

**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, 2009**

**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 Jurelang Zedkaia  
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, 2009, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated June 25, 2010. Our report was modified to include a reference to other auditors and an explanatory paragraph regarding a restatement for the correction of an error. 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 grants, 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

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 12 through 30) as items 2009-1, 2009-2, 2009-5, 2009-11 and 2009-12 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

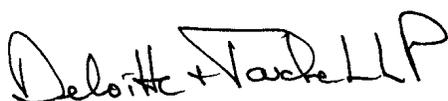
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's basic 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 2009-7 through 2009-9.

We also noted certain matters that we reported to management of RepMar in a separate letter dated June 25, 2010.

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



June 25, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO 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 Jurelang Zedkaia  
President  
Republic of the Marshall Islands:

### Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. RepMar's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 12 through 30). 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, 2009. 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 2009-1, 2009-3 through 2009-5 and 2009-8 through 2009-11 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding cash management, and procurement and suspension and debarment that are applicable to its Commodity Assistance Program major program (CFDA # 10.582); allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, reporting, and subrecipient monitoring that are applicable to its Compact of Free Association Sector Grants major program (CFDA # 15.875); and cash management, and equipment and real property management applicable to its Special Education - Grants to States major program (CFDA # 84.027). Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the requirements referred to above that are applicable to its Commodity Assistance Program major program (CFDA # 10.582), its Compact of Free Association Sector Grants major program (CFDA # 15.875), and its Special Education - Grants to States major program (CFDA # 84.027) for the year ended September 30, 2009. 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 2009-2, 2009-6 and 2009-11.

### Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-1 through 2009-11 to be significant deficiencies.

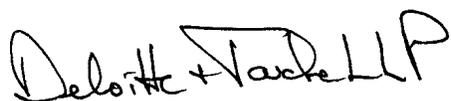
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-1, 2009-3 through 2009-5, and 2009-8 through 2009-11 to be material weaknesses.

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.

## 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, 2009, and have issued our report thereon dated June 25, 2010. 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 22%, 11% and 13%, respectively, of the assets, net assets and operating 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 basic financial statements. This schedule is the responsibility of the management of RepMar. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Honorable Members of the Nitijela, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity 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.

June 25, 2010

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2009

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 Agriculture	10.582	Commodity Assistance Program	\$ <u>701,288</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:	
		Education	12,048,634
		Supplemental Education Grant	6,299,919
		Health	7,317,188
		Public Sector Capacity Building	325,115
		Ebeye Special Needs	3,407,107
		Landowners Special Needs	3,218,449
		Kwajalein Environment	225,371
		Public Infrastructure Development	13,218,273
		Infrastructure Maintenance	<u>1,223,255</u>
			<u>47,283,311</u>
U.S. Department of Education	84.027	Special Education - Grants to States	<u>2,096,425</u>
		Total program expenditures tested	\$ <u>50,081,024</u>
		Total federal program expenditures	\$ <u>68,366,192</u>
		% of total federal program expenditures tested	<u>73%</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>GENERAL FUND AND REIMBURSABLE FUND:</b>		
<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects	\$ <u>349,646</u>
<b>U.S. FEDERAL GRANTS FUND:</b>		
<u>U.S. Department of Agriculture:</u>		
10.582	Commodity Assistance Program	\$ 701,288
10.664	Cooperative Forestry Assistance	<u>52,006</u>
	Total U.S. Department of Agriculture	<u>753,294</u>
<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	984,000
	Tax Enhancement System	107,018
	RMI NGO Committee	<u>78,804</u>
	Sub-total CFDA # 15.875	1,169,822
15.904	Historic Preservation Fund Grants-In-Aid	<u>122,229</u>
	Total U.S. Department of the Interior	<u>1,292,051</u>
<u>U.S. Small Business Administration:</u>		
59.037	Small Business Development Center	<u>15,620</u>
<u>U.S. Department of Homeland Security:</u>		
83.505	State Disaster Preparedness Grant	<u>1,012</u>
<u>U.S. Department of Education:</u>		
84.027	Special Education-Grants to States	2,096,425
84.336	Teacher Quality Enhancement Grant	<u>13,358</u>
	Total U.S. Department of Education	<u>2,109,783</u>
<u>U.S. Department of Health and Human Services:</u>		
93.110	Maternal and Child Health Federal Consolidated Programs	945,457
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	109,205
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	61,064
93.136	Injury Prevention and Control	4,800
93.163	Health Services in the Pacific Basin	505,739
93.217	Family Planning-Services	363,951
93.230	Consolidated Knowledge Development and Application (KD&A) Program	38,489
93.268	Immunization Grants	711,684
93.283	CDC and Prevention-Investigations and Technical Assistance	430,111
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to to Prevent the Spread of HIV and Other Important Health Problems	111,828
93.958	Block Grant for Community Mental Health Services	93,542
93.959	Block Grants for Prevention and Treatment of Substance Abuse	317,762
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	105,484
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	-
		163,352
93.991	Preventive Health and Health Services Block Grant	<u>5,744</u>
	Total U.S. Department of Health and Human Services	<u>3,968,212</u>
	<b>TOTAL U.S. FEDERAL GRANTS FUND</b>	<b>\$ <u>8,139,972</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, 2009

