

**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, 2011**

**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**

His Excellency Christopher J. Loeak  
President  
Republic of the Marshall Islands:

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 the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2011, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated February 8, 2013. Our report includes an explanatory paragraph concerning the correction of an error, a reference to other auditors, and a reference for the adoption of a new accounting standard. We conducted our audit 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. Other auditors audited the financial statements of the Marshall Islands National Telecommunications Authority, as described in our report on RepMar's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that is reported on separately by those other auditors.

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

## Internal Control Over Financial Reporting

Management of RepMar is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RepMar's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 12 through 38), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 2011-01, 2011-03 through 2011-06, and 2011-09 through 2011-14 to be material weaknesses.

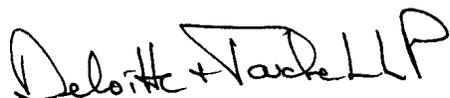
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-04, 2011-05 and 2011-09.

We noted certain matters that we reported to management of RepMar in a separate letter dated February 8, 2013.

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit RepMar's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Honorable Members of the Nitijela, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



February 8, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Christopher J. Loeak  
President  
Republic of the Marshall Islands:

### Compliance

We have audited the Republic of the Marshall Islands' (RepMar) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2011. RepMar's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 12 through 38). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RepMar's management. Our responsibility is to express an opinion on RepMar's compliance based on our audit.

As discussed in Note 2b 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 Schedule of Expenditures of Federal Awards for the year ended September 30, 2011. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RepMar's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of RepMar's compliance with those requirements.

As described in items 2011-01 through 2011-04, 2011-07 and 2011-08 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, and subrecipient monitoring that are applicable to its Compact of Free Association Sector Grants (CFDA # 15.875) major program. Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Compact of Free Association Sector Grants (CFDA # 15.875) major program. Also, in our opinion, RepMar complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Compact of Free Association Section 212 Kwajalein Impact and Use (CFDA # 15.875) major program for the year ended September 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-05 and 2011-06.

### Internal Control Over Compliance

Management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RepMar's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

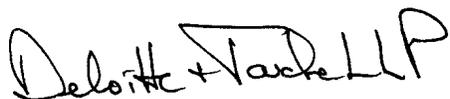
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 through 2011-08 to be material weaknesses.

## Schedule of Expenditures of Federal Awards

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, 2011, and have issued our report thereon dated February 8, 2013. Our report includes an explanatory paragraph concerning the correction of an error, a reference to other auditors, and a reference for the adoption of a new accounting standard. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RepMar's basic financial statements. We did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represents 21%, 7% and 7%, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marshall Islands National Telecommunications Authority, is based on the report of the other auditors. The accompanying Schedule of Expenditures of Federal Awards (pages 7 and 8) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 financial statements or to the 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 financial statements taken as a whole.

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit RepMar's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, others within the entity, the Honorable Members of the Nitijela, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

February 8, 2013

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2011

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories:	
		Compact of Free Association, As Amended, Public Law 99-239, Sector Grants:	
		Section 211(a)(1) Education Sector Supplemental Education Grant	\$ 11,611,455
		Section 211(a)(2) Health Sector	6,420,804
		Section 211(a)(4) Public Sector Capacity Building	6,696,698
		Section 211(b)(1) Ebeye Special Needs	432,976
		Section 211(b)(2) Landowners Special Needs	3,582,231
		Section 211(b)(3) Kwajalein Environment	1,750,000
		Section 211(d)(1) Public Infrastructure Development	551,973
		Section 211(d)(2) Infrastructure Maintenance	11,950,846
			<u>1,093,119</u>
			<u>44,090,102</u>
		Compact of Free Association, As Amended, Public Law 99-239:	
		Section 212 Kwajalein Impact and Use	45,435,144
		Total program expenditures tested	\$ <u>89,525,246</u>
		Total federal program expenditures	\$ <u>99,124,077</u>
		% of total federal program expenditures tested	<u>90%</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2011

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>GENERAL FUND (REIMBURSABLE FUND):</b>		
	<u>U.S. Department of Commerce:</u>	
11.460	Special Oceanic and Atmospheric Projects	\$ <u>324,568</u>
<b>U.S. FEDERAL GRANTS FUND:</b>		
	<u>U.S. Department of Agriculture:</u>	
10.567	Food Distribution Program on Indian Reservations	\$ 652,156
10.664	Cooperative Forestry Assistance	41,858
	Total U.S. Department of Agriculture	<u>694,014</u>
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	986,926
	HPO USAKA Grant	7,240
	Majuro Waste Grant	153,081
	MEC Meter Maintenance Program	10
	MEC Technical Assistance Grant	90,000
	RMI Orientation Program	43,331
	Sub-total CFDA # 15.875	<u>1,280,588</u>
15.904	Historic Preservation Fund Grants-In-Aid	97,604
	Total U.S. Department of the Interior	<u>1,378,192</u>
	<u>U.S. Small Business Administration:</u>	
59.037	Small Business Development Center	<u>22,174</u>
	<u>U.S. Department of Education:</u>	
84.027	Special Education-Grants to States	<u>1,871,736</u>
	<u>U.S. Department of Health and Human Services:</u>	
93.003	Public Health and Social Services Emergency Fund	273,635
93.069	Public Health Emergency Preparedness	220,326
93.110	Maternal and Child Health Federal Consolidated Programs	363,413
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	116,704
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	94,608
93.163	Health Services in the Pacific Basin	513,778
93.163	ARRA - Health Services in the Pacific Basin	411,689
93.217	Family Planning-Services	272,833
93.230	Consolidated Knowledge Development and Application (KD&A) Program	5,005
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	910,975
93.268	Immunization Grants	603,388
93.268	ARRA - Immunization Grants	46,962
93.889	National Bioterrorism Hospital Preparedness Program	95,316
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	65,556
93.958	Block Grant for Community Mental Health Services	66,430
93.959	Block Grants for Prevention and Treatment of Substance Abuse	596,377
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	67,645
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	177,129
93.988	ARRA - Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	54,702
	Total U.S. Department of Health and Human Services	<u>4,956,471</u>
	<b>TOTAL U.S. FEDERAL GRANTS FUND</b>	<b>\$ <u>8,922,587</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, 2011

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<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	\$ 11,611,455
	Supplemental Education Grant	6,420,804
	Section 211(a)(2) Health Sector	6,696,698
	Section 211(a)(4) Public Sector Capacity Building	432,976
	Section 211(b)(1) Ebeye Special Needs	3,582,231
	Section 211(b)(2) Landowners Special Needs	1,750,000
	Section 211(b)(3) Kwajalein Environment	551,973
	Section 211(d)(1) Public Infrastructure Development	11,950,846
	Section 211(d)(2) Infrastructure Maintenance	<u>1,093,119</u>
	<b>TOTAL COMPACT SECTOR GRANTS FUND</b>	<b>\$ <u>44,090,102</u></b>
<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>45,435,144</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>351,676</u>
	<b>TOTAL FEDERAL PROGRAM EXPENDITURES</b>	<b>\$ <u>99,124,077</u></b>
Reconciliation to the 2011 financial statements is as follows:		
	General Fund (Reimbursable Fund)	(1) \$ 324,568
	U.S. Federal Grants Fund	(2) 8,922,587
	Compact Sector Grants Fund	(3) 44,090,102
	Section 212 Kwajalein Landowners Fund	(4) 45,435,144
	Section 213 Audit Fund	(5) <u>351,676</u>
		<b>\$ <u>99,124,077</u></b>

- (1) Included within total expenditures for the Reimbursable Fund of \$584,527 presented on page 102 of the 2011 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$7,935,661 and \$986,926, respectively, presented on page 92 of the 2011 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$41,811,101 and \$2,279,001, respectively, presented on page 92 of the 2011 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$44,435,144 presented on page 84 of the 2011 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$351,676 presented on page 92 of the 2011 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, 2011

#### (1) Scope of Audit

The Republic of the Marshall Islands (RepMar) is a governmental entity governed by its own Constitution. All significant operations of RepMar are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as RepMar's cognizant agency for the Single Audit.

##### a. Programs Subject to Single Audit

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

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

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

##### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RepMar and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, RepMar's reporting entity is defined in Note 1A to its September 30, 2011 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Nuclear Claims Tribunal, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2011.

##### c. Matching Costs

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2011 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 1,000,000
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 125,000
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 4,472,235
Compact of Free Association, As Amended, Landowners Special Needs	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,750,000
Compact of Free Association, As Amended, Public Infrastructure Development	Marshall Islands National Telecommunications Authority	\$ 1,000,000
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 471,925
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 707,076
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 100,000

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2011 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Economic, Social and Political Development of the Territories, Continued:		
MEC Technical Assistance Grant	Marshalls Energy Company, Inc.	\$ 90,000
Majuro Waste Grant	Majuro Atoll Waste Company, Inc.	\$ 153,081

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2011. RepMar did not charge federal programs for indirect costs during fiscal year 2011.

f. CFDA # 15.875

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2011

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

*Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:                      | Unqualified   |
|    | Internal control over financial reporting:            |               |
| 2. | Material weakness(es) identified?                     | Yes           |
| 3. | Significant deficiency(ies) identified?               | None reported |
| 4. | Noncompliance material to financial statements noted? | Yes           |

*Federal Awards*

- |     |  |               |
|-----|--|---------------|
|     | Internal control over major programs:  |               |
| 5.  | Material weakness(es) identified?  | Yes           |
| 6.  | Significant deficiency(ies) identified?  | None reported |
| 7.  | Type of auditors' report issued on compliance for major programs:  |               |
|     | CFDA # 15.875 Compact Sector Grants  | Qualified     |
|     | CFDA # 15.875 Section 212 Kwajalein Impact and Use   | Unqualified   |
| 8.  | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   | Yes           |
| 9.  | Identification of major programs:  |               |
|     | <u>CFDA #</u> <u>Name of Federal Program</u>   |               |
|     | 15.875      Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants                           |               |
|     | 15.875      Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Section 212<br>Kwajalein Impact and Use |               |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs:   | \$2,973,722   |
| 11. | Auditee qualified as low-risk auditee?   | No            |

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2011-01	Allowable Costs/Cost Principles	14 - 15
2011-03	Equipment and Real Property Management	18 - 19
2011-04	RMI Procurement Code	20 - 22
2011-05	Allowable Costs/Cost Principles RMI Procurement Code	23 - 25
2011-06	Allowable Costs/Cost Principles RMI Procurement Code	26 - 27
2011-09	Compact Trust Fund	30
2011-10	Single Audit Reporting	31
2011-11	General Ledger Account Reconciliations	32
2011-12	Bank Wire Transfers	33
2011-13	Construction-in-Progress/Retention Payable	34 - 36
2011-14	General Ledger Journal Entries	37 - 38

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

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2011-01	15.875	Allowable Costs/Cost Principles	\$ 1,097,821	14 - 15
2011-02	15.875	Cash Management	Undeterminable	16 - 17
2011-03	15.875	Equipment and Real Property Management	\$ -	18 - 19
2011-04	15.875	Procurement and Suspension and Debarment	\$ 445,918	20 - 22
2011-05	11.460/ 15.875/ 93.959	Allowable Costs/Cost Principles Procurement and Suspension and Debarment	\$ 603,569	23 - 25
2011-06	84.027	Allowable Costs/Cost Principles Procurement and Suspension and Debarment	\$ 9,502	26 - 27
2011-07	15.875	Subrecipient Monitoring	\$ -	28
2011-08	15.875	Subrecipient Monitoring	\$ 1,000,000	29

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-01  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
 Compact Sector Grants  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$1,097,821

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to, and in accordance with, program intent and objectives.

Condition: Of \$29,465,938 in non-payroll expenditures for the Compact Sector Grants, one-hundred nineteen (119) items, totaling \$13,555,072, were tested. We noted the following expenditures which were not supported by underlying check voucher files:

<u>Fund</u>	<u>Check #</u>	<u>Account #</u>	<u>GL Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
410150	14271	03134	Equipment	Q1271601	00014271	\$ 24,800
410150	15564	02215	Utilities	Q1272801	00015564	3,454
410150	15824	02215	Utilities	Q1276104	00015824	28,011
410102	79785	02450	Other Supplies/Materials		144054	7,263
510100	82936	03219	Construction	C0213101	150412	225,000
410102	83083	02450	Other Supplies/Materials	P3874501	150611	10,949
410100	83465	02215	Utilities	P3909001	151765	74,214
510100	86170	03219	Construction	CO336501	156031	192,268
510100	87170	03219	Construction	CO336501	158259	35,739
410100	88121	02020	Travel		160048	375
510100	89676	03219	Construction	CO785201	163089	494,074
410100	90239	02021	International Travel	TO939601	164446	1,260
410100	91167	02450	Other Supplies/Materials	P4148801	166523	414
						<u>\$ 1,097,821</u>

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

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs in the amount of \$1,097,821 are reported.

Recommendation: We recommend that management require that expenditures incurred under federal programs are evidenced by supporting documentation indicating that such expenditures are directly related to and in accordance with program intent and objectives.

Prior Year Status: Lack of attendant documentation indicating that expenditures charged to a federal program are directly related to the program and are in accordance with program intent and objectives was reported as a finding in the Single Audits of RepMar for fiscal years 2009 and 2010.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-01, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$1,097,821

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation.

The Ministry of Finance recognizes that this has been a repeat finding spanning three consecutive years now. Attempts to resolve this finding over the past two years have not yield the desired results: however, these efforts are continuing and have in fact intensified with technical assistance from the Pacific Financial and Technical Assistance Center (PFTAC) and the International Monetary Fund (IMF).

The Ministry will continue to execute the remedial actions that were identified in the FY2010 as they relate to Allowable Costs/Cost Principles and the OMB Circular A-87. In FY12, the Ministry received technical assistances through PFTAC and the US Graduate School, aimed at revamping its public financial and accounting processes. Through such technical assistance, internal controls are strengthened at all control points. As anticipated in the FY2010 identified remedial actions, both internal control and use of checklists to supplement internal control will be used by the Chief of Procurement and Accounts Payable Supervisor to ensure the adequacy of documentation. Through PFTAC's assistance, it is now planned that checklist will be used at every control points (Procurement and Supply Division, Budget Division, Accounting Division, and Accounts Payable Division,) to ascertain that all requirements are met.

At present the Ministry is working on a Public Financial Management (PFM) Roadmap aimed at addressing all operational weaknesses that have been identified through (1) the Public Expenditure and Financial Accountability (PEFA) assessment, (2) Peer Review on Forum Compact compliance, and (3) the annual Single Audits. The PFM Roadmap will also set a corrective course of action for allowable costs issues amongst other critical issues that have surfaced through the annual Single Audit.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-02  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
 Compact Sector Grants  
 Area: Cash Management  
 Questioned Costs: Undeterminable

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

Condition: Of \$12,561,018 in non-payroll expenditures for the Compact Sector Public Infrastructure Development and the Landowners Special Needs Grants, twenty-two (22) items, totaling \$3,024,448, were tested. We noted the following expenditures which were not paid in a manner to minimize the time elapsed between transfer of funds and their disbursement:

<u>Check #</u>	<u>Amount</u>	<u>Cash</u>		<u>Date Cleared</u>	<u># of days Elapsed</u>
		<u>Disbursement Drawdown #</u>	<u>Drawdown Deposit Date</u>		
80743	\$ 97,110	CD-05-2011	11/16/2010	11/23/2010	6
81033	\$ 210,000	KDF-1	11/26/2010	12/07/2010	10
81034	\$ 210,000	KDF-1	11/26/2010	03/24/2011	117
81561	\$ 103,700	CD-08-2011	12/21/2010	12/23/2010	1
82390	\$ 65,636	CD-12-2011	01/19/2011	01/27/2011	7
82956	\$ 67,533	CD-14-2011	02/15/2011	02/22/2011	6
82968	\$ 133,484	CD-14-2011	02/15/2011	02/22/2011	6
83574	\$ 110,706	CD-15-2011	03/18/2011	03/28/2011	9
83571	\$ 74,044	CD-15-2011	03/18/2011	03/31/2011	12
84920	\$ 106,183	CD-16-2011	04/13/2011	04/21/2011	7
85768	\$ 8,585	CD-19-2011	05/20/2011	05/31/2011	10
89217	\$ 100,178	CD-24-2011	08/22/2011	08/25/2011	2
89300	\$ 200,000	CD-24-2011	08/22/2011	08/30/2011	7
89676	\$ 494,074	CD-25-2012	09/14/2011	09/16/2011	1

Additionally, on March 25, 2011, RepMar paid \$1,000,000 (wire payment # 09000834) to Marshalls Energy Company, Inc. (MEC), representing payments for future fuel purchases for Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR). The advance represented approximately three months of fuel usage for KAJUR.

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

Effect: The effect of the above condition is noncompliance with FPA cash management requirements. We estimated a total interest liability of \$589 for the above drawdowns based on the yield of 13-week U.S. Treasury bills. As this amount is below \$10,000, such is not reported as a questioned cost.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-02, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Cash Management  
Questioned Costs: Undeterminable

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

Prior Year Status: Lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with FPA cash management requirements was reported as a finding in the Single Audits of RepMar for fiscal years 2005 through 2010.

Auditee Response and Corrective Action Plan: The Ministry of Finance accepts that this is a repeat finding and that in spite of several attempts at resolution, it continues to be an audit issue. In December 2011, a formal methodology had been developed but is still to be implemented. The Ministry will formalize and implement this methodology and related procedures in FY 2013.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-03  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: Article VI , Section 1(f)(4) of the Fiscal Procedures Agreement (FPA) states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

- a. Property records must be maintained, which include (1) a description of the property, (2) a serial number or other identification number, (3) the source of property, (4) who holds title, (5) the acquisition date and cost of the property, (6) the percentage of United States funding used in the purchase, (7) the location, use and condition of the property, and (8) any ultimate disposition data including the date of disposal and sale price;
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: No inventory of fixed assets has been performed to satisfy compliance with applicable equipment management requirements. Capital outlay expenditures incurred by RepMar within the Compact Sector Grants Fund for fiscal years 2011, 2010 and 2009 was as follows:

Fiscal Year 2011	\$ 7,188,740
Fiscal Year 2010	\$ 10,051,397
Fiscal Year 2009	\$ 7,780,908

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

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

Recommendation: We recommend that the Ministry of Finance perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements and to require that it is in compliance with applicable federal property rules and regulations.

Prior Year Status: Lack of a complete fixed assets listing was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2010.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-03, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The Ministry of Finance acknowledges that this is a repeat find spanning 33 years. Despite repeated attempt at resolution and outside technical assistance to address this shortcoming, it continues to be a major challenge. The Procurement and Supply Division of the Ministry of Finance leads the efforts by the Government in this area. The Division works alongside an Asset Monitoring Committee, comprising of one officer from each Line Ministries and statutory agencies to record, value, and monitor all Government assets. The Asset Monitoring Committee has been defunct for several years now. It is the intention of the Ministry of Finance to revive the Committee and provide it with adequate resources to properly function. Resolution of this issue will be highlighted in the PFM Roadmap currently being developed.

The Ministry is also in contact with IDC, the developer of the accounting program currently being used by the Government, to initiate usage of the fixed assets module that the software is capable of doing.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-04  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$445,918

Criteria: Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by 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 \$29,465,938 in non-payroll expenditures for the Compact Sector Grants, one-hundred nineteen (119) items totaling \$13,555,072 were tested. We noted the following expenditures where supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	410150	14824	Q1204401	00014824	\$ 474
2	510100	80579	P3630101	145721	76
3	410102	80500	P3755901	145327	3,605
4	410160	81033		146592	210,000
5	410160	81034		146593	210,000
6	410100	81552	P3694801	147468	8,677
7	410150	81634	Q1170501	147895	8,088
8	410100	89663	P4075201	163029	<u>4,998</u>
					<u>\$ 445,918</u>

For item # 1, the expenditure did not agree with the underlying contract, and it was not supported by three price quotations.

For item # 2, the expenditure was supported by three price quotations; however, the dates of the purchase requisition (08/04/2010) and purchase order (08/05/2010) preceded the selected vendor's 08/13/2010 quotation. Thus, it appears that the vendor was already selected and the purchase was approved prior to solicitation of price quotations. Furthermore, the rationale for vendor selection or rejection is not evident in the underlying supporting documentation.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-04, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$445,918

#### Condition, Continued:

For item # 3, the expenditure was not supported by three price quotations. Additionally, supporting documentation indicated that such was for student snacks for the months of January through May 2010; however, the purchase requisition (PR) was dated 08/03/2010. Furthermore, justification per the PR was that the snacks were for the months of October through December 2009.

For item #s 4 and 5, no evidence of competitive sealed bidding was on file for the purchase of a generator, as required by Section 124. Accordingly, RepMar appears to have sole-sourced this purchase; however, no documentation was on file to support the sole-source procurement basis, as required by Section 128.

For item # 6, two of three price quotations solicited were unresponsive; however, no evidence of solicitation of other quotations was on file.

For item # 7, no evidence of obtaining informal price quotations was on file. Furthermore, the expenditure pertained to repairs and maintenance but was recorded as equipment expenditure.

For item # 8, the expenditure was supported by three price quotations; however, the selected vendor's quotation was dated 05/03/2011, which preceded the other two quotations (dated 07/19/2011 and 07/21/2011) by more than two months. Furthermore, the purchase requisition (PR), dated 05/06/2011 and approved on 06/27/2011, also preceded the other two quotations. The PR also preceded the underlying price comparison sheet, which was dated 07/29/2011.

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

Effect: The effect of the above condition is noncompliance with applicable procurement requirements. For item #s 1 through 8 above, as documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, and vendor selection or rejection, questioned costs of \$445,918 are reported.

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

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-04, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$445,918

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in the Single Audits of RepMar for fiscal years 2003 through 2010.

Auditee Response and Corrective Action Plan: The Ministry of Finance notes that this has been a repeat finding spanning 9 years. The Ministry of Finance continues to strengthen its internal control to be able to address this finding. A draft Standard Operating Procedures has been developed and is soon to be finalized. Internally the Ministry had conducted several trainings on the SOP to re-orient staffs with the established procedures. The Ministry continues to send its front line staffs to APIPA for up-skilling on internal control amongst other related topics. In August 2012, a former Auditor-General from PNG was contracted by Pacific Financial Technical Assistance Centre (PFTAC) to work with the Ministry in strengthening its internal controls.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-05  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.460 Special Oceanic and Atmospheric Projects  
 Questioned Costs: \$50,705

Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
 Four Atoll Health Care  
 Questioned Costs: \$493,464

Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
 Questioned Costs: \$59,400

Area: Allowable Costs/Cost Principles  
 Area: Procurement and Suspension and Debarment

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Furthermore, the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in this section.

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from 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 #1: Of \$10,637,974 in non-payroll expenditures for the Grants Assistance Fund (excluding Compact Sector Grants and Special Education – Grants to States program), thirty-one (31) items, totaling \$3,411,765, were tested.

We noted the following expenditures which were not supported by underlying check voucher files:

<u>Item #</u>	<u>Fund #</u>	<u>CFDA #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	600350	93.959	81423	Contractual services	C0364301	146624	\$ 59,400
2	700370	N/A	83733	Repairs	P3828801	151690	\$ 720
3	700360	N/A	85088	Contractual services	C0405201	153674	\$ 115
4	600350	15.875	88609	Contractual services	C0370601	155983	\$ 493,464
5	700360	N/A	86344	Travel	T0952901	156372	\$ 702
6	700370	N/A	87169	Construction	C0378104	158253	\$ 5,407

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-05, Continued  
 CFDA Program: 11.460 DOC Special Oceanic and Atmospheric Projects  
 Questioned Costs: \$50,705  
 CFDA Program: 15.875 DOI Economic, Social and Political Development of the Territories,  
 Four Atoll Health Care  
 Questioned Costs: \$493,464  
 CFDA Program: 93.959 HHS Block Grants for Prevention and Treatment of Substance Abuse  
 Questioned Costs: \$59,400  
 Area: Allowable Costs/Cost Principles  
 Area: Procurement and Suspension and Debarment

Condition #1, Continued:

For item # 1, procurement was not supported by competitive sealed bidding or any other appropriate methodology, thus the purchase appears to have been sole sourced. Accordingly, questioned costs in the amount of \$59,400 are reported.

For item #s 2 and 3, three informal price quotations were not on file. As the funding source is non-federal, no questioned costs are reported.

For item # 4, procurement was not supported by competitive sealed bidding or any other appropriate methodology, thus the purchase appears to have been sole sourced. Accordingly, questioned costs in the amount of \$493,464 are reported.

For item #s 5 and 6, three informal price quotations were not on file. As the funding source is non-federal, no questioned costs are reported.

Condition #2: Of \$138,089 in non-payroll expenditures for the Special Oceanic and Atmospheric Projects (CFDA # 11.460), six items, totaling \$60,320, were tested. We noted the following expenditures which were not supported by underlying check voucher files:

<u>Fund</u>	<u>Check #</u>	<u>Account #</u>	<u>GL Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
200090	81338	02020	Travel	T0898601	147169	\$ 188
200090	82871	01510	Professional Services	M0651701	150311	350
200090	83842	02021	Equip & Tools Not Capet	T0932901	152525	2,008
200090	87530	02440	Other Supplies/Materials	P3980601	155849	<u>2,135</u>
						\$ <u>4,681</u>

Additionally, for one \$450 item (check # 91897) APV # 168506, three informal price quotations were not on file.

Other expenditures of \$42,954 were recorded through general journal voucher #G12-208P. However, such do not represent valid program expenditures, but rather unknown receivable amounts identified during the reconciliation process. Furthermore, a \$2,620 travel expenditure recorded through general journal voucher # G12-229P was not supported by underlying travel documentation. Accordingly, questioned costs in the amount of \$45,574 are reported.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-05, Continued  
CFDA Program: 11.460 DOC Special Oceanic and Atmospheric Projects  
Questioned Costs: \$50,705  
CFDA Program: 15.875 DOI Economic, Social and Political Development of the Territories,  
Four Atoll Health Care  
Questioned Costs: \$493,464  
CFDA Program: 93.959 HHS Block Grants for Prevention and Treatment of Substance Abuse  
Questioned Costs: \$59,400  
Area: Allowable Costs/Cost Principles  
Area: Procurement and Suspension and Debarment

Cause: The cause of the above condition is the lack of attendant documentation supporting recorded expenditures and demonstrating that such expenditures are directly related to Federal programs and are in accordance with program intent and objectives, and the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards. Questioned costs exist for non-major programs, as follows:

<u>CFDA #</u>	<u>QC Amount</u>
11.460	\$ 50,705
15.875	493,464
93.959	<u>59,400</u>
	\$ <u>603,569</u>

Recommendation: We recommend that RepMar require that expenditures incurred under federal programs are evidenced by supporting documentation indicating that such expenditures are directly related to and in accordance with program intent and objectives. Furthermore, we recommend that RepMar require that supporting documentation is adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: We agree with the finding and the recommendation.

The Ministry will see to it that all the relevant control points are fully aware of the documentation requirements for all procurements under federal grants. In addition, Federal Grants Section within the Budget Division will be strengthened with an additional staff who will also oversee compliance with all the grant conditions. In addition, the Ministry also intends to recruit an internal auditor who will also be charged with ensuring compliance and monitoring the compliance and surveillance program for the Ministry.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-06  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.027 Special Education – Grants to States  
 Area: Allowable Costs/Cost Principles  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$9,502

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Furthermore, Section 80.36 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in this section.

RepMar’s Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.
- (d) 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 #1: Of \$411,445 in non-payroll expenditures for the Special Education - Grants to States program, fifteen (15) items, totaling \$58,347, were tested. We noted the following expenditures which were not supported by underlying check voucher files:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	600350	15898	Other Supplies/Materials	Q1303401	00015898	\$ 223
2	600350	82846	POL (Fuel)	P3679001	150316	64
3	600350	85969	International Travel	A1242601	155646	2,218
4	600350	87538	Contractual Services	C0363201	158619	2,422
5	600350	88413	International Travel	A1264401	160455	<u>3,242</u>
Questioned Costs						\$ <u>8,169</u>

For item #s 1 and 3, the drawdown amount was not clearly stated in the drawdown schedule; thus, the associated grant receipt could not be verified.

For item #s 3 and 5, three informal price quotations were not on file. Additionally, the underlying airline ticket and trip report were not available; thus, we were unable to ascertain whether the expenditures were necessary and reasonable for the program needs and were directly related to and in accordance with program intent and objectives.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-06, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Area: Allowable Costs/Cost Principles  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$9,502

#### Condition #1, Continued:

Additionally, for one \$2,457 item (check # 83469), three informal price quotations were on file; however, the lowest quotation in the amount of \$1,800 was not selected. The documented justification was that the other two vendors did not have the items in stock; however, such is not supported by the vendor quotations. Furthermore, the justification lacked evidence of the Chief Procurement Officer's approval. Accordingly, the difference of \$657 between the actual expenditure and the lowest quotation is reported as a questioned cost.

Condition #2: Of \$1,299,162 in payroll expenditures for the Special Education - Grants to States program, forty-four (44) items, totaling \$18,391, were tested. We noted one expenditure where one employee (# 200492) was overpaid \$676 representing two pay periods. This overpayment is reported as a questioned cost.

Cause: The cause of the above condition is the lack of attendant documentation supporting recorded expenditures and demonstrating that such expenditures are directly related to Federal programs and are in accordance with program intent and objectives, and the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards for this non-major program. Accordingly, the unsupported expenditures have been extrapolated to determine a projected questioned cost that exceeds the \$10,000 threshold.

Recommendation: We recommend that RepMar require that expenditures incurred under federal programs are evidenced by supporting documentation indicating that such expenditures are directly related to and in accordance with program intent and objectives. Furthermore, we recommend that RepMar require that supporting documentation is adequate to comply with federal procurement requirements.

Auditee Response and Corrective Action Plan: Similar to Finding No. 2011-05, we agree with this finding and its recommendation.

The Ministry will see to it that all the relevant control points are fully aware of the documentation requirements for all procurements under federal grants. In addition, Federal Grants Section within the Budget Division will be strengthened with an additional staff who will also oversee compliance with all the grant conditions. In addition, the Ministry also intends to recruit an internal auditor who will also be charged with ensuring compliance and monitoring the compliance and surveillance program for the Ministry.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-07  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Subrecipient Monitoring  
Questioned Costs: \$0

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

Condition: During the year ended September 30, 2011, RepMar sub-granted the following Compact grants:

<u>Compact Grant</u>	<u>Sub-Grant Amount</u>	<u>Sub-Grantee</u>
Infrastructure Grant	\$ 5,000,000	College of the Marshall Islands (CMI)
Supplemental Education Grant	\$ 707,076	Marshall Islands Scholarship Grant and Loan Board (MISGLB)

No Sub-Grant agreement or Memorandum of Agreement was executed with CMI for the aforementioned funding. Furthermore, the Memorandum of Agreement available for the funding to MISGLB is not signed by Ministry of Finance officials.

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

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring 1) the execution of Sub-Grant agreements with Sub-Grantees; and 2) compliance with special tests and provisions of the FPA.

Effect: The effect of the above condition is noncompliance with specific provisions of the FPA.

Recommendation: We recommend that RepMar comply with the specific provisions of the FPA and execute Sub-Grant agreements with all Sub-Grantees.

Prior Year Status: Lack of adequate internal control policies and procedures requiring execution of Sub-Grant agreements with Sub-Grantees and compliance with special tests and provisions of the FPA was reported as a finding in the Single Audits of RepMar for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan: We agree with the finding and the recommendation. No payments shall be released from Treasury unless there is evidence of a sub-grant agreement having been concluded between the Government and the sub-grantee. Strict compliance with this will be observed in FY2013.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-08  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories,  
Compact Sector Grants  
Area: Subrecipient Monitoring  
Questioned Costs: \$1,000,000

Criteria: Article VI, Section 1(a)(1) of the Fiscal Procedures Agreement (FPA) states that fiscal control and accounting procedures of RepMar, as well as its Sub-Grantees, shall be sufficient to: (i) permit the preparation of reports required by the FPA and the Compact, as amended; and (ii) permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used in compliance with the provisions of the Compact, as amended, and applicable agreements. Furthermore Article VI, Section 1(k)(1) of the FPA states that RepMar shall ensure that: (i) every Sub-Grant includes any clauses required by the Compact, as amended, the sector Grant awards, and the FPA; (ii) Sub-Grantees are aware of the requirements imposed upon them by the Compact, as amended, the sector Grants and the FPA; and (iii) Sub-Grantee can meet the financial management standards of the FPA. Additionally, in accordance with the provisions of OMB Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, non-federal entities that expend \$500,000 or more in a year in federal awards shall have a single or program-specific audit conducted for the year.

Condition: During the year ended September 30, 2011, RepMar sub-granted \$1,000,000 of Sector Grant awards to the Marshall Islands National Telecommunications Authority (NTA); however, the grant award was not supported by a separate OMB Circular A-133 Audit. Thus, we are unable to determine whether these funds were expended in accordance with the FPA and the intent of the Compact, as amended.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring separate audit of grant expenditures of awards exceeding \$500,000 passed-through to Sub-Grantees, in accordance with OMB Circular A-133.

Effect: The effect of the above condition is noncompliance with specific provisions of OMB Circular A-133. A questioned cost of \$1,000,000 exists.

Recommendation: We recommend that RepMar requires that Sub-Grantees understand and comply with the provisions of OMB Circular A-133.

Auditee Response and Corrective Action Plan: As of September 30, 2011 the Ministry has instigated more stringent requirements calling for the conclusion of sub-grant agreements or MOUs before disbursement of funds. Such requirements are now being strictly observed. The Ministry will now work with sub-grantees to educate them on OMB Circular A-133 requirement for separate audits on passed-through grants exceeding \$500,000.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-09  
Area: Trust Fund

Criteria: Article XVI of the Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands Implementing Section 216 and Section 217 of the Compact, as Amended, Regarding a Trust Fund (the Trust Fund Agreement) states that the A Account shall consist of contributions from the Original Parties, and Subsequent Contributors, and except as otherwise provided in the Trust Fund Agreement, the A Account shall also consist of the earnings of the corpus. Furthermore, Article XVI 5(a) of the Trust Fund Agreement states that annual income of the Trust Fund over six percent (6%) shall be deposited in the C Account, up to the limit specified in paragraph 5(b) of the same Article.

Condition: During fiscal year 2011, \$3,209,837 from the Trust Fund's RMI C Account was transferred to the US and ROC C Accounts, in the amounts of \$2,714,624 and \$495,213, respectively. Since the RMI C Account consists of earnings transferred from the RMI A Account, in accordance with Article XVI of the Trust Fund Agreement, the objective and rationale for such transfer is not evident.

Cause: The cause of the above condition is a reallocation of C Account balances to mirror those for each contributor for the A Accounts. Such reallocation is authorized by the Trust Fund Committee's Resolution RMI 2011-7 dated August 29, 2011, which is effective retroactively from inception of the Trust Fund.

Effect: The effect of the above condition is recognition of expenditures by RepMar in the amount of \$3,209,837 and a corresponding decrease in the Trust Fund balance recorded by RepMar.

Recommendation: We recommend that RepMar investigate the objective and rationale for the reallocation of C Account balances.

Auditee Response and Corrective Action Plan: The Ministry of Finance will work with the Administrator of the Trust Fund to investigate the objective and rationale for the reallocation of C Account balances.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-10  
Area: Single Audit Report

Criteria: The Single Audit Act Amendments of 1996 states that an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year shall have a single audit made for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, and auditor's reports to the Federal clearinghouse and make it available for public inspection the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the period audited.

Condition: RepMar did not transmit the fiscal year 2011 audit reporting package to the Federal Audit Clearinghouse within the required timeline.

Cause: The cause of the above condition is primarily due to conditions reported at Finding 2011-11.

Effect: The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996.

Recommendation: We recommend that RepMar comply with the above criteria.

Auditee Response and Corrective Action Plan: Point made under Finding 2011-10 are noted. The Ministry will exert all efforts to ensure compliance with the Single Audit Act Amendments of 1996. Operational weakness that had led to the delay in completing FY2011 have now been corrected. It is now expected that FY2012 Single Audit will proceed seamlessly.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-11  
Area: General Ledger Account Reconciliations

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

Condition: Eight months subsequent to September 30, 2011, reconciliations of significant general ledger accounts, including cash accounts, had not been completed by the Ministry of Finance. Consequently, significant portions of audit fieldwork could not commence until nine months after the end of fiscal year 2011, when reconciliations of significant accounts were completed.

Audit procedures performed identified errors in certain of the reconciliations and fifty-five (55) audit adjustments were proposed to correct the affected general ledger account balances.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring periodic and timely performance and independent supervisory verification of significant general ledger account reconciliations. Furthermore, negligence by accounting department personnel tasked with the responsibility of ensuring completion of all reconciliations contributed to the above condition.

Effect: The effect of the above condition is material misstatements of account balances, increased risk of undetected errors and fraud, and inaccurate federal financial reporting.

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

Auditee Response and Corrective Action Plan: The Ministry agrees with this finding and its recommendation. The Ministry has continued to receive technical assistance from the Graduate School, PFTAC, and Pacific Islands Center for Public Administration (PICPA) to upskill its accounting staffs with skills necessary to properly execute routine postings and reconciliation tasks. The Ministry has also established a surveillance system that will assist Management to keep track and ensure that these tasks are completed on a regular basis.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-12  
Area: Bank Wire Transfers

Criteria: Controls over wire transfers should be adequate to require that amounts transmitted as reimbursement represent expenditures incurred.

Condition: During the year ended September 30, 2011, the Ministry of Finance overpaid two embassies due to errors in the wire transfer process, resulting in the embassies being paid twice for the same reimbursement requests, as follows:

<u>Embassy</u>	<u>Overpayment Amount</u>	<u>Wire Transfer Dates</u>
UN Mission Washington, D.C.	\$ 26,817 \$ 15,191	06/30/2011 and 07/15/2011 09/12/2011 and 09/20/2011

The overpayments are reconciling items in the embassies' bank account reconciliations and have not been offset against subsequent reimbursement requests.

Additionally, in fiscal year 2007, wire payment # 09000400 was erroneously processed twice resulting in a \$10,068 overpayment to the UN Mission, which was not recorded by the Ministry of Finance until fiscal year 2011, when rental expenditures were recorded for the overpayment rather than offsetting it against the Mission's reimbursement requests. Evidence of management approval of the recorded expenditure was not available.

Wire payment # 09000833 on August 12, 2011 was not recorded until bank account reconciliations were completed eight months after September 30, 2011.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring independent verification by a designated person of wire transfers prior to remittance and the lack of timely preparation and independent verification of monthly bank reconciliations.

Effect: The effect of the above condition is possible misappropriation of RepMar cash balances and the recording of unauthorized transactions.

Recommendation: We recommend that management establish policies and procedures requiring independent verification of wire transfers prior to transmittal. Furthermore, we recommend that management establish policies and procedures requiring timely preparation and independent verification of monthly bank reconciliations.

Prior Year Status: Error in bank wire transfers due to lack of adequate internal control policies and procedures requiring independent verification by a designated person of wire transfers prior to remittance and due to the lack of timely preparation and independent verification of monthly bank reconciliations was reported as a finding in the Single Audit of RepMar for fiscal year 2010.

Auditee Response and Corrective Action Plan: The Ministry takes note of the cited weaknesses with internal controls relating to wire transfers. The Ministry further notes that this is the second year in which the same finding has surfaced. The Ministry will therefore establish a written procedure for executing wire transfer, taking into account the need for segregation of duties, independent verification, and regular reconciliations.

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-13  
Area: Construction-In-Progress/Retention Payable

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

Condition: The construction-in-progress (CIP) and retention payable subsidiary ledgers were not updated during fiscal year 2011. Consequently, the CIP register and GL A/c # 510100-55050 retention payable were not reconciled during the year.

Audit procedures performed identified the following exceptions in the CIP and retention payable subsidiary ledgers provided for audit:

- Retention payable was understated by \$128,403 due to unrecorded retention withheld from contractor progress payments associated with new fiscal year 2011 construction projects.
- Disbursements of retention withheld in prior years were incorrectly recorded as fiscal year 2011 expenditures. Reconciliation procedures completed by accounting department personnel eight months after year end partially corrected the above error; however, the associated JV # G12-314P understated retention payable by \$137,731.
- For contract # C02732, the associated project was completed in a prior year, and the retention withheld was released in fiscal year 2011; however, retention payable recorded as of September 30, 2011 included \$71,964 for this contract.

An audit adjustment was proposed to correct retention payable and expenditures for the above described errors.

- For contract # C02131, the underlying contractor progress billing of \$225,000 paid through check # 82936 was not available. This expenditure has been reported as a deficiency and matter of noncompliance within Finding No. 2011-01, including questioned costs in the amount of \$225,000.
- Total costs as of September 30, 2011 per the CIP register for the following ongoing projects did not agree with contractor progress billings, as follows:

<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per CIP Register</u>	<u>Difference</u>
IDMP0052A	\$ 275,660	\$ 180,704	\$ 94,956
IDMP0079	\$ 149,468	\$ 168,336	\$ (18,868)
IDMP0082	\$ 218,749	\$ 249,948	\$ (31,199)

Adjustments to the CIP register for the above differences were proposed. For project # IDMP0079, the underlying contractor progress billing of \$74,036 paid through check # 89686 was not available; however, the progress billing through 09/30/2011 was available.

- Three CIP additions tested were for projects (IDMP #s 0068, 0078, and 0084) which had been completed in fiscal year 2011 but had not been transferred to capital assets and depreciated. Furthermore, total costs as of September 30, 2011 per the CIP register for these projects did not agree with contractor final billings, as follows:

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-13, Continued  
Area: Construction-In-Progress/Retention Payable

<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per CIP Register</u>	<u>Difference</u>
IDMP0068	\$ 857,139	\$ 731,269	\$ 125,870
IDMP0078	\$ 437,383	\$ 370,350	\$ 67,033
IDMP0084	\$ 459,278	\$ 455,563	\$ 3,715

Adjustments to the CIP and fixed assets register were proposed for the above differences. For project # IDMP0068, the underlying contractor progress billing of \$198,214 paid through check # 86170 was not available; however, the progress billing through 09/30/2011 was available. For project # IDMP0084, no retention was withheld for payment a year after substantial completion, as required by RepMar's policy.

- For project IDMP #s 0068, 0078, 0079, and 0082, the underlying contractor billings accrued as of September 30, 2011 did not include associated retention and gross receipts tax.
- One project (IDMP # 0064) completed in fiscal year 2010 and three projects (IDMP #s 0069, 0070, and 0076) completed in fiscal year 2011 were transferred to capital assets and depreciated; however, the capitalized costs did not agree with contractor final billings, as follows:

<u>Item #</u>	<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per Asset Register</u>	<u>Difference</u>
1	IDMP0064	\$ 1,474,368	\$ 1,461,573	\$ 12,795
2	IDMP0069	\$ 1,326,394	\$ 1,377,659	\$ (51,265)
3	IDMP0070	\$ 1,392,435	\$ 1,420,777	\$ (28,342)
4	IDMP0076	\$ 1,054,266	\$ 1,057,676	\$ (3,410)

For item # 1, a related cost of \$156,410 was incorrectly included as a fiscal year 2011 addition to CIP. A correction was proposed to correct the CIP register for the error.

For item #s 2 through 4, adjustments to CIP additions and to the fixed assets register were proposed for the errors.

For item # 3, gross receipts tax of \$1,899 was not withheld from a progress payment paid on check # 82372 to the contractor.

Cause: The cause of the above condition is the lack of policies and procedures requiring timely and periodic update of CIP and retention payable subsidiary ledgers and reconciliation with general ledger accounts. Furthermore, a noted cause for the errors in valuation of both completed and ongoing projects is lack of reconciliation with contractor billings, which are inclusive of retention and gross receipts tax.

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

Recommendation: We recommend that management establish policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-13, Continued  
Area: Construction-In-Progress/Retention Payable

Auditee Response and Corrective Action Plan: The Ministry of Finance agree with the finding and the recommendation. The Ministry will work closely with the Project Management Unit (PMU) to ensure that reconciliation is done in conjunction with construction in progress. Policies and procedure will be formulated to require periodic update of capital asset and retention payable subsidiary ledgers and reconciliation with general ledger accounts. This particular issues is not addressed in the draft SOP for the Ministry but efforts will be made to have it included. The Ministry will also include this particular task in its Public Financial Management (PFM) Roadmap formulation.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-14  
Area: General Ledger Journal Entries

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

Condition: Independent review and authorization of journal entries posted for fiscal year 2011 were not documented, and general journal vouchers were not supported by underlying documentation. Furthermore, daily batch edit reports, which are run after journal entries are posted and general ledger (GL) accounts are updated, are not reviewed to determine timely disposition of errors identified by the reports.

The following exceptions were also noted:

- JV # G11-26B transferred \$24,910 of expenditures from GL A/c # 600350-01010 to # 600350-02750; the expenditure and transfer were not supported by underlying invoices and evidence of approval.
- JV # G11-215G transferred \$20,592 of travel expenditures from Fund 100100 to Fund 700360. Although evidence of approval of the transfer was available, the underlying travel authorization was not.
- For JV # G12-121G to record bank deposits of \$417,548, the GL account debited differed from the incorrect one indicated on the voucher and the incorrect GL account was credited. An audit adjustment was proposed to correct the error.
- For JV # G12-118G, the GL account credited was incorrect and the amount posted differed by \$50,000 from that indicated on the voucher. The error in amount was subsequently corrected via JV # G12-148G. Furthermore, JV # G12-118G was not supported by an underlying income tax return. An audit reclassification entry of \$249,545 was proposed to correct the above GL account posting error and to correct recording of fiscal year 2011 revenue.
- JV #s G11-272G, G12-192G, G12-92P, G12-101P and G12-237P were not supported by underlying documentation.
- JV # G12-210G amortized the \$764,961 balance of a prior advance payment on utility billings and charged ORG #s 1212 and 1217 equally rather than recording utility expenditures for all affected ORGs (which include ORG #s 1015, 1110, 1420, and 1720).
- JV #s G12-273G and G12-274G were not supported by underlying documentation. Per discussions with accounting staff and examination of GL account details, we noted that these JVs were corrections of multiple incorrect JVs previously recorded. As the accounts had been corrected, no audit adjustment was proposed.
- JV # G11-29P recorded other revenue and expenditures of \$20,538 in GL A/c #s 200105-06350 and 700370-02450, respectively, which was not supported by underlying invoices and evidence of approval.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-14, Continued  
Area: General Ledger Journal Entries

Condition, Continued:

- JV # G12-124P recorded a direct deposit for import tax revenue; however, \$19,375 of the \$88,128 deposited was not supported by underlying tax returns or invoices.
- JV #s G12-290P, G12-187P, G12-190P and G12-314P were not evidenced by signature of preparer and approver.
- JV # G11-50P transferred subsidy expenditures from Fund 100100 to Fund 700370; the transfer was not supported by underlying evidence of approval.

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

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

Recommendation: We recommend that management establish policies and procedures relative to independent authorization and review of journal entries and adjustments.

Prior Year Status: The lack of adequate independent review and approval of journal entries and adjustments was reported as a finding in the Single Audits of RepMar for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan: The Ministry of Finance takes note of the finding and agrees with the recommendation. Noting that this is a repeat finding – 2009, 2010, and 2011 – the Ministry will establish in-house training to ascertain that its accounting staffs are fully aware of their role as defined in the SOP.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2011

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, 2011:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported:			
Fiscal year 2008 Single Audit	\$ 645,618	\$ -	\$ 645,618
Fiscal year 2009 Single Audit	1,360,234	-	1,360,234
Fiscal year 2010 Single Audit	<u>2,243,301</u>	<u>-</u>	<u>2,243,301</u>
	4,249,153	-	4,249,153
Questioned costs of fiscal year 2011 Single Audit	<u>3,156,810</u>	<u>-</u>	<u>3,156,810</u>
Unresolved questioned costs of RepMar at September 30, 2011	\$ <u>7,405,963</u>	\$ <u>-</u>	\$ <u>7,405,963</u>

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
CFDA # 10.567	\$ 252,507	\$ -	\$ -	\$ -	\$ 252,507
CFDA # 10.582	-	132,780	-	-	132,780
CFDA # 15.875	74,318	1,227,454	1,365,460	2,543,739	5,210,971
CFDA # 84.027	14,966	-	-	-	14,966
Nonmajor programs	<u>303,827</u>	<u>-</u>	<u>877,841</u>	<u>613,071</u>	<u>1,794,739</u>
	\$ <u>645,618</u>	\$ <u>1,360,234</u>	\$ <u>2,243,301</u>	\$ <u>3,156,810</u>	\$ <u>7,405,963</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 38).