

REPUBLIC OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
UPON THE AUDIT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

His Excellency Kessai Note  
President  
Republic of the Marshall Islands:

We have audited the general purpose financial statements of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2000, and have issued our report thereon dated May 18, 2001, which report was qualified due to: 1) our inability to determine the propriety of fixed assets and fund equity of the General Fixed Assets Account Group; 2) our inability to determine the propriety of receivables from federal agencies of the Governmental Fund Type - Special Revenue Fund; 3) our inability to determine the propriety of cash and cash equivalents, receivables, inventories, fixed assets, accounts payable, other liabilities and accruals, and revenues and expenses of the Kwajalein Atoll Joint Utilities Resources, Inc., a Component Unit - Proprietary Fund; and 4) the omission of the Marshall Islands Scholarship, Grant and Loan Board from the Fiduciary Fund Type - Expendable Trust Fund, the National Environmental Protection Authority from the Component Unit - Governmental Fund, Air Marshall Islands, Inc., the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc, the Marshall Islands Drydock, Inc. and the Marshall Islands Marine Resources Authority from the Component Units - Proprietary Funds, and the College of the Marshall Islands from the University and College Fund Type - Higher Education Fund. Except as discussed in the preceding sentence, 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.

Compliance

As part of obtaining reasonable assurance about whether RepMar's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 16 through 68) as items 2000-28 through 2000-32, 2000-36, 2000-38, 2000-39, 2000-42, 2000-44, 2000-45, and 2000-47 through 2000-49.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered RepMar's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect RepMar's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-1 through 2000-27.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-1 through 2000-5, 2000-7, 2000-8, 2000-12 through 2000-14, 2000-18, 2000-21, 2000-22, and 2000-25 through 2000-27 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of RepMar in a separate letter dated May 18, 2001.

This report is intended solely for the information and use of the management of RepMar, federal awarding agencies, pass-through entities 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.

*Debitte J. Joubert*

May 18, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE  
TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

His Excellency Kessai Note  
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, 2000. 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 16 through 68). 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.

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 2000-39 through 2000-49 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment, reporting, subrecipient monitoring, and special tests and provisions of the Compact of Free Association that are applicable to its major federal programs. 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 each of its major federal programs for the year ended September 30, 2000.

### 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect RepMar's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-39 through 2000-49.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-39 through 2000-49 to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of RepMar as of and for the year ended September 30, 2000, and have issued our report thereon dated May 18, 2001, which report was qualified due to: 1) our inability to determine the propriety of fixed assets and fund equity of the General Fixed Assets Account Group; 2) our inability to determine the propriety of receivables from federal agencies of the Governmental Fund Type - Special Revenue Fund; 3) our inability to determine the propriety of cash and cash equivalents, receivables, inventories, fixed assets, accounts payable, other liabilities and accruals, and revenues and expenses of the Kwajalein Atoll Joint Utilities Resources, Inc., a Component Unit - Proprietary Fund; and 4) the omission of the Marshall Islands Scholarship, Grant and Loan Board from the Fiduciary Fund Type - Expendable Trust Fund, the National Environmental Protection Authority from the Component Unit - Governmental Fund, Air Marshall Islands, Inc., the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc, the Marshall Islands Drydock, Inc. and the Marshall Islands Marine Resources Authority from the Component Units - Proprietary Funds, and the College of the Marshall Islands from the University and College Fund Type - Higher Education Fund. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 12) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose 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 general purpose financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had: 1) the propriety of receivables from federal agencies been determinable; and 2) the expenditures pertaining to the U.S. Department of Health and Human Services Headstart Program been included, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the management of RepMar, federal awarding agencies, pass-through entities, 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.

*Deloitte & Touche*

May 18, 2001

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2000

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 Education	84.027	Special Education Improvement	\$ <u>2,142,075</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States: Compact of Free Association:	
		Section 177	8,753,734
		Section 211(a) Capital Account	7,462,000
		Section 213(a) Military Rights	1,896,618
		Section 214(a) Energy	2,000,000
		Section 215(a)(1) Communications	214,804
		Section 216(a)(1) Surveillance and Enforcement	322,682
		Section 216(a)(2) Health and Medical	559,277
		Section 216(a)(3) Scholarship	59,565
		Section 217 Inflation Adjustment	9,112,700
		Section 221(b) Health and Education	<u>3,217,401</u>
			33,598,781
		Other Direct Assistance	<u>1,739,997</u>
		Total CFDA #15.875	<u>35,338,778</u>
		Total program expenditures tested	\$ <u>37,480,853</u>
		Total federal program expenditures	\$ 63,170,121
		Less: Section 211(a) Current Account	(5,560,000)
		Section 217 Inflation Adjustment applicable to Section 211(a) Current Account	(2,443,300)
		Entities that have not satisfied the audit requirements of OMB Circular A-133:	
		• Republic of the Marshall Islands Private Industry Council, Inc.	(922,047)
		• Four Atoll Programs	(12,250,000)
		• Marshall Islands Scholarship, Grant and Loan Board	(733,235)
		• College of the Marshall Islands	<u>(90,000)</u>
			\$ <u>41,171,539</u>
		% of total federal program expenditures tested	<u>91%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2000

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2000 Total Authorization	2000 Receipts	Prior Year Expenditures	2000 Expenditures	Total Program Expenditures	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
<u>U.S. Federal Direct Assistance</u>							
<u>U.S. Department of Agriculture</u>							
<u>CFDA #10.567</u>							
Special Food Assistance Program FY97	5703	\$ 54,173	\$ 26,840	\$ 55,775	\$ -	\$ 55,775	\$ (1,602)
Special Food Assistance Program FY98	5704	54,173	50,461	52,265	-	52,265	1,908
Special Food Assistance Program FY99	5705	54,173	108,346	38,011	11,715	49,726	4,447
Special Food Assistance Program FY00	5706	54,173	34,173	-	43,080	43,080	11,093
Rural Fire Prevention	5635	30,000	14,374	-	27,718	27,718	2,282
Sub-total CFDA #10.567		246,692	234,194	146,051	82,513	228,564	18,128
<u>CFDA #10.664</u>							
Food Crop Disaster Prevention	5102/52	-	96,281	371	3,466	3,837	(3,837)
Cooperative Forestry Assistance	5626	20,000	9,694	25,831	-	25,831	(5,831)
Cooperative Forestry Assistance	5627	13,775	-	6,433	-	6,433	7,342
Cooperative Forestry Assistance	5628/29	20,000	28,645	41,783	-	41,783	(21,783)
Cooperative Forestry Assistance	5630/31	19,450	19,218	28,892	505	29,397	(9,947)
Cooperative Forestry Assistance	5632	70,325	24,158	-	24,258	24,258	46,067
Sub-total CFDA #10.664		143,550	177,996	103,310	28,229	131,539	12,011
Total U.S. Department of Agriculture		390,242	412,190	249,361	110,742	360,103	30,139
<u>U.S. Department of Commerce</u>							
<u>CFDA #11.460</u>							
Weather Observation Services	0903	290,325	359,276	-	313,010	313,010	(22,685)
Total U.S. Department of Commerce		290,325	359,276	-	313,010	313,010	(22,685)
<u>U.S. Department of Education</u>							
<u>CFDA #84.010</u>							
I Secondary Academic	5414	237,000	-	433,027	331	433,358	(196,358)
<u>CFDA #84.256A</u>							
Heightened Education Learning Project	5415	931,831	-	1,800,816	1,690	1,802,506	(870,675)
Freely Associated States Educational Grant Program	5419	860,855	814,733	1,889	653,298	655,187	205,668
School Improvement FY95	5445	909,692	-	405,367	-	405,367	504,325
Sub-total CFDA #84.256A		2,702,378	814,733	2,208,072	654,988	2,863,060	(160,682)
<u>CFDA #84.276A</u>							
Goals 2000 Educate America Act	5423	102,549	-	289,925	2,485	292,410	(189,861)
Goals 2000 Educate America Act	5424/25	-	139,536	-	152,754	152,754	(152,754)
Sub-total CFDA #84.276A		102,549	139,536	289,925	155,239	445,164	(342,615)
<u>CFDA #84.124A</u>							
Teachers Development Project	5402	311,032	243,551	1,088,871	113,792	1,202,663	(891,631)
<u>CFDA #84.027</u>							
Education for Children With Disabilities - State Grants	5401	1,702,661	-	564,986	-	564,986	1,137,675
Education for Children With Disabilities - State Grants	5407	1,852,232	1,088,297	4,339,586	803,971	5,143,557	(3,291,325)
Education for Children With Disabilities - State Grants	5440	1,764,800	1,764,800	-	1,338,104	1,338,104	426,696
Sub-total CFDA #84.027		5,319,693	2,853,097	4,904,572	2,142,075	7,046,647	(1,726,954)
<u>CFDA #84.168R</u>							
Pacific Mathematics and Science Teaching and Learning	5404	20,000	-	18,686	-	18,686	1,314
<u>CFDA #84.150</u>							
Pacific Vocational Education Improvement Program	5409/27/28	131,840	119,205	317,584	179,152	496,736	(364,896)
<u>CFDA #84.194Q</u>							
Improve Marshallese/English Language	5413/21	100,000	-	287,467	62,517	349,984	(249,984)
Total U.S. Department of Education		8,924,492	4,170,122	9,548,204	3,308,094	12,856,298	(3,931,806)

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, 2000

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2000 Total Authorization	2000 Receipts	Prior Year Expenditures	2000 Expenditures	Total Program Expenditures	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
<u>U.S. Department of Health and Human Services</u>							
<u>CFDA #93.110</u>							
MCHIP - Health System Development for the Handicapped	5372	99,814	-	111,716	(11,674)	100,042	(228)
Ebeye Community Health Center	5385	484,037	-	585,663	(125,335)	460,328	23,709
Community Based MCH Education Project for Systems Development	5356/58	98,300	-	58,469	-	58,469	39,831
Community Based MCH Education Project for Systems Development	5396	98,364	-	140,151	(6,092)	134,059	(35,695)
Community Based MCH Education Project for Systems Development	6356/57	176,357	-	77,470	(47,525)	29,945	146,412
Community Based MCH Education Project for Systems Development	6375/76	90,273	19,220	78,820	59,376	138,196	(47,923)
Community Based MCH Education Project for Systems Development FY98/99	6378	98,364	-	-	709	709	97,655
Community Based MCH Education Project for Systems Development FY99/00	7353/54/55	486,804	278,482	129,120	326,922	456,042	30,762
CISS Project to Enhance Services to Pregnant Women	5398	50,000	-	24,949	(16,829)	8,120	41,880
CISS Project to Enhance Services to Pregnant Women	6359	50,000	-	6,051	14,016	20,067	29,933
CISS Project to Enhance Services to Pregnant Women FY99	6377	50,000	63,745	12,628	14,514	27,142	22,858
CISS Project to Enhance Services to Pregnant Women FY00	7377	50,000	-	-	4,758	4,758	45,242
Majuro SSDI	7375	99,825	-	-	38,504	38,504	61,321
Ebeye SSDI	7376	99,825	-	-	4,284	4,284	95,541
High School Health Community	7378	100,000	-	-	5,204	5,204	94,796
National Leprosy Program FY99	7305	33,955	29,473	-	27,184	27,184	6,771
RMI Y2K Remediation	7599	-	99,501	-	99,501	99,501	(99,501)
Sub-total CFDA #93.110		2,165,918	490,421	1,225,037	387,517	1,612,554	553,364
<u>CFDA #93.116</u>							
Tuberculosis and Aids Control Program	5313	56,993	-	30,840	-	30,840	26,153
Tuberculosis and Aids Control Program	5315/47	56,993	-	84,988	(5,681)	79,307	(22,314)
Tuberculosis and Aids Control Program FY98	6346/47	57,000	-	31,047	(10,475)	20,572	36,428
Tuberculosis and Aids Control Program FY99	7346/47	-	28,564	5,884	29,186	35,070	(35,070)
Tuberculosis and Aids Control Program FY00	8346/47	-	-	-	7,801	7,801	(7,801)
Sub-total CFDA #93.116		170,986	28,564	152,759	20,831	173,590	(2,604)
<u>CFDA #93.118</u>							
HIV Prevention Project	5390	44,119	-	106,237	-	106,237	(62,118)
HIV Prevention Project	6348/49	55,718	-	50,446	(18,062)	32,384	23,334
HIV Prevention Project FY99	7348/49	-	25,404	5,467	42,142	47,609	(47,609)
HIV Prevention Project FY00	8348/49	-	-	-	7,721	7,721	(7,721)
Sub-total CFDA #93.118		99,837	25,404	162,150	31,801	193,951	(94,114)
<u>CFDA #93.163</u>							
Pacific Basin Health Initiative	5365	229,100	-	170,415	-	170,415	58,685
Pacific Basin Health Initiative	6365	-	-	-	(28,761)	(28,761)	28,761
Pacific Basin Health Initiative FY99	6383	245,157	417,632	11,789	374,605	386,394	(141,237)
Pacific Basin Health Initiative FY00/01	6384	-	-	-	46,853	46,853	(46,853)
Sub-total CFDA #93.163		474,257	417,632	182,204	392,697	574,901	(100,644)
<u>CFDA #93.217</u>							
Family Planning Project	5301	51,843	-	131,883	-	131,883	(80,040)
Family Planning Project	5369	66,953	-	9,096	-	9,096	57,857
Family Planning Project	5389	66,953	-	53,731	-	53,731	13,222
Family Planning Project	6340/41	93,078	-	133,116	(93,571)	39,545	53,533
Family Planning Project	6363/64	88,785	-	94,538	61,118	155,656	(66,871)
Family Planning Project FY98	7363/64	89,206	86,037	746	150,865	151,611	(62,405)
Sub-total CFDA #93.217		456,818	86,037	423,110	118,412	541,522	(84,704)
<u>CFDA #93.268</u>							
Immunization Program	5343	93,889	-	14,587	(2,313)	12,274	81,615
Immunization Program	5345	165,191	-	137,524	-	137,524	27,667
Immunization Program FY95 - Majuro	5362	181,355	-	118,500	-	118,500	62,855
Immunization Program FY95 - Ebeye	5363	45,339	-	24,901	-	24,901	20,438
Immunization Program	5366/68	71,362	-	160,048	-	160,048	(88,686)
Immunization Program FY 96	5377	128,391	-	201,989	(53,206)	148,783	(20,392)
Immunization Program FY98	6344/45	60,566	-	66,243	29,123	95,366	(34,800)
Immunization Program FY99	7344/45	-	-	-	34,880	34,880	(34,880)
Immunization Program FY00	8344/45	-	-	-	36,433	36,433	(36,433)
Sub-total CFDA #93.268		746,093	-	723,792	44,917	768,709	(22,616)

