

REPUBLIC OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002



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, 2002, and have issued our report thereon dated April 23, 2003, 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 other expenditures of approximately \$2.2 million recorded in the Governmental Fund Type - General Fund; 3) our inability to determine the propriety of deferred revenue of the Governmental Fund Type - Special Revenue Fund; 4) our inability to determine the propriety of accounts payable of the Kwajalein Atoll Development Authority, a Governmental Fund Type - Capital Projects Fund; 5) our inability to determine the propriety of general receivables and deferred revenue of the University and College Fund Type - Higher Education Fund and their effect on the determination of revenues of the University and College Fund Type - Higher Education Fund; 6) our inability to determine the propriety of revenues and expenses of the Marshall Islands Marine Resources Authority, a Component Unit - Proprietary Fund; and (7) the omission of the Ministry of Education Headstart Program from the Governmental Fund Type - Special Revenue Fund, Air Marshall Islands, Inc., the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc. and the Marshall Islands Drydock, Inc. from the Component Units - Proprietary Funds. 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 15 through 49) as items 2002-18 through 2002-32.

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 2002-1 through 2002-17.

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 2002-1, 2002-6, 2002-7, 2002-10, 2002-11, 2002-13, 2002-14, 2002-15 and 2002-17 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 April 23, 2003.

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

April 23, 2003

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, 2002. 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 15 through 49). 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 2002-22 through 2002-32 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, 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, 2002.

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 2002-22 through 2002-32.

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 2002-23 through 2002-32 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, 2002, and have issued our report thereon dated April 23, 2003, 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 other expenditures of approximately \$2.2 million recorded in the Governmental Fund Type - General Fund; 3) our inability to determine the propriety of deferred revenue of the Governmental Fund Type - Special Revenue Fund; 4) our inability to determine the propriety of accounts payable of the Kwajalein Atoll Development Authority, a Governmental Fund Type - Capital Projects Fund; 5) our inability to determine the propriety of general receivables and deferred revenue of the University and College Fund Type - Higher Education Fund and their effect on the determination of revenues of the University and College Fund Type - Higher Education Fund; 6) our inability to determine the propriety of revenues and expenses of the Marshall Islands Marine Resources Authority, a Component Unit - Proprietary Fund; and (7) the omission of the Ministry of Education Headstart Program from the Governmental Fund Type - Special Revenue Fund, Air Marshall Islands, Inc., the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc. and the Marshall Islands Drydock, Inc. from the Component Units - Proprietary Funds. 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 11) 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 deferred revenue 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.

Debitte + Touche

April 23, 2003

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2002

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>1,522,199</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	23,643,753
		Section 211(a) Capital Account	6,749,487
		Section 213(a) Military Rights	1,900,000
		Section 214(a) Energy	1,866,667
		Section 215(a)(1) Communications	111,040
		Section 216(a)(1) Surveillance and Enforcement	486,671
		Section 216(a)(2) Health and Medical	588,030
		Section 216(a)(3) Scholarship	782,612
		Section 217 Inflation Adjustment	9,912,000
		Section 221(b) Health and Education	3,090,173
		Section 231/232 MOURA extension	<u>2,245,367</u>
			51,375,800
		Other Direct Assistance	<u>1,549,181</u>
		Total CFDA #15.875	<u>52,924,981</u>
		Total program expenditures tested	\$ <u>54,447,180</u>
		Total federal program expenditures	\$ 81,255,894
		Less: Section 211(a) Current Account	13,460,000
		Section 217 Inflation Adjustment applicable to Section 211(a) Current Account	4,472,000
		Entities that have not satisfied the audit requirements of OMB Circular A-133:	
		· Republic of the Marshall Islands Private Industry Council, Inc.	885,113
		· Four Atoll Programs	3,062,500
		· Air Marshall Islands, Inc.	<u>1,500,000</u>
			\$ <u>57,876,281</u>
		% of total federal program expenditures tested	<u>94%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2002

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2002 Total Authorization	2002 Receipts	Prior Year Expenditures	2002 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 FY00/01	5707/08	\$ 108,346	\$ -	\$ 95,896	\$ 55,747	\$ 151,643	\$ (43,297)
Rural Fire Prevention	5635	30,000	-	27,928	-	27,928	2,072
Sub-total CFDA #10.567		138,346	-	123,824	55,747	179,571	(41,225)
<u>CFDA #10.664</u>							
Cooperative Forestry Assistance	5627	13,775	-	7,134	-	7,134	6,641
Cooperative Forestry Assistance	5630/31	19,450	-	29,397	-	29,397	(9,947)
Cooperative Forestry Assistance	5632	70,325	-	26,305	2,741	29,046	41,279
Sub-total CFDA #10.664		103,550	-	62,836	2,741	65,577	37,973
Total U.S. Department of Agriculture		241,896	-	186,660	58,488	245,148	(3,252)
<u>U.S. Department of Commerce</u>							
<u>CFDA #11.460</u>							
Weather Observation Services	0903	290,325	234,918	625,696	394,679	1,020,375	(730,050)
Total U.S. Department of Commerce		290,325	234,918	625,696	394,679	1,020,375	(730,050)
<u>U.S. Department of Education</u>							
<u>CFDA #84.010</u>							
I Secondary Academic	5414/21	237,000	-	473,748	53,767	527,515	(290,515)
<u>CFDA #84.256A</u>							
School Health Program	5417	54,173	-	6,834	-	6,834	47,339
Freely Associated States Educational Grant Program	5419	860,855	-	1,082,842	188,711	1,271,553	(410,698)
Freely Associated States Educational Grant Program	5420	841,300	250,000	60,551	952,244	1,012,795	(171,495)
Sub-total CFDA #84.256A		1,756,328	250,000	1,150,227	1,140,955	2,291,182	(534,854)
<u>CFDA #84.276A</u>							
Goals 2000 Educate America Act	5424/25/26	408,308	-	226,599	8,712	235,311	172,997
Goals 2000 Educate America Act	5526	134,024	-	243,005	17,800	260,805	(126,781)
Sub-total CFDA #84.276A		542,332	-	469,604	26,512	496,116	46,216
<u>CFDA #84.027</u>							
Education for Children With Disabilities - State Grants	5407/40-42	1,764,800	1,770,000	1,405,709	1,522,199	2,927,908	(1,163,108)
<u>CFDA #84.150</u>							
Pacific Vocational Education Improvement Program	5409/27/28	349,000	93,189	575,293	1,912	577,205	(228,205)
Pacific Vocational Education Improvement Program	5528/29/34	131,840	112,334	67,056	139,224	206,280	(74,440)
Sub-total CFDA #84.150		480,840	205,523	642,349	141,136	783,485	(302,645)
<u>CFDA #84.287</u>							
21st Century Community Learning Centers	5467	897,253	750,000	-	845,854	845,854	51,399
<u>CFDA #84.195</u>							
Bilingual/Language Arts FY02	5514	100,000	25,000	-	37,731	37,731	62,269
<u>CFDA #84.185</u>							
Byrd Honors Scholarship	5435/36	104,400	-	-	60,000	60,000	44,400
Byrd Honors Scholarship FY02	5535	30,000	30,000	-	30,000	30,000	-
		134,400	30,000	-	90,000	90,000	44,400
Total U.S. Department of Education		5,912,953	3,030,523	4,141,637	3,858,154	7,999,791	(2,086,838)
<u>U.S. Department of Health and Human Services</u>							
<u>CFDA #93.110</u>							
Ebeye Community Health Center	8379-8382	912,720	601,352	88,167	528,168	616,335	296,385
Mental Health Infrastructure Center	7306	50,000	23,009	-	23,009	23,009	26,991
National Leprosy Program FY99	7305	33,955	-	28,203	-	28,203	5,752
Community Based MCH Education Project for Systems Development FY98	6353/54/55	98,364	-	16,605	-	16,605	81,759
Community Based MCH Education Project for Systems Development	6375/76	90,273	709	138,076	913	138,989	(48,716)
Community Based MCH Education Project for Systems Development FY99/00	7353/54/55	486,804	-	242,082	165	242,247	244,557
Community Based MCH Education Project for Systems Development FY00/01	8353/54/55	61,190	-	202,837	4,515	207,352	(146,162)
		1,733,306	625,070	715,970	556,770	1,272,740	460,566

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, 2002

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2002 Total Authorization	2002 Receipts	Prior Year Expenditures	2002 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 #93.110, Continued</u>							
Balance forwarded		1,733,306	625,070	715,970	556,770	1,272,740	460,566
Community Based MCH Education Project for Systems Development FY01/02	8453/54/55	244,553	244,532	186,461	128,106	314,567	(70,014)
Community Based MCH Education Project for Systems Development FY02/03	7453/54/55	250,204	-	-	94,617	94,617	155,587
CISS Project to Enhance Services to Pregnant Women FY00	7377	50,000	33,758	30,558	-	30,558	19,442
CISS Project to Enhance Services to Pregnant Women FY01	7477	50,000	75,400	27,607	47,793	75,400	(25,400)
Majuro SSDI	7375	99,825	38,926	38,926	-	38,926	60,899
Ebeye SSDI	7376	99,825	7,459	7,459	-	7,459	92,366
Majuro SSDI	8375	99,825	85,440	79,450	28,797	108,247	(8,422)
Ebeye SSDI	8376	99,825	9,472	6,101	3,372	9,473	90,352
Majuro SSDI	7475	76,199	48,733	-	49,095	49,095	27,104
Ebeye SSDI	7476	12,465	-	-	2,330	2,330	10,135
High School Health Community FY00	7378	100,000	33,826	33,826	-	33,826	66,174
High School Health Community FY01	7379	100,000	35,543	35,543	-	35,543	64,457
Sub-total CFDA #93.110		3,016,027	1,240,489	1,161,901	910,880	2,072,781	943,246
<u>CFDA #93.116</u>							
Tuberculosis and Aids Control Program FY99	7346/47	57,000	1,110	35,410	-	35,410	21,590
Tuberculosis and Aids Control Program FY00	8346/47	112,493	42,840	42,842	-	42,842	69,651
Tuberculosis and Aids Control Program FY01	7385/86	50,713	38,864	30,292	8,572	38,864	11,849
Tuberculosis and Aids Control Program FY02	7485/86	116,679	30,203	-	30,355	30,355	86,324
Sub-total CFDA #93.116		336,885	113,017	108,544	38,927	147,471	189,414
<u>CFDA #93.118</u>							
HIV Prevention Project FY99	7348/49	55,718	-	51,161	-	51,161	4,557
HIV Prevention Project FY00	8348/49	55,718	14,881	14,883	-	14,883	40,835
HIV Prevention Project FY01	8448/49	34,993	53,344	32,696	38,345	71,041	(36,048)
HIV Prevention Project FY02	7433/34	163,601	-	-	40,651	40,651	122,950
Sub-total CFDA #93.118		310,030	68,225	98,740	78,996	177,736	132,294
<u>CFDA #93.163</u>							
Pacific Basin Health Initiative FY99	6383	245,157	(1,776,066)	469,624	(224,467)	245,157	-
Pacific Basin Health Initiative FY00/01	6384	245,157	91,766	94,035	-	94,035	151,122
Sub-total CFDA #93.163		490,314	(1,684,300)	563,659	(224,467)	339,192	151,122
<u>CFDA #93.217</u>							
Family Planning Project	6340/41	93,078	-	40,145	-	40,145	52,933
Family Planning Project	6363/64	88,785	15,437	163,347	3,000	166,347	(77,562)
Family Planning Project FY98	7363/64	89,206	108,735	172,734	-	172,734	(83,528)
Family Planning Project FY01	7383/84	165,068	112,686	104,827	7,770	112,597	52,471
Family Planning Project FY02	7483/84/7583	290,705	126,338	29,726	98,260	127,986	162,719
Sub-total CFDA #93.217		726,842	363,196	510,779	109,030	619,809	107,033
<u>CFDA #93.268</u>							
Immunization Program FY98	6344/45	60,566	-	95,431	-	95,431	(34,865)
Immunization Program FY99	7344/45	48,345	-	38,310	-	38,310	10,035
Immunization Program FY00	8344/45	129,527	59,064	61,610	(2,546)	59,064	70,463
Immunization Program FY01	8350/51	93,855	61,361	62,449	61,521	123,970	(30,115)
Immunization Program FY02	7450/51/8350/51	129,486	93,135	6,540	79,750	86,290	43,196
Sub-total CFDA #93.268		461,779	213,560	264,340	138,725	403,065	58,714
<u>CFDA #93.283</u>							
EPI Evaluation of Thyroid Disease	5303/07	350,000	-	411,105	-	411,105	(61,105)
EPI Evaluation of Thyroid Disease	7358	95,651	-	95,793	489	96,282	(631)
EPI Evaluation of Thyroid Disease	8358	65,000	49,503	38,486	11,017	49,503	15,497
EPI Evaluation of Thyroid Disease	8359	66,600	-	-	46,691	46,691	19,909
Sub-total CFDA #93.283		577,251	49,503	545,384	58,197	603,581	(26,330)
<u>CFDA #93.938</u>							
State and Local School Health Programs	5412	50,050	-	130,557	-	130,557	(80,507)
State and Local School Health Programs	5437	50,000	-	47,806	-	47,806	2,194
State and Local School Health Programs	5438	50,000	-	26,112	27,250	53,362	(3,362)
State and Local School Health Programs	5439	111,450	-	-	20,022	20,022	91,428
Sub-total CFDA #93.938		261,500	-	204,475	47,272	251,747	9,753
<u>CFDA #93.959</u>							
Substance Abuse Prevention and Treatment Program	5320/30/32	216,480	6,872	350,261	2,813	353,074	(136,594)
Substance Abuse Prevention and Treatment Program	6368/69/70	-	-	119,276	430	119,706	(119,706)
		216,480	6,872	469,537	3,243	472,780	(256,300)

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, 2002

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2002 Total Authorization	2002 Receipts	Prior Year Expenditures	2002 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 #93.959, Continued</u>							
Balance forwarded		216,480	6,872	469,537	3,243	472,780	(256,300)
Substance Abuse Prevention and Treatment Program	7368/69/70	168,068	-	275,819	975	276,794	(108,726)
Substance Abuse Prevention and Treatment Program	7468/69/70/71	264,497	-	-	170,296	170,296	94,201
Substance Abuse Prevention and Treatment Program	8368/69-71/73-74	189,616	-	176,138	83,014	259,152	(69,536)
Sub-total CFDA #93.959		838,661	6,872	921,494	257,528	1,179,022	(340,361)
<u>CFDA #93.977</u>							
Sexual Transmitted Disease Control Program Majuro/Ebeye FY99	7342/43	121,494	141,408	184,448	(3,215)	181,233	(59,739)
Sexual Transmitted Disease Control Program Majuro/Ebeye FY00	7442/43	121,494	10,933	47,235	-	47,235	74,259
Sexual Transmitted Disease Control Program Majuro/Ebeye FY01	7444/45	121,494	92,140	44,004	48,139	92,143	29,351
Sexual Transmitted Disease Control Program Majuro/Ebeye FY02	7544/45	175,071	62,836	-	67,503	67,503	107,568
Sub-total CFDA #93.977		539,553	307,317	275,687	112,427	388,114	151,439
<u>CFDA #93.988</u>							
State-Based Diabetes Program FY00	7366/67	96,750	114,442	85,880	-	85,880	10,870
State-Based Diabetes Program FY01	7381/82	23,012	40,885	39,457	1,429	40,886	(17,874)
State-Based Diabetes Program FY02	7481/82	79,787	53,976	2,832	62,023	64,855	14,932
State-Based Diabetes Program FY03	7551	67,424	7,348	-	11,640	11,640	55,784
Sub-total CFDA #93.988		266,973	216,651	128,169	75,092	203,261	63,712
<u>CFDA #93.991</u>							
Preventive Health Services	7310/11	46,346	35,662	8,060	-	8,060	38,286
Preventive Health Services FY00	7320/21/22/23	42,529	-	-	21,003	21,003	21,526
Preventive Health Services FY99	7330/31/32/33	46,924	-	-	28,341	28,341	18,583
Sub-total CFDA #93.991		135,799	35,662	8,060	49,344	57,404	78,395
<u>CFDA #93.958</u>							
Community Mental Health FY00	7372/73/74	110,625	-	55,635	518	56,153	54,472
Community Mental Health FY01	8371/72/73/74	146,168	-	33,600	8,570	42,170	103,998
Community Mental Health FY02	7472/73/74	136,972	66,413	-	36,914	36,914	100,058
Sub-total CFDA #93.958		393,765	66,413	89,235	46,002	135,237	258,528
Total U.S. Department of Health and Human Services		8,355,379	996,605	4,880,467	1,697,953	6,578,420	1,776,959
<u>Federal Emergency Management Agency</u>							
<u>CFDA #83.544</u>							
Typhoon Axel Public Assistance	5164	1,885,834	-	2,562,422	1,345	2,563,767	(677,933)
<u>CFDA #83.505</u>							
Planning Office	1140	25,000	25,000	-	20,920	20,920	4,080
Ebeye Hospital	2012	80,000	80,000	-	38,131	38,131	41,869
Revenue Office	2621	8,000	-	-	17,012	17,012	(9,012)
Likiep Local Government	4720	11,512	13,012	-	11,512	11,512	-
Seventh Day Adventist and Majuro Cooperative School Seawall Project	5105/06/07	363,997	-	364,997	-	364,997	(1,000)
Outer Island Water Resources Planning and Development	5108/09/10	99,132	-	131,493	-	131,493	(32,361)
State Management 1210-HMGP 001	5111-5114/5116	713,338	242,080	808,514	43,150	851,664	(138,326)
Alele Renovation	5115	64,092	-	77,763	(17,348)	60,415	3,677
Disaster Preparedness Improvement FY97	5126	50,000	-	52,481	(2,481)	50,000	-
Disaster Preparedness Improvement FY98	5127	50,000	-	46,228	-	46,228	3,772
Disaster Preparedness Improvement FY99	5128	50,000	-	51,940	(2,307)	49,633	367
Disaster Preparedness Improvement FY00	5129	50,000	10,340	37,703	6,582	44,285	5,715
Disaster Preparedness Improvement Grant	5130/31	50,000	-	37,643	-	37,643	12,357
Disaster Preparedness Improvement Grant FY01	5230	50,000	40,785	13,877	19,816	33,693	16,307
Disaster Preparedness Improvement Grant FY02	5231	50,000	-	-	25,629	25,629	24,371
Disaster El Nono/FEMA	5160	225,000	-	-	225,000	225,000	-
Sub-total CFDA #83.505		1,940,071	411,217	1,622,639	385,616	2,008,255	(68,184)
Total Federal Emergency Management Agency		3,825,905	411,217	4,185,061	386,961	4,572,022	(746,117)
<u>U.S. Department of Labor</u>							
<u>CFDA #17.249</u>							
School to Work Territorial Development	5460/61/62	50,000	142,468	798,868	54,795	853,663	(803,663)

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, 2002

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	2002 Total Authorization	2002 Receipts	Prior Year Expenditures	2002 Expenditures	Total Program Expenditures	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
<u>U.S. Department of Labor, Continued</u>							
<u>CFDA #17.250</u>							
Job Training Partnership Act FY01	5213/15/16/17	220,366	756,043	280,342	885,113	1,165,455	(945,089)
Job Training Partnership Act FY01	5310/11/12	91,715	-	304,678	-	304,678	(212,963)
Job Training Partnership Act FY00	5210/11/12	152,810	-	863,697	-	863,697	(710,887)
Sub-total CFDA #17.250		464,891	756,043	1,448,717	885,113	2,333,830	(1,868,939)
Total U.S. Department of Labor		514,891	898,511	2,247,585	939,908	3,187,493	(2,672,602)
<u>U.S. Department of the Interior</u>							
<u>CFDA #15.875</u>							
Index/Archive for Nuclear Program	6130	28,425	(22,821)	68,266	18,610	86,876	(58,451)
EPA DOI Grant	5221	30,000	60,000	-	25,614	25,614	4,386
Historic Preservation FY 02	5222/6240	261,679	53,577	-	242,414	242,414	19,265
Archaeological Preservation	5124	20,000	71,372	19,814	-	19,814	186
Archaeological Preservation	5125	20,000	28,930	5,434	789	6,223	13,777
RMI Census	5132	44,000	-	44,146	(147)	43,999	1
Youth to Youth in Health IGP	5374	78,640	-	127,005	(48,366)	78,639	1
Marshall Islands High School Motorboat	5403	49,799	-	-	-	-	49,799
Small Business Administration - R&D	5634	50,000	52,586	-	50,788	50,788	(788)
Ailuk Atoll PIRAAP	5693	33,500	-	33,500	-	33,500	-
Ejit Reverse Osmosis Unit	5699	56,993	-	85,000	-	85,000	(28,007)
S-I-N Inc.	6131	50,900	12,725	12,725	12,725	25,450	25,450
EPA Environmental Standards Conference	6204	88,000	58,000	136,131	-	136,131	(48,131)
EPA Environmental Standards Conference	6205	30,000	60,481	29,280	-	29,280	720
Historic Preservation Fund FY 01	6217	31,962	158,819	157,738	603	158,341	(126,379)
Library Services & Technology Act	6226	40,000	3,128	42,690	-	42,690	(2,690)
Library Services & Technology Act	6227/28	56,378	-	56,378	7,400	63,778	(7,400)
Land Survey Grant	6230	218,000	98,000	215,250	(4,169)	211,081	6,919
Land Survey Registration	6231	52,000	-	-	14,867	14,867	37,133
Local Council Training	6318	-	-	-	150	150	(150)
Ebeye Hospital Standby Generator	6713	115,000	-	115,000	-	115,000	-
Ebeye Road Drainage Rehab	6714	375,000	205,584	-	375,000	375,000	-
R&D Facility Engineering	6722	78,000	45,500	-	-	-	78,000
Ulrik Atoll Maintenance Plan	6724	20,000	20,000	-	10,000	10,000	10,000
CMI Vocational Training	6726	50,000	39,995	-	-	-	50,000
OMIP/MOE Procurement	6728	25,200	-	-	24,623	24,623	577
Single Audit FY01	6901	620,000	691,213	-	523,969	523,969	96,031
Single Audit FY00	6900	622,750	271,170	364,085	140,995	505,080	117,670
Buddy System	6929	15,000	-	1,576	4,747	6,323	8,677
FMIP Intern	6969	62,500	42,237	-	40,524	40,524	21,976
Single Audit FY96	6996	593,978	-	979,780	-	979,780	(385,802)
Single Audit FY97	6997	593,978	58,855	161,208	15,645	176,853	417,125
Single Audit FY98	6998	527,635	29,800	537,273	29,800	567,073	(39,438)
Single Audit FY99	6999	602,000	45,200	470,237	62,600	532,837	69,163
Total U.S. Department of the Interior		5,541,317	2,084,351	3,662,516	1,549,181	5,211,697	329,620
Total U.S. Federal Direct Assistance		\$ 24,682,666	\$ 7,656,125	\$ 19,929,622	\$ 8,885,324	\$ 28,814,946	\$ (4,132,280)
Reconciliation of expenditures to the general purpose financial statements:							
Expenditures of the TTPI Federal and Other Grant Assistance Fund					\$ 8,400,645		
Operating transfers out to the Marshall Islands Scholarship Grant and Board					90,000		
Reimbursable expenditures recorded in the General Fund					394,679		
Total U.S. Federal Direct Assistance					\$ 8,885,324		

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, 2002

	Prior Year Funds Carried Over	2002 Receipts	Total Funding Available	2002 Expenditures	September 30, 2002 Available Funds
<u>Compact of Free Association Funding</u>					
<u>CFDA #15.875</u>					
General Fund:					
Section 211(a) Current Account	\$ -	\$ 6,360,000	\$ 6,360,000	\$ 6,360,000	\$ -
Section 217 Current Account	-	354,000	354,000	354,000	-
	-	6,714,000	6,714,000	6,714,000	-
Special Revenue Fund:					
Section 215(a)(1) Communications	401,200	500,000	901,200	111,040	790,160
Section 216(a)(2) Health and Medical	20,837	531,600	552,437	588,030	(35,593)
Section 216(a)(3) Scholarship	71,515	797,400	868,915	782,612	86,303
Section 221(b) Health and Education	196,267	3,000,000	3,196,267	3,090,173	106,094
Section 214(a) Energy	416	1,866,667	1,867,083	1,866,667	416
	690,235	6,695,667	7,385,902	6,438,522	947,380
Capital Projects Funds:					
Section 111(d) Investment Development	472,253	-	472,253	-	472,253
Section 211 (a) Capital Account:					
Section 211(a) Capital Account	(582)	8,973,333	8,972,751	6,749,487	2,223,264
Section 217 Capital Account	-	9,912,000	9,912,000	9,912,000	-
Section 217 Capital Account (Kwajalein)	366,000	-	366,000	-	366,000
	365,418	18,885,333	19,250,751	16,661,487	2,589,264
Section 216(a)(1) Surveillance and Enforcement					
	-	415,186	415,186	486,671	(71,485)
	837,671	19,300,519	20,138,190	17,148,158	2,990,032
Expendable Trust Funds:					
Kwajalein Atoll Trust Fund:					
Section 211(a) Current Account	-	7,100,000	7,100,000	7,100,000	-
Section 217 Current Account	-	4,118,000	4,118,000	4,118,000	-
Section 213(a) Military Rights	452,245	1,900,000	2,352,245	1,900,000	452,245
Section 231/232 MOURA Extension	-	2,500,000	2,500,000	2,245,637	254,363
	452,245	15,618,000	16,070,245	15,363,637	706,608
Total Compact Funds	\$ 1,980,151	\$ 48,328,186	\$ 50,308,337	\$ 45,664,317	\$ 4,644,020
Other Compact Funds:					
Four Atoll Programs (Section 177)(A):					
Rongelap Atoll Local Government	\$ -	\$ 625,000	\$ 625,000	\$ 625,000	\$ -
Kili/Bikini Local Government	-	1,250,000	1,250,000	1,250,000	-
Utrik Atoll Local Government	-	375,000	375,000	375,000	-
Enewetak/Ujelang Local Government	-	812,500	812,500	812,500	-
	-	3,062,500	3,062,500	3,062,500	-
Other Section 177 Programs (B):					
Four-Atoll Medical Fund	993,387	2,000,000	2,993,387	2,149,587	843,800
Nuclear Claims Tribunal	197,455	21,296,972	21,494,427	21,494,166	261
	1,190,842	23,296,972	24,487,814	23,643,753	844,061
	\$ 1,190,842	\$ 26,359,472	\$ 27,550,314	\$ 26,706,253	\$ 844,061

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 NCTF to the Nuclear Claims Tribunal and the Four-Atoll Medical 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, 2002

(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 federal awards received by the Kwajalein Atoll Development Authority (KADA) and the College of the Marshall Islands (CMI) as these entities have separately satisfied the audit requirements of OMB Circular A-133.

Total questioned costs reported for the completed Single Audits of KADA and CMI for the year ended September 30, 2002, totaled \$1,031,115 and \$40,977, respectively, and cumulative questioned costs of \$2,332,821 and \$498,618, respectively, 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

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

Air Marshall Islands, Inc.
Marshall Islands Development Bank

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>2002 Amount of Pass-through</u>
<u>U.S. Department of Labor CFDA #17.250</u>		
Job Training Partnership Act	Republic of the Marshall Islands Private Industry Council, Inc.	\$ 885,113
<u>U.S. Department of Education CFDA #84.185</u>		
Byrd Honors Scholarship	Marshall Islands Scholarship Grant and Loan Board	\$ 90,000
<u>U.S. Department of the Interior CFDA #15.875</u>		
Historic Preservation	Alele, Inc.	\$ 242,414
Compact of Free Association Title II, Article I, Section 216(a)(3)	Marshall Islands Scholarship Grant and Loan Board	\$ 720,962
Compact of Free Association Title II, Article I,	Marshall Islands Social Security Administration	\$ 30,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2002 Amount of Pass-through</u>
<u>U.S. Department of the Interior CFDA #15.875, Continued</u>		
Compact of Free Association Title II, Article I, Section 211	Air Marshall Islands, Inc.	\$ 1,500,000
Compact of Free Association Title II, Article I, Section 213	Kwajalein Atoll Development Authority	\$ 1,900,000
Compact of Free Association Title II, Article I, Section 214	Marshalls Energy Company, Inc.	\$ 1,866,667
Compact of Free Association Title I, Article VII, Section 177	Kili-Bikini Local Government	\$ 1,250,000
Compact of Free Association, Title I, Article VII, Section 177	Enewetak/Ujelang Local Government	\$ 812,500
Compact of Free Association, Title I, Article VII, Section 177	Rongelap Atoll Local Government	\$ 625,000
Compact of Free Association, Title I, Article VII, Section 177	Utrik Atoll Local Government	\$ 375,000

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

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

d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2002. RepMar did not charge federal programs for indirect costs during fiscal year 2002.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

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 \$1,736,288 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>Refer Page #</u>
2002-1 - 2	Payroll	17 - 18
2002-3 - 4	Expenditures	19 - 20
2002-5 - 7	Revenue/Receipts	21 - 23
2002-8	Cash and Cash Equivalents	24
2002-9 - 11	Receivables	25 - 27
2002-12	Advances	28
2002-13	Property and Equipment	29
2002-14	Interfund Balances	30
2002-15	Deferred Revenue	31
2002-16	Encumbrances	32
2002-17	External Financial Reporting	33
2002-18 - 21	RepMar Local Noncompliance	34 - 37

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2002-22	Allowable Costs/Cost Principles	\$ -	38
2002-23 - 25	Procurement and Suspension and Debarment	\$ 644,666	39 - 41
2002-26	Subrecipient Monitoring	\$ 571,126	42 - 43
2002-27	Cash Management	\$ -	44
2002-28	Equipment and Real Property Management	\$ -	45
2002-29	Procurement and Suspension and Debarment	\$ -	46
2002-30 - 31	Reporting	\$ -	47 - 48
2002-32	Special Tests and Provisions of the Compact of Free Association	\$ -	49

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Section II - Financial Statement Findings

Payroll

Finding No. 2002-1

Criteria: Pay rates for employees should be based on original Personnel Action Forms approved in accordance with established Public Service Commission policies and procedures and should not be manually altered.

Condition: Of one hundred payroll disbursements from the Ministry of Finance tested, the following payroll disbursements indicated that employee Personnel Action Forms were manually altered, were not original forms or were missing from the employee personnel file:

<u>Check #</u>	<u>Employee #</u>	<u>Check #</u>	<u>Employee #</u>
671572	0034	689282	0726
703694	0920	696965	3666
677329	0971	686160	1106
704287	9903		

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with established payroll policies and procedures and the possibility of unauthorized payroll expenditures.

Recommendation: We recommend that the Payroll Department within the Ministry of Finance ensure that original Personnel Actions Forms be maintained on file and that changes to approved Personnel Action Forms are routed through the established policies and procedures. Furthermore, manual alterations to Personnel Action Forms should not be permitted.

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, 2002

Payroll

Finding No. 2002-2

Criteria: Marshall Islands Social Security Administration (MISSA) deductions should be made in accordance with prescribed rates established by RepMar laws and regulations.

Condition: During the year ended September 30, 2002, we noted that employee withholdings for MISSA deductions were not made in accordance with prescribed rates. Specifically, the MISSA Health Fund contribution rates for employee and employer shares were increased from 2.5% to 3.5%, effective January 1, 2002. The Payroll Department within the Ministry of Finance did not affect the rate increase until the payroll period ended June 15, 2002 resulting in an understatement of contributions payable to MISSA of \$116,000. No audit adjustment was proposed as this amount was not considered material to the general purpose financial statements.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with established payroll policies and procedures and prescribed RepMar laws and regulations and the understatement of payroll-related expenditures.

Recommendation: We recommend that the Payroll Department within the Ministry of Finance ensure that MISSA deductions are made in accordance with prescribed RepMar laws and regulations and that changes to payroll master files for MISSA deduction rates be evidenced by approval of the Secretary of Finance.

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, 2002

Expenditures

Finding No. 2002-3

Criteria: As required by the Financial Management Act of 1990 and established internal control procedures, all expenditures should be supported by vendor invoices or other supporting documentation.

Condition: During our testing of the September 2002 bank reconciliation for the imprest fund of the Honolulu Consulate, we noted expenditures in the amount of \$48,900 for the opening of the Consular office for which no supporting documentation was made available.

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that accounts payable personnel within the Ministry of Finance ensure that all expenditures are properly supported prior to processing of any requests for reimbursement of imprest funds and that all valid expenditures be accounted for in accordance with prescribed policies and procedures.

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, 2002

Expenditures

Finding No. 2002-4

Criteria: As required by the Financial Management Act of 1990 and established internal control procedures, all expenditures should be supported by vendor invoices or other supporting documentation.

Condition: Of nine non-payroll disbursements related to payments made for expenditures incurred on RepMar credit cards, totaling \$67,944, we noted five disbursements (check #s 200104, 202840, 203862, 206010 and 206298 for \$19,680, \$8,958, \$5,548, \$6,467 and \$3,287, respectively) that were not evidenced by original vendor invoices or other adequate supporting documentation. Based on the supporting documentation provided, payments on check #s 202840, 203862 and 206010 were made based on credit card statements. The credit card statements indicated expenditures relating primarily to hotel and food charges, and the purchase of airline tickets. The payment made on check # 206298 was based on a travel advance (TA # 93310/93319) that indicated the payment was for airline tickets. The payment made on check # 200104 was based on a carried forward balance per the credit card statement. No other credit card statements or other supporting documentation was made available.

Cause: The cause of the above condition is the lack of adequate supporting documentation to evidence expenditures incurred for credit card purchases.

Effect: The effect of the above condition is the possibility of unauthorized expenditures.

Recommendation: We recommend that accounts payable personnel within the Ministry of Finance ensure that all expenditures are properly supported prior to processing of any requests for payment and that all valid expenditures be accounted for in accordance with prescribed policies and procedures.

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, 2002

Revenue/Receipts

Finding No. 2002-5

Criteria: Cash receipts should be deposited to the bank in a timely manner.

Condition: Of twenty-five cash receipts for the Ebeye Office of the Division of Revenue and Taxation tested, we noted that eight receipts were not deposited to the bank for up to six days after date of receipt.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible misappropriation of cash receipts.

Recommendation: We recommend that the Ministry of Finance adhere to established policies and procedures requiring receipts to be banked in a timely manner.

Prior Year Status: The lack of timely banking of collections was reported as a finding in the Single Audit of RepMar for fiscal year 2001.

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, 2002

Revenue/Receipts

Finding No. 2002-6

Criteria: Section 105(1) of the Income Tax Act of 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) weeks 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) Two Businesses (Customer #s 9710 and 11236) missed filing for the month of February 2002;
- 2) Three Businesses (Customer #'s 10833, 10893 and 10262) did not file withholding tax returns for a portion of fiscal year 2002;
- 3) One Business (Customer #3802) did not pay penalties and interest assessed on withholding tax returns filed after the deadline; and
- 4) One Business (Customer #10824) did not file withholding tax returns for the entire fiscal year 2002.

Cause: The cause of the above condition is the lack of compliance by businesses in filing withholding tax returns in accordance with prescribed RepMar laws and regulations.

Effect: The effect of the above condition is that withholding tax returns have not been filed and paid by these businesses in accordance with prescribed RepMar laws and regulations resulting in an understatement of tax revenues.

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

Prior Year Status: The lack of compliance with Section 105(1) of the Income Tax Act of 1989, as amended, was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 2001.

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, 2002

Revenue/Receipts

Finding No. 2002-7

Criteria: Quarterly gross receipts taxes are to be filed and paid within the time frame allowed for in the Income Tax Act of 1989, as amended. The Division and Revenue and Taxation within the Ministry of Finance should follow up on non-filing businesses in a timely manner and ensure that taxes are filed and any applicable penalties appropriately applied.

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

1. One business (Customer # 10761) did not file gross receipts tax returns for approximately three years;
2. One business (Customer # 3802) filed gross receipts tax returns but withheld payment to offset against amounts due on unpaid invoices for good and services rendered to RepMar; and
3. One business (Customer # 11271) did not pay penalties and interest assessed on gross receipts tax returns filed after the deadline.

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

Effect: The effect of the above condition is that gross receipts tax returns have not been filed and paid by these businesses in accordance with prescribed RepMar laws and regulations resulting in an understatement of tax revenues.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Revenue and Taxation follow up on delinquent gross receipts tax returns and effect collection 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, 2002

Cash and Cash Equivalents

Finding No. 2002-8

Criteria: Petty cash requests for replenishment should be supported by appropriate petty cash bank reconciliations and all variances identified and properly accounted for.

Condition: The Ministry of Finance has recorded the following petty cash imprest funds for various overseas embassies as assets of the General Fund as of September 30, 2002:

<u>A/c #</u>	<u>Account Name</u>	<u>Under/(Over)</u>
18600-100	Washington Embassy	\$ 50,000
18900-100	Fiji Embassy	19,700
19000-100	Tokyo Embassy	100,000
19100-100	UN Embassy	50,000
19600-100	Taipei Embassy	40,000
19900-100	Honolulu Consulate	<u>58,900</u>
		\$ <u>318,600</u>

Although petty cash or bank reconciliations were made available with respect to these accounts, we noted the following unreconciled variances as of September 30, 2002:

<u>A/c #</u>	<u>Account Name</u>	<u>Under/(Over)</u>
18600-100	Washington Embassy	\$ 18,485
18900-100	Fiji Embassy	1,136
19000-100	Tokyo Embassy	39,279
19100-100	UN Embassy	(41,234)
19900-100	Honolulu Consulate	<u>2,036</u>
		\$ <u>19,702</u>

Cause: The cause of the above condition is not performing the reconciliation of petty cash imprest accounts.

Effect: The effect of the above condition is inadequate controls over petty cash and bank reconciliations resulting in the possibility of misappropriation of RepMar assets by custodians, and the possibility of 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 of 1990, issue prescribed rules and regulations governing the reconciliation of petty cash imprest accounts by the various overseas embassies and the resolution of unreconciled variances.

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, 2002

Receivables

Finding No. 2002-9

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. This condition was resolved through alternative auditing procedures resulting in a proposed audit adjustment to record an allowance for uncollectible accounts in the amount of \$2,588,787.

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 possibility of 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 and establish a revised repayment plan.

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 2001.

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, 2002

Receivables

Finding No. 2002-10

Criteria: Expenditures incurred for projects, which are on a reimbursable basis, should be collected in a timely manner and not exceed the total amount authorized by the grantee. Furthermore, expenditures should be incurred only for pre-approved projects.

Condition: At September 30, 2002, the Ministry of Finance recorded receivables due from the Republic of China (ROC) in the amount of \$4,886,965. This amount included the following expenditures, which exceeded initial approved grant amounts, that have not been reimbursed by the ROC due to the lack of reallocation by the Ministry of Finance from other unexpended projects funded by the ROC:

<u>Project #</u>	<u>Name</u>	<u>Per ROC</u>	<u>Per RepMar</u>	<u>Variance</u>
1228	Tobolar	\$ -	\$ 200,000	\$ (200,000)
2309	Inter-Island (Bumbum Project)	46,462	126,212	(79,750)
2341	Laura Agriculture Project	-	40,494	(40,494)
2212	Outer Ship	-	249,630	(249,630)
2812 & 2819	Nitijela Bldg/Capitol Complex	59,675	115,728	(56,053)
2813	Road Pavement	190,357	938,029	(747,672)
7500	Malgov City Hall	69,589	222,084	(152,495)
7502	Laura Road Project	-	201,833	(201,833)
7507	Public Works	-	93,728	(93,728)
		<u>\$ 366,083</u>	<u>\$ 2,187,738</u>	<u>\$ (1,821,655)</u>

This condition was resolved through alternative auditing procedures resulting in a proposed audit adjustment to record an allowance for uncollectible accounts in the amount of \$1,821,655.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of misstatement of revenue and receivable balances.

Recommendation: We recommend that the Ministry of Finance ensure that all projects are properly approved by the grantee prior to expenditures being incurred. Furthermore, we recommend that the Ministry of Finance reallocate funding from other unexpended projects and follow-up with the ROC as to reimbursement of funds expended 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, 2002

Receivables

Finding No. 2002-11

Criteria: Expenditures incurred for projects should not exceed the total amounts authorized by appropriation.

Condition: During the fiscal year ended September 30, 2002 an appropriation for the College of the Marshall Islands (CMI) in the amount of \$500,000 was paid twice resulting in an over expenditure of \$497,500. An audit adjustment was proposed to record a receivable due from CMI. Furthermore, due to the unlikelihood that this amount will be repaid in fiscal year 2003, the total amount was reserved for as related assets.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is an over-expenditure exceeding amounts as authorized by appropriation resulting in a reservation for related assets.

Recommendation: We recommend that the Ministry of Finance ensure that project expenditures not exceed authorized expenditure amounts. Furthermore, we recommend that all payments be reviewed to ensure that amounts are not paid twice.

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, 2002

Advances

Finding No. 2002-12

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, 2002, 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 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 possibility of 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 balances that are no longer considered valid.

Prior Year Status: The lack of correctly accounting for travel advances was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.

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, 2002

Property and Equipment

Finding No. 2002-13

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 Ministry of Finance has established a General Fixed Assets Account Group containing certain fixed asset acquisitions for fiscal years 1999 through 2002 as well as acquisitions through fiscal year 1988. No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in 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 presenting general purpose financial statements that account for all items for which resources have been used.

Recommendation: We recommend that the Ministry of Finance perform an inventory of RepMar's fixed assets as a basis for recording 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 2001.

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, 2002

Interfund Balances

Finding No. 2002-14

Criteria: Interfund balances between individual funds and the Treasury Fund within the ADS Profund accounting system should be periodically reconciled.

Condition: As of September 30, 2002, the interfund balances between individual funds and the Treasury Fund were not reconciled for the entire fiscal year. This condition was partially resolved through alternative auditing procedures; however, no explanation was made available concerning an unreconciled variance of \$2,212,707.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of misappropriation of RepMar assets, over-payment to vendors and/or unrecorded expenditures. There is no impact on RepMar's federal programs as the full effect of the unreconciled variance has been recorded within RepMar's General Fund.

Recommendation: We recommend that the Ministry of Finance ensure that interfund balances between individual funds and the Treasury Fund are reconciled on a periodic 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, 2002

Deferred Revenue

Finding No. 2002-15

Criteria: Deferred revenue of RepMar should reflect amounts actually received but not expended.

Condition: As of September 30, 2002, RepMar recorded deferred revenue, representing amounts received from federal grantor agencies but not expended, in the TTPI Federal and Other Assistance Fund (Fund 350) (A/c # 28200-350, totaling \$371,045). The Federal Programs Office within the Ministry of Finance did not reconcile federal grant awards received not yet expended for the entire fiscal year.

Cause: The cause of the above condition is the lack of assignment of staff by the Ministry of Finance to periodically reconcile federal grant awards.

Effect: The effect of the above condition is the possibility of misstatement of deferred revenue and corresponding federal grants revenues.

Recommendation: We recommend that the Ministry of Finance periodically reconcile federal grants awards to determine the actual amounts received from grantor agencies but not expended.

Prior Year Status: The lack of reconciliation of amounts received from federal grantor agencies was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 2001.

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, 2002

Encumbrances

Finding No. 2002-16

Criteria: Encumbrances should be reviewed periodically for validity and balances between encumbrance ledgers and the general ledger reconciled in a timely manner.

Condition: During our testing of year end encumbrance balances, we noted that the subsidiary encumbrance ledgers did not agree to general ledger balances. Audit adjustments were proposed to reconcile the subsidiary ledgers to the general ledger. Furthermore, we noted certain encumbered balances outstanding for over one year that had not been reviewed to determine if they continued to represent valid encumbrances.

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that the Ministry of Finance periodically review the subsidiary encumbrance ledgers for invalid encumbrances and reconcile the subsidiary ledgers to the general ledger 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, 2002

External Financial Reporting

Finding No. 2002-17

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, 2002, the following component units were excluded from RepMar's general purpose financial statements:

Governmental Fund Type - Special Revenue Funds

Ministry of Education Headstart Program

Component Units - Proprietary Funds

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

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 to 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 through 2001.

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, 2002

RepMar Local Noncompliance

Finding No. 2002-18

Criteria: Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 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 2002) Act of 2002, as passed by the Nitijela of RepMar, provided appropriated amounts for fiscal year 2002 from the General Fund of \$34,280,000. No reconciliation of the Appropriations Act of 2002 to budget appropriations recorded in the ADS Profund accounting system was made available by the Ministry of Finance's Budget Office. This condition was resolved through alternative auditing procedures. 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, 2002:

<u>Org #</u>	<u>Program Area</u>	<u>Budgeted Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Over-Expenditure</u>
1030	Cabinet Operations	\$ 630,842	\$ 636,076	\$ 5,234
1040	Office of the President	\$ 141,173	\$ 141,464	\$ 291
1212	Marshall Islands Visitors Authority	\$ 224,625	\$ 298,500	\$ 73,875
1216	ADB Counterpart Funding	\$ 1,063,121	\$ 1,579,659	\$ 516,538
1221	MWSC Water Billings	\$ 149,250	\$ 150,000	\$ 750
1271	Tobolar Copra Subsidy	\$ 949,464	\$ 1,449,464	\$ 500,000
1300	Council of Iroij - Administration	\$ 65,866	\$ 67,243	\$ 1,377
1500	Office of the Auditor-General	\$ 285,755	\$ 292,167	\$ 6,412
2521	Public Safety - Majuro	\$ 1,249,457	\$ 1,255,116	\$ 5,659
4819	Majuro Water and Sewer Company, Inc.	\$ -	\$ 600,000	\$ 600,000
7290	All Ships Operations	\$ 745,089	\$ 771,753	\$ 26,664

Cause: The cause of the above condition is the lack of indication of a funding source for 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 of 1977.

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

Prior Year Status: The lack of compliance with Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 1977 was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.

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, 2002

RepMar Local Noncompliance

Finding No. 2002-19

Criteria: Section 2(a) of the General Fund Investment Act of 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, 2002, the General Fund of RepMar maintained bank deposits, totaling \$2,211,907, with five 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 of 1979.

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

Prior Year Status: The lack of compliance with Section 2(a) of the General Fund Investment Act of 1979 was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.

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, 2002

RepMar Local Noncompliance

Finding No. 2002-20

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 2002) Act of 2002, 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 operational budget of the Office of the Auditor-General resulting in over-expenditure within this office.

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

Prior Year Status: The lack of compliance with Article VIII, Section 11 of the Constitution of the Republic of the Marshall Islands was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.

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, 2002

RepMar Local Noncompliance

Finding No. 2002-21

Criteria: The Financial Management Act of 1990 requires that all bank accounts be maintained within RepMar's treasury and under the control of the Secretary of Finance unless specifically authorized by enabling legislation. Two cash accounts are maintained for the C.A.R.E Program and the Headstart (both under the Ministry of Education), for which no enabling legislation is apparent authorizing their establishment.

Condition: As of September 30, 2002, two cash accounts are maintained outside of RepMar's treasury for the C.A.R.E Program and the Headstart Program (both under the Ministry of Education), for which no enabling legislation is apparent authorizing their establishment. The creation of the Headstart Program account was based on a Cabinet authorization whereas the creation of the C.A.R.E Program account was based on a Memorandum of Understanding between the Ministry of Finance and the Ministry of Education.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Financial Management Act of 1990 and the possibility of misappropriation of RepMar assets and/or the possibility of unauthorized expenditures.

Recommendation: We recommend that the Ministry of Finance comply with the Financial Management Act of 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, 2002

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2002-22

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>										
U.S. Department of Education / Special Education Improvement / CFDA # 84.027	<p><u>Criteria:</u> Expenditures incurred under federal programs should be in accordance with allowable costs and should be directly related to and in accordance with program intent and objectives.</p> <p><u>Condition:</u> Of \$742,238 in payroll expenditures of the Special Education Improvement grant, one hundred and four payroll expenditures, totaling \$646,865, were tested. The following expenditures did not appear to be allowable costs of the program as related employees' job descriptions did not appear to be related to or in accordance with the intent and objectives of the grant:</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Employee #</u></th> <th style="text-align: right;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2979</td> <td style="text-align: right;">\$ 19,365</td> </tr> <tr> <td style="text-align: center;">1520</td> <td style="text-align: right;">1,586</td> </tr> <tr> <td style="text-align: center;">5993</td> <td style="text-align: right;"><u>231</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 21,182</u></td> </tr> </tbody> </table> <p>The Ministry of Finance subsequently proposed an adjustment during the year ended September 30, 2002 to record these expenditures as a direct charge on the General Fund. Thus, no questioned cost has been reported.</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 noncompliance with allowable costs/cost principles as required by the Common Rule.</p> <p><u>Recommendation:</u> We recommend that costs incurred under federal programs be in accordance with the allowable costs per the program grant award and that such are necessary and in accordance with the intent of the program.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	<u>Employee #</u>	<u>Amount</u>	2979	\$ 19,365	1520	1,586	5993	<u>231</u>		<u>\$ 21,182</u>	
<u>Employee #</u>	<u>Amount</u>											
2979	\$ 19,365											
1520	1,586											
5993	<u>231</u>											
	<u>\$ 21,182</u>											

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Procurement and Suspension and Debarment

Finding No. 2002-23

Program	Reason for Questioned Costs	Questioned Costs																																																																								
U.S. Department of Education / Special Education Improvement / CFDA # 84.027	<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 for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources. Furthermore, all federal program expenditures are to be properly supported with vendor invoices, contracts or receipts and should be in accordance with the nature and intent of the program.</p> <p><u>Condition:</u> Of \$801,143 in non-payroll expenditures of the Special Education Improvement grant, sixty non-payroll expenditures, totaling \$488,179, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000. Furthermore, one disbursement (check # 206455 for \$24,913) was not supported by vendor invoices thus we were unable to conclude as to the validity of the expenditure for program purposes.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Check #</u></th> <th style="text-align: right;"><u>Amount</u></th> <th style="text-align: left;"><u>Check #</u></th> <th style="text-align: right;"><u>Amount</u></th> <th style="text-align: left;"><u>Check #</u></th> <th style="text-align: right;"><u>Amount</u></th> </tr> </thead> <tbody> <tr><td>207025</td><td style="text-align: right;">\$ 40,575</td><td>200979</td><td style="text-align: right;">\$ 19,918</td><td>204365</td><td style="text-align: right;">\$ 3,050</td></tr> <tr><td>205606</td><td style="text-align: right;">\$ 36,175</td><td>201066</td><td style="text-align: right;">\$ 2,883</td><td>204625</td><td style="text-align: right;">\$ 4,092</td></tr> <tr><td>206455</td><td style="text-align: right;">\$ 24,913</td><td>201713</td><td style="text-align: right;">\$ 6,790</td><td>206324</td><td style="text-align: right;">\$ 7,106</td></tr> <tr><td>199935</td><td style="text-align: right;">\$ 2,900</td><td>203247</td><td style="text-align: right;">\$ 16,320</td><td>206444</td><td style="text-align: right;">\$ 22,122</td></tr> <tr><td>200360</td><td style="text-align: right;">\$ 4,426</td><td>203257</td><td style="text-align: right;">\$ 6,722</td><td>206497</td><td style="text-align: right;">\$ 11,600</td></tr> <tr><td>200609</td><td style="text-align: right;">\$ 2,985</td><td>203260</td><td style="text-align: right;">\$ 4,299</td><td>206659</td><td style="text-align: right;">\$ 6,121</td></tr> <tr><td>200938</td><td style="text-align: right;">\$ 11,754</td><td>203990</td><td style="text-align: right;">\$ 5,320</td><td>206934</td><td style="text-align: right;">\$ 18,053</td></tr> <tr><td>200957</td><td style="text-align: right;">\$ 14,342</td><td>204217</td><td style="text-align: right;">\$ 7,436</td><td>206577</td><td style="text-align: right;">\$ 11,251</td></tr> <tr><td>200383</td><td style="text-align: right;">\$ 5,846</td><td>207027</td><td style="text-align: right;">\$ 16,558</td><td>207080</td><td style="text-align: right;">\$ 18,280</td></tr> <tr><td>207421</td><td style="text-align: right;">\$ 3,026</td><td>206966</td><td style="text-align: right;">\$ 2,561</td><td>202506</td><td style="text-align: right;">\$ 2,876</td></tr> <tr> <td colspan="5"></td> <td style="text-align: right; vertical-align: bottom;">\$ 340,300</td> </tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	207025	\$ 40,575	200979	\$ 19,918	204365	\$ 3,050	205606	\$ 36,175	201066	\$ 2,883	204625	\$ 4,092	206455	\$ 24,913	201713	\$ 6,790	206324	\$ 7,106	199935	\$ 2,900	203247	\$ 16,320	206444	\$ 22,122	200360	\$ 4,426	203257	\$ 6,722	206497	\$ 11,600	200609	\$ 2,985	203260	\$ 4,299	206659	\$ 6,121	200938	\$ 11,754	203990	\$ 5,320	206934	\$ 18,053	200957	\$ 14,342	204217	\$ 7,436	206577	\$ 11,251	200383	\$ 5,846	207027	\$ 16,558	207080	\$ 18,280	207421	\$ 3,026	206966	\$ 2,561	202506	\$ 2,876						\$ 340,300	
<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>																																																																					
207025	\$ 40,575	200979	\$ 19,918	204365	\$ 3,050																																																																					
205606	\$ 36,175	201066	\$ 2,883	204625	\$ 4,092																																																																					
206455	\$ 24,913	201713	\$ 6,790	206324	\$ 7,106																																																																					
199935	\$ 2,900	203247	\$ 16,320	206444	\$ 22,122																																																																					
200360	\$ 4,426	203257	\$ 6,722	206497	\$ 11,600																																																																					
200609	\$ 2,985	203260	\$ 4,299	206659	\$ 6,121																																																																					
200938	\$ 11,754	203990	\$ 5,320	206934	\$ 18,053																																																																					
200957	\$ 14,342	204217	\$ 7,436	206577	\$ 11,251																																																																					
200383	\$ 5,846	207027	\$ 16,558	207080	\$ 18,280																																																																					
207421	\$ 3,026	206966	\$ 2,561	202506	\$ 2,876																																																																					
					\$ 340,300																																																																					

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with procurement standards as required in the Common Rule.

Recommendation: We recommend that RepMar comply with 34 CFR 80 with respect to the procurement of services, supplies and other equipment.

Prior Year Status: The lack of compliance with procurement standards was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.

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, 2002

Procurement and Suspension and Debarment

Finding No. 2002-24

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>										
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 for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of \$655,041 in expenditures of the Freely Associated States Educational grant, five non-payroll expenditures, totaling \$173,532, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000:</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>202642</td> <td style="text-align: right;">\$ 46,000</td> </tr> <tr> <td>202985/205603</td> <td style="text-align: right;">60,321</td> </tr> <tr> <td>202040</td> <td style="text-align: right;"><u>62,064</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 168,385</u></td> </tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	202642	\$ 46,000	202985/205603	60,321	202040	<u>62,064</u>		<u>\$ 168,385</u>	168,385
<u>Check #</u>	<u>Amount</u>											
202642	\$ 46,000											
202985/205603	60,321											
202040	<u>62,064</u>											
	<u>\$ 168,385</u>											
	<p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards as required in the Common Rule.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with 34 CFR 80 with respect to the procurement of services, supplies and other equipment.</p> <p><u>Prior Year Status:</u> The lack of compliance with procurement standards was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>											

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Procurement and Suspension and Debarment

Finding No. 2002-25

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>												
U.S. Department of Education - 21 st Century / CFDA # 84.276A	<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 for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of \$845,854 in expenditures of the 21st Century grant, five non-payroll expenditures, totaling \$160,981, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000:</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Check #</u></th> <th style="text-align: left;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>200922</td> <td>\$ 77,926</td> </tr> <tr> <td>203811</td> <td>6,084</td> </tr> <tr> <td>201539</td> <td>22,342</td> </tr> <tr> <td>201007</td> <td><u>29,629</u></td> </tr> <tr> <td></td> <td><u>\$ 135,981</u></td> </tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	200922	\$ 77,926	203811	6,084	201539	22,342	201007	<u>29,629</u>		<u>\$ 135,981</u>	135,981
<u>Check #</u>	<u>Amount</u>													
200922	\$ 77,926													
203811	6,084													
201539	22,342													
201007	<u>29,629</u>													
	<u>\$ 135,981</u>													
	<u>Cause:</u> The cause of the above condition is unknown.													
	<u>Effect:</u> The effect of the above condition is noncompliance with procurement standards as required in the Common Rule.													
	<u>Recommendation:</u> We recommend that RepMar comply with 34 CFR 80 with respect to the procurement of services, supplies and other equipment.													
	<u>Prior Year Status:</u> The lack of compliance with procurement standards was reported as a finding in the Single Audits of RepMar for fiscal years 2000 and 2001.													
	<u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.													

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Subrecipient Monitoring

Finding No. 2002-26

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>Kwajalein Atoll Development Authority</u></p> <p>Fiscal Year 2001</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 Year 2001</p> <p><u>Rongelap Atoll Local Government</u></p> <p>Fiscal Years 1991, 1992 and 2001</p> <p><u>Utrik Atoll Local Government</u></p> <p>Fiscal Years 1992 and 1994</p> <p><u>Enewetak/Ujelang Local Government</u></p> <p>Fiscal Years 1992, 1998, 1999, 2000 and 2001</p> <p><u>Republic of the Marshall Islands Private Industry Council, Inc.</u></p> <p>Fiscal Year 1998, 1999, 2000 and 2001</p> <p>Due to the unavailability of these reports, the questioned costs relating to this condition cannot presently be determined.</p> <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>	571,126

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Finding No. 2002-26, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<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 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	
	Total Questioned Costs	\$ <u>1,215,792</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Cash Management - Special Education Improvement

CFDA # 84.027

Finding No. 2002-27

Criteria: 34 CFR Section 80.21 requires that program costs funded on a reimbursement basis must be paid for by non-federal funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from U.S. Treasury and disbursement.

Condition: During the year ended September 30, 2002, RepMar made the following drawdowns that appeared to exceed cumulative expenditures incurred:

<u>Drawdown Date</u>	<u>Drawdown Amount</u>	<u>Cumulative Drawdowns</u>	<u>Cumulative Expenditures</u>	<u>Cumulative Drawdowns in Excess of Expenditures</u>
10/03/01	\$ 150,000	\$ 150,000	\$ 30,481	\$ 119,519
12/12/01	\$ 450,000	\$ 600,000	\$ 294,361	\$ 305,639
01/23/02	\$ 320,000	\$ 920,000	\$ 465,341	\$ 454,659
04/29/02	\$ 450,000	\$ 1,370,000	\$ 837,845	\$ 532,155
05/30/02	\$ 450,000	\$ 1,820,000	\$ 920,738	\$ 899,262
09/30/02	\$ -	\$ 1,820,000	\$ 1,543,381	\$ 276,619

In addition, accumulated drawdowns in excess of expenditures carried forward from prior year amounted to \$612,677, resulting in an overall total of \$889,296 representing cumulative drawdowns in excess of expenditures under this grant award. This amount is recorded in the general purpose financial statements net of receivables due from federal agencies.

Cause: The cause of the above condition is the lack of adequate controls to ensure that disbursements are made within a timely manner from the date of the drawdown.

Effect: The effect of the above condition is noncompliance with cash management standards as required in the Common Rule.

Recommendation: We recommend that RepMar comply with cash management standards as required in the Common Rule.

Prior Year Status: Noncompliance with cash management standards was reported as a finding in the Single Audit of RepMar for fiscal year 2001.

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, 2002

Equipment and Real Property Management - All Federal Programs

Finding No. 2002-28

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 Ministry of Finance has established a General Fixed Assets Account Group containing certain fixed asset acquisitions for fiscal years 1999 through 2002 as well as acquisitions through fiscal year 1988. No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in the General Fixed Assets Account Group.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with federal property standards as required in the Common Rule.

Recommendation: We recommend that the Ministry of Finance perform an inventory of RepMar's fixed assets as a basis for recording all assets in the 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 2001.

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, 2002

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2002-29

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 noncompliance with procurement standards as required 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 2001.

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, 2002

Reporting - Headstart Program
CFDA # 93.600

Finding No. 2002-30

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. No trial balance was made available from the Ministry of Education in order to determine expenditures incurred under the Headstart Program.

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 Audits of RepMar for fiscal years 1999 through 2001.

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, 2002

Reporting - All Federal Programs

Finding No. 2002-31

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 the programs selected for testing for fiscal year 2002.

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 through 2001.

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, 2002

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

Finding No. 2002-32

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. As of September 30, 2002, a cumulative total of \$746,165 remains with MIHS, which 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 2001.

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, 2002

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, 2002:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported	\$ 1,566,146	\$ 7,351,147	\$ 8,917,293
Less questioned costs resolved in fiscal year 2002:			
Questioned costs of fiscal year 1998 Single Audit (1)	-	(161,663)	(161,663)
Questioned costs of fiscal year 1999 Single Audit (2)	<u>(477,083)</u>	<u>(2,298,000)</u>	<u>(2,775,083)</u>
	1,089,063	4,891,484	5,980,547
Questioned costs of fiscal year 2002 Single Audit	<u>644,666</u>	<u>571,126</u>	<u>1,215,792</u>
Unresolved questioned costs of RepMar at September 30, 2002	\$ <u>1,733,729</u>	\$ <u>5,462,610</u>	\$ <u>7,196,339</u>

- (1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on January 29, 2000, which is in excess of the two year threshold as of September 30, 2002.
- (2) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on October 24, 2000, which is in excess of the two year threshold as of the date of this report.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 15 through 49).



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, 2002

Financial Statement Findings Section:

Payroll

Finding No. 2002-1

We agree with the finding and recommendation. The Ministry of Finance will ensure that the Payroll Department maintains original copies of Personnel Action Forms for all employees. Furthermore, the Ministry of Finance will ensure that PAFs are revised and approved by the Public Service Commission for any changes in authorized pay rates.

Finding No. 2002-2

We agree with the finding and recommendation. As noted, we corrected the problem immediately upon being advised by MISSA. Furthermore, we subsequently withheld additional amounts from employee wages for under deductions for the period January 1, 2002 through June 15, 2002 and remitted such to MISSA.

Expenditures

Finding No. 2002-3

We agree with the finding and recommendation. We have requested a copy of all invoices relating to the opening of the Consular office from the Honolulu Consulate.

Finding No. 2002-4

We agree with the finding and recommendation. The Ministry of Finance will not process request for credit card payments without proper supporting documents.

Revenue/Receipts

Finding No. 2002-5

We agree with the finding and recommendation. To strengthen the internal controls within the Ebeye revenue collection office, a memorandum will be issued by the Secretary of Finance to transfer the receiving of collections from the Customs and Revenue Division to the Finance Office in Ebeye. The centralization of collection to the Finance Office will provide tighter internal control by segregating the tax collection from assessment function and ensure that collections are deposited to the bank in a timely manner.

Finding No. 2002-6

We agree with the finding and recommendation. The Revenue and Tax Division is currently in the process of conversion to the new PC/Trade system that will provide appropriate reports to monitor non-compliant businesses. Furthermore, additional personnel were recently hired to assist in the review of status of businesses and individuals in payment of taxes.

Finding No. 2002-7

We agree with the finding and recommendation. The Revenue and Tax Division is currently in the process of conversion to the new PC/Trade system that will provide appropriate reports to monitor non-compliant businesses. Furthermore, more personnel were recently hired to assist in the review of status of businesses and individuals in payment of taxes.

Cash and Cash Equivalents

Finding No. 2002-8

We agree with the finding and recommendation. The Ministry of Foreign Affairs has already drafted an Operation Manual that includes rules and regulations regarding financial reports, accounting system and bank and imprest accounts reconciliation. The Ministry of Finance was consulted and has contributed to the above-mentioned items in the manual. Further the Secretary of Finance will immediately issue a memorandum to prescribe rules and regulations governing the reconciliation of petty cash imprest accounts by the various overseas missions, and the resolution of unreconciled variances.