<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	\$ 12,048,634
	Supplemental Education Grant	6,299,919
	Section 211(a)(2) Health Sector	7,317,188
	Section 211(a)(4) Public Sector Capacity Building	325,115
	Section 211(b)(1) Ebeye Special Needs	3,407,107
	Section 211(b)(2) Landowners Special Needs	3,218,449
	Section 211(b)(3) Kwajalein Environment	225,371
	Section 211(d)(1) Public Infrastructure Development	13,218,273
	Section 211(d)(2) Infrastructure Maintenance	1,223,255
	<b>TOTAL COMPACT SECTOR GRANTS FUND</b>	<b>\$ 47,283,311</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	\$ 12,101,170
<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	\$ 492,093
	<b>TOTAL FEDERAL PROGRAM EXPENDITURES</b>	<b>\$ 68,366,192</b>

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, 2009

#### (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

Schedules of Expenditures of Federal Awards are presented for each Federal program related to the following agencies:

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

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

##### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RepMar and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. 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, 2009 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, 2009.

##### 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, 2009

(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>2009 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 1,353,853
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 151,383
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 4,956,646
Compact of Free Association, As Amended, Health Sector	Majuro Atoll Waste Company, Inc.	\$ 324,999
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Atoll Waste Company, Inc.	\$ 120,000
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 600,000
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 745,212
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 100,000
Compact of Free Association, As Amended, Public Infrastructure Development	Marshall Islands National Telecommunications Authority	\$ 1,000,000

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2009

(2) Summary of Significant Accounting Policies, Continued

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2009. RepMar did not charge federal programs for indirect costs during fiscal year 2009.

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, 2009

**Section I - Summary of Auditor's 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 that are not considered to be material weakness(es)? | None reported |
| 4. | Noncompliance material to the financial statements noted?                                   | Yes           |

*Federal Awards*

- |     |  |  |
|-----|--|--|
|     | Internal control over major programs:  |  |
| 5.  | Material weakness(es) identified?  | Yes  |
| 6.  | Significant deficiency(ies) identified that are not considered to be material weakness(es)?                                | Yes  |
| 7.  | Type of auditors' report issued on compliance for major programs:  | Qualified  |
| 8.  | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?     | Yes  |
| 9.  | RepMar's major programs were as follows:   |  |
|     | <u>CFDA #</u>  | <u>Name of Federal Program</u>   |
|     | 10.582   | Food Distribution Program  |
|     | 15.875   | Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants |
|     | 84.027   | Special Education - Grants to States   |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$2,050,986  |
| 11. | RepMar qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                                     | No   |

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2009-1 - 2	Allowable Costs/Cost Principles	14 - 15
2009-5	Equipment and Real Property Management	19 - 20
2009-8 - 9	RMI Procurement Code	23 - 26
2009-11	Accounts Payable Subledger Reconciliations	29
2009-12	General Ledger Journal Entries	30

**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>
2009-1 - 2	15.875	Allowable Costs/Cost Principles	\$ 209,091	14 - 15
2009-3	10.582/ 84.027	Cash Management	Undeterminable	16
2009-4	15.875	Cash Management	Undeterminable	17 - 18
2009-5	15.875/ 84.027	Equipment and Real Property Management	\$ -	19 - 20
2009-6 - 7	15.875	Matching Level of Effort or Earmarking	\$ -	21 - 22
2009-8	10.582	Procurement and Suspension and Debarment	\$ 132,780	23 - 24
2009-9	15.875	Procurement and Suspension and Debarment	\$ 18,363	25 - 26
2009-10	15.875	Subrecipient Monitoring	\$ 1,000,000	27 - 28
2009-11	15.875/ 84.027	Reporting	\$ -	29

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-1

Allowable Costs/Cost Principles

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$208,243

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 \$25,895,300 in non-payroll expenditures for the Compact Sector Grants, ninety (90) items, totaling \$15,156,090, were tested. We noted the following expenditures that were not supported by the underlying check voucher files:

<u>Fund</u>	<u>Check #</u>	<u>Account #</u>	<u>Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
410150		2410	POL (Fuel)		00010109	\$ 43,390
410150		1520	Contractual Services	Q0935901	00013936	\$ 30,000
410110		2215	Utilities		1	\$ 92,279

Additionally, we noted the following expenditures that were paid in advance and that were not supported by the underlying vendor invoice to support liquidation of prepayment.

<u>Fund</u>	<u>Check #</u>	<u>Account #</u>	<u>Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
410100	60450	02410	POL (Fuel)	P2750901	104014	\$ 21,373
410100	61140	02305	Communication	P2703201	105375	\$ 21,201

Cause: The cause of the above condition is the lack of attendant documentation supporting expenditures charged to a Federal program and ensuring that such expenditures 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.

Recommendation: We recommend that management ensure 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.

Auditee Response and Corrective Action Plan: The corrective action plan will involve the Chief of Accounting and Accounts Payable Supervisor to ensure all check vouchers are supported with adequate documentation in order for expenditures to be traced.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-2

Allowable Costs/Cost Principles

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$848

Criteria: Expenditures incurred under the Compact of Free Association, as amended, should be directly related to and in accordance with allowable costs and should be directly related to and in accordance with Compact intent and objectives.

Condition: Of \$12,295,975 in payroll expenditures for the Compact Sector Grants, thirty-five (35) items, totaling \$22,023, were tested. We noted one instance where the regular wage payment of \$240.80 to one employee (#78141) on pay period ended March 28, 2009 exceeded the authorized wage by \$31.42. Total overpayment to the employee for the year ended September 30, 2009 amounted to \$848. Accordingly, the error has been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

Cause: The cause of the above condition is the lack of independent verification after input of changes to the payroll master file for employee pay rates.

Effect: The effect of the above condition is the overpayment of salaries and wages.

Recommendation: We recommend that management establish internal control procedures to ensure that changes made to the payroll master file are independently verified.

Auditee Response and Corrective Action Plan: The Assistant Secretary of Finance for Accounting will now be tasked with the responsibility to regularly review the payroll master file for detection of errors in a timely manner. The corrective action plan begins immediately.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-3

Cash Management

U.S. Department of Agriculture - CFDA # 10.582: Commodity Assistance Program

U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: Undeterminable

Criteria: Section 3016.21 of 7 CFR 3016 and Section 80.21 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205.

Condition: Of \$701,228 in non-payroll expenditures for CFDA # 10.582 program, thirty-eight (38) items, totaling \$547,046, were tested. Furthermore, of \$728,042 in non-payroll expenditures for the CFDA # 84.027 program, twenty-six (26) items, totaling \$260,685, were tested. We were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not made available for examination.

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

Effect: The effect of the above condition is noncompliance with cash management requirements. Due to the lack of available information provided by the grantee, the amount of questioned costs, if any, applicable to this finding are 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 of applicable payments clear in the bank.

Auditee Response and Corrective Action Plan: The corrective action plan will involve the Chief of Accounting and Director of Budget to establish a spending pattern and a draw down schedule for all Federal programs grants to minimize time elapsed between receipt and disbursement of funds. The anticipated completion date of this corrective action plan is September 30, 2010.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-4

Cash Management

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

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 \$14,436,697 in non-payroll expenditures for the Compact Sector Public Infrastructure Grant and Landowners Special Needs Grant, thirty-three (33) items, totaling \$11,060,817, were tested. We noted the following infrastructure project expenditures that were not paid in a manner that minimized the time elapsed between transfer of funds and their disbursement:

<u>Check #</u>	<u>Amount</u>	<u>Cash Disbursement Drawdown #</u>	<u>Drawdown Deposit Date</u>	<u>Date Cleared</u>	<u># of days Elapsed</u>
59060	\$ 355,900	ESP-003-2008	9/24/08	10/16/08	21
60442	\$ 660,487	CD-002-2009	11/14/08	11/21/08	6
61064	\$ 589,758	CD-003-2009	12/10/08	12/22/08	11
62535	\$ 446,136	CD-006-2009	02/02/09	02/10/09	7
63116	\$ 450,000	CD-007-2009	02/13/09	02/19/09	5
63142	\$ 1,054,756	CD-008-2009	03/11/09	03/17/09	5
63249	\$ 312,606	CD-008-2009	03/11/09	03/23/09	11
63575	\$ 358,386	CD-009-2009	03/23/09	04/09/09	16
63732	\$ 1,000,000	CD-009-2009	03/23/09	04/07/09	14
65233	\$ 1,140,336	CD-014-2009	05/15/09	05/22/09	6
65975	\$ 618,049	CD-018-2009	06/19/09	07/06/09	16
67676	\$ 436,780	CD-021-2009	08/11/09	08/21/09	9
62091	\$ 35,891	CD-005-2009	01/16/09	01/27/09	10
63636	\$ 70,858	CD-010-2009	03/30/09	04/06/09	6
65237	\$ 133,533	CD-014-2009	05/15/09	05/25/09	9
65624	\$ 121,135	CD-016-2009	05/28/09	06/11/09	13
65810	\$ 204,767	CD-017-2009	06/16/09	06/22/09	5
65848	\$ 170,923	CD-017-2009	06/16/09	06/23/09	6
66798	\$ 112,100	CD-019-2009	06/12/09	07/24/09	41
67043	\$ 108,537	CD-020-2009	07/22/09	07/30/09	7
67189	\$ 3,139	CD-020-2009	07/22/09	08/04/09	12
67692	\$ 135,203	CD-022-2009	08/17/09	08/24/09	6
67692	\$ 165,977	CD-022-2009	08/17/09	08/24/09	6
68436	\$ 92,864	CD-024-2009	09/16/09	09/21/09	4

We estimated a total interest liability of \$601 for the above draw downs 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, 2009

#### Finding No. 2009-4, Continued

##### Cash Management

##### U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

##### Questioned Costs: Undeterminable

Additionally, on June 19, 2009, RepMar paid \$2,246,388 (check # 65812) to the Marshalls Energy Company, Inc. (MEC) representing payments for accrued and future fuel purchases for the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR). Of the total check amount, \$1,448,162 represented advance payments to MEC for approximately 8 months of KAJUR fuel usage. At September 30, 2009, the remaining prepaid balance amounted to \$786,627.

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

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

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.

Auditee Response and Corrective Action Plan: We partially agree with the audit finding because of the following reasons:

- (1) The Ministry of Finance has no control over actual transfer of funds from receiving bank (*off shore*) account to our account at the local bank. There have been instances where the delayed is caused by receiving banks which is beyond our control; and
- (2) The Ministry of Finance has no control over when checks are to be taken or to be cleared at the bank and there have been instances where vendors hold on to the checks for a number of days.

To satisfy the cash management requirements stipulated under the FPA, the Ministry is currently developing a formal methodology governing the drawdown of Federal funds to minimize time elapsed between receipt and disbursement of funds both by the Ministry. Clearance of checks at the bank, on the other hand, is the vendor or vendors' responsibility and shall not be considered part of the Ministry's responsibility. The cash register with the Ministry's Treasury Department under the Treasurer's supervision, will indicate the DATE when the check or checks were actually received by each vendor, or check recipient. The anticipated completion date of this corrective action plan, which will also include check receiving date by the vendor and certified by the Treasurer, is slated for September 30, 2010.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-5

Equipment and Real Property Management

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: \$0

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

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

Condition: No inventory of fixed assets has been performed to ensure compliance with applicable equipment management requirements. For the Special Education - Grants to States (CFDA # 84.027) federal program, a summary of capital outlays for the last five years is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 45,589
2008	\$ 62,473
2007	\$ 83,562
2006	\$ 155,063
2005	\$ 133,026

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-5, Continued

Equipment and Real Property Management

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: \$0

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure 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 ensure 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 2008.

Auditee Response and Corrective Action Plan: The Ministry of Finance, particularly the Procurement and Supply Office, already conducted a government-wide physical Inventory count of all RMI Government Capital Asset worth \$5000 and greater. Unfortunately, the listing prepared and submitted did not meet the auditors' expectation. Thus, our Chief Procurement Officer and our Senior Officer on Fixed Assets in close collaboration with the Assistant Secretaries for Budget and Accounting will be in charge to ensure that our Fixed Asset Register is complete in accordance with the required standards. The anticipated completion date of the complete Fixed Asset register is September 30, 2010.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-6

Matching, Level of Effort or Earmarking

U.S. Department of Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$0

Criteria: Article X, Section 3 of the Federal Programs and Services Agreement and Section 211(e) of the Compact of Free Association, as amended, requires an equal contribution from the Government of the United States and RepMar to the Disaster Assistance Emergency Fund (DAEF). Any funds from the DAEF may be used only for assistance and rehabilitation resulting from disasters and emergencies.

Condition: During the year ended September 30, 2009, the Government of the United States contributed \$228,128 into the DAEF while RepMar's contribution amounted to \$200,000, which represents a deficiency of \$28,128 in terms of the required match. As no expenditures were incurred during the year ended September 30, 2009, in relation to the DAEF, no questioned costs are reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with matching requirements of the Compact, as amended.

Effect: The effect of the above condition is noncompliance with the specific matching requirements of the Federal Programs and Services Agreement.

Recommendation: We recommend that RepMar comply with the specific matching requirements of the Federal Programs and Services Agreement and Compact, as amended.

Auditee Response and Corrective Action Plan: We do not agree with the audit finding because the Article X, Section 3 Subsection 211 (e) of Compact as Amended, requires an allocation of \$200,000 from Compact funds and RMI already provided this amount and deposited it into the DAEF account. However, to satisfy the level of contribution from U.S. during the year, RepMar has subsequently put up the remaining \$28,128 to match the level of contribution from U.S. during the year.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-7

Matching, Level of Effort or Earmarking

U.S. Department of Interior - CFDA # 15.875: Section 213 Single Audit

Questioned Costs: \$0

Criteria: Section 213(a) of the Compact of Free Association, as amended, states that the Government of the United States shall, for each fiscal year of the twenty years during which assistance is to be provided on a sector grant basis under Section 211(a), grant the Government of the Republic of the Marshall Islands an amount equal to the lesser of (i) one half of the reasonable, properly documented cost incurred during such fiscal year to conduct the annual audit required under Article VIII, Section 2 of the Fiscal Procedures Agreement or (ii) \$500,000.

Condition: During the year ended September 30, 2009, recorded expenditures in the Compact share of Single Audit expenditures exceeded RepMar's share by \$284,726. Audit adjustments were proposed to transfer \$142,363 in expenditures to the General Fund. Accordingly, no questioned costs are reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with matching requirements of the Compact, as amended.

Effect: The effect of the above condition is noncompliance with specific matching requirements of the Compact, as amended.

Recommendation: We recommend that RepMar comply with specific matching requirements of the Compact, as amended.

Auditee Responses and Corrective Action Plan: The over-expenditures reported under the Single Audit grant occurred when the 50% of the fees into the General Fund, required under the Single Audit grant terms and conditions, was inadvertently left out. In order to avoid such mistake in the future, the Ministry has designated the Chief of Accounting to closely monitor activities in the Single Audit grant to ensure expenditures are split to reflect 50/50 for Compact and local funds, as they are incurred. The anticipated completion date of our corrective action plan is September 30, 2010.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-8

Procurement and Suspension and Debarment

U.S. Department of Agriculture - CFDA # 10.582: Commodity Assistance Program

Questioned Costs: \$132,780

Criteria: Section 3016.36 of 7 CFR 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by 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 an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$701,228 in non-payroll expenditures for the CFDA # 10.582 program, thirty eight (38) items, totaling \$547,046, were tested. We noted the following items where supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	P2920801	63587	Food Stuff	\$ 15,438
2	P2920701	63603	Food Stuff	\$ 15,438
3	P2950401	63840	Food Stuff	\$ 24,998
4	P2942801	63587	Food Stuff	\$ 11,759
5	P3129501	68066	Food Stuff	\$ 24,570
6	P3190501	68793	Food Stuff	\$ 33,847
7	P2715201	62133	Rentals	\$ 6,730

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

#### Finding No. 2009-8, Continued

#### Procurement and Suspension and Debarment

#### U.S. Department of Agriculture - CFDA # 10.582: Commodity Assistance Program

#### Questioned Costs: \$132,780

For item #s 1 and 2, three informal price quotations were on file; however, it appears that the purchases were split into separate purchase orders to avoid the competitive sealed bidding requirement. Specifically, the purchase involved the procurement of 1,479 bags of rice at a total cost of \$30,875. The purchase orders were made on the same date but were purchased from two different vendors in order to reduce the apparent purchase amount below \$25,000. Accordingly, questioned costs in the amount of \$30,870 are reported.

For item #s 3 through 5, three informal price quotations were on file; however, based on the amounts ordered, it appears that purchases were purposely split into amounts below \$25,000 to avoid the competitive sealed bidding requirements. Accordingly, questioned costs in the amount of \$61,327 are reported.

For item # 6, three informal price quotations were on file; however, the purchase price exceeded the \$25,000 threshold, thus procurement should have been awarded through competitive sealed bidding. Accordingly, questioned costs in the amount of \$33,847 are reported.

For item # 7, the informal price quotations on file did not pertain to the specific route paid for. The price quotations were for the Majuro-Utrik-Majuro route while the expenditure pertained to the Majuro-Kili-Majuro route. Accordingly, questioned costs in the amount of \$6,730 are reported.

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

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend that RepMar ensure 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 Correction Action Plan: The Ministry of Finance's Procurement and Supply Division already established a policy allied by improved working procedures to ascertain appropriate internal control. In that respect, the Procurement and Supply Unit will take stringent measures by ensuring that the process of procuring and supplying, including observation of the relevant procedures as disclosed in the Procurement Code, are strictly followed and complied with accordingly.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-9

Procurement and Suspension and Debarment

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$18,363

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 \$25,895,300 in non-payroll expenditures for the Compact Sector Grants, ninety (90) items, totaling \$15,156,090, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item#</u>	<u>Fund</u>	<u>PO#</u>	<u>Check#</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	410150			POL (Fuel)	\$ 43,390
2	410150	Q0935901		Contractual Services	\$ 30,000
3	510100		66798	Transfer out	\$ 112,100
4	410102	P2786601	60874	Food Stuff	\$ 7,159
5	410100	C0263301	63381	Contractual Services	\$ 4,869
6	410102	P3141501	67815	Food Stuff	\$ 1,677
7	410150	Q0948301	10947	Other supplies/materials	\$ 9,266

For item #s 1 and 2, the expenditures were not supported by the underlying check voucher files, which files include the documentation indicating the history of procurement. As these expenditures were previously reported as a questioned cost per Finding No. 2009-1, no questioned cost will be presented at this finding.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

#### Finding No. 2009-9, Continued

#### Procurement and Suspension and Debarment

#### U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$18,363

For item # 3, the expenditure was not supported by the underlying vendor invoice and documentation indicating history of procurement. As this expenditure was previously reported as a questioned cost per Finding No. 2009-1, no questioned cost will be presented at this finding.

For item# 4, the expenditure was supported by three price quotations. However, selected vendor did not offer the lowest price and justification for selection was not adequately documented. Accordingly, questioned costs in the amount of \$772 are reported, being the difference in price comparison between the vendor selected and the lowest price vendor.

For item #s 5 and 6, no evidence of obtaining informal price quotations were on file. Accordingly, questioned costs in the amount of \$8,325 are reported.

For item # 7, the expenditure was not supported by three price quotations. Accordingly, questioned costs in the amount of \$9,266 are reported.

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

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as stipulated in the FPA. 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: The Chief of Procurement and Supply and Chief of Accounting have been designated as the Ministry's officials' in-charge to develop procedures and adequate internal control policies to ensure proper documentation, as well to ensure compliance with allowable costs/cost principles and the procurement requirements as stipulated under the FPA. In addition, the Accounts Payable Division, being the last division in process, will screen incoming requests to ensure all adequate and required supporting documentations are provided and attached to requests prior to printing of checks.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No. 2009-10

Subrecipient Monitoring

U.S. Department of Interior - CFDA # 15.875: Compact Sector Grants

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 that year.

Condition: During the year ended September 30, 2009, RepMar sub-granted sector Grant awards amounting to \$1,000,000 to the Marshall Islands National Telecommunications Authority (NTA); however, no Sub-Grant agreement or Memorandum of Understanding was executed with NTA for the aforementioned funding. Furthermore, the \$1,000,000 grant award to NTA 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 1) the execution of Sub-Grant agreements with Sub-Grantees; 2) compliance with special tests and provisions of the FPA and 3) separate audit of grant expenditures of awards passed-through to Sub-Grantees exceeding \$500,000 in accordance with OMB Circular A-133.

