

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

**(A COMPONENT UNIT OF THE REPUBLIC OF
THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**FOR THE PERIOD FROM INCEPTION (NOVEMBER 25, 2013)
THROUGH SEPTEMBER 30, 2014**

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)**

For the Period from Inception (November 25, 2013) through September 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Republic of the Marshall Islands
Office of Commerce and Investment:

Report on the Financial Statements

We have audited the accompanying financial statements of the Republic of the Marshall Islands Office of Commerce and Investment (OCI), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the period from inception (November 25, 2013) through September 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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 statements referred to above present fairly, in all material respects, the financial position of OCI as of September 30, 2014, and the results of its operations and its cash flows for the period from inception (November 25, 2013) through September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

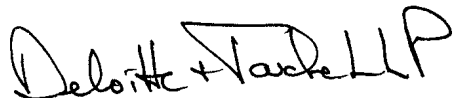
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of OCI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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 OCI's internal control over financial reporting and compliance.



October 17, 2016

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Management's Discussion and Analysis
September 30, 2014

This section of the Office of Commerce and Investment (OCI) annual financial report presents our discussion and analysis of OCI's financial performance during the fiscal year that ended September 30, 2014. No comparative information is included as 2014 is OCI's initial year of operation. This section is to be read in conjunction with the financial statements that follow this section and the accompanying notes to our financial statements in this report.

OCI Functions

OCI has wide-ranging functions and powers, designed to make it a catalyst for economic and social development. OCI's primary function is to "... develop and implement social and economic development programs and projects...for the betterment of the economic and social conditions of the inhabitants of the Republic."

These functions combine the roles of an investment promotion agency and a government investment corporation, i.e. to encourage and develop investments and to operate business enterprises on behalf of government. It is empowered to perform its functions alone or in conjunction with other government agencies and private enterprises.

Financial Highlights

OCI's net position at September 30, 2014 was \$113,205 and its operating revenues for the period then ended was \$253,550 from Nitijela appropriations. It should be noted that OCI is still in its infancy and the reporting period is from inception (November 25, 2013) through September 30, 2014.

As at September 30, 2014, there are no anticipated revenues from other sources for OCI. However, it is envisioned that OCI will eventually require no revenues from Nitijela appropriations once it is able to secure an influx of foreign direct investments (FDIs) into the RMI and be able to give back to the general fund from OCI Joint Venture projects or funding sought from foreign investments and development partners.

At the early part of the reporting period, OCI took out a loan of \$100,000 from MIMRA to help cover costs for startup of operations including potential investment projects. The loan was initially due to be paid off in April 2014; however, OCI was only able to repay \$50,000 and an agreement was reached between MIMRA and OCI in March, 2015 for OCI to make installment payments of \$5,000 per month until the said loan is paid in full. As of end July 2015, OCI has repaid \$15,000 of its total outstanding loan of \$50,000 to MIMRA.

Kindly refer to note 4 of the accompanying financial statements for more information on OCI's payable to MIMRA.

Financial Analysis

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide an indication of OCI's financial condition. OCI's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in the financial condition of the organization.

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Management's Discussion and Analysis
September 30, 2014

A summary of OCI's Statement of Net Position as of September 30, 2014 is presented below:

Current assets	\$ 129,994
Capital assets	<u>35,197</u>
Total assets	\$ <u>165,191</u>
Current liabilities	\$ <u>51,986</u>
Net investment in capital assets	35,197
Unrestricted	<u>78,008</u>
Total net position	<u>113,205</u>
Total liabilities and net position	\$ <u>165,191</u>

Since OCI is still in its infancy, we are not able to conduct a comparative analysis with prior financial year.

OCI's total revenues for the period ended September 30, 2014 were \$253,550 and total expenses were \$140,345.

A summary of OCI's Statement of Revenues, Expenses, and Changes in Net Position for the period from inception (November 25, 2013) through September 30, 2014 is presented below:

Operating revenues	\$ 253,550
Operating expenses	<u>140,345</u>
Change in net position	113,205
Net position at beginning of period	<u> -</u>
Net position at end of period	\$ <u>113,205</u>

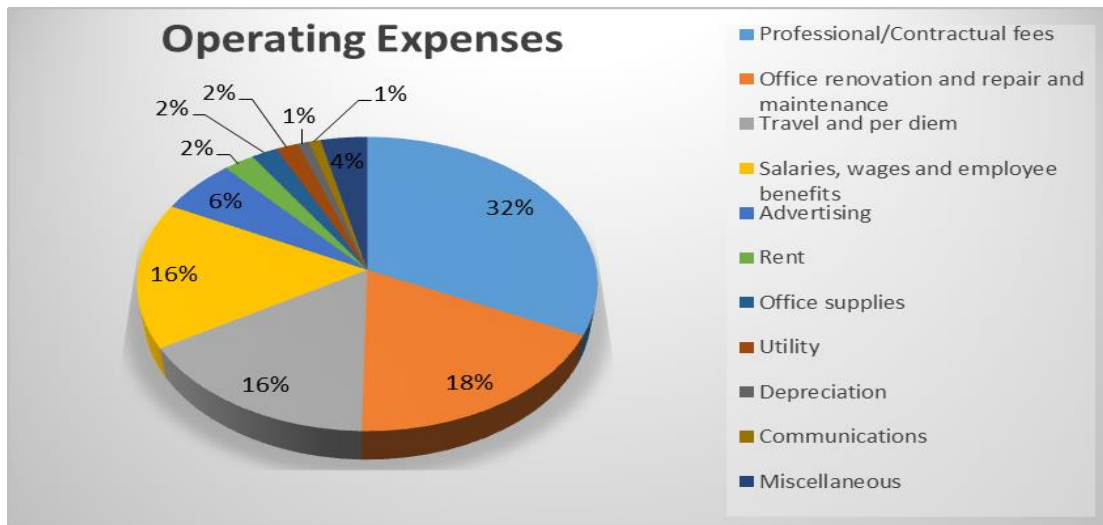
Below is a list of the major components of operating expenses for OCI in 2014:

Professional/Contractual fees	\$ 43,681
Office renovation and repair and maintenance	24,727
Travel and per diem	21,847
Salaries, wages and employee benefits	21,834
Other	<u>28,256</u>
	\$ <u>140,345</u>

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Management's Discussion and Analysis
September 30, 2014

The graph below depicts the operating expenses that OCI incurred in the reporting period from inception (November 25, 2013) to September 30, 2014. Since the reporting period includes the actual opening of the office and implementation of the mandate, some significant expenses were necessary for mobilization. These include professional/contractual fees, office renovation, travel & per diem, salaries and wages, and advertising.



Capital Assets

Capital assets for OCI as at September 30, 2014 were \$35,197. To commence operations and carry out responsibilities as mandated by Act, it was necessary to acquire certain capital assets. A vehicle was purchased to enable CEO and staff to carry out daily administrative duties. In addition to purchasing a vehicle, computers and other office equipment was purchased to ensure the staff had the necessary tools and equipment to carry out OCI's mandate.

Kindly refer to note 3 in the accompanying financial statements in the report for more information on OCI's capital assets.

Additional Financial Information

This discussion and analysis is designed to provide an overview of OCI's financial operations and financial condition as at 30th September 2014. Should the reader have any questions regarding information included in this report or wish to request additional information, please contact the Chief Executive Officer of the Office of Commerce and Investment at (692) 625-4624 or in writing to P. O. Box 898, Majuro, Marshall Islands 96960.

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Statement of Net Position
September 30, 2014

ASSETS

Current assets:	
Cash	\$ 129,994
Total current assets	<u>129,994</u>
Capital assets, net	<u>35,197</u>
	\$ <u><u>165,191</u></u>

LIABILITIES AND NET POSITION

Liabilities:	
Payable to affiliate	\$ 1,986
Advance from affiliate	<u>50,000</u>
Total liabilities	<u>51,986</u>
Commitment and contingency	
Net position:	
Net investment in capital assets	35,197
Unrestricted	<u>78,008</u>
Total net position	<u>113,205</u>
	\$ <u><u>165,191</u></u>

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Statement of Revenues, Expenses, and Changes in Net Position
For the Period from Inception (November 25, 2013) through September 30, 2014

Operating revenues:	
Nitijela appropriation	\$ <u>253,550</u>
Total operating revenues	<u>253,550</u>
Operating expenses:	
Professional/Contractual fees	43,681
Office renovation and repair and maintenance	24,727
Travel and per diem	21,847
Salaries, wages and employee benefits	21,834
Advertising	8,118
Office supplies	7,293
Rent	3,250
Utility	2,305
Communications	1,214
Depreciation	1,191
Miscellaneous	<u>4,885</u>
Total operating expenses	<u>140,345</u>
Change in net position	113,205
Net position at beginning of period	<u>-</u>
Net position at end of period	\$ <u><u>113,205</u></u>

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Statement of Cash Flows

For the Period from Inception (November 25, 2013) through September 30, 2014

Cash flows from operating activities:	
Operating grants received	\$ 253,550
Cash payments to suppliers for goods and services	(118,833)
Cash payments to employees for services	<u>(18,335)</u>
Net cash provided by operating activities	<u>116,382</u>
Cash flows from noncapital financing activities:	
Net advance from affiliate	<u>50,000</u>
Cash flows from capital and related financing activities:	
Acquisition of fixed assets	<u>(36,388)</u>
Net change in cash	129,994
Cash at beginning of period	<u>-</u>
Cash at end of period	\$ <u><u>129,994</u></u>
Reconciliation of change in net position to net cash provided by operating activities:	
Change in net position	\$ 113,205
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	1,191
Increase in liabilities:	
Payable to affiliates	<u>1,986</u>
Net cash provided by operating activities	\$ <u><u>116,382</u></u>

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Notes to Financial Statements
September 30, 2014

(1) Organization

The Republic of the Marshall Islands Office of Commerce and Investment (OCI), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to the Office of Commerce and Investment Act 2013 (Public Law No. 2013-21) and began operations as a statutory corporation on November 25, 2013 upon receiving its first operational budget. The objectives of OCI are to: (1) to investigate, study, develop and implement social and economic development programs and projects, alone or in conjunction with other governmental, private organizations, or agencies, for the betterment of the economic and social conditions of the inhabitants of the Republic; (2) encourage and develop, and manage, businesses of economic or social importance to the Republic, such as tourism, poultry farming and piggeries; and (3) conduct, on behalf of RepMar, such business enterprises as the Cabinet directs, on such terms and conditions as are agreed on between OCI and the Cabinet; provided, however, in all decisions of the Board or the Cabinet, the protection of existing enterprises shall be given highest consideration. OCI is primarily funded through operