

**REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0536 RMI (SF)
IMPROVING THE QUALITY OF BASIC EDUCATION
IN THE NORTH PACIFIC PROJECT**

**STATEMENT OF PROJECT ACCOUNT
AND
INDEPENDENT AUDITORS' REPORT**

**PERIOD FROM INCEPTION (JULY 7, 2017)
THROUGH SEPTEMBER 30, 2018**

**REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0536 RMI (SF)
IMPROVING THE QUALITY OF BASIC EDUCATION
IN THE NORTH PACIFIC PROJECT**

Period from Inception (July 7, 2017) through September 30, 2018

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INDEPENDENT AUDITORS' REPORT

Honorable Minister Wilbur Heine
Ministry of Education, Sports and Training
Republic of the Marshall Islands

Report on the Financial Statement

We have audited the accompanying financial statement of the Republic of the Marshall Islands (RMI) Improving the Quality of Basic Education in the North Pacific Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0536-RMI (SF)), which comprises the statement of project account for the period from inception (July 7, 2017) through September 30, 2018, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the statement of Project account for the period from inception (July 7, 2017) through September 30, 2018, in accordance with the cash basis of accounting.

Basis of Accounting

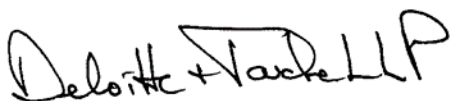
We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the activities of the Project administered and implemented by the RMI Public School System (PSS) and is not intended to present fairly the results of other non-Project related operations of the RMI PSS in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019, on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of the Project Agreement with the ADB other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.

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

November 4, 2019

**REPUBLIC OF THE MARSHALL ISLANDS
ASIAN DEVELOPMENT BANK GRANT 0536 RMI (SF)
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Statement of Project Account
Period from Inception (July 7, 2017) through September 30, 2018

Cash receipts:	
Advances from RepMar	\$ 6,916
Grant drawdowns	<u>84,535</u>
 Total cash receipts	 <u>91,451</u>
Cash disbursements:	
Withdrawal Applications (WA):	
WA # 0004	11,475
WA # 0005	23,581
WA # 0006	40,308
WA # 0007	8,682
Unliquidated disbursements	<u>1,774</u>
 Total cash disbursements	 <u>85,820</u>
 Net change in cash	 5,631
 Cash at beginning of the period	 <u>-</u>
 Cash at end of the period	 <u><u>\$ 5,631</u></u>

See accompanying notes to statement of project account.

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Notes to Statement of Project Account
Period from Inception (July 7, 2017) through September 30, 2018

(1) Organization

On July 7, 2017, the Republic of the Marshall Islands (RepMar) entered into a grant agreement (Grant Number 0536 RMI (SF)) with the Asian Development Bank (ADB) in the amount of \$6,500,000 for Improving the Quality of Basic Education in the North Pacific Project (the Project), with a grant closing date of January 31, 2024. The objective of the Project is to: (1) address factors to improve the conditions for learning in the Marshall Islands; (2) to build on the successes and lessons learned under the Quality Primary Education in the North Pacific technical assistance; (3) and to allow for a more comprehensive and sustained approach required for effective reforms within the primary education sector.

RepMar's Public School System (PSS), as the Project Implementation Agency, is responsible for carrying out the Project. PSS established the ADB Imprest Account to facilitate the implementation of the Project through timely release of funds and made \$50,000 of grant proceeds available for this purpose. PSS is required to operate and liquidate the ADB Imprest Account in accordance with ADB regulations. The accompanying statement of project account is prepared for the period from inception (July 7, 2017) through September 30, 2018, and solely incorporates the activities of the Project's Imprest Account maintained by PSS and does not incorporate any accounts related to any other departments or agencies of RepMar or PSS.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements. Noncash transactions are not recognized including direct payments made by ADB to vendors. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

Cash

For the purpose of the statement of project account, the Project considers cash to be cash in deposit accounts. As of September 30, 2018, the carrying amount of the Project's total cash and the corresponding bank balance was \$5,631, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation insurance. The Project does not require collateralization of its cash deposits.

(3) ADB Imprest Fund Account

For the period from inception (July 7, 2017) through September 30, 2018, the ADB made available grant proceeds in the amount of \$84,535 for expenditures incurred under certain categories of the Project.

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Notes to Statement of Project Account
Period from Inception (July 7, 2017) through September 30, 2018

(3) ADB Imprest Fund Account, Continued

Reconciliation of the ADB Imprest Account to cash as of September 30, 2018, is as follows:

ADB Imprest Account as of September 30, 2018	\$ 50,000
Cash disbursements withdrawn from the ADB Imprest Account:	
Claimed on WA # 0006 not yet received	(40,308)
Not yet claimed for replenishment	(8,682)
Cash advances received from RepMar not yet reimbursed	6,916
Unliquidated business trip expenses	(1,774)
Advances to RepMar	<u>(521)</u>
	\$ <u>5,631</u>

Subsequently, the Project offset the advances to RepMar of \$521 against the cash advances received from RepMar of \$6,916.

(4) RepMar Government Contributions and Advances

Under the provisions of the grant agreement, RepMar is required to provide counterpart in-kind contributions estimated at \$1,000,000 in the form of recurrent costs such as office space, utilities, administration and support staff, and taxes and duties exemption over the length of the grant period. For the period from inception (July 7, 2017) through September 30, 2018, RepMar made cash advances in the amount of \$6,916 for expenditures incurred under certain categories of the Project. RepMar is expected to advance funds to the Project whenever the ADB grant proceeds are insufficient to cover Project expenditures.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Minister Wilbur Heine
Ministry of Education, Sports and Training
Republic of the Marshall Islands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Republic of the Marshall Islands (RMI) Improving the Quality of Basic Education in the North Pacific Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0536-RMI (SF)), which comprises the statement of project account for the period from inception (July 7, 2017) through September 30, 2018, and the related notes to the financial statement, and have issued our report thereon dated November 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Project's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

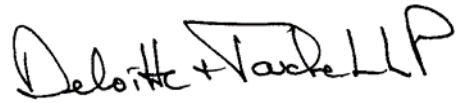
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-02 that we consider to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2018-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 4, 2019

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Schedule of Findings and Responses
Period from Inception (July 7, 2017) through September 30, 2018

Finding No. 2018-01

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: The Project's income tax returns for December 2017, January 2018 and February 2018 were filed after the required filing dates.

Cause: The cause of the above condition is a lack of policies and procedures to monitor safekeeping of returns and to verify timely payments of withheld income taxes.

Effect: The effect of the above condition is possible noncompliance with RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to safe keep tax returns to monitor compliance with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: Salary checks for the Project Implementation Unit (PIU) are processed and issued at the Implementing Agency, which is the Ministry of Education, Sports and Training (MOEST). The Budget and Finance division at the MOEST was initially unfamiliar with this process since policies and procedures related to salary payments for all public employees are run through the Ministry of Finance, Banking, and Postal Services (MOFBPS). The filing of the tax returns was initially inadvertently overlooked due to the fact that the IQBE PIU team is the sole division within the MOEST that seeks internal approval from Commissioners prior to the issuing of its pay checks. In consequence of this, the IQBE team has incurred in some late-fee charges that is trying to amend in conjunction with PSS.

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Schedule of Findings and Responses, Continued
Period from Inception (July 7, 2017) through September 30, 2018

Finding No. 2018-02

Payroll

Criteria: Per employment contract, an employee has fixed bi-weekly salary of \$1,122.

Condition: For the payroll period from 4/1/2018 through 4/14/2018, the employee was paid \$8 more than the fixed salary. No receivable from employee was recorded as of September 30, 2018.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures governing payroll.

Effect: The effect of the above condition is possible misstatement of receivables and expenses.

Recommendation: We recommend that management establish internal control policies and procedures to govern and monitor the Project's payroll expenses.

Auditee Response and Corrective Action Plan: The logic behind the overpayment was that any hour over 80 can be claimed if previous pay checks were less than the bi-weekly salary. The slight overpayment was done only once and never repeated. It's already been resolved, but management will follow the recommendation.