF Jake Valenzuela, Chief IA, MOF Robin Kios, Budget Director, MOF

				The above corrective actions already in place will be strengthened further by the implementation of an internal control and compliance monitoring system.		
2018-007	93.243	Reporting	\$0	Starting December 2018, the MOF Budget fiscal officer and the MOHHS Finance officers have strengthened coordination in the preparation of FFRs for Federal grants. MOHHS now reviews the FFRs prior to submission.	Done	Maybelline Bing, Secretary, MOF Robin Kios, Budget Director, MOF Jack Niedenthal, Secretary, MOHHS
2018-008	15.875	Subrecipient Monitoring	\$177,234	Starting Fiscal Year 2019, MOF required all sub-grantees to submit reports and supporting documents prior to release of subsidy payments. A Grants and Sub-Grants Management Procedures Manual has been developed and became effective on August 1, 2018 and MOF is currently in the transition period of implementing all new controls and templates contained therein.	Done	Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary-Accounting, MOF Robin Kios, Budget Director, MOF
2018-009	93.243	Subrecipient Monitoring	\$0	Starting Fiscal Year 2019, MOF required all sub-grantees to submit reports and supporting documents prior to release of subsidy payments. A Grants and Sub-Grants Management Procedures Manual has been developed and became effective on August 1, 2018 and MOF is currently in the transition period of implementing all new controls and templates contained therein.	Done	Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary-Accounting, MOF Robin Kios, Budget Director, MOF
2018-010		Embassy Imprest Funds	\$0	MOF has developed an Imprest Fund Manual of Procedures in Feb 2019 and subsequently conducted consecutive trainings for all the embassies from Feb-Mar 2019. New reporting and monitoring templates are in the transition period of implementation. To supplement the routine operational reviews conducted by Division Supervisors and Heads, the MOF will also enforce an internal control and compliance monitoring system.	Internal control and compliance monitoring system – September 2019	Maybelline Bing, Secretary, MOF Rina Keju, Interim Secretary, MOFAT
2018-011		Accounts Receivable	\$0	One temporary staff is being planned to be hired to do the reconciliation and investigation of these old A/R balances. Funding proposal will be tabled in time for inclusion in the FY2020 Appropriations Act.	September 2019	Maybelline Bing, Secretary, MOF Spencer Joe, Asst. Secretary-Accounting, MOF Robin Kios, Budget Director, MOF

				The Compact monitoring worksheet should aid in minimizing if not preventing new A/R from infrastructure grants.		
--	--	--	--	---	--	--