Effect: The effect of the above condition is noncompliance with specific provisions of the FPA and OMB Circular A-133.

Recommendation: We recommend that RepMar comply with the specific provisions of the FPA, execute Sub-Grant agreements with all Sub-Grantees, and ensure that such includes compliance with the provisions of OMB Circular A-133 and the specific requirements attendant to the Compact Sector Grants.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-10, Continued

Subrecipient Monitoring

U.S. Department of Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$1,000,000

Auditee Response and Corrective Action Plan: While we agree with the audit finding and recommendation, it should also be noted that it is a standard practice at the Ministry of Finance to execute Sub-Grantee agreements to satisfy requirements stipulated under Compact and other Federal regulations. However, the absence of the sub-grantee agreement with NTA was simply overlooked and we could have required the NTA under the sub-grantee to have a single audit for the funds, and hence would have also satisfied the single audit provisions under OMB Circular A-133.

To prevent repetition of the lack of sub-agreement as was the case between the NTA and Finance when Compact funding approved by DOI for NTA, the Ministry of Finance has designated the Budget Director and the Senior Compact Grants Coordinator the responsibility, with an internal memo to be coming from the Secretary of Finance to both the Budget and Accounting Departments attention Accounts Payables, directing them to ensure that Sub-grantee agreements must first be secured before certifying funds by the Budget Office could be made, and before payments could be released. Under such scheme, there will be cross-check between the two divisions and hence assurance that this inadvertent mistake will not be repeated again in the future.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-11

Accounts Payable Subledger Reconciliations/Reporting

U.S. Department of Interior – CFDA# 15.875: Compact Sector Grants

U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: \$0

Criteria: Adequate internal control policies and procedures should be established to require regular periodic reconciliation between general ledger accounts payable and subsidiary ledger balances.

Condition: At September 30, 2009, recorded expenditures for the Compact Sector Grants and Special Education Grants to States were overstated by \$1,501,785 and \$2,269, respectively, due to duplicate recording of expenditures. Audit adjustments were proposed to correct such overstatement of expenditures.

Cause: The cause of the above condition is the lack of established policies and procedures to require periodic reconciliation of accounts payable general ledger and subsidiary ledger balances.

Effect: The effect of the above condition is a possible misstatement of accounts payable balances and related expenditures and inaccurate federal financial reports.

Recommendation: We recommend that management establish policies and procedures to require periodic reconciliation of accounts payable general ledger and subsidiary ledger balances.

Auditee Response and Corrective Action Plan: The corrective action plan will involve the Chief of Accounting to develop procedures for reconciliation of Accounts Payable subsidiary ledgers to control accounts on a regular basis. The anticipated completion of our corrective action plan is September 30, 2010.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-12

General Ledger Journal Entries

Criteria: Adequate accounting controls necessitate segregation of duties. Journal entries and adjustments should accordingly be approved and be recorded by separate individuals.

Condition: Authorization and independent review of journal entries during the year ended September 30, 2009 were not documented.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that all manual journal entries to the general ledger are subjected to independent review and approval by a designated person.

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

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The corrective action plan, through the approval of the Secretary of Finance, will be that the Assistant Secretary of Finance for Accounting and Administration, will now be our independent reviewer for all journal entries manually inputted to the GL. This corrective action plan is effective immediately.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2009

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, 2009:

	<u>Questioned Costs</u>		
	<u>RepMar</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of RepMar as previously reported:			
Fiscal year 2006 Single Audit	\$ 421,559	\$ -	\$ 421,559
Fiscal year 2007 Single Audit	710,185	-	710,185
Fiscal year 2008 Single Audit	<u>645,618</u>	<u>-</u>	<u>645,618</u>
	1,777,362	-	1,777,362
Less questioned costs resolved in fiscal year 2009:			
Questioned costs of fiscal year 2006 Single Audit (1)	<u>(421,559)</u>	<u>-</u>	<u>(421,559)</u>
	1,355,803	-	1,355,803
Questioned costs of fiscal year 2009 Single Audit	<u>1,360,234</u>	<u>-</u>	<u>1,360,234</u>
Unresolved questioned costs of RepMar at September 30, 2009	\$ <u>2,716,037</u>	\$ <u>-</u>	\$ <u>2,716,037</u>

(1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on June 29, 2007, which is in excess of the two year threshold.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 30).