

REPUBLIC OF THE MARSHALL ISLANDS

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2014



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

**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**

Her Excellency Hilda C. Heine
President
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated February 23, 2016. Our report includes emphasis of matter paragraphs concerning social security obligations, a debt guarantee and a restatement for the correction of an error. Our report also includes a reference to other auditors who audited the financial statements of the Marshall Islands National Telecommunications Authority, as described in our report on RepMar's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RepMar'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control. Accordingly, we do not express an opinion on the effectiveness of RepMar'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 were not identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-003, and 2014-008 through 2014-013 that we consider to be material weaknesses.

Compliance and Other Matters

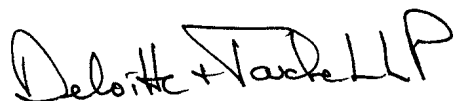
As part of obtaining reasonable assurance about whether RepMar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 Questioned Costs as items 2014-004, 2014-005 and 2014-007.

RepMar's Responses to Findings

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.



February 23, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Her Excellency Hilda C. Heine
President
Republic of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited the Republic of the Marshall Islands' (RepMar's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2014. RepMar's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in note 2 to the Schedule of Expenditures of Federal Awards, RepMar's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2014. Our audit, described below, did not include the operations of the entities identified in note 2 as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of RepMar's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of RepMar's compliance.

Basis for Qualified Opinion on 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants and 84.027 Special Education - Grants to States

As described in Findings 2014-001, 2014-002, 2014-003 and 2014-006 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2014-001	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Allowable Costs/Cost Principles
2014-003	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2014-006	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Subrecipient Monitoring
2014-001	84.027	Special Education – Grants to States	Allowable Costs/Cost Principles
2014-002	84.027	Special Education – Grants to States	Cash Management
2014-003	84.027	Special Education – Grants to States	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

Qualified Opinion on 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants and 84.027 Special Education - Grants to States

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, RepMar complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants and CFDA 84.027 Special Education - Grants to States for the year ended September 30, 2014.

Unmodified Opinion on 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Section 212 Kwajalein Impact and Use

In our opinion, RepMar complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Section 212 Kwajalein Impact and Use for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-004 and 2014-005. Our opinion on each major federal program is not modified with respect to these matters.

RepMar’s responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 through 2014-003 and 2014-006 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-004 and 2014-005 to be significant deficiencies.

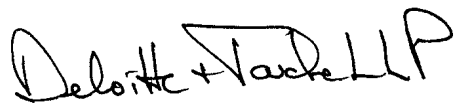
RepMar's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements. We issued our report thereon dated February 23, 2016, which contained unmodified opinions on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

February 23, 2016

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
GENERAL FUND AND REIMBURSABLE FUND:		
<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects	\$ 561,942
U.S. FEDERAL GRANTS FUND:		
<u>U.S. Department of Agriculture:</u>		
10.567	Food Distribution Program on Indian Reservations	\$ 623,752
10.664	Cooperative Forestry Assistance	34,556
	Total U.S. Department of Agriculture	<u>658,308</u>
<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	1,212,004
	KBE Reverse Osmosis	214,471
	Office of the Auditor General Grants	106,102
	Storm Sewer Project	114,888
	Sub-total CFDA # 15.875	1,647,465
15.904	Historic Preservation Fund Grants-In-Aid	184,382
	Total U.S. Department of the Interior	<u>1,831,847</u>
<u>U.S. Small Business Administration:</u>		
59.037	Small Business Development Centers	<u>28,721</u>
<u>U.S. Department of Education:</u>		
84.027	Special Education-Grants to States	<u>1,776,657</u>
<u>U.S. Department of Health and Human Services:</u>		
93.110	Maternal and Child Health Federal Consolidated Programs	11,750
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	519,712
93.127	Emergency Medical Services for Children	3,790
93.136	Injury Prevention and Control Research and State and Community Based Programs	5,222
93.217	Family Planning-Services	61,295
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Health Centers)	667,607
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	683,076
93.268	Immunization Cooperative Agreements	928,164
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	239,275
93.292	National Public Health Improvement Initiative	119,829
93.889	National Bioterrorism Hospital Preparedness Program	479,533
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	525
93.945	Assistance Programs for Chronic Disease Prevention and Control	19,689
93.958	Block Grant for Community Mental Health Services	66,063
93.959	Block Grants for Prevention and Treatment of Substance Abuse	328,246
93.994	Maternal and Child Health Services Block Grant to the States	120,493
	Total U.S. Department of Health and Human Services	<u>4,254,269</u>
<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants	<u>10,338</u>
	TOTAL U.S. FEDERAL GRANTS FUND	\$ <u>8,560,140</u>

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, 2014

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
COMPACT SECTOR GRANTS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants:	
	Section 211(a)(1) Education Sector	\$ 10,624,275
	Supplemental Education Grant	5,368,741
	Section 211(a)(2) Health Sector	6,123,413
	Section 211(a)(5) Environment	325,000
	Section 211(b)(1) Ebeye Special Needs	3,680,931
	Section 211(b)(2) Landowners Special Needs	2,087,123
	Section 211(b)(3) Kwajalein Environment	248,203
	Section 211(d)(1) Public Infrastructure Development	1,945,818
	Section 211(d)(2) Infrastructure Maintenance	528,911
	TOTAL COMPACT SECTOR GRANTS FUND	\$ 30,932,415
SECTION 212 KWAJALEIN LANDOWNERS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended:	
	Section 212 Kwajalein Impact and Use	<u>\$ 17,988,691</u>
SECTION 213 AUDIT FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended:	
	Section 213 Audit	<u>\$ 331,146</u>
	TOTAL FEDERAL PROGRAM EXPENDITURES	\$ 58,374,334
Reconciliation to the 2014 financial statements is as follows:		
	General Fund (Reimbursable Fund)	(1) \$ 561,942
	U.S. Federal Grants Fund	(2) 8,560,140
	Compact Sector Grants Fund	(3) 30,932,415
	Section 212 Kwajalein Landowners Fund	(4) 17,988,691
	Section 213 Audit Fund	(5) 331,146
		<u>\$ 58,374,334</u>

- (1) Included within total expenditures for the Reimbursable Fund of \$764,545 presented on page 107 of the 2014 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$7,348,136 and \$1,212,004, respectively, presented on page 97 of the 2014 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$30,055,575 and \$876,840, respectively, presented on page 102 of the 2014 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$17,988,691 presented on page 87 of the 2014 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$331,146 presented on page 97 of the 2014 financial statements.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2014

(1) Scope of Audit

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

Programs Subject to Single Audit

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

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

b. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, RepMar's reporting entity is defined in Note 1A to its September 30, 2014 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Marshall Islands Judiciary Fund, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2014.

c. Matching Costs

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2014 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 999,667
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 427,939
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	College of the Marshall Islands	\$ 125,000
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 112,546
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 250,000
Compact of Free Association, As Amended, Landowners Special Needs	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,878,440
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company, Inc.	\$ 325,000
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Atoll Waste Company, Inc.	\$ 104,965

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2014 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories, Continued:		
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Water and Sewer Company, Inc.	\$ 300,000
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 471,925
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 204,915
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 200,000

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2014. RepMar did not charge federal programs for indirect costs during fiscal year 2014.

f. CFDA # 15.875

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

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major federal programs:

- | | | |
|-----|--|--------------|
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified? | Yes |
| 7. | Type of auditors' report issued on compliance for major federal programs: | |
| | 84.027 Special Education – Grants to States | Qualified |
| | 15.875 Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants | Qualified |
| | 15.875 Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Section 212 Kwajalein
Impact and Use | Unmodified |
| 8. | Any audit findings disclosed that are required to be reported in
accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. | Identification of major federal programs: | |
| | <u>CFDA #</u> <u>Name of Federal Program</u> | |
| | 84.027 Special Education - Grants to States | |
| | 15.875 Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants | |
| | 15.875 Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Section 212
Kwajalein Impact and Use | |
| 10. | Dollar threshold used to distinguish between Type A and Type B
Programs: | \$ 1,751,230 |
| 11. | Auditee qualified as low-risk auditee? | No |

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2014-001	Allowable Costs/Cost Principles
2014-003	Equipment and Real Property Management
2014-004	RMI Procurement Code
2014-005	RMI Procurement Code
2014-007	RMI Procurement Code
2014-008	General Ledger Account Reconciliations
2014-009	Accounts Receivable
2014-010	Purchase of Former Long Island Hotel Facility
2014-011	Construction-in-Progress/Retention Payable
2014-012	Encumbrances
2014-013	General Ledger Journal Entries

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2014-001	15.875	Allowable Costs/Cost Principles	\$ 3,563
2014-003	15.875	Equipment and Real Property Management	\$ -
2014-004	15.875	Procurement and Suspension and Debarment	\$ 305,553
2014-006	15.875	Subrecipient Monitoring	\$ 22,287
2014-001	84.027	Allowable Costs/Cost Principles	\$ 946
2014-002	84.027	Cash Management	Undeterminable
2014-003	84.027	Equipment and Real Property Management	\$ -
2014-005	84.027	Procurement and Suspension and Debarment	\$ 8,259

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-001
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$3,563

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Questioned Costs: \$946

Area: Allowable Costs/Cost Principles

Criteria: Federal program expenditures should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives.