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, 2000

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2000 Total Authorization	2000 Receipts	Prior Year Expenditures	2000 Expenditures	Total Program Expenditures	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
<u>U.S. Department of Health and Human Services, Continued</u>							
<u>CFDA #93.283</u>							
EPI Evaluation of Thyroid Disease	5303/07	350,000	-	468,986	(58,669)	410,317	(60,317)
EPI Evaluation of Thyroid Disease	6358	73,947	13,544	112,638	73,953	186,591	(112,644)
EPI Evaluation of Thyroid Disease	7358	-	131,078	-	49,811	49,811	(49,811)
Sub-total CFDA #93.283		423,947	144,622	581,624	65,095	646,719	(222,772)
<u>CFDA #93.600</u>							
Headstart Program	5410	2,098,395	-	4,523,847	550	4,524,397	(2,426,002)
Headstart Program	5411	1,854,484	-	2,162,589	-	2,162,589	(308,105)
Sub-total CFDA #93.600		3,952,879	-	6,686,436	550	6,686,986	(2,734,107)
<u>CFDA #93.938</u>							
State and Local School Health Programs	5406	50,050	-	90,850	-	90,850	(40,800)
State and Local School Health Programs	5412	50,050	-	130,518	39	130,557	(80,507)
State and Local School Health Programs	5417	46,485	-	28,857	43,972	72,829	(26,344)
State and Local School Health Programs	5437	-	-	-	38,054	38,054	(38,054)
Sub-total CFDA #93.938		146,585	-	250,225	82,065	332,290	(185,705)
<u>CFDA #93.959</u>							
Substance Abuse Prevention and Treatment Program	5392/95/99	196,047	-	350,030	-	350,030	(153,983)
Substance Abuse Prevention and Treatment Program	5320/30/32	216,480	-	456,482	(105,458)	351,024	(134,544)
Substance Abuse Prevention and Treatment Program	6368/69/70	-	35,125	-	119,060	119,060	(119,060)
Substance Abuse Prevention and Treatment Program	7368/69/70	-	246,996	-	259,120	259,120	(259,120)
Sub-total CFDA #93.959		412,527	282,121	806,512	272,722	1,079,234	(666,707)
<u>CFDA #93.977</u>							
Sexual Transmitted Disease Accelerated Prevention Program - Majuro	5341/60	91,015	-	205,809	(21,370)	184,439	(93,424)
Sexual Transmitted Disease Accelerated Prevention Program - Ebeye	5339/61	22,754	-	15,195	(250)	14,945	7,809
Sexual Transmitted Disease Control Program	5379	264,165	-	224,978	-	224,978	39,187
Sexual Transmitted Disease Control Program Majuro/Ebeye	6342/43	121,494	-	121,557	(32,020)	89,537	31,957
Sexual Transmitted Disease Accelerated Prevention Program - Majuro	6351	-	-	-	(2,694)	(2,694)	2,694
Sexual Transmitted Disease Control Program Majuro/Ebeye FY99	7342/43	-	27,832	12,265	150,883	163,148	(163,148)
Sexual Transmitted Disease Control Program Majuro/Ebeye FY00	7442/43	-	-	-	26,979	26,979	(26,979)
Sub-total CFDA #93.977		499,428	27,832	579,804	121,528	701,332	(201,904)
<u>CFDA #93.988</u>							
State-Based Diabetes Program	5350	75,000	-	64,518	(22,103)	42,415	32,585
State-Based Diabetes Program	6366	93,599	-	50,553	5,873	56,426	37,173
State-Based Diabetes Program FY99	7350	-	8,311	9,489	-	9,489	(9,489)
State-Based Diabetes Program FY00	7366/67	-	27,014	-	68,298	68,298	(68,298)
Sub-total CFDA #93.988		168,599	35,325	124,560	52,068	176,628	(8,029)
<u>CFDA #93.991</u>							
Ebeye Community Health Center Preventive Health Services	5312/26	42,199	-	27,762	-	27,762	14,437
Preventive Health Services	5314	39,617	-	102,539	-	102,539	(62,922)
Preventive Health Services	5373	25,183	-	26,273	-	26,273	(1,090)
Preventive Health Services	6350/51/52	46,917	-	8,393	-	8,393	38,524
Preventive Health Services FY99	7310/11	46,346	5,195	4,866	2,694	7,560	38,786
Sub-total CFDA #93.991		200,262	5,195	169,833	2,694	172,527	27,735
<u>CFDA #93.958</u>							
Community Mental Health	5321/22	60,567	-	78,662	-	78,662	(18,095)
Community Mental Health	5367/70	37,500	-	34,304	(5,701)	28,603	8,897
Community Mental Health	5340	39,234	-	30,811	-	30,811	8,423
Community Mental Health FY99	6372/73/74	50,000	30,469	40,550	23,615	64,165	(14,165)
Community Mental Health FY00	7372/73/74	-	-	-	52,110	52,110	(52,110)
Sub-total CFDA #93.958		187,301	30,469	184,327	70,024	254,351	(67,050)

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, 2000

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2000 Total Authorization	2000 Receipts	Prior Year Expenditures	2000 Expenditures	Total Program Expenditures	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
<u>U.S. Department of Health and Human Services, Continued</u>							
<u>CFDA #93.994</u>							
Maternal & Child Health Services	5344/87/88	238,011	-	408,886	(103,661)	305,225	(67,214)
Maternal & Child Health Services	6353/54/55	208,103	11,328	224,869	(7,413)	217,456	(9,353)
Maternal & Child Health Services	8353/54/55	-	-	-	20,778	20,778	(20,778)
Sub-total CFDA #93.994		446,114	11,328	633,755	(90,296)	543,459	(97,345)
Total U.S. Department of Health and Human Services		10,551,551	1,584,950	12,886,128	1,572,625	14,458,753	(3,907,202)
<u>Federal Emergency Management Agency</u>							
<u>CFDA #83.544</u>							
El Nino	5160	-	-	6,517,725	-	6,517,725	(6,517,725)
Typhoon Axel Public Assistance	5164	1,885,834	642,806	2,522,901	39,521	2,562,422	(676,588)
Typhoon Roy Public Assistance	5166	25,808	-	24,475	-	24,475	1,333
Typhoon Gay Public Assistance	5175	549,613	-	641,036	-	641,036	(91,423)
Sub-total CFDA #83.544		2,461,255	642,806	9,706,137	39,521	9,745,658	(7,284,403)
<u>CFDA #83.505</u>							
Food Crop Disaster Prevention and Recovery Project	5103/04	270,000	-	121,619	13,372	134,991	135,009
Seventh Day Adventist and Majuro Cooperative School Seawall Project	5105/06/07	363,997	149,375	48,705	149,375	198,080	165,917
Outer Island Water Resources Planning and Development	5108/09/10	99,132	73,054	69,153	61,913	131,066	(31,934)
State Management 1210-HMGP 001	5111/12	-	110,164	-	13,759	13,759	(13,759)
Disaster Preparedness Improvement FY97	5126	50,000	-	52,481	-	52,481	(2,481)
Disaster Preparedness Improvement FY98	5127	50,000	-	46,228	-	46,228	3,772
Disaster Preparedness Improvement FY99	5128	50,000	-	13,813	36,216	50,029	(29)
Disaster Preparedness Improvement FY00	5129	-	-	-	14,707	14,707	(14,707)
Disaster Preparedness Improvement Grant	5130/31	50,000	-	37,643	-	37,643	12,357
Water Transport/Lomar	5165	80,000	-	72,000	-	72,000	8,000
Sub-total CFDA #83.505		1,013,129	332,593	461,642	289,342	750,984	262,145
Total Federal Emergency Management Agency		3,474,384	975,399	10,167,779	328,863	10,496,642	(7,022,258)
<u>U.S. Department of Labor</u>							
<u>CFDA #17.249</u>							
School to Work Territorial Development	5460	50,000	563,869	305,080	289,427	594,507	(544,507)
<u>CFDA #17.250</u>							
Job Training Partnership Act	5205/67/8/9	1,542,345	815,423	2,897,273	552,802	3,450,075	(1,907,730)
Job Training Partnership Act FY00	5210/11/12	-	369,253	-	369,245	369,245	(369,245)
Sub-total CFDA #17.250		1,542,345	1,184,676	2,897,273	922,047	3,819,320	(2,276,975)
Total U.S. Department of Labor		1,592,345	1,748,545	3,202,353	1,211,474	4,413,827	(2,821,482)
<u>U.S. Department of the Interior</u>							
<u>CFDA #15.442</u>							
Youth Activities Programs (II)	5181/96	60,000	-	9,606	-	9,606	50,394
<u>CFDA #15.443</u>							
Reg. Law Enforcement (Equipment)	5195	12,000	-	8,433	-	8,433	3,567
<u>CFDA #15.875</u>							
Index/Archive for Nuclear Program	6130	28,425	-	25,824	375	26,199	2,226
Statistical Program Travel and Per Diem	5101	14,000	-	2,066	-	2,066	11,934
EPA Environmental Standards Conference	5123	30,000	-	56,727	2,501	59,228	(29,228)
Archaeological Preservation	5124	20,000	-	19,172	642	19,814	186
Archaeological Preservation	5125	-	-	-	5,208	5,208	(5,208)
RMI Census	5132	44,000	-	44,146	-	44,146	(146)
Criminal Prosecution Support	5193	15,000	-	2,289	-	2,289	12,711
Treatment/Prevention Block Grant	5198	100,000	-	5,534	-	5,534	94,466
Youth to Youth in Health IGP	5374	78,640	48,365	64,950	48,365	113,315	(34,675)
Pacific Regional Anti-substance Abuse Program	5690/1	146,294	72,371	56,521	16,000	72,521	73,773
Aur Atoll PIRAAP	5692	-	38,000	-	35,000	35,000	(35,000)
Ailuk Atoll PIRAAP	5693	-	20,000	-	20,000	20,000	(20,000)
		476,359	178,736	277,229	128,091	405,320	71,039

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, 2000

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2000 Total Authorization	2000 Receipts	Prior Year Expenditures	2000 Expenditures	Total Program Expenditures	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
<u>U.S. Department of the Interior, Continued</u>							
<u>CFDA #15.875, Continued</u>							
Balance forwarded		476,359	178,736	277,229	128,091	405,320	71,039
EPA Environmental Standards Conference	6204	88,000	-	131,222	4,504	135,726	(47,726)
EPA Environmental Standards Conference	6205	-	-	-	23,442	23,442	(23,442)
Nurse Midwifery Program	6207	100,000	-	100,000	-	100,000	-
Historic Preservation Fund FY 95	6213	157,503	-	160,928	-	160,928	(3,425)
Historic Preservation Fund FY 96	6214	49,006	21,447	169,801	-	169,801	(120,795)
Historic Preservation Fund FY 97	6211	149,625	149,625	55,652	93	55,745	93,880
Historic Preservation Fund FY 98	6215	-	149,625	118,046	-	118,046	(118,046)
Historic Preservation Fund FY 99/00	6216	-	159,819	-	163,606	163,606	(163,606)
Library Services & Technology Act	6225	50,673	-	6,878	43,943	50,821	(148)
Library Services & Technology Act	6226	-	40,000	-	29,562	29,562	(29,562)
Land Survey Grant	6230	-	60,000	-	105,206	105,206	(105,206)
Vocational Program	6702	92,000	-	134,280	-	134,280	(42,280)
RMI School O&M Improvement Program	6707	848,472	-	223,857	29,104	252,961	595,511
Ebeye Hospital	6711	90,000	-	20,417	-	20,417	69,583
Ebeye Hospital Construction	6712	-	567,031	-	567,031	567,031	(567,031)
Public Works O&M Improvement Plan	6715	187,250	-	192,918	-	192,918	(5,668)
Resources & Development O&M Improvement Plan	6722	-	32,500	39,000	11,254	50,254	(50,254)
Rongelap Atoll Maintenance Plan	6723	-	15,000	-	15,000	15,000	(15,000)
Utrik Atoll Maintenance Plan	6724	-	-	-	10,000	10,000	(10,000)
Education O&M Improvement Plan	6725	-	25,000	25,000	-	25,000	(25,000)
Vocational Program	6726	-	17,207	-	50,000	50,000	(50,000)
Kwajalein Atoll Port Authority	6727	-	11,010	-	11,010	11,010	(11,010)
Marshall Islands Visitors Authority	6926	100,300	-	87,668	-	87,668	12,632
Public Works Operations and Maintenance Improvement Program	6928	886,000	-	544,730	-	544,730	341,270
ONDCP Conference	6947	3,000	-	3,587	-	3,587	(587)
Anti-Substance Abuse Investigations	6949	25,000	-	21,777	-	21,777	3,223
Single Audit FY93	6959	543,133	-	384,628	-	384,628	158,505
Single Audit FY94	6994	521,380	-	428,185	-	428,185	93,195
Single Audit FY95	6995	562,221	-	440,673	-	440,673	121,548
Single Audit FY96	6996	593,978	-	905,671	61,109	966,780	(372,802)
Single Audit FY97	6997	593,978	-	56,438	30,620	87,058	506,920
Single Audit FY98	6998	-	-	368,900	91,173	460,073	(460,073)
Single Audit FY99	6999	-	-	-	366,079	366,079	(366,079)
Historic Preservation Fund FY94	6211	157,803	-	229,998	-	229,998	(72,195)
Unknown	6460	-	(26,047)	-	(830)	(830)	830
Sub-total CFDA #15.875		<u>6,275,681</u>	<u>1,400,953</u>	<u>5,127,483</u>	<u>1,739,997</u>	<u>6,867,480</u>	<u>(591,799)</u>
Total U.S. Department of the Interior		<u>6,347,681</u>	<u>1,400,953</u>	<u>5,145,522</u>	<u>1,739,997</u>	<u>6,885,519</u>	<u>(537,838)</u>
Total U.S. Federal Direct Assistance		<u>\$ 31,571,020</u>	<u>\$ 10,651,435</u>	<u>\$ 41,199,347</u>	<u>\$ 8,584,805</u>	<u>\$ 49,784,152</u>	<u>\$ (18,213,132)</u>

Reconciliation of expenditures to the general purpose financial statements:

Balance per the TTPI Federal and Other Assistance Fund:		
Expenditures	\$ 8,181,795	
Operating transfers out	90,000	
	8,271,795	
Reimbursable expenditures recorded in the General Fund	313,010	
Total U.S. Federal Direct Assistance	<u>\$ 8,584,805</u>	

The above federal awards have been received in a direct capacity through the grantor agency.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Funding  
Year Ended September 30, 2000

	Prior Year Funds Carried Over	2000 Receipts	Total Funding Available	2000 Expenditures	September 30, 2000 Available Funds
<u>Compact of Free Association Funding</u>					
<u>CFDA #15.875</u>					
General Fund:					
Section 211(a) Current Account	\$ -	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ -
Section 217 Current Account	-	142,900	142,900	142,900	-
	-	1,442,900	1,442,900	1,442,900	-
Special Revenue Fund:					
Section 215(a)(1) Communications	198,306	300,000	498,306	214,804	283,502
Section 216(a)(2) Health and Medical	82,093	531,600	613,693	559,277	54,416
Section 216(a)(3) Scholarship	57,210	797,400	854,610	792,800	61,810
Section 221(b) Health and Education	406,927	3,000,000	3,406,927	3,217,401	189,526
Section 214(a) Energy	416	2,000,000	2,000,416	2,000,000	416
	744,952	6,629,000	7,373,952	6,784,282	589,670
Capital Projects Funds:					
Section 111(d) Investment Development	472,253	-	472,253	-	472,253
Section 211 (a) Capital Account:					
Section 211(a) Capital Account	(6,078,592)	10,700,000	4,621,408	4,622,000	(592)
Section 211(a) Capital Account (Kwajalein)	-	2,840,000	2,840,000	2,840,000	-
Section 217 Capital Account	-	7,579,000	7,579,000	7,579,000	-
Section 217 Capital Account (Kwajalein)	366,000	1,533,700	1,899,700	1,533,700	366,000
	(5,712,592)	22,652,700	16,940,108	16,574,700	365,408
Section 216(a)(1) Surveillance and Enforcement					
	(48,718)	371,400	322,682	322,682	-
	(5,289,057)	23,024,100	17,735,043	16,897,382	837,661
Expendable Trust Funds:					
Kwajalein Atoll Trust Fund:					
Section 211(a) Current Account	-	4,260,000	4,260,000	4,260,000	-
Section 217 Current Account	-	2,300,400	2,300,400	2,300,400	-
Section 213(a) Military Rights	432,556	1,900,000	2,332,556	1,896,618	435,938
	432,556	8,460,400	8,892,956	8,457,018	435,938
<b>Total Compact Funds</b>	<b>\$ (4,111,549)</b>	<b>\$ 39,556,400</b>	<b>\$ 35,444,851</b>	<b>\$ 33,581,582</b>	<b>\$ 1,863,269</b>
Other Compact Funds:					
Four Atoll Programs (Section 177)(A):					
Rongelap Atoll Local Government	\$ -	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ -
Kili/Bikini Local Government	-	5,000,000	5,000,000	5,000,000	-
Utrik Atoll Local Government	-	1,500,000	1,500,000	1,500,000	-
Enewetak/Ujelang Local Government	-	3,250,000	3,250,000	3,250,000	-
	-	12,250,000	12,250,000	12,250,000	-
Other Section 177 Programs (B):					
Radiological Surveillance	(21,877)	-	(21,877)	(21,877)	-
Four Atoll Medical	937,540	3,000,000	3,937,540	3,033,059	904,481
Nuclear Claims Tribunal	688,773	5,452,944	6,141,717	5,742,552	399,165
	1,604,436	8,452,944	10,057,380	8,753,734	1,303,646
	<b>\$ 1,604,436</b>	<b>\$ 20,702,944</b>	<b>\$ 22,307,380</b>	<b>\$ 21,003,734</b>	<b>\$ 1,303,646</b>

All federal awards have been received by RepMar directly from the grantor agency except for the following:

- (A) These funds do not pass through RepMar but go directly to the respective local governments and are reflected as expenditures of the Nuclear Claims Trust Fund
- (B) These funds are not administered by RepMar and are reflected as transfers out of the Nuclear Claims Trust Fund.

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, 2000

(1) Scope of Review

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 the Interior
- U.S. Department of Labor
- Federal Emergency Management Agency

(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

RepMar, for purposes of the general purpose financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Schedule of Expenditures of Federal Awards excludes the following component units that receive federal awards as these entities have separately satisfied the audit requirements of OMB Circular A-133:

Kwajalein Atoll Development Authority  
Marshall Islands National Telecommunications Authority (MINTA)  
Marshall Energy Company, Inc. (MEC)

MINTA and MEC are the recipients of loan funding under loan programs of the U.S. Department of Agriculture, Rural Utilities Service (RUS). These loan programs are received in a direct capacity through the grantor agency. As of September 30, 2000, MINTA and MEC recorded loans payable to the RUS under their respective loan programs of \$18,786,280 and \$11,455,181, respectively.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2000

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Total questioned costs reported for completed Single Audits of the above entities for the year ended September 30, 2000, totaled \$813,293, and cumulative questioned costs of \$1,963,971 were reported in prior years audits. RepMar is considered to have responsibility for these questioned costs and could be liable for these amounts if the questioned costs are not collected from these entities.

The following entities have not satisfied audit requirements of OMB Circular A-133:

College of the Marshall Islands  
Marshall Islands Development Bank  
Marshall Islands Scholarship, Grant and Loan Board

RepMar is considered to have responsibility for any questioned costs that could result from Single Audits of these entities.

c. 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>2000 Amount of Pass-through</u>
<u>U.S. Department of Labor</u> <u>CFDA #17.250</u>		
Job Training Partnership Act	Republic of the Marshall Islands Private Industry Council, Inc.	\$ 922,047
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>		
Compact of Free Association Title II, Article I, Section 216(a)(3)	Marshall Islands Scholarship, Grant and Loan Board	\$ 733,235
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>		
Historic Preservation	Alele, Inc.	\$ 163,606
Compact of Free Association Title I, Article VII, Section 177	Kili-Bikini Local Government	\$ 5,000,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2000

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2000 Amount of Pass-through</u>
Compact of Free Association, Title I, Article VII, Section 177	Enewetak/Ujelang Local Government	\$ 3,250,000
Compact of Free Association, Title I, Article VII, Section 177	Rongelap Atoll Local Government	\$ 2,500,000
Compact of Free Association, Title I, Article VII, Section 177	Utrik Atoll Local Government	\$ 1,500,000
Compact of Free Association, Title II, Article I, Section 211 (a)	Kwajalein Atoll Development Authority	\$ 4,373,700
<u>U.S. Department of Education</u>		
<u>CFDA #84.256</u>		
Heightened Education Learning Project	College of the Marshall Islands	\$ 90,000

The following entities have not satisfied audit requirements of OMB Circular A-133:

Enewetak/Ujelang Local Government  
Kili-Bikini Local Government  
Republic of the Marshall Islands Private Industry Council, Inc.  
Rongelap Atoll Local Government  
Utrik Atoll Local Government

d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2000. RepMar did not charge federal programs for indirect costs during fiscal year 2000.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2000

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the general purpose financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the general purpose financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. RepMar's major programs were as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Special Education Improvement	84.027
Economic, Social and Political Development of the Territories and the Freely Associated States	15.875

8. A threshold of \$1,235,146 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. RepMar did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2000-1 - 3	Revenue/Receipts	\$ -	18 - 20
2000-4 - 6	Payroll	\$ -	21 - 23
2000-7 - 8	Purchases/Disbursements	\$ -	24 - 25
2000-9 - 11	Cash and Cash Equivalentents	\$ -	26 - 28
2000-12	Investments	\$ -	29
2000-13	Receivables from Federal Agencies	\$ -	30
2000-14	Loans Receivable	\$ -	31
2000-15	Due from Component Units	\$ -	32
2000-16 - 17	Advances	\$ -	33 - 34
2000-18	Property and Equipment	\$ -	35
2000-19	Accounts Payable	\$ -	36
2000-20	Other Liabilities and Accruals	\$ -	37

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

**Section II - Financial Statement Findings, Continued**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2000-21	Loans Payable	\$ -	38
2000-22	Bonds Payable	\$ -	39
2000-23	Fund Balances	\$ -	40
2000-24 - 27	External Financial Reporting	\$ -	41 - 44
2000-28 - 38	RepMar Local Noncompliance	\$ -	45 - 56

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2000-39 - 41	Allowable Costs/Cost Principles	\$ 181,951	57 - 59
2000-42 - 43	Procurement and Suspension and Debarment	\$ 608,164	60 - 61
2000-44	Subrecipient Monitoring	\$ 815,522	62 - 63
2000-45 - 46	Reporting	\$ -	64 - 65
2000-47	Equipment and Real Property Management	\$ -	66
2000-48	Special Tests and Provisions of the Compact of Free Association	\$ -	67
2000-49	Procurement and Suspension and Debarment	\$ -	68

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

**Section II - Financial Statement Findings**

Revenue/Receipts

Finding No. 2000-1

Criteria: Financial assistance through grants should be supported by grant awards.

Condition: During the year ended September 30, 2000, RepMar received grants of \$3,000,000 and \$6,756,578, respectively, from the Republic of China (ROC). The Ministry of Finance recorded the \$3,000,000 grant as revenue of the General Fund (Fund 100), and the \$6,756,578 grant as revenue of the Other Direct Assistance Fund (Fund 360). Based on discussions with the Secretary of Finance, the \$3,000,000 grant was provided for the purpose of funding general operations of RepMar, and the \$6,756,578 grant was provided for the purpose of funding various developmental projects. The grants were not supported by grant awards specifying terms and conditions of the awards.

Cause: The cause of the above condition is the lack of a grant award specifying the nature and use of the award.

Effect: The effect of the above condition is the possible misstatement of revenues between the various funds administered by RepMar.

Recommendation: We recommend that the Ministry of Finance obtain grant awards for all financial assistance through grants.

Prior Year Status: The lack of grant awards supporting financial assistance was reported as a finding in the Single Audit of RepMar for fiscal year 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Revenue/Receipts

Finding No. 2000-2

Criteria: Section 10(1) of the Income Tax Act, 1989, as amended, states that “every business, on or before the last day of the month following the close of each quarter shall pay, based on its gross revenue of the preceding quarter, the amount of tax imposed by this Act to the Secretary of Finance”.

Condition: Of twenty-five businesses tested, we noted the following exceptions:

- 1) Two businesses did not file gross revenue tax returns for the whole of fiscal year 2000;
- 2) One business (Customer # 3157) filed gross revenue tax returns for the whole of fiscal year 2000; however, no tax payments were remitted;
- 3) One business (Customer # 889) filed gross revenue tax returns for the whole of fiscal year 2000; however, tax payments were not remitted for three quarters; and
- 4) One business (Customer # 9752) filed gross revenue tax returns for the whole of fiscal year 2000; however, tax payments were not remitted for two quarters.

In addition, we noted that delinquency notices were not being maintained within taxpayer files, nor were delinquency notices being sent out on a regular basis.

Cause: The cause of the above condition is the lack of compliance by businesses in filing quarterly gross revenue tax returns.

Effect: The effect of the above condition is that gross revenue taxes have not been paid by these businesses for these quarters.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Revenue and Taxation follow up on delinquent quarterly gross revenue tax returns in a timely manner.

Prior Year Status: The lack of compliance with Section 10(1) of the Income Tax Act, 1989, as amended, was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Revenue/Receipts

Finding No. 2000-3

Criteria: Section 105(1) of the Income Tax Act, 1989, as amended, states that “the employer shall, once every four (4) weeks or thirteen (13) times per year, pay the taxes withheld under Section 104 of this chapter. The employer shall, along with the taxes, within (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four week period and showing the tax due and withheld thereon as provided in Section 104 of this Chapter”.

Condition: Of twenty-five businesses tested, we noted the following exceptions:

- 1) Five businesses (Customer #s 889, 9704, 10376, 10833 and 10882) did not file withholding tax returns for the whole of fiscal year 2000;
- 2) Seven businesses (Customer #s 3112, 3157, 10307, 10521, 10664, 10714 and 10893) did not file withholding tax returns for portions of fiscal year 2000;
- 3) One business (Customer # 10664) did not include an employee listing with the withholding tax return for the four week period ended April 22, 2000;
- 4) Four businesses (Customer #s 3157, 10307, 10512 and 10868) did not pay penalties and interest assessed on withholding tax returns filed after the deadline; and
- 5) Withholding tax returns for one business (Customer # 10307) for the four week periods ended September 30, 1999, November 25, 1999 and December 24, 1999 did not indicate review by the Division of Revenue and Taxation employees.

In addition, we noted that delinquency notices were not being maintained within taxpayer files, nor were delinquency notices being sent out on a regular basis.

Cause: The cause of the above condition is the lack of compliance by businesses in filing withholding tax returns.

Effect: The effect of the above condition is that withholding tax returns have not been paid by these businesses.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Revenue and Taxation follow up on delinquent withholding tax returns in a timely manner.

Prior Year Status: The lack of compliance with Section 105(1) of the Income Tax Act, 1989, as amended, was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Payroll

Finding No. 2000-4

Criteria: Employee personnel files should be updated to include authorized Personal Action Forms (PAFs) and employee allotment authorizations.

Condition: Of 100 employees tested, we noted the following exceptions:

- 1) Fourteen employee personnel files (Employee #s 91, 481, 685, 982, 1868, 2171, 2745, 3100, 4682, 5030, 5282, 5549, 6041 and 9508) included photocopied PAFs supporting the employees' authorized pay rate;
- 2) Four employee personnel files (Employee #s 118, 967, 5039 and 5949) included original PAFs with unauthorized manual alterations;
- 3) One employee personnel file (Employee # 9297) included an original PAF that was not authorized by the Minister of Justice; and
- 4) Ten employee personnel files (Employee #s 118, 1384, 1868, 2861, 3100, 3154, 5549, 5584, 5655 and 5826) did not include authorizations to support employee allotment deductions.

Cause: The cause of the above condition is the lack of adequate policies and procedures regarding the maintenance of employee personnel files.

Effect: The effect of the above condition is the possibility of unauthorized payroll expenditures and the lack of authorization of employee allotment deductions.

Recommendation: We recommend that the Ministry of Finance ensure that authorized pay rates for government employees be supported by original PAFs approved by a majority of the members of the PSC. Furthermore, we recommend that all employee allotment deductions be supported by an authorization.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Payroll

Finding No. 2000-5

Criteria: Access to statutory withholding tax tables within the Payroll (PR) module of the Advanced Data Systems (ADS) Profund accounting system should be restricted.

Condition: Of 100 employees tested, we noted the following payroll disbursements did not comply with statutory withholding requirements:

<u>Employee #</u>	<u>Check #</u>	<u>Withholding Requirement</u>	<u>Actual Deduction</u>	<u>Required Deduction</u>	<u>Under Deducted</u>
5317	587727	Income tax	\$ 10.00	\$ 108.20	\$ 98.20
6365	590364	Social security tax	\$ 0.00	\$ 20.85	\$ 20.85
389	601116	Income tax	\$ 10.73	\$ 17.34	\$ 6.61

Cause: The cause of the above condition is the unauthorized changing of statutory withholding tax tables within the PR module of the ADS Profund accounting system.

Effect: The effect of the above condition is the lack of adequate security of statutory withholding tax tables within the PR module of the ADS Profund accounting system and noncompliance with statutory withholding requirements.

Recommendation: We recommend that the Ministry of Finance restrict access to the statutory withholding tax tables within the PR module of the ADS Profund accounting system. Furthermore, we recommend that the Secretary of Finance perform a periodic review of government employee payroll checks to ensure that statutory deductions appear reasonable.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Payroll

Finding No. 2000-6

Criteria: Payroll registers should be maintained for all pay periods detailing earnings of government employees.

Condition: During our review of the payroll expenditure cycle, we noted that the Payroll Department within the Ministry of Finance did not maintain copies of payroll registers for the entire fiscal year.

Cause: The cause of the above condition is the Payroll Department did not print a hard copy of all payroll registers relating to fiscal year 2000 prior to the calendar year end file purge.

Effect: The effect of the above condition is the inability to determine if gross earnings for government employees were correctly calculated and posted to the general ledger.

Recommendation: We recommend that the Ministry of Finance ensure that the Payroll Department maintains a copy of all payroll registers prior to the calendar year end file purge.

Prior Year Status: The lack of payroll registers being maintained was reported as a finding in the Single Audit of RepMar for fiscal year 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Purchases/Disbursements

Finding No. 2000-7

Criteria: Expenditures relating to grants or shared revenues restricted for capital acquisitions or construction should be accounted for in a capital projects fund.

Condition: During the year ended September 30, 2000, the Ministry of Finance recorded expenditures, totaling \$8,430,342, in a special revenue fund (the Other Direct Assistance Fund (Fund 360)). Of this amount, \$7,454,082 represented expenditures under developmental projects funded through grants from the ROC; \$914,294 represented non-capital acquisition or construction expenditures of the General Fund (Fund 100); \$46,471 represented expenditures against grants awarded by overseas governments; and \$15,495 represented non-capital acquisition expenditures of the Environmental Protection Authority Fund (Fund 337).

Cause: The cause of the above condition is the lack of review by the Ministry of Finance to ensure that expenditures incurred under developmental projects funded by ROC grants represent capital acquisitions or construction related expenditures under projects approved by the ROC.

Effect: The effect of the above condition is the misstatement of expenditures between the various funds administered by RepMar.

Recommendation: We recommend that the Ministry of Finance ensure that expenditures relating to grants restricted for capital acquisitions or construction are accounted for in a capital projects fund. Furthermore, we recommend that the Ministry of Finance review expenditures incurred under developmental projects to ensure that such represent capital acquisitions or construction related expenditures as approved by the ROC.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Purchases/Disbursements

Finding No. 2000-8

Criteria: Expenditures should be supported by authorized documentation.

Condition: During our testing of expenditures within the Ministry of Finance - Majuro Office, supporting documentation was not made available for the following items:

<u>General Ledger A/c #</u>	<u>Date</u>	<u>Document #</u>	<u>Amount</u>
100-12-1221-000-3999	09/26/00	PO # 76299	\$ 78,058
100-12-1244-000-2840	02/03/00	PO # 73481	\$ 95,035
100-12-1256-000-2840	12/06/99	Y2K-30	\$ 153,088
100-20-2015-000-3999	06/26/00	PC 5-2-00	\$ 24,226
100-24-2460-000-2630	02/01/00	PO # 70158	\$ 11,000
100-27-2752-000-2840	09/30/00	000096	\$ 15,938
100-27-2752-000-2204	09/30/00	September 2000	\$ 9,359
100-27-2782-000-2314	03/15/00	October 1999	\$ 26,256
100-28-2811-000-2862	06/23/00	PO # 76731	\$ 66,128
360-28-7507-000-2634	05/07/00	000039	\$ 35,085
360-28-7507-000-2634	06/01/00	000041	\$ 56,085
360-28-7507-000-2634	06/09/00	000041	\$ 100,088
360-28-7507-000-2634	07/31/00	000059	\$ 69,500
360-28-7507-000-2634	07/31/00	000059	\$ 625,500

Cause: The cause of the above condition is that the Ministry of Finance did not require appropriate supporting documentation for disbursements.

Effect: The effect of the above condition is the possibility that the disbursements were of an invalid nature.

Recommendation: We recommend that the Ministry of Finance retain contracts and invoices to support disbursements made.

Prior Year Status: The lack of supporting documentation for disbursements was reported as a finding in the Single Audits of RepMar for fiscal years 1994 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Cash and Cash Equivalents

Finding No. 2000-9

Criteria: Petty cash requests for replenishment should be supported by appropriate petty cash and bank reconciliations.

Condition: The Ministry of Finance has recorded the following petty cash imprest funds for various overseas embassies as assets of the General Fund:

<u>A/c #</u>	<u>Account Name</u>	<u>Total</u>
18600-100	Washington Embassy	\$ 50,000
18700-100	China Embassy	39,000
18900-100	Fiji Embassy	19,700
19000-100	Tokyo Embassy	100,000
19100-100	UN Embassy	50,000
19600-100	Taipei Embassy	<u>40,000</u>
		\$ <u>298,700</u>

No petty cash or bank reconciliations were made available with respect to any of these accounts. Additionally, during fiscal year 1999, RepMar closed the China Embassy that maintained a petty cash imprest fund (A/c # 18700-100). This balance is still recorded in the general ledger.

Cause: The cause of the above condition is the lack of formal rules and regulations governing the reconciliation of petty cash imprest accounts.

Effect: The effect of the above condition is inadequate controls over petty cash and bank reconciliations which may result in the misappropriation of RepMar assets by custodians, and the possible misstatement of cash balances pertaining to petty cash imprest accounts.

Recommendation: We recommend that the Secretary of Finance, pursuant to Section 151 of the Financial Management Act, 1990, issue prescribed rules and regulations governing the reconciliation of petty cash imprest accounts by the various overseas embassies.

Prior Year Status: The lack of petty cash and bank reconciliations for petty cash imprest funds was reported as a finding in the Single Audits of RepMar for fiscal years 1993 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Cash and Cash Equivalents

Finding No. 2000-10

Criteria: Bond fund accounts maintained with the Trustee for the purpose of servicing debt relating to outstanding bond issues should be reconciled on a monthly basis.

Condition: As of September 30, 2000, the Ministry of Finance recorded cash and cash equivalents (A/c # 15000-980, totaling \$435,407) deposited in bond fund accounts with the Bank of New York (BONY). No monthly statements reconciled to the general ledger were made available to support these accounts for the entire fiscal year. This condition was resolved through alternative auditing procedures and resulted in proposed audit adjustments to reduce the general ledger balance to zero.

Cause: The cause of the above condition is the lack of receipt by the Ministry of Finance of monthly statements supporting the amounts deposited in the bond fund accounts.

Effect: The effect of the above condition is the possible misstatement of cash and cash equivalents.

Recommendation: We recommend that the Ministry of Finance obtain statements from BONY on a monthly basis and ensure that the bond fund accounts are reconciled to these statements.

Prior Year Status: The lack of reconciliation of the bond fund accounts was reported as a finding in the Single Audit of RepMar for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Cash and Cash Equivalents

Finding No. 2000-11

Criteria: Bank reconciliations should be performed on a monthly basis and in a timely manner.

Condition: As of September 30, 2000, a reconciliation of the general ledger Ebeye General Fund bank account (A/c # 97500-975, totaling \$44,540) to the corresponding bank balance of \$39,167 was not made available.

Cause: The cause of the above condition is the lack of receipt by the Ministry of Finance of the September 2000 bank statement.

Effect: The effect of the above condition is the possible misstatement of cash and cash equivalents.

Recommendation: We recommend that the Ministry of Finance obtain the September 2000 bank statement and ensure that the general ledger bank account is reconciled to this statement.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Investments

Finding No. 2000-12

Criteria: Reconciliations of investment accounts should be performed on a monthly basis and in a timely manner.

Condition: The Ministry of Finance did not reconcile the Nuclear Claims Trust Fund (NCTF) (Fund 614) (A/c # 15000-614, totaling \$76,627,311) investment accounts for the entire fiscal year. As of September 30, 2000, investment balances maintained in the NCTF amounted to \$68,716,912. Audit adjustments were proposed to correct investment balances as of September 30, 2000.

Cause: The cause of the above condition is the lack of receipt of investment statements in order for reconciliations to be performed.

Effect: The effect of the above condition is the possible misstatement of investment balances.

Recommendation: We recommend that the Ministry of Finance ensure that all investment accounts are reconciled on a monthly basis and in a timely manner.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Receivables from Federal Agencies

Finding No. 2000-13

Criteria: Receivables of RepMar should reflect amounts actually owed.

Condition: As of September 30, 2000, RepMar recorded receivables from federal grantor agencies in the TTPI Federal and Other Assistance Fund (Fund 350) (A/c # 28200-350, totaling \$1,982,424) that the Federal Programs Office did not reconcile to the detailed federal grant awards.

Cause: The cause of the above condition is the lack of the assignment of staff by the Ministry of Finance to periodically reconcile this account.

Effect: The effect of the above condition is that receivables and corresponding revenues may be misstated within Fund 350. Furthermore, if the above receivables are not collectible, the General Fund will be required to absorb any related bad debts.

Recommendation: We recommend that the Ministry of Finance periodically reconcile these accounts to determine the actual amounts due from grantor agencies.

Prior Year Status: The lack of reconciliation of receivables from federal grantor agencies was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Loans Receivable

Finding No. 2000-14

Criteria: Reconciliations of loan receivable accounts should include an evaluation of the collectibility of these amounts.

Condition: The collectibility of the loan receivable account (A/c # 25600-405, totaling \$2,588,787) from Ebje Ruktok/Rukjenlein Fishing Company, Inc. (ERRFC) is uncertain due to the representation of Kwajalein Atoll Development Authority (KADA) that ERRFC has been dissolved and that the loan has been liquidated through the transfer of assets.

Cause: The cause of the above condition is the lack of concurrence over the status of ERRFC.

Effect: The effect of the above condition is the possible misstatement of RepMar loan receivable balances.

Recommendation: We recommend that the Ministry of Finance resolve the issue of repayment of the loan receivable from ERRFC with KADA.

Prior Year Status: The lack of reconciliation of loan receivable accounts was reported as a finding in the Single Audits of RepMar for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Due From Component Units

Finding No. 2000-15

Criteria: Financial arrangements should be supported by authorized loan agreements.

Condition: As of September 30, 2000, RepMar recorded advances (A/c # 20100-100, totaling \$500,000) to Tobolar Copra Processing Plant, Inc. (TCPPI) based on Cabinet Minute C.M. 154(99). These advances were not supported by a loan agreement that specified terms and conditions. TCPPI is of the opinion that the above amount represents an operating subsidy and that the amount will not be repaid.

Cause: The cause of the above condition is the lack of a loan agreement specifying terms and conditions.

Effect: The effect of the above condition is the possible misstatement of receivable balances; however, the total amount of the advance is reserved for as related assets.

Recommendation: We recommend that RepMar obtain a loan agreement from TCPPI for the advances.

Prior Year Status: The lack of financial arrangements being supported by authorized loan agreements was reported as a finding in the Single Audit of RepMar for fiscal year 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Advances

Finding No. 2000-16

Criteria: Travel advances should be processed through a general ledger asset account dedicated to the processing, recording and summarizing of unliquidated advances made to government employees.

Condition: As of September 30, 2000, a reconciliation of general ledger account balances of travel advances to government employees to a detailed listing of unliquidated travel advances was not made available. This condition was resolved through alternative auditing procedures. The Ministry of Finance is currently processing travel advances through the Accounts Payable (A/P) module of the ADS Profund accounting system. Unliquidated travel advances are recorded as debits within the A/P module. The A/P module includes travel advances relating to pre-fiscal year 1998 that are no longer considered valid by the Ministry of Finance; however, these amounts have not been purged from the ADS Profund accounting system.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible misstatement of RepMar travel advance balances.

Recommendation: We recommend that the Ministry of Finance correctly account for travel advances to government employees. Furthermore, we recommend that the Ministry of Finance review the subsidiary ledgers within the A/P module of the ADS Profund accounting system and delete the pre-fiscal year 1998 balances that are no longer considered valid.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Advances

Finding No. 2000-17

Criteria: Policies and procedures regarding travel advances require that only eighty percent of travel costs (excluding airfare and local transportation costs) shall be advanced to a traveler before government related travel is undertaken. Within fifteen days after the conclusion of a government trip, the traveler is required to file supporting documentation such as tickets, receipts, and invoices that evidence the travel costs incurred. Only after review and approval of the supporting travel documents shall the Ministry of Finance disburse the remaining twenty percent of travel related costs to the traveler. Further, recipients of travel advances are required to repay the advance for travel not undertaken.

Condition: Of three open travel advances tested, we noted the following exceptions:

- One travel advance (TA # 78177A, totaling \$5,700) for per diem and communications was fully advanced without the required retention of twenty percent. At the conclusion of the travel, the traveler failed to file the necessary supporting documents pertaining to the travel costs and thus this amount still remains as an open advance.
- One travel advance (TA # 70658A, totaling \$6,500) for eighty percent of per diem and registration fees related to an advance made for a trip that was not undertaken. The recipient has not repaid this amount.

Additionally, we noted one government trip for which an advance, totaling \$26,906, for air tickets, per diem, and representation allowance was directly recorded as an expenditure. No supporting documentation was filed with the Ministry of Finance to support the travel expenditures.

Cause: The cause of the above condition is the lack of adherence to RepMar's established policies and procedures regarding government travel.

Effect: The effect of the above condition is the possible misuse of travel funds.

Recommendation: We recommend that the Ministry of Finance adhere to its travel advance policy, follow up on outstanding travel advances, and seek recovery of travel advance disbursements for which no travel occurred.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Property and Equipment

Finding No. 2000-18

Criteria: General fixed assets do not represent financial resources available for expenditure but are items for which financial resources have been used and for which accountability should be maintained.

Condition: The Division of Procurement and Supply within the Ministry of Finance has not updated or reconciled its General Fixed Assets Account Group since fiscal year 1988.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that RepMar is not presenting general purpose financial statements that account for all items for which resources have been used.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Procurement and Supply perform an inventory of fixed assets and record all fixed assets in the General Fixed Assets Account Group.

Prior Year Status: The lack of a complete General Fixed Assets Account Group was reported as a finding in the Single Audits of RepMar for fiscal years 1990 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Accounts Payable

Finding No. 2000-19

Criteria: A proper system of internal control requires that accounts payable balances be reconciled to the general ledger in a timely manner.

Condition: As of September 30, 2000, accounts payable balances within the A/P module of the ADS Profund accounting system were not reconciled to the general ledger account (A/c # 50000) for each respective fund. The A/P module includes accounts payable balances relating to pre-fiscal year 1998 that are no longer considered valid by the Ministry of Finance; however, these amounts have not been purged from the ADS Profund accounting system.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible misstatement of accounts payable balances.

Recommendation: We recommend that the Ministry of Finance reconcile accounts payable balances on a monthly basis. Furthermore, we recommend that the Ministry of Finance review the subsidiary ledgers within the A/P module of the ADS Profund accounting system and delete the pre-fiscal year 1998 balances that are no longer considered valid.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Other Liabilities and Accruals

Finding No. 2000-20

Criteria: Financial arrangements should be supported by authorized agreements.

Condition: During the year ended September 30, 2000, RepMar assumed the liability of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) for certain delinquent taxes payable to the Marshall Islands Social Security Administration (MISSA), totaling \$410,519. This liability was assumed by RepMar in accordance with a management agreement with a company to operate KAJUR. No formal agreement has been executed between RepMar, KAJUR and MISSA concerning this liability, including related penalties and interest of \$169,601. An audit adjustment was proposed to record a payable to MISSA of \$410,519; however, RepMar is of the opinion that any penalties and interest on amounts outstanding will be waived.

Cause: The cause of the above condition is the lack of a formal agreement between RepMar, KAJUR and MISSA outlining the above transaction, including repayment terms and conditions.

Effect: The effect of the above condition is the possible misstatement of payable balances.

Recommendation: We recommend that RepMar execute a formal agreement with KAJUR and MISSA concerning the assumption and repayment of the delinquent tax liability.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Loans Payable

Finding No. 2000-21

Criteria: Loans payable balances should be updated and reconciled to the general ledger in a timely manner.

Condition: As of September 30, 2000, RepMar was liable for the following loans payable:

<u>A/c #</u>	<u>Account Name</u>	<u>Total</u>
59200-985	Asian Development Bank (ADB) Loans Payable	\$ 37,539,004
59600-985	Bank of China Loan Payable	1,900,000
59600-985	Marshall Islands Development Bank (MIDB) Loan Payable	<u>1,800,000</u>
		<u>\$ 41,239,004</u>

The ADB loans payable balance was not updated to reflect additions of debt. In addition, the MIDB loan payable was not recorded. Audit adjustments were proposed to correctly record loan proceeds and to increase loans payable balances recorded in the General Long-Term Debt Account Group.

Cause: The cause of the above condition is the lack of proper updating of loan payable balances.

Effect: The effect of the above condition is the possible misstatement of loan payable balances.

Recommendation: We recommend that the Ministry of Finance ensure that the loan payable balances are updated to reflect additions and retirement of debt in a timely manner.

Prior Year Status: The lack of update and reconciliation of loan payable balances was reported as a finding in the Single Audits of RepMar for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Bonds Payable

Finding No. 2000-22

Criteria: Bonds payable balances should be updated and reconciled to the general ledger in a timely manner.

Condition: As of September 30, 2000, RepMar was liable for the following outstanding bond issuances:

<u>A/c #</u>	<u>Account Name</u>	<u>Total</u>
59500-985	\$99.96 million bond issue	\$ 13,954,052
59500-985	\$5.32 million bond issue	<u>5,320,000</u>
		\$ <u>19,274,052</u>

The above outstanding bond issue balances were not updated to reflect changes in debt. Audit adjustments were proposed to correctly record bonds payable balances in the General Long-Term Debt Account Group.

Cause: The cause of the above condition is the lack of proper recording of changes in debt on the above bond issuances.

Effect: The effect of the above condition is the possible misstatement of bonds payable.

Recommendation: We recommend that the Ministry of Finance ensure that bonds payable are updated to reflect changes in debt in a timely manner.

Prior Year Status: The lack of update and reconciliation of bonds payable was reported as a finding in the Single Audits of RepMar for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Fund Balances

Finding No. 2000-23

Criteria: A proper system of internal control requires that encumbrance balances be reconciled to the general ledger in a timely manner.

Condition: As of September 30, 2000, encumbrance balances within the Purchase Order (P/O) module of the ADS Profund accounting system were not reconciled to the general ledger account (A/c # 90900) for each respective fund. Furthermore, open purchase orders were not reviewed by the Ministry of Finance to determine whether amounts encumbered were valid. Audit adjustments were proposed to correct encumbrance balances as of September 30, 2000.

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that the Ministry of Finance reconcile encumbrance balances on a monthly basis. Furthermore, we recommend that the Ministry of Finance review the subsidiary ledgers within the P/O module of the ADS Profund accounting system and deobligate purchase orders that are no longer considered valid.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-24

Criteria: Revenues and expenditures recorded in the ADS Profund accounting system should agree to the balances recorded in the revenue and expense control accounts of the general ledger.

Condition: As of September 30, 2000, the following fund trial balances provided for audit did not balance:

<u>Fund</u>	<u>Fund #</u>	<u>Out of Balance Amount</u>
General	100	\$ (285,365)
Judiciary	330	\$ 2,500
Environmental Protection Authority	337	\$ 5,067
Resident Workers Training Account	340	\$ (268)
TTPI Federal and Other Assistance	350	\$ 28,248
ADB Development Projects	405	\$ 16,607

These imbalances were offset against variances between interfund receivables and payables and did not result in a material misstatement.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a misstatement of revenues and expenditures within the general ledger.

Recommendation: We recommend that the Ministry of Finance reconcile revenue and expense control accounts of the general ledger to the revenues and expenditures recorded in the ADS Profund accounting system on a monthly basis.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-25

Criteria: Interfund balances recorded in the Treasury Fund (Fund 950) should reconcile and agree to the corresponding balances recorded in the respective individual funds within the ADS Profund accounting system.

Condition: As of September 30, 2000, the interfund balances recorded in Fund 950 did not agree with the corresponding balances recorded in the respective individual funds, resulting in an unreconciled credit variance of \$1,133,201. This condition was partially resolved through alternative auditing procedures resulting in proposed audit adjustments totaling \$926,732. Accordingly, the unreconciled credit variance was reduced to \$206,469.

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that the Ministry of Finance reconcile interfund balances recorded in Fund 950 to the corresponding balances recorded in the respective individual funds within the ADS Profund accounting system on a monthly basis.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-26

Criteria: Appropriation bills, as passed by the Nitijela of RepMar, should be reflected within the Budget Preparation (B/P) module of the ADS Profund accounting system.

Condition: During the year ended September 30, 2000, the Nitijela of RepMar passed the Supplemental Appropriation (Financial Year 2000) Act, 2000, which provided for a supplemental increase in budgeted non-capital expenditures of the General Fund of \$11,000,000. Of this amount, only \$3,000,000 was incorporated by the Ministry of Finance into the B/P module of the ADS Profund accounting system; however, it was not recorded in the program areas as stipulated in the supplemental appropriation bill. The remaining amount of \$8,000,000 was not incorporated into the B/P module of the ADS Profund accounting system. However, expenditures were incurred and processed by the Ministry of Finance even though no budget was reflected within the ADS Profund accounting system.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the over-expenditure of amounts in excess of amounts appropriated by the Nitijela of RepMar.

Recommendation: We recommend that the Ministry of Finance ensure that appropriation bills, as passed by the Nitijela of RepMar, are reflected within the B/P module of the ADS Profund accounting system.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-27

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, requires that the general purpose financial statements of the reporting entity include component units for which the primary government is either financially accountable for, or for which exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete.

Condition: As of September 30, 2000, the following component units were excluded from RepMar's general purpose financial statements:

Fiduciary Fund Type - Expendable Trust Funds

Marshall Islands Scholarship, Grant and Loan Board

Component Units - Governmental Funds

National Environmental Protection Authority

Component Units - Proprietary Funds

Air Marshall Islands, Inc.  
Marshall Islands Development Bank  
Marshall Islands Alternative Energy Company, Inc.  
Marshall Islands Drydock, Inc.  
Marshall Islands Marine Resources Authority

University and College Fund Type - Higher Education Fund

College of the Marshall Islands

Cause: The cause of the above condition is the lack of audited financial statements for the respective entities.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14 resulting in a qualification in the opinion on the general purpose financial statements of RepMar.

Recommendation: We recommend that RepMar conform with GASB Statement No. 14 by obtaining audited financial statements of the above entities for inclusion within the general purpose financial statements.

Prior Year Status: The lack of including component units' in RepMar's general purpose financial statements was reported as a finding in the Single Audits of RepMar for fiscal years 1998 and 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-28

Criteria: Section 146 of the Financial Management Act, 1990, requires that checks shall be made payable to the order of each individual person to whom RepMar is indebted.

Condition: During the year ended September 30, 2000, the following checks were made payable to the Minister of Public Works:

<u>General Ledger A/c #</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
19700-100	05/13/00	188789	\$ 89,408
100-28-2811-000-2862	06/09/00	189342	\$ 62,102
100-28-2811-000-2862	06/14/00	189406	\$ 30,083
100-28-2811-000-2862	06/21/00	189503	\$ 33,914
100-28-2811-000-2862	06/23/00	189645	\$ 13,689
100-28-2811-000-2862	06/30/00	189748	\$ 20,000
100-28-2811-000-2862	08/01/00	190670	\$ 18,932

These payments were made for the purpose of procuring repairs, equipment and supplies for a landing craft from a vendor in the United States.

Cause: The cause of the above condition is that advances were needed to facilitate timely procurement of goods and services.

Effect: The effect of the above condition is noncompliance with Section 146 of the Financial Management Act, 1990.

Recommendation: We recommend that the Ministry of Finance comply with Section 146 of the Financial Management Act, 1990.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-29

Criteria: The National Environmental Protection Act, 1984, provides for the establishment of the National Environmental Protection Authority (EPA) as a separate statutory authority. EPA is required to maintain proper accounts and records to the satisfaction of the Secretary of Finance, and to submit audited financial statements to the Minister of Finance for submission to the Nitijela of RepMar.

Condition: EPA established a separate bank account in April 1997 for the recording of receipts and disbursements of EPA. No audited financial statements have been presented to the Minister of Finance for the year ended September 30, 2000.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the National Environmental Protection Act, 1984.

Recommendation: We recommend that the Ministry of Finance ensure that EPA comply with the National Environmental Protection Act, 1984.

Prior Year Status: The lack of compliance with the National Environmental Protection Act, 1984, was reported as a finding in the Single Audits of RepMar for fiscal years 1998 and 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-30

Criteria: Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act, 1977, stipulates that no person shall authorize or expend any governmental funds in excess of appropriated amounts except in emergencies and only pursuant to procedures provided by law.

Condition: The Appropriations (Financial Year 2000) Act, 2000, as passed by the Nitijela of RepMar, provided appropriated amounts for fiscal year 2000 from the General Fund of \$28,230,449. Budget appropriations recorded by the Ministry of Finance in the ADS Profund accounting system amounted to \$29,045,302, with the difference of \$814,853 being the roll-over of encumbrances from the prior year. Actual encumbrances from prior year amounted to \$968,012, resulting in an unreconciled variance of \$153,159. No explanation for this variance was made available by the Ministry of Finance's Budget Office. Furthermore, the following program areas recorded in the ADS Profund accounting system reported expenditures in excess of budget appropriations for the year ended September 30, 2000:

<u>Org #</u>	<u>Program Area</u>	<u>Budgeted Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Over-Expenditure</u>
1031	Print Shop	\$ -	\$ 13,830	\$ 13,830
1032	National Gazette	\$ -	\$ 37,489	\$ 37,489
1040	Office of the President	\$ 158,550	\$ 216,982	\$ 58,432
1060	Office of the Attorney General	\$ 341,918	\$ 623,990	\$ 282,072
1110	Chief Secretary - Administration	\$ 145,514	\$ 145,625	\$ 111
1170	Disaster Office	\$ 25,983	\$ 28,594	\$ 2,611
1210	Government Utility Billings	\$ 1,243,750	\$ 1,331,218	\$ 87,468
1211	KAJUR Subsidy	\$ 646,750	\$ 2,342,344	\$ 1,695,594
1221	MWSC Subsidy	\$ 99,500	\$ 168,054	\$ 68,554
1226	School Renovations	\$ -	\$ 34,833	\$ 34,833
1240	Contingencies Fund	\$ 199,000	\$ 1,340,664	\$ 1,141,664
1251	Census	\$ -	\$ 9,327	\$ 9,327
1253	Agriculture Training Center	\$ -	\$ 47,862	\$ 47,862
1271	Copra Price Stabilization Subsidy	\$ 796,000	\$ 845,000	\$ 49,000
1272	Government Electric Bills - Ebeye	\$ 149,250	\$ 196,648	\$ 47,398
1300	Council of Iroij Administration	\$ 70,863	\$ 71,230	\$ 367
1310	Council of Iroij Members	\$ 296,507	\$ 329,134	\$ 32,627
1610	MIDA Operations	\$ 67,140	\$ 80,311	\$ 13,171
1710	Public Service Commission	\$ 85,286	\$ 87,758	\$ 2,472
1720	PSC Administration	\$ 714,151	\$ 735,306	\$ 21,155
2014	Ebeye Health Administration	\$ 40,819	\$ 42,686	\$ 1,867
2015	ADB Counter Fund	\$ 84,575	\$ 148,141	\$ 63,566
2061	Human Services	\$ 35,179	\$ 37,230	\$ 2,051
2063	Youth Adolescent Health	\$ 13,915	\$ 14,226	\$ 311
2110	Administration - Education	\$ 382,488	\$ 572,947	\$ 190,459
2121	Elementary Education - Majuro	\$ 646,750	\$ 657,187	\$ 10,437
2123	School Improvements/Non-CBGS	\$ 1,834,834	\$ 1,862,799	\$ 27,965
2130	Vocational Education	\$ 59,614	\$ 100,236	\$ 40,622
2154	National Standards	\$ 67,170	\$ 86,837	\$ 19,667
2155	Support Services	\$ 22,775	\$ 32,695	\$ 9,920
2156	USP/Secondary Education	\$ 199,000	\$ 199,586	\$ 586
2165	MOE Close Up	\$ 59,700	\$ 61,097	\$ 1,397
2175	College of the Marshall Islands	\$ 548,998	\$ 571,739	\$ 22,741



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-30, Continued

<u>Org #</u>	<u>Program Area</u>	<u>Budgeted Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Over-Expenditure</u>
2210	Office of the Secretary/T & C	\$ 499,490	\$ 635,277	\$ 135,787
2313	ADB Counter Fund	\$ -	\$ 10,000	\$ 10,000
2350	Jeljelatae Ship	\$ 180,095	\$ 186,990	\$ 6,895
2360	Outer Islands Projects - LCU	\$ -	\$ 86,129	\$ 86,129
2370	Energy Office	\$ 14,860	\$ 18,031	\$ 3,171
2410	Administration (I/A)	\$ 222,728	\$ 244,531	\$ 21,803
2413	Youth Bureau	\$ 27,749	\$ 37,176	\$ 9,427
2422	Elections (Electoral)	\$ 38,475	\$ 55,859	\$ 17,384
2480	Registrar Office	\$ 25,874	\$ 31,651	\$ 5,777
2521	Public Safety - Majuro	\$ 1,100,132	\$ 1,463,186	\$ 363,054
2522	Public Safety - Ebeye	\$ 208,190	\$ 336,706	\$ 128,516
2611	Finance Office - Majuro	\$ 409,483	\$ 869,954	\$ 460,471
2612	Finance Office - Ebeye	\$ 60,862	\$ 69,293	\$ 8,431
2613	EDP Division	\$ 85,719	\$ 87,062	\$ 1,343
2626	Drug Enforcement Office	\$ 33,943	\$ 39,073	\$ 5,130
2630	Procurement and Supply	\$ 91,589	\$ 121,336	\$ 29,747
2650	ADB Loan Service Charge	\$ -	\$ 49,426	\$ 49,426
2670	Nitijela Pensions	\$ -	\$ 3,910	\$ 3,910
2710	Honolulu Office	\$ -	\$ 36,985	\$ 36,985
2720	Foreign Affairs	\$ 388,386	\$ 577,120	\$ 188,734
2731	USAKA LNO	\$ 91,300	\$ 128,388	\$ 37,088
2752	RMI UN Office - New York	\$ 256,572	\$ 374,493	\$ 117,921
2760	Fiji Office	\$ 148,794	\$ 160,830	\$ 12,036
2770	RMI Beijing Embassy	\$ -	\$ 2,435	\$ 2,435
2780	Tokyo Embassy	\$ 205,893	\$ 250,141	\$ 44,248
2792	Compact Review	\$ 246,541	\$ 258,938	\$ 12,397
2811	Operations and Maintenance - Majuro	\$ 946,079	\$ 1,547,769	\$ 601,690
3130	Speaker's Contingency	\$ 49,876	\$ 60,176	\$ 10,300
3140	Committee Expenditures - Nitijela	\$ 99,779	\$ 133,426	\$ 33,647
4802	ADB Loan Service Charge	\$ -	\$ 32,207	\$ 32,207
4809	ADB Loan Service Charge	\$ -	\$ 1,450	\$ 1,450
4810	ADB Loan Service Charge	\$ -	\$ 93,849	\$ 93,849
4911	ADB Loan Service Charge	\$ -	\$ 56,946	\$ 56,946
7901	CGMA	\$ 75,587	\$ 188,493	\$ 112,906

Cause: The cause of the above condition is the lack of recording budget reprogrammings approved by the Cabinet of RepMar, and the authorization of expenditures in excess of appropriated amounts.

Effect: The effect of the above condition is noncompliance with Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act, 1977.

Recommendation: We recommend that the Ministry of Finance's Budget Office record budget reprogrammings approved by the Cabinet of RepMar. Furthermore, we recommend that the Ministry of Finance only authorize expenditures within appropriated amounts.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-31

Criteria: RepMar and the Kwajalein Atoll Development Authority (KADA) entered into a management agreement with a company for a term of two years, commencing November 1, 1999, to operate the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR). Under the agreement, the company is to manage KAJUR for a monthly fee of \$41,250 to be paid by RepMar. Pursuant to the management agreement, RepMar agreed to provide cash, totaling \$896,632, as working capital infusion for fiscal year 2000, and a further \$400,000 for fiscal year 2001. Additionally, RepMar became solely responsible for all liabilities, actual and contingent, relating to KAJUR's operations prior to November 1, 1999.

Condition: During the year ended September 30, 2000, RepMar repaid a loan payable on behalf of KAJUR to a bank, totaling \$581,418, inclusive of interest; recorded \$674,947 as cash contributions to KAJUR, representing working capital infusion for fiscal year 2000; and recorded \$91,250 as payments to the company for management fees. In addition, the Project Manager for the Asian Development Bank (ADB) Ebeye Health and Infrastructure Loan made payments on behalf of RepMar for additional working capital infusion and management fees, totaling \$137,843 and \$41,250, respectively. No payable was recorded by RepMar for assuming the liability for certain delinquent taxes to the Marshall Islands Social Security Administration (MISSA), totaling \$410,519. Audit adjustments were proposed to record a payable to KAJUR, totaling \$83,842, for working capital infusion relating to fiscal year 2000; to record a payable to the management company, totaling \$321,250, for management fees relating to fiscal year 2000; to record a payable to the Project Manager for the ADB Ebeye Health and Infrastructure Loan, totaling \$179,093; and to record a payable to MISSA, totaling \$410,519, relating to delinquent taxes payable by KAJUR prior to November 1, 1999. No adjustment was proposed to record a payable to MISSA for penalties and interest, totaling \$169,601, relating to the delinquent taxes owed to MISSA as RepMar is of the opinion that any interest and penalties on amounts outstanding will be waived. For the year ended September 30, 2000, total expenditures incurred by RepMar under this management contract for working capital infusion and management fees amounted to \$1,888,569 and \$453,750, respectively. Although, the Acting Secretary of Finance certified that funds were available to execute the management contract, total amounts made available by the Nitijela through appropriation bills for fiscal year 2000 amounted to \$646,750. Accordingly, expenditures under the management contract in excess of appropriable funds amounted to \$1,695,569 for the year ended September 30, 2000.

Cause: The cause of the above condition is the certification of funds being available in excess of appropriable funds available.

Effect: The effect of the above condition is the recording of expenditures in excess of appropriable amounts available.

Recommendation: We recommend that RepMar comply with the management agreement for the operation of KAJUR. Furthermore, we recommend that the Secretary of Finance ensure appropriable funds are available for all expenditures.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-32

Criteria: Section 4.1 of the subsidiary loan agreements between RepMar and Majuro Water and Sewer Company, Inc. (MWSC) requires that MWSC shall pay to RepMar interest at the rate of 6.64% and 6.9% on the principal sums withdrawn and outstanding on its two subsidiary loan agreements. Furthermore, this interest is payable on May 15 and November 15 in each year for Loan #1 and March 1 and September 1 in each year for Loan #2.

Condition: As of September 30, 2000, MWSC has not made any payments to RepMar for interest on the principal sums withdrawn and outstanding.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with respect to Section 4 of the respective subsidiary loan agreements.

Recommendation: We recommend that RepMar require MWSC to comply with Section 4.1 of the subsidiary loan agreements.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-33

Criteria: Majuro Resort, Inc. (MRI) entered into a management agreement with a company for a term of five years, commencing June 1, 1996, to operate the hotel owned by MRI. Under the agreement, RepMar, as owner of MRI, is required to provide the operator of the hotel with cash reasonably required to finance and support the uninterrupted and efficient operation of the hotel. The agreement states that at no time shall the amount of working capital available to the operator be less than \$100,000.

Condition: As of September 30, 2000, the working capital of MRI available to the operator was a deficiency of \$80,425.

Cause: The cause of the above condition is the lack of adequate financial support from RepMar.

Effect: The effect of the above condition is that RepMar is in noncompliance with the management agreement for the operation of the hotel owned by MRI.

Recommendation: We recommend that RepMar comply with the management agreement for the operation of the hotel by ensuring that the amount of working capital available to the operator is not less than \$100,000.

Prior Year Status: The lack of adequate working capital provided by RepMar was reported as a finding in the Single Audits of RepMar for fiscal years 1998 and 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-34

Criteria: Section 148 of the Financial Management Act, 1990, stipulates that no assignment of monies by a person whom the Republic is directly indebted shall be effective unless the assignment is first approved by the Secretary of Finance.

Condition: On September 15, 1998, an assignment agreement and grant of security interest in Compact of Free Association funds was executed between RepMar and a Kwajalein landowner. This assignment was executed for the benefit of making quarterly loan payments of \$45,000 to a bank. The Secretary of Finance did not approve the assignment agreement.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Financial Management Act, 1990.

Recommendation: We recommend that the Ministry of Finance comply with Section 148 of the Financial Management Act, 1990.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-35

Criteria: The Marshall Islands Ports Authority Act, 1999, requires that RepMar shall transfer to the Marshall Islands Ports Authority (MIPA) all funds of the Seaports Trust Fund (Fund 505).

Condition: As of September 30, 2000, MIPA is still owed \$89,220, being the balance remaining in the Seaport Trust Fund.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Marshall Islands Ports Authority Act, 1999.

Recommendation: We recommend that the Ministry of Finance comply with the Marshall Islands Ports Authority Act, 1999, and transfer the balance remaining in the Seaport Trust Fund.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-36

Criteria: Part VI 56.2 and 56.3 of the PSC regulations states that the maximum amount of leave that can be accumulated at the end of the leave year, December 31, is 208 hours and that any leave hours in excess of 208 hours will be forfeited.

Condition: As of September 30, 2000, the Ministry of Finance recorded accrued annual leave in the General Long-Term Debt Account Group, totaling \$2,028,714. The amount of accrued annual leave recorded by the PR module within the ADS Profund accounting system amounted to \$2,389,606. This balance included 783 government employees with accrued annual leave hours that exceeded the maximum of 208 hours as follows:

<u>Range of Recorded Annual Leave Hours</u>	<u># of Employees</u>
Greater than 2,500 hours	2
Between 2,000 hours and 2,499 hours	28
Between 1,500 hours and 1,999 hours	36
Between 1,000 hours and 1,499 hours	23
Between 500 hours and 999 hours	61
Between 209 hours and 499 hours	633

Cause: The cause of the above condition is the lack of updating of accrued annual leave hours within the PR module of the ADS Profund accounting system in accordance with the PSC regulations.