Receivables

Finding No. 2002-9

We agree with the finding and recommendation. The Ministry has already taken steps toward the resolution of this issue. A cabinet paper was submitted by the Minister to write-off the loan receivable from Ebje Ruktok/Rukjelein Fishing Company, Inc. (ERRFC) and for the government to assume responsibility for the loan. The cabinet paper is pending approval of the Cabinet.

Finding No. 2002-10

We agree with the finding and recommendation. The Ministry of Finance will request reimbursement of funds expended after a reallocation of budgeted amounts from unexpended projects is performed.

Finding No. 2002-11

We agree with the finding and recommendation. The double payment occurred when the Ministry of Finance was experiencing problems with the accounting system. With the conversion to a more stable and improved financial management system, this occurrence will be avoided. The Ministry of Finance will continue to ensure that project expenditures not exceed authorized expenditure amounts.

Advances

Finding No. 2002-12

We agree with the finding and recommendation. Ministry of Finance personnel will review all travel advances prior to converting to new fund accounting software on October 1, 2003 and bring forward only those outstanding TA's that are considered valid. Reconciliation procedures between outstanding TA's and general ledger control accounts will be established and routinely performed.

Property and Equipment

Finding No. 2002-13

We agree with the finding and recommendation. In the Ministry of Finance's effort to resolve this issue, a physical inventory count was performed in 2001. However, due to certain issues this was not used as basis for recording all fixed assets in the General Fixed Assets Accounts Group. Another physical inventory count will be done before the end of FY2003 with the assistance of Ministry of Finance consultants and auditors.

Interfund Balances

Finding No. 2002-14

We agree with the finding and recommendation. Reconciliation of the FY 2003 interfund balances is now in progress and will be completed before conversion to new fund accounting software on October 1, 2003. Moreover, we note the new software has an automatic reconciliation of interfund accounts so the problem will not be recurring in FY 2004 and thereafter.

Deferred Revenues

Finding No. 2002-15

We agree with the finding and recommendation. The Ministry of Finance has already taken steps to improve the accounting and monitoring of all federal grants accounts. Additional personnel were hired for this function.

Encumbrances

Finding No. 2002-16

We agree with the finding and recommendation. The existing ADS system has not adequately supported true fund accounting processing insofar as there is no open encumbrance sub-ledger. Instead, the Ministry of Finance has had to rely on the *Open Purchase Order* report as a substitute and reconciliation to the appropriate general ledger accounts has been difficult and time consuming.

Upon converting to new fund accounting software on October 1, 2003, Ministry of Finance will manually bring forward only those "encumbrances" that are valid and they will be tracked in a true encumbrance subsidiary ledger and periodically reconciled to the general ledger control accounts.

External Financial Reporting

Finding No. 2002-17

We agree with the finding and recommendation. Air Marshall Islands have subsequently completed their preparation for the FY2002 audit. Furthermore, the Marshall Islands Alternative Energy Company, Inc. is in the process of being dissolved with the operations being transferred to Marshalls Energy Company, Inc. The Ministry of Finance will follow up with the Auditor General's Office for the update and progress of the other mentioned component units.

RepMar Local Noncompliance

Finding No. 2002-18

We agree with the finding and recommendation. The Ministry of Finance will ensure that funding sources are obtained for budget reprogrammings approved by the Cabinet of RepMar.

Finding No. 2002-19

We agree with the finding and recommendation. A bill for the amendment of the General Fund Investment Act of 1979 in regard to Investment Public Money has been introduced and is currently pending approval of the Nitijela. The amendment will give the Secretary of Finance, subject to the approval of the Cabinet, the option to deposit public monies with a financial institution that is not a member of the U.S. Federal Deposit Insurance Corporation (FDIC) or the U.S. Federal Savings and Loan Insurance Corporation (FSLIC) of the United States. The Secretary will select this option only upon concurrence by the Banking Commissioner that the selected financial institution has sufficient assets to cover the total amount of the investment.

Finding No. 2002-20

We agree with the finding and recommendation. This condition was resolved in FY 2003 with the inclusion of the Auditor-General's salary in the Appropriations (FY 2003) Act.

Finding No. 2002-21

We agree with the finding and recommendation. The Secretary of Finance will follow up with the Ministry of Education on the resolution of this issue.

Federal Award Findings and Questioned Costs Section:

Allowable Costs/Cost Principles

Finding No. 2002-22

We agree with the finding and recommendation. The expenditures for these employees have been transferred from the Special Education Improvement Grant to the General Fund.

Procurement and Suspension and Debarment

Finding No. 2002-23

We agree with the finding and recommendation. The Secretary of Finance issued a memorandum on November 2002 requiring that all Federal Grant requisitions be supported with price quotations.

Finding No. 2002-24

We agree with the finding and recommendation. The Secretary of Finance issued a memorandum on November 2002 requiring that all Federal Grant requisitions be supported with price quotations.

Finding No. 2002-25

We agree with the finding and recommendation. The Secretary of Finance issued a memorandum on November 2002 requiring that all Federal Grant requisitions be supported with price quotations.

Subrecipient Monitoring

Finding No. 2002-26

We agree with the finding and recommendation. The Ministry of Finance will establish procedures to ensure compliance with subrecipient monitoring requirements of OMB Circular A-128.

Cash Management

Finding No. 2002-27

We agree with the finding and recommendation. The Ministry of Finance will be implementing initiatives to ensure compliance with the Common Rule.

Equipment and Real Property Management

Finding No. 2002-28

We agree with the finding and recommendation. In the Ministry of Finance's effort to resolve this issue, a physical inventory count was performed in 2001. However, due to certain issues this was not used as basis for recording all fixed assets in the General Fixed Assets Accounts Group. Another physical inventory count will be done before the end of FY2003 with the assistance of Ministry of Finance consultants and auditors.

Procurement and Suspension and Debarment

Finding No. 2002-29

We agree with the finding and recommendation. The Procurement Regulations of the RMI were properly promulgated and have been consistently enforced by the Ministry of Finance. A standing bid committee routinely meets and ensures compliance with all large procurements. Moreover, the Secretary of Finance supplements the Regulations with specific memorandums whenever ambiguities need to be resolved or if certain departments have lapsed in their compliance.

The finding in question pertains only to federal grant procurements made by the Ministry of Education that were less than \$100,000 and where the supporting documents behind the check copies did not include evidence of multiple vendor quotations being obtained. The Secretary of Finance has required this for all purchases and verifies compliance when approving purchase requisitions. Unfortunately, when payment copies were received by accounts payable many of the original quotations were not included with the receiving reports.

The Secretary of Finance will instruct MOE Federal Grant divisions to comply with established procurement procedures. In preparation for the FY-04 software conversion, the Secretary will also research the possibility of incorporating vendor quotation compliance onto the requisition form itself and thereby ensure the availability of documentation for compliance verification.

Reporting

Finding No. 2002-30

We agree with the finding and recommendation. 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. 2002-31

We agree with the finding and recommendation. The Ministry of Finance has subsequently made efforts to improve the filing system and ensure timely submission of FSRs.

Special Tests and Provisions

Finding No. 2002-32

We agree with the finding and recommendation. The Ministry of Finance, with the assistance of the Ministry of Health will request MIHS to return the cumulative unspent monies previously provided to them.



**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, 2001:

Financial Statement Findings Section:

- Finding No. 2001-1 - Corrective action has been taken.
- Finding No. 2001-2 - Not corrected. See corrective action plan to Finding No. 2002-6.
- Finding No. 2001-3 - Not corrected. See corrective action plan to Finding No. 2002-8.
- Finding No. 2001-4 - Corrective action has been taken.
- Finding No. 2001-5 - Not corrected. See corrective action plan to Finding No. 2002-9.
- Finding No. 2001-6 - Corrective action has been taken.
- Finding No. 2001-7 - Not corrected. See corrective action plan to Finding No. 2002-12.
- Finding No. 2001-8 - Not corrected. See corrective action plan to Finding No. 2002-13.
- Finding No. 2001-9 - Not corrected. See corrective action plan to Finding No. 2002-15.
- Finding No. 2001-10 - Not corrected. See corrective action plan to Finding No. 2002-17.
- Finding No. 2001-11 - Not corrected. See corrective action plan to Finding No. 2002-18.
- Finding No. 2001-12 - Corrective action has been taken.
- Finding No. 2001-13 - Not corrected. See corrective action plan to Finding No. 2002-20.
- Finding No. 2001-14 - Not corrected. See corrective action plan to Finding No. 2002-19.

Federal Award Findings and Questioned Costs Section:

- Finding No. 2001-15 - Not corrected. See corrective action plan to Finding No. 2002-23.
- Finding No. 2001-16 - Not corrected. See corrective action plan to Finding No. 2002-26.
- Finding No. 2001-17 - Not corrected. See corrective action plan to Finding No. 2002-27.
- Finding No. 2001-18 - Not corrected. See corrective action plan to Finding No. 2002-30.

Finding No. 2001-19 - Not corrected. See corrective action plan to Finding No. 2002-31.

Finding No. 2001-20 - Not corrected. See corrective action plan to Finding No. 2002-28.

Finding No. 2001-21 - Not corrected. See corrective action plan to Finding No. 2002-32.

Finding No. 2001-22 - Not corrected. See corrective action plan to Finding No. 2002-29.