Condition # 1: Of \$12,720,687 in payroll expenditures for the Compact Sector Grants, sixty (60) items totaling \$42,532 were tested, with the following exceptions noted:

- Item # 1 - Employee # 90261 was overpaid \$692 (or 80 hours) on pay period ended 11/16/2013 due to an error in calculating retroactive pay.
- Item # 2 - Employee # 211780 was overpaid \$2,871 for the pay period ended 06/28/2014 due to use of an incorrect and unauthorized pay rate.

Condition # 2: Of \$1,206,951 in payroll expenditures for the Special Education – Grants to States, twenty-five (25) items totaling \$11,142 were tested, with the following exception noted:

- Item # 3 - Approved timesheets did not support \$946 (or 224 hours) paid to employee # 223096 for the period from 12/04/2013 through 01/11/2014.

The above have been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold, respectively.

Cause: The cause of the above condition is the lack of attendant documentation indicating that expenditures charged are directly related to the program and are in accordance with program intent and objectives. Furthermore, the calculation of payroll hours and their effective dates were not independently verified.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs of \$3,563 for CFDA 15.875 and \$946 for CFDA 84.027 are reported.

Recommendation: Management should require that expenditures are evidenced by documentation supporting the federal program that the expenditures directly relate to and are in accordance with program intent and objectives. Furthermore, management should verify that hours paid to employees are accurately calculated and that the effective date of pay rates is authorized.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-001, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$3,563

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Questioned Costs: \$946

Area: Allowable Costs/Cost Principles

Prior Year Status: Noncompliance with allowable costs/cost principles requirements was reported as a finding in prior single audits as items 2009-1, 2009-2, 2010-1, 2011-1, 2012-01 and 2013-001.

Auditee Response and Corrective Action Plan: We partially agree with the finding and recommendation. For Item # 1, payment to employee # 90261 per check# 69014 dated 11/29/13 covered the retroactive pay for two pay period (10/06/13 to 11/02/13) and pay period 11/03/13 to 11/16/13. A total of 240 hours should be paid to the employee. Hence, there was no overpayment of \$692 or 80 hours.

For Item # 2, there was an overpayment of salary adjustments. The Public Service Commission issued a memorandum dated April 13, 2015 to effect the correction on salary adjustments starting on January 24, 2014 and not on October 1, 2013. Our corrective action plan is to ensure that pay rates used in the generation of payroll should be periodically compared to the Notification of Personnel Action from PSC. Any changes in the timekeeping records should have prior approval and authorization. We will enforce monthly reconciliations of general ledger to ensure accuracy and timeliness of expenses.

For Item # 3, there were no approved timesheets attached to the claim. Our corrective action plan is to strictly enforce our policies on payroll. All timesheets must be approved prior to submission to Payroll Department for processing. We will ensure internal control for the review and verification of attendance records for accuracy and compliance to policy.

Auditor Response: For item # 1, we determined that employee was overpaid 80 hours, and thus the questioned cost remains.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-002
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Questioned Costs: Undeterminable

Area: Cash Management

Criteria: Section 21 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, prescribes the basic standards and the methods by which a Federal agency will make payments to grantees and grantees will make payments to subgrantees and contractors. Methods and procedures for payments shall minimize the time elapsing between the transfer of funds and the disbursement by the grantee or subgrantee in accordance with Treasury regulations at 31 CFR Part 205.

Condition: Of \$359,562 in non-payroll expenditures, twenty-four (24) items totaling \$140,647 were tested. For the following twelve (12) expenditures, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not available for examination:

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
18067	00018067	\$ 1,360
18352	00018352	\$ 1,000
18792	00018792	\$ 875
111503	211251	\$ 10,479
111536	211184	\$ 4,200
112454	212718	\$ 9,285
112854	214236	\$ 470
113084	214922	\$ 4,440
113122	214923	\$ 4,836
114073	216500	\$ 5,429
114086	217024	\$ 32,571
114220	217362	\$ 5,175

Due to the lack of available information, the amount of a potential interest liability and questioned costs, if any, is undeterminable.

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

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-002, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Questioned Costs: Undeterminable

Area: Cash Management

Prior Year Status: Lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements was reported as a finding in prior single audits as items 2005-7, 2006-4, 2007-8, 2008-1, 2009-3, 2012-03 and 2013-003.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. MOF now has a Cash Management Handbook which will govern the drawdown of the federal funds with consideration given to minimizing the time elapsed between the receipt of draw down and the bank clearance date. The handbook will be in full effect in fiscal year 2016 and available to retroactively apply to fiscal year 2015.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-003
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Questioned Costs: \$0

Area: Equipment and Real Property Management

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

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

Additionally, estimated useful lives of assets should be periodically re-assessed and adjusted as appropriate, based on actual experience.

Condition: No inventory of fixed assets has been performed to satisfy compliance with applicable equipment management requirements. Capital outlay expenditures incurred by RepMar within the Compact Sector Grants Fund (CFDA 15.875) and the Special Education - Grants to States (CFDA 84.027) for fiscal years 2014, 2013 and 2012 were as follows:

	<u>CFDA</u> <u>15.875</u>	<u>CFDA</u> <u>84.027</u>
Fiscal Year 2014	\$ 1,997,374	\$ 36,356
Fiscal Year 2013	\$ 4,399,331	\$ 58,324
Fiscal Year 2012	\$ 5,030,784	\$ 25,256

Estimated useful lives of assets are not periodically re-assessed and adjusted.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-003, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Questioned Costs: \$0

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Questioned Costs: \$0

Area: Equipment and Real Property Management

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

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

Recommendation: The Ministry of Finance should perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements and should complete such inventory in accordance with applicable federal property rules and regulations.

Prior Year Status: Lack of a fixed asset listing that reconciles with an inventory of RepMar's fixed assets was reported as a finding in prior single audits for fiscal years 1988 through 2000 and as items 2001-8, 2002-28, 2003-28, 2004-12, 2005-11, 2006-10, 2007-9, 2008-3, 2009-5, 2010-3, 2011-3, 2012-04, and 2013-004.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Property Coordinating Committee, headed by the Chief Procurement, and comprising of the line ministry procurement officers, will get back to conducting physical inventory of fixed assets every January, commencing in 2016. The hiring of the new chief procurement office will enable this important undertaking to move forward without delay.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-004
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Procurement and Suspension and Debarment
Questioned Costs: \$305,553

Criteria: Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by the government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

RepMar's Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$15,458,517 in non-payroll expenditures for the Compact Sector Grants, fifty-four (54) items totaling \$4,288,968 were tested. For the following eight (8) items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	410100	111854	M0880201	211888	\$ 17,734
2	410100	112851	P5096301	214200	1,650
3	410102	18217	Q1597401	00018217	10,050
4	410102	118328	F5405001	225283	29
5	410110	114557	C0917601	218146	35,000
6	410110	120842	C0940201	230971	150,000
7	410150	14630	Q1572601	00014630	17,090
8	410150	111100	P5108601	210510	<u>74,000</u>
					<u>\$ 305,553</u>

For item #s 1, 3 and 4, no evidence of obtaining informal price quotations was provided.

For item # 2, the selected vendor charged 50% more than another vendor for a purchased item, and there was no documentation on file to justify the procurement decision.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-004, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Procurement and Suspension and Debarment
Questioned Costs: \$305,553

Condition, Continued:

For item #s 5 and 6, procurement was not supported by competitive sealed bidding or another appropriate procurement methodology; thus, the purchase appears to have been sole sourced.

For item # 6, the purchase was requested to be designated as an emergency procurement, as allowed by Section 129 of RepMar's Procurement Code. However, the request was made nine (9) months after the vendor had commenced providing services. Furthermore, for item # 6, a service contract was not executed with the vendor until nine (9) months later.

For item # 7, two of the three price quotations on file were unresponsive, and there was no evidence that other vendors were contacted. Furthermore, the selected vendor's invoice predated the purchase order by a month.

For item # 8, procurement documents on file indicated that invitations for bids were sent to ten (10) vendors via electronic mail; however, only nine (9) vendors were listed. Furthermore, there was no evidence on file to confirm invitations sent or vendors' receipt of the invitations; the bid evaluation sheets on file indicated a different piece of equipment, and no purchase contract or receiving report was made available for examination.

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

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$305,553.

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

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2003-20, 2003-21, 2003-22, 2003-23, 2004-08, 2004-09, 2005-09, 2005-10, 2006-07, 2006-08, 2006-09, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2008-04, 2008-05, 2008-06, 2008-07, 2009-08, 2009-09, 2010-04, 2010-05, 2011-04, 2011-05, 2011-06, 2012-05, 2012-06 and 2013-005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-004, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Procurement and Suspension and Debarment
Questioned Costs: \$305,553

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. However for item # 6, although sole source was granted, the contract was a continuation of another contract carried out by the same vendor in the previous fiscal year.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-005
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Area: Procurement and Suspension and Debarment
Questioned Costs: \$8,259

Criteria: Section 80.36 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by the government or by its Sub-Grantees, provided that they meet the standards identified in this section.

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$359,562 in non-payroll expenditures, twenty (24) items totaling \$140,647 were tested. For the following three (3) items, documentation was not provided to substantiate that the most economical fare was procured:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	600350	111577	A1514101	211149	\$ 3,034
2	600350	119257	A1592001	227618	1,528
3	600350	119903	A1601701	229100	<u>3,697</u>
					\$ <u>8,259</u>

For another item (Check # 115473, APV # 219919 for \$860), all three price quotations on file were the same amount; however, no documentation was on file to justify vendor selection. No amount is questioned for this expenditure.

The above expenditures have been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-005, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A110011
Area: Procurement and Suspension and Debarment
Questioned Costs: \$8,259

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

Effect: The effect of the above condition is noncompliance with procurement standards. Accordingly, questioned costs of \$8,259 are reported.

Recommendation: RepMar should require that documentation be adequate to comply with federal procurement requirements.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2011-06, 2012-06 and 2013-006.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-006
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Subrecipient Monitoring
Questioned Costs: \$22,287

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

Condition: During the year ended September 30, 2014, RepMar sub-granted Compact funding to various subrecipients. We examined the underlying Sub-Grant Agreements or Memorandums of Agreement (MOA) and noted exceptions whereby no Sub-Grant Agreement or MOA was available or the MOA made no reference to the Compact Agreement, grant award, or FPA:

- College of the Marshall Islands (the College) was sub-granted \$427,939 in Supplemental Education Grant funding.
- Kwajalein Atoll Joint Utilities Resources was sub-granted \$1,878,440 in Landowners Special Needs funding.
- Majuro Atoll Waste Company was sub-granted \$104,965 in Infrastructure Sector Grant funding and \$325,000 in Environment Sector Grant funding.
- Marshall Islands Scholarship, Grant and Loan Board was sub-granted \$471,925 in Education Sector Grant, \$204,915 in Supplemental Education Grant and \$200,000 in Ebeye Special Needs funding.
- Majuro Water and Sewer Company (MWSC) was sub-granted \$300,000 in Infrastructure Sector Grant funding.

In addition, RepMar has not established formal policies and procedures over subrecipient monitoring, including resolution and corrective action of subrecipient audit reports. Accordingly, resolution of the following questioned costs remain unresolved for more than six months after issuance of the subrecipient audit reports:

- The College reported noncompliance with federal equipment management requirements; however, questioned costs were not quantifiable.
- MWSC reported noncompliance with procurement standards and questioned costs of \$22,287 were reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-006, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Area: Subrecipient Monitoring
Questioned Costs: \$22,287

Condition, Continued:

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring 1) execution of Sub-Grant agreements with Sub-Grantees, 2) compliance with special tests and provisions of the FPA, and 3) resolution and corrective action of subrecipient audit reports.

Effect: The effect of the above condition is noncompliance with specific provisions of the FPA over subgrant agreements and subrecipient monitoring. Accordingly, questioned costs of \$22,287 are reported.

Recommendation: RepMar should comply with the specific provisions of the FPA and execute Sub-Grant agreements with all Sub-Grantees and comply with subrecipient monitoring procedures.

Prior Year Status: Lack of adequate internal control policies and procedures requiring execution of Sub-Grant agreements with Sub-Grantees and compliance with special tests and provisions of the FPA was reported as a finding in prior single audits as items 2009-10, 2010-07, 2011-07, 2012-07 and 2013-007.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. For Fiscal Year 2016, all Compact fund sub-recipient agreements or Memorandum of Agreements (MOA) are now referencing the Compact agreement and applicable sections of the Fiscal Procedures Agreement (FPA). Additionally, the electronic copy of the FPA is provided to all Compact sub-recipients upon the issuance of the MOA at the beginning of the 2016 fiscal year.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-007
Area: RMI Procurement Code

Criteria: Procurement of goods and services should be in accordance with RepMar's Procurement Code, which states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: During the year ended September 30, 2014, the RepMar Cabinet authorized an exemption through Cabinet Minute 181 (2013) for certain small purchases from having to comply with Section 127 of the RMI Procurement Code.

Cause: The cause of the above condition is potential granting of exemption from compliance with the RMI Procurement Code.

Effect: The effect of the above condition is potential noncompliance with the RMI Procurement Code.

Recommendation: All purchases should comply with the requirements of the RMI Procurement Code. We recommend that Cabinet consult with the Office of the Attorney General with respect to this matter.