Effect: The effect of the above condition is noncompliance with PSC regulations regarding accrued annual leave, and the possibility of disbursing paid annual leave to government employees in excess of prescribed amounts.

Recommendation: We recommend that the Ministry of Finance update accrued annual leave records in accordance with PSC regulations.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-37

Criteria: Article VIII, Section 11 of the Constitution of the Republic of the Marshall Islands requires that the compensation of the holder of the position of Auditor-General shall be a charge on the General Fund.

Condition: The Appropriations (Financial Year 2000) Act, 2000, as passed by the Nitijela of RepMar, did not include a charge on the General Fund for the salary of the Auditor-General.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with Article VIII, Section 11 of the Constitution of the Republic of the Marshall Islands. The salary of the Auditor-General was charged against the operation budget of the Office of the Auditor-General which complied with its appropriated budget by reducing expenditures in other line items. If these reductions had not happen, the Office of the Auditor-General would have been over budget.

Recommendation: We recommend that the Ministry of Finance comply with Article VIII, Section 11 of the Constitution of the Republic of the Marshall Islands.

Auditee Response and Corrective Action Plan: See attachment to this report.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

RepMar Local Noncompliance

Finding No. 2000-38

Criteria: Section 2(a) of the General Fund Investment Act, 1979, stipulates that public money shall not be deposited with any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) of the United States or the Federal Savings and Loan Insurance Corporation (FSLIC) of the United States.

Condition: As of September 30, 2000, the General Fund of RepMar maintained bank deposits, totaling \$4,449,364, with four financial institutions that were not members of FDIC or FSLIC.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with Section 2(a) of the General Fund Investment Act, 1979.

Recommendation: We recommend that the Ministry of Finance comply with Section 2(a) of the General Fund Investment Act, 1979.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

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

Allowable Costs/Cost Principles

Finding No. 2000-39

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / Special Education Improvement / CFDA #84.027A	<p><u>Criteria:</u> OMB Circular A-87, <i>Cost Principles for State, Local and Indian Tribal Governments</i>, Attachment A, establishes principles for determining the allowable costs incurred by governmental units under grants with the Federal Government. Specifically, costs must be necessary and reasonable for proper and efficient performance and administration of the federal awards.</p> <p><u>Condition:</u> Of \$612,109 and \$1,529,966 in payroll and non-payroll expenditures, respectively, of the Special Education Improvement grant, thirty-six payroll expenditures, totaling \$250,532, and sixty non-payroll expenditures, totaling \$1,131,843, were tested. The following expenditures did not appear to be necessary and reasonable expenditures that further the purpose of federal awards under the Special Education Improvement grant:</p> <ol style="list-style-type: none"> <li>1. One check issued to the Chief of Procurement and Supply (check # 190923, totaling \$2,465) as a travel advance to attend the Pacific Regional Education Laboratory conference in order to meet with education related vendors;</li> <li>2. One check issued to a vendor (check # 183226, totaling \$30,000) for the purpose of drydocking and renovating the FV Samantha in order to make it seaworthy for the transportation of special education materials, supplies and staff to the outer islands. This ship has been transferred to the Ministry of Transportation and Communication and has not been utilized for special education purposes. In addition, checks were issued in fiscal year 1999 to the same vendor (check #s 180040, 182315, 182414 and 182596, totaling \$68,121) for the same purpose; and</li> <li>3. Payroll expenditures included the gross salary of one employee (Employee # 2979, totaling \$19,365), whose job description was supervisor of elementary schools.</li> </ol> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with OMB Circular A-87 with respect to costs being necessary and reasonable for proper and efficient performance and administration of the federal awards.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	\$ 119,951

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Allowable Costs/Cost Principles

Finding No. 2000-40

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Interior / Operation and Maintenance Improvement Project RMI-99-01 / CFDA #15.875	<p><u>Criteria:</u> OMB Circular A-87, <i>Cost Principles for State, Local and Indian Tribal Governments</i>, Attachment A, establishes principles for determining the allowable costs incurred by governmental units under grants with the Federal Government. Specifically, costs must be supported by adequate documentation verifying the transaction.</p>	

Condition: During the year ended September 30, 2000, the following checks were disbursed to the Facilities Engineering Division (FED) of the Ministry of Public Works for the purpose of developing and implementing a comprehensive maintenance program for public schools:

<u>Check #</u>	<u>Non-Federal Award</u>	<u>Federal Award</u>	<u>Total</u>	
182489	\$ 16,666	\$ 16,667	\$ 33,333	
182659	<u>8,334</u>	<u>8,333</u>	<u>16,667</u>	
	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 50,000</u>	\$ 25,000

It is not determinable how these disbursements to FED were used in order to promote the purpose of the grant award.

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that RepMar comply with OMB Circular A-87 with respect to costs being supported by adequate documentation verifying the transaction.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Allowable Costs/Cost Principles

Finding No. 2000-41

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Labor / School to Work Territorial Development / CFDA #17.249	<p><u>Criteria:</u> OMB Circular A-87, <i>Cost Principles for State, Local and Indian Tribal Governments</i>, Attachment A, establishes principles for determining the allowable costs incurred by governmental units under grants with the Federal Government. Specifically, costs must be supported by adequate documentation verifying the transaction.</p> <p><u>Condition:</u> Of \$289,427 in expenditures of the School to Work Territorial Development grant, one expenditure, totaling \$37,000, was tested. RepMar issued one check to a vendor (check # 190617, totaling \$37,000) for which no supporting documentation was made available.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with OMB Circular A-87 with respect to costs being supported by adequate documentation verifying the transaction.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	\$ 37,000

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Procurement and Suspension and Debarment

Finding No. 2000-42

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Special Education Improvement / CFDA #84.027A	<p><u>Criteria:</u> Section 80.36(d) of 34 CFR 80, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that all purchases greater than \$100,000 require 1) a basis for contractor selection; 2) competitive bidding procedures or justification for lack of such procedures; and 3) a basis for award cost or price.</p> <p><u>Condition:</u> Of \$1,529,966 in non-payroll expenditures of the Special Education Improvement grant, sixty non-payroll expenditures, totaling \$1,131,843, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning purchases greater than \$100,000:</p> <ol style="list-style-type: none"> <li>1. Four checks issued to a contractor (check #s 187360, 187636, 191324 and 191557 for \$50,000, \$40,000, \$ 54,000 and \$18,000, respectively) for the construction of a training center with a total contract price of \$180,000; and</li> <li>2. Two checks issued to a vendor (check #s 189536 and \$190346 for \$49,250 and \$49,500, respectively) for the purchase of duplicator machines with a total purchase price of \$102,500.</li> </ol> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the lack of competitive bidding procedures to ensure that the procurement of goods and services is at the lowest price.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with OMB Circular A-102 with respect to the procurement of goods and services.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	\$ 260,500

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Procurement and Suspension and Debarment

Finding No. 2000-43

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Freely Associated States Educational Grant Program / CFDA #84.256A	<p><u>Criteria:</u> Section 80.36(d) of 34 CFR 80, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that all purchases greater than \$100,000 require 1) a basis for contractor selection; 2) competitive bidding procedures or justification for lack of such procedures; and 3) a basis for award cost or price.</p> <p><u>Condition:</u> Of \$653,298 in expenditures of the Freely Associated States Educational Grant Program, one expenditure, totaling \$267,383, was tested. RepMar issued a check to a vendor (check # 190426, totaling \$67,383) as a partial advance payment for the purchase of textbooks in the amount of \$347,664. This purchase did not appear to follow appropriate procurement guidelines. Furthermore, no further payments have been made to the vendor and no textbooks have been received.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is the lack of competitive bidding procedures to ensure that the procurement of goods and services is at the lowest price. In addition, the disposition of the partial advance payment is currently not determinable.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with OMB Circular A-102 with respect to the procurement of goods and services. Furthermore, we recommend that RepMar pursue the status of the advance payment made.</p> <p><u>Prior Year Status:</u> The lack of competitive bidding procedures was reported as a finding in the Single Audit of RepMar for fiscal year 1999.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	\$ 347,664

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Subrecipient Monitoring

Finding No. 2000-44

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Compact of Free Association / CFDA #15.875	<p><u>Criteria:</u> OMB's "Questions and Answers on the Single Audit provisions of OMB Circular A-128", question number twenty-three states that prime recipients of federal funding are expected to establish a system to assure that audits of subrecipients meet the requirements of Circular A-128 and such a system should include a desk review of each subrecipient report to ensure it conforms to A-128.</p> <p><u>Condition:</u> The following questioned costs of subrecipients remain unresolved for more than six months after issuance of the audit reports.</p> <p><u>College of the Marshall Islands</u></p> <p>Fiscal Year 1998</p> <p><u>Kwajalein Atoll Development Authority</u></p> <p>Fiscal Year 1999</p> <p>Details of the above questioned costs are contained in the separately issued reports of the subrecipients.</p> <p>In addition, A-128/A-133 audits of the following subrecipients have not yet been released for the noted fiscal years.</p> <p><u>Kili/Bikini Local Government</u></p> <p>Fiscal Years 1997, 1998 and 1999</p> <p><u>Rongelap Atoll Local Government</u></p> <p>Fiscal Years 1991, 1992, 1995, 1996, 1998 and 1999</p> <p><u>Utrik Atoll Local Government</u></p> <p>Fiscal Years 1992, 1994, 1998 and 1999</p> <p><u>Enewetak/Ujelang Local Government</u></p> <p>Fiscal Years 1992, 1995, 1996, 1997, 1998 and 1999</p> <p><u>Republic of the Marshall Islands Private Industry Council, Inc.</u></p> <p>Fiscal Year 1998 and 1999</p> <p><u>College of the Marshall Islands</u></p> <p>Fiscal Year 1999</p> <p>Due to the unavailability of these reports, the questioned costs relating to this condition cannot presently be determined.</p>	<p>\$ 9,789</p> <p>805,733</p>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Subrecipient Monitoring

Finding No. 2000-44, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Cause:</u> The cause of the above condition is the lack of timely resolution of questioned costs by RepMar as the primary recipient of the funding.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that RepMar establish procedures to ensure timely follow-up of questioned costs for subrecipients.</p> <p><u>Prior Year Status:</u> Monitoring of subrecipients was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 1999.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	
	Total Questioned Costs	<u>\$ 1,605,637</u>



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Reporting - Headstart Program  
CFDA # 93.600

Finding No. 2000-45

Criteria: OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule), require that non-Federal entities that expend \$300,000 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, 1999, RepMar transferred the financial reporting responsibility for expenditures under the Headstart Program from the Ministry of Finance to the Ministry of Education. Based on a trial balance made available from the Ministry of Education, expenditures incurred under the Headstart Program totaled \$1,863,031.

Cause: The cause of the above condition is the lack of obtaining a single or program-specific audit by the Ministry of Education for the Headstart Program.

Effect: The effect of the above condition is noncompliance with OMB Circular A-133 and the Common Rule with respect to audit requirements.

Recommendation: We recommend that RepMar ensure a single or program-specific audit is conducted for expenditures under the Headstart Program.

Prior Year Status: The lack of a single audit by the Ministry of Education for the Headstart Program was reported as a finding in the Single Audit of RepMar for fiscal year 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Reporting - All Federal Programs

Finding No. 2000-46

Criteria: OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule), require the periodic submission of financial status reports (FSR) based upon the financial accounting system (FAS) of the grantee for the period reported on.

Condition: The Office of International Donor Assistance (OIDA), within the Ministry of Finance, did not make available Financial Status Reports (SF-269A) submitted to grantor agencies for fiscal year 2000.

Cause: The cause of the above condition is an inadequate filing system within the OIDA for federal grants.

Effect: The effect of the above condition is the inability to determine the accuracy of FSRs based on the FAS.

Recommendation: We recommend that the OIDA ensure that an adequate filing system is maintained, including the maintenance of FSRs, for all federal awards.

Prior Year Status: The lack of availability of Financial Status Reports was reported as a finding in the Single Audits of RepMar for fiscal years 1998 and 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Equipment and Real Property Management - All Federal Programs

Finding No. 2000-47

Criteria: The Common Rule 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;
- 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: The Division of Procurement and Supply, within the Ministry of Finance, has not updated or reconciled the General Fixed Assets Account Group.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that RepMar is not in compliance with federal property standards as stated in the Common Rule.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Procurement and Supply perform an inventory of its fixed assets to record all assets in the General Fixed Assets Account Group and ensure that it is in compliance with applicable federal property rules and regulations.

Prior Year Status: The lack of a complete General Fixed Assets Account Group was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Special Tests and Provisions - Compact of Free Association, Title I, Section 103(j)  
CFDA #15.875

Finding No. 2000-48

Criteria: Section 103(j)(2) of the Compact of Free Association states that “at the end of the first year after the effective date of the Compact and at the end of each year thereafter, the providing agency or agencies shall return to the Government of the Marshall Islands any unexpended funds to be returned to the Fund Manager and be made available for future use”.

Condition: Pursuant to Article II, Section 1(a) of the Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association, \$2,000,000 annually is disbursed to Mercy International Health Services (MIHS) to provide management of specified health services for eligible citizens of the Marshall Islands. During the eighteen months ended March 31, 2000, \$3,000,000 was disbursed to MIHS in accordance with Article II, Section 1(a). As of March 31, 1998, a cumulative total of \$806,846 remains with MIHS, that has not been returned to RepMar to be, in turn, returned to the Fund Manager to be made available for future use.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with specific provisions of the Compact of Free Association.

Recommendation: We recommend that RepMar comply with the specific provisions of the Compact of Free Association and request MIHS to return the unexpended funds to RepMar to be returned to the Fund Manager and made available for future use.

Prior Year Status: Noncompliance with specific provisions of the Compact of Free Association was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2000-49

Criteria: The Common Rule states that when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.

Condition: While RepMar has passed a comprehensive procurement law, it has not been implemented. Therefore, there are no procurement requirements governing federal procurement outside of those established for federal procurements.

Cause: The cause of the above condition is non-implementation of the procurement law.

Effect: The effect of the above condition is that RepMar is not in compliance with procurement standards as stated in the Common Rule.

Recommendation: We recommend that the Ministry of Finance implement the procurement law to be in conformity with the Common Rule.

Prior Year Status: The lack of implementation of the procurement law was reported as a finding in the Single Audits of RepMar for fiscal years 1989 through 1999.

Auditee Response and Corrective Action Plan: See attachment to this report.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2000

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, 2000:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported	\$ 477,083	\$ 3,911,083	\$ 4,388,166
Questioned costs of fiscal year 2000 Single Audit	<u>790,115</u>	<u>815,522</u>	<u>1,605,637</u>
Unresolved questioned costs of RepMar at September 30, 2000	\$ <u>1,267,198</u>	\$ <u>4,726,605</u>	\$ <u>5,993,803</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 16 through 68).



**REPUBLIC OF THE MARSHALL ISLANDS**  
**MINISTRY OF FINANCE**  
P.O. BOX D  
Majuro, Marshall Islands

Corrective Action Plans for Findings and Questioned Costs included in the Independent Auditors' Report on Internal Control and on Compliance for the Year Ended September 30, 2000

**Financial Statement Findings Section:**

Finding No. 2000-1

We agree with the finding. The Ministry of Finance will be in compliance and follow up to ensure that grants will be supported by grant awards.

Finding No. 2000-2

We agree with the finding. The Ministry of Finance has been following up on delinquent taxes and implementing a more aggressive approach to tax collections. A computerized system is not yet in place to ensure consistency.

Finding No. 2000-3

We agree with the finding. The Ministry of Finance will follow up for compliance. A computerized system is not yet in place to ensure consistency.

Finding No. 2000-4

We agree with the finding. Effective immediately, the payroll department will not accept personnel actions from PSC that appear to have unauthorized manual alterations. New personnel actions will be thoroughly reviewed for completion. Furthermore, employee allotment deductions and deletions will be monitored for compliance.

Finding No. 2000-5

We agree with the finding. A review and upgrade of the ADS Profund accounting system will ensure that adequate security is programmed into the system. The Secretary of Finance will conduct periodic review of payroll checks for compliance of the statutory withholding tax tables.

Finding No. 2000-6

We agree with the finding. The Ministry of Finance will follow up for compliance of payroll registers prior to the calendar year end.

Finding No. 2000-7

We agree with the finding. The Ministry of Finance will ensure that expenditures are accounted for in capital project funds. A separate fund account will be established for this purpose. Further, detailed instructions to responsible staff will be firmly delegated to avoid any future recurrences. A review of expenditures incurred for capital improvement projects will be evaluated for compliance.

Finding No. 2000-8

We agree with the finding. The Ministry will work on collecting contracts and invoices for the thirteen disbursements made during Year 2000. However a copy of the disbursement made on 12/06/99 cannot be obtained, although a review will still be conducted. Detailed instructions to responsible staff will be firmly delegated to avoid any future recurrences.

Finding No. 2000-9

We agree with the finding. The Ministry of Finance has begun requesting copies of bank statements from the various Repmar embassies. Three embassies have since complied. Proper monitoring of timely reports is hoped to be carried out with the recruitment of new staff.

Finding No. 2000-10

We agree with the finding. Lack of cooperation in sending requested statements from the corresponding bank is an issue, although the Ministry will continue to request that statements be forwarded. Bond fund accounts will be properly recorded upon receipt of statements.

Finding No. 2000-11

We agree with the finding. The Ministry will follow up to ensure timely mailing of statements from the corresponding bank. It is only appropriate to add that the normal waiting period is a minimum of six months from the corresponding bank.

Finding No. 2000-12

We agree with the finding. The Ministry will request for investment account balances to be sent for reconciliation for this fiscal year and onward.

Finding No. 2000-13

We agree with the finding. With the regular absence of responsible staff, the Budget Division was not able to reconcile grant awards accordingly. This finding is being resolved by the current staff upon availability of tasks assigned. The Ministry is in the process of hiring competent staff for this position.

Finding No. 2000-14

We agree with the finding. The Ministry will look into the status of ERRFC and correspond with representatives of KADA through the government's proper authorities for a final resolution.



Finding No. 2000-15

We agree with the finding. A loan agreement is to be finalized through the Ministry after discussion with the General Manager of Tobolar Copra Processing Plant, Inc. due to the procedural oversight. TCPPI is in agreement that funds were borrowed, however repayment ability is extremely uncertain.

Finding No. 2000-16

We agree with the finding. The Ministry has attempted in the past to comply with the finding without success due to bugs in the current accounting system. The error will be resolved after a review and upgrade of the system is conducted. This procedure is soon to be implemented.

Finding No. 2000-17

We agree with the finding. The Ministry will follow up to obtain supporting documents. Of the three TA's, TA #70658A is unrecoverable. Furthermore, the trip was taken but the training was incomplete. The Ministry cannot obtain supporting documents. The employee responsible is no longer employed.

Finding No. 2000-18

We agree with the finding. The Ministry delegated the Division of Procurement and Supply to begin an inventory of fixed assets in May 2001. The final result is expected to be completed by September 2001.

Finding No. 2000-19

We agree with the finding. The A/P balances cannot be corrected until a thorough upgrade of the ADS accounting system is implemented. This procedure will be underway.

Finding No. 2000-20

We agree with the finding. Repmar will execute a formal agreement between KAJUR and MISSA.

Finding No. 2000-21

We agree with the finding. The Ministry is in the process of hiring new staff within the Budget Division to update and reconcile items in a timely manner.

Finding No. 2000-22

We agree with the finding. The Ministry will work on reviewing bonds payable. Additionally, the outstanding bonds will be paid off in July 2001.

Finding No. 2000-23

We agree with the finding. The Ministry cites the limited number of staff on hand for proper and timely reconciliation of the general ledger accounts. With new hires and a smarter work ethic, this situation will be improved over time.

Finding No. 2000-24

We agree with the finding. The cause of the out of balance condition generally stems from a necessity to upgrade the ADS accounting system for proper adjustments. Monthly reviews will be conducted however an improved accounting system should be implemented.

Finding No. 2000-25

We agree with the finding. Manual adjustments had to be made which resulted in a reduction of the credit variance for this finding. Interfund balances were not set up properly. The upgrade in the system will include proper setting up of these funds.

Finding No. 2000-26

We agree with this finding. An oversight on budget preparation resulted in this discrepancy. The Ministry will ensure that appropriation bills are reflected in the budget preparation framework for the new fiscal year.

Finding No. 2000-27

We agree with the finding. The Ministry will follow up with the Auditor-General's Office for update and progress on the specific component units.

Finding No. 2000-28

We agree with the finding. The Ministry will comply with Section 146 of the Financial Management Act. Further a copy of the Section will be distributed to each respective Ministry for review and as a reminder.

Finding No. 2000-29

We agree with the finding. The Ministry will follow up with the EPA manager for compliance with the National EPA Act. Further follow up with the Auditor-General's Office for update and progress on the agency's financial statements will be conducted.

Finding No. 2000-30

We agree with the finding. The Budget Office under the Ministry of Finance will record any and all budget reprogrammings approved by Cabinet. Efforts to improve budget spending are underway with the issuance of budgetary guidelines. Ministries are requested to submit budget bids and projected costs in separate diskettes for consolidation into the National Budget. Further follow up by the Ministry to ensure that the Budget Office only authorizes expenditures within budgeted amounts will be ongoing.

Finding No. 2000-31

We agree with the finding. The Ministry of Finance is however in compliance with the management agreement of the KAJUR operation. Budgeted amounts were understated due to an oversight by the Budget Division and the inheritance of liabilities under the agreement. Unprojected liabilities incurred still with the delinquent taxes assumed after the MISSA audit. The Secretary will work closely with the Budget Division to ensure that funds are available in accordance with the agreement.

Finding No. 2000-32

We agree with the finding. The Ministry will work with MWSC for compliance of Section 4.1 of the loan agreements.

Finding No. 2000-33

We agree with the finding. The Ministry provided working capital less the agreed amount based on requests by MRI management. Future working capital will be in compliance with management agreement.

Finding No. 2000-34

We agree with the finding. Noncompliance of Section 148 of the Financial Management Act, 1990 resulted in this finding. The Ministry will ensure compliance when consulted accordingly.

Finding No. 2000-35

We agree with the finding. The Ministry of Finance will comply with the MIPA Act and transfer the remaining balance.

Finding No. 2000-36

We agree with the finding. The Ministry of Finance however cannot update accrued annual leave hours for certain Ministries and Agencies as they are not under PSC regulations. The Ministry recommends that PSC address this noncompliance and revise its regulations to include the separated Ministries and Agencies under its rules and regulations.

Finding No. 2000-37

We agree with the finding. The Ministry of Finance will ensure future compliance is in order.

Finding No. 2000-38

We agree with the finding. The Ministry of Finance has not been in compliance with Section 2(a) of the General Fund Investment Act due to reasons unknown. Future requests will be reviewed for compliance.

**Federal Award Findings and Questioned Costs Section:**

Finding No. 2000-39

We agree with the finding. The Ministry of Finance will review the findings and transfer these charges to the general fund for compliance.

Finding No. 2000-40

We agree with the finding. The Ministry of Finance forwarded findings to the Office of the Attorney General last year for further investigation into the purpose of the grant award.

Finding No. 2000-41

We agree with the finding. The Ministry of Finance will follow up for supporting documentation from the vendor. Furthermore, future requests will be reviewed for adequate documentation.

Finding No. 2000-42

We agree with the finding. Repmar will ensure that proper compliance of OMB Circular A-102 is being followed.

Finding No. 2000-43

We agree with the following. Repmar will ensure that proper compliance of OMB Circular A-102 is being followed. The partial advance to vendor will be reviewed by the responsible agency and followed up by the Ministry of Finance.

Finding No. 2000-44

We agree with the finding. Repmar will work on establishing procedures to conform to audit results of subrecipients.

Finding No.2000-45

We agree with the finding. Repmar will follow up for compliance with OMB Circular A-133 and the Common Rule. This recommendation will be tasked to the Ministry of Education for further follow up.

Finding No. 2000-46

We agree with the finding. The Ministry of Finance will ensure that an adequate filing system is in place for federal grant awards under the OIDA. Further, status reports will be reviewed periodically.

Finding No. 2000-47

We agree with the finding. The Ministry directed the Division of Procurement and Supply to begin an inventory of fixed assets in May 2001. The final result is expected to complete by September 2001.

Finding No. 2000-48

We agree with the finding. Repmar will follow up with Mercy International Health Services for return of unexpended funds to be forwarded to the Fund Manager for future use. The Ministry of Finance will follow up for compliance.

Finding No. 2000-49

We agree with the finding. The Ministry of Finance will ensure that the procurement law is implemented.



**REPUBLIC OF THE MARSHALL ISLANDS**  
**MINISTRY OF FINANCE**  
P.O. BOX D  
Majuro, Marshall Islands

**Summary Schedule of Prior Audit Findings**

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 1999:

**Financial Statement Findings Section:**

- Finding No. 99-1 - Not corrected. See corrective action plan to Finding No. 2000-1.
- Finding No. 99-2 - Not corrected. See corrective action plan to Finding No. 2000-2.
- Finding No. 99-3 - Not corrected. See corrective action plan to Finding No. 2000-3.
- Finding No. 99-4 - Not corrected. See corrective action plan to Finding No. 2000-6.
- Finding No. 99-5 - Not corrected. See corrective action plan to Finding No. 2000-8.
- Finding No. 99-6 - Not corrected. See corrective action plan to Finding No. 2000-9.
- Finding No. 99-7 - Not corrected. See corrective action plan to Finding No. 2000-10.
- Finding No. 99-8 - Not corrected. See corrective action plan to Finding No. 2000-13.
- Finding No. 99-9 - Not corrected. See corrective action plan to Finding No. 2000-14.
- Finding No. 99-10 - Not corrected. See corrective action plan to Finding No. 2000-15.
- Finding No. 99-11 - Not corrected. See corrective action plan to Finding No. 2000-18.
- Finding No. 99-12 - Corrective action has been taken.
- Finding No. 99-13 - Not corrected. See corrective action plan to Finding No. 2000-21.
- Finding No. 99-14 - Not corrected. See corrective action plan to Finding No. 2000-22.
- Finding No. 99-15 - Not corrected. See corrective action plan to Finding No. 2000-27.
- Finding No. 99-16 - Not corrected. See corrective action plan to Finding No. 2000-29.
- Finding No. 99-17 - Corrective action has been taken.
- Finding No. 99-18 - Not corrected. See corrective action plan to Finding No. 2000-33.

**Federal Award Findings and Questioned Costs Section:**

- Finding No. 99-19 - Not corrected. See corrective action plan to Finding No. 2000-43.
- Finding No. 99-20 - Not corrected. See corrective action plan to Finding No. 2000-44.
- Finding No. 99-21 - Not corrected. See corrective action plan to Finding No. 2000-45.
- Finding No. 99-22 - Not corrected. See corrective action plan to Finding No. 2000-46.
- Finding No. 99-23 - Not corrected. See corrective action plan to Finding No. 2000-47.
- Finding No. 99-24 - Not corrected. See corrective action plan to Finding No. 2000-48.
- Finding No. 99-25 - Not corrected. See corrective action plan to Finding No. 2000-49.