Prior Year Status: Noncompliance with the requirements of the RMI Procurement Code was reported as a finding in a prior single audit as item 2013-009.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation however it should be noted that the standard procedure of having the three relevant offices to comment on a proposed Cabinet Paper was not carried out. A written up Cabinet Paper, proposing to rescind Cabinet Minute 181(2013) and sponsored by the Ministry of Finance, is now in circulation.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-008
Area: General Ledger Account Reconciliations

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

Condition # 1: As of March 31, 2015, various cash and investment reconciliations had not been completed by the Ministry of Finance, including the following accounts:

<u>Item #</u>	<u>G/L Account #</u>	<u>Account Name</u>
1	100100-15040	Investment in PIDB
2	300614-19060	NCT Investments
3	300618-15020	Compact Trust Fund
4	950000-11095	Asia Pacific Disaster Response Fund
5	950000-12010	Imprest Fund – Fiji Embassy
6	950000-12020	Imprest Fund – Tokyo Embassy
7	950000-12025	Imprest Fund – Taipei Embassy
8	950000-12030	Imprest Fund – UN Mission
9	950000-12035	Imprest Fund – Washington DC
10	Unknown	Imprest Fund – Korea Embassy
11	950000-12060	Dengue Fever Account
12	950000-12065	Severe Drought 2013
13	950000-12075	44 th PIF Support/Spain
14	950000-13035	RMI/ADB Program Account
15	950000-13085	RMI Compact Fund
16	950000-13091	44 th Annual Pacific Islands Forum
17	950000-15085	RMI 9 th Micro President's Summit
18	950000-15086	Micro President/Chief Summit
19	950000-15087	2 nd Taiwan Pacific Allies Summit
20	950000-15091	European Union Project Acct

For item #s 3 through 13, 15, 16 and 20, monthly reconciliations through September 2014 were eventually completed by January 2016.

Audit procedures identified the following exceptions with management's reconciliations:

- Reconciliations identified errors and old reconciling items which remained unadjusted as of September 30, 2014. As such errors/items were not considered material to the financial statements, no audit adjustments were proposed.
- Three checks (#s 109036, 109261 and 109534) processed for wire transfers continue to be included as reconciling items in the general account even though the related wire transfers were paid in July and August 2013. These checks have been misplaced and cannot be located by the Ministry of Finance for re-deposit.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-008, Continued
Area: General Ledger Account Reconciliations

Condition # 1, Continued:

- General account check # 104864, amounting to \$102,215, is a prior year invalid check which should have been voided. Check # 106836, amounting to \$18,594, was voided in the prior year but continues to be included as a reconciling item. Audit adjustments were proposed to correct these errors.

For item # 1, an audit adjustment was proposed to correct this account.

For item # s 2, 11, 14 and 16 through 19, bank confirmation responses indicated that the associated bank accounts have been closed.

For item # 20, the associated bank account was not recorded in the general ledger when established in November 2013 in anticipation of receipt of the \$200,000 of non-federal grant proceeds, which was wired by the grantor in July 2014. The Ministry of Finance has yet to implement this non-federal grant.

The September 2014 Payroll Account reconciliation (G/L Acct # 950000-13020) included \$37,016 in net bank errors, including some dating to October 2011.

Stale-dated checks which had been adjusted to cash and a liability account in a prior year were included as reconciling items for the following bank accounts:

<u>G/L Account #</u>	<u>Account Name</u>	<u>Stale Checks Amount</u>
950000-13010	General Fund	\$ 71,740
950000-13015	Ebeye General	11,022
950000-13018	Ebeye USAKA	25,782
950000-13020	Payroll	<u>39,115</u>
		\$ <u>147,659</u>

The total of the above stale checks was not considered material; therefore, no audit adjustment was proposed to correct the errors.

Three accounts totaling \$58,573, which had been identified as unrecorded in the general ledger in a prior audit remained unrecorded. Management proposed adjustments to record these cash accounts in G/L Acct #s 950000-12055, 950000-13098 and 950000-13099.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-008, Continued
Area: General Ledger Account Reconciliations

Condition # 2: As of March 31, 2015, various general ledger account reconciliations had not been completed by the Ministry of Finance, including the following accounts, which were not reconciled during the entire fiscal year:

<u>Item #</u>	<u>G/L Account #</u>	<u>Account Name</u>
1	100100-07505	Foreign Operating
2	100100-21020	A/R ROC Grants
3	100100-22032	ADV to MEC – ADB
4	100100-28010	Travel Advances
5	200090-22010	A/R Weather Station
6	Various	A/R – Compact
7	600350-21010	A/R – Federal Grants
8	700360-22040	Non Fed/Other Grants
9	700370-07505	Foreign Operating
10	700370-21020	A/R ROC Grants
11	985000-77010	ADB Loans Payable

Reconciliations were eventually completed and audit adjustments were proposed to correct reconciliation errors identified through audit procedures.

We further noted a lack of reconciliation with vendor statements for significant vendors.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of general ledger account reconciliations.

Effect: The effect of the above condition is material misstatements of account balances, increased risk of undetected errors and fraud, and inaccurate financial reporting. Furthermore, delays in performance of audit procedures occurred due to modifications to the trial balances submitted for audit.

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

Prior Year Status: Lack of adequate internal control policies and procedures requiring periodic and timely performance of reconciliations and independent supervisory verification of significant general ledger accounts was reported as a finding in prior single audits as items 2010-09, 2010-12, 2011-11, 2012-08 and 2013-010.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-008, Continued
Area: General Ledger Account Reconciliations

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. A new Standard Operating Procedures has been in place. In the SOP it clearly states all reconciliations be prepare by Accounting Department submit to the Assistant Secretary for revision and later on to the Secretary of Finance for final approval. This process should be done no later than one month after the month being reconciled has been completed. In addition, two Senior Level accountants have been hired by MOF along with another Senior Level provided by Asian Development Bank to assist the Accounting Department with the reconciliation process. By having the SOP and the Technical staffs to assist, this should eliminate all concerns and issues with reconciliation process which includes unposted transactions, identifying stale checks and other issues the Ministry is currently facing with reconciliation process.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-009
Area: Accounts Receivable

Criteria: Timely drawdowns of grant expenditures should occur to reimburse the General Fund.

Condition: Three of eight non-payroll expenditures for the Public Infrastructure Sector Grant and the Landowners Special Needs Grants had not been reimbursed eight (8) months after year end, as follows.

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
115522	220027	\$ 132,310
116891	222737	\$ 7,979
120040	229394	\$ 38,057

In addition, it appears that other grants may not be timely billed and collected. Specifically, RepMar recorded receivables due from federal agencies for Compact Sector Grants as follows:

Education Sector	\$ 1,910,951
Health Sector	1,001,691
Ebeye Special Needs	737,010
Landowners Special Needs	78,440
Kwajalein Environment	<u>33,080</u>
	<u>\$ 3,761,172</u>

The above receivables pertain to March 2014 and September 2014 monthly drawdowns not timely drawn down by the Ministry of Finance. Subsequent to year end, the Ministry of Finance was unable to provide a status of the collection of these receivables; however, this matter was ultimately resolved in January 2016.

Cause: The cause of the above condition is the lack of adequate policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur.

Effect: The effect of the above condition is that the General Fund bears the cost of grant expenditures.

Recommendation: Management should establish policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. MOF will establish policy and procedures to monitor and analyze grant expenditures on a quarterly basis. Inclusive to the Compact Funds Quarterly Reports, MOF will compile similar reports for Federal and Non-Federal Grants. Revenue and Expenditure status reports are to be provided to MOF's Management for reviewing and monitoring of funds on a Quarterly Basis.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-010
Area: Purchase of Former Long Island Hotel Facility

Criteria: An asset appraisal or valuation should be performed to document and support the appropriateness of the purchase price of facilities.

Condition: An independent asset appraisal or valuation associated with the purchase of the former Long Island Hotel facility at a cost of \$3,800,000 was not on file.

Cause: The cause of the above condition is that an independent asset appraisal or valuation was not required prior to purchase of the former Long Island Hotel facility.

Effect: The effect of the above condition is an inability to establish the valuation of the purchase price of the former Long Island Hotel facility.

Recommendation: We recommend that management contract for an independent appraisal or valuation of the former Long Island Hotel facility performed to document the appropriateness of the facility's purchase price.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. It is a standard procedure for the RMI Project Management Unit to conduct appraisal or valuation of a facility to ascertain the appropriate purchasing price of an already existing facility.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-011
Area: Construction-In-Progress/Retention Payable

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

Condition: The construction-in-progress (CIP) and retention payable subsidiary ledgers (SL) were not updated throughout fiscal year 2014.

Audit procedures performed identified the following exceptions in the provided CIP SL:

- The beginning balance differed from the prior year ending balance by \$21,557. Corrections to the CIP SL were proposed through the audit process.
- Total additions during fiscal year 2014 per the CIP SL for the following projects did not agree with the underlying contractor progress billings, as follows:

<u>Project #</u>	<u>Per Contractor</u>		<u>Difference</u>
	<u>Billing</u>	<u>Per CIP SL</u>	
IDMP0085	\$ 95,868	\$ 91,303	\$ 4,565
IDMP0086/87	\$ 426,913	\$ 406,584	\$ 20,329
IDMP0097	\$ 420,400	\$ 400,381	\$ 20,019

The above projects were completed and capitalized at the correct costs in fiscal year 2014; thus, adjustments to the CIP SL for the above differences were not necessary.

- Retention payables accrued as of September 30, 2014 for the following projects was incorrect, as follows:

<u>Project #</u>	<u>Per Contractor</u>		<u>Difference</u>
	<u>Billing</u>	<u>Per Accrual</u>	
IDMP0086/87	\$ 57,126	\$ 37,069	\$ 20,057
IDMP0097	\$ 27,150	\$ 9,154	\$ 17,996

An audit adjustment was proposed to correct the above errors.

Cause: The cause of the above condition is the lack of policies and procedures requiring timely and periodic update of CIP and retention payable subsidiary ledgers and reconciliation with general ledger accounts. A further cause for the errors in valuation of both completed and ongoing projects is the lack of reconciliations with contractor billings, which are inclusive of retention and gross receipts taxes, and with RepMar's Project Management Unit's monthly project status reports.

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

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011, Continued
Area: Construction-In-Progress/Retention Payable

Recommendation: Management should establish policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts.

Prior Year Status: Lack of policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts was reported as a finding in prior single audits as items 2011-13, 2012-10 and 2013-012.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Although MOF has begun using the PMU payment records and progress reports, the reconciliation of the CWIP and compilation of the CWIP were not fully carried out in FY2014. Management will ensure the proper and well defined procedures are incorporated in the Ministry's SOP, but more importantly, the proper procedures and be implementation is in full compliance in FY2016 on.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-012
Area: Encumbrances

Criteria: Encumbrances should be periodically reviewed for validity, and encumbrance subsidiary ledgers and the general ledger should be timely reconciled.

Condition: Encumbrances were not reviewed and reconciled throughout fiscal year 2014. Of encumbrances recorded as of September 30, 2014, in excess of sixty-two percent (62%) were over a year old, including balances dating back to 2004. The subsidiary ledgers also included undated encumbrances totaling \$413,816.

Furthermore, one \$1,212,500 item (contract # C0213101) as of September 30, 2014, was for a contract which was terminated during the year.

Cause: The cause of the above condition is the lack of policies and procedures requiring timely and periodic review and reconciliation of encumbrances.

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

Recommendation: Management should periodically review the subsidiary encumbrance ledgers for invalid encumbrances and timely reconcile the general ledger to the subsidiary ledgers.

Prior Year Status: Lack of policies and procedures requiring timely and periodic review and reconciliation of encumbrances was reported as a finding in the prior single audit as item 2013-013.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The major cause of the noted variances is failure to liquidate the encumbrance when making a cash disbursement to the vendor, resulting in overstated reserves of fund balance. MOF will again strengthen its efforts to communicate with the department to ensure all invalid encumbrances are properly liquidated in fiscal year 2015.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-013
Area: General Ledger Journal Entries

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

Condition: Independent review and authorization of journal entries posted for fiscal year 2014 were not consistently documented, and numerous general journal vouchers (GJV) were not supported by underlying documentation. Furthermore, daily batch edit reports run prior and subsequent to posting of journal entries and updates of general ledger accounts are not reviewed to determine timely disposition of errors.

Additionally, there is no system control in place to preclude use of the same GJV # and instances of multiple use of the same GJV # occurred.

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

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

Recommendation: Management should establish policies and procedures relative to independent authorization and review of journal entries and adjustments.

Prior Year Status: The lack of independent review and approval of journal entries and adjustments was reported as a finding in prior single audits as items 2009-12, 2010-10, 2011-14, 2012-11 and 2013-014.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. MOF acknowledges the need to exercise better control over the journal entry functions. The recently approved Standard Operational Procedure (SOP) aims to clarify the roles and duties of each task of the accounting department, and other divisions within Ministry of Finance. Furthermore, the addition of the two newly hired certified accountants will enable the Ministry to conduct in-house training to ascertain accounting staffs are fully aware, and better execute their roles and duties.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Summary Schedule of Prior Audit Findings and Questioned Costs, Continued

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2010-5	93.069/	170,600	Refer Note 1.
	93.217/	8,323	Refer Note 1.
	93.889/	155,500	Refer Note 1.
	93.003	170,000	Refer Note 1.
2011-05	11.460/	50,705	Refer Note 1.
	93.959	59,400	Refer Note 1.
2011-06	84.027	9,502	Refer Note 1.
2012-01	15.875	2,203	Refer Note 1.
2012-05	15.875	30,252	Refer Note 1.
2012-06	84.027	3,402	Refer Note 1.
2013-001	15.875	642	Refer Note 2.
2013-002	93.889	58,278	Refer Note 2.
2013-005	15.875	4,725	Refer Note 2.
2013-006	84.027	<u>7,649</u>	Refer Note 2.

\$ 2,355,004

Note 1: Management does not believe that the audit finding warrants any further action as it is two years since the audit report in which the finding occurred was submitted to the Federal clearinghouse; the Federal agency is not currently following up with RepMar on the audit finding; and a management decision has not been issued by the Federal agency.

Note 2: Management is awaiting follow-up and issuance of a management decision from the Federal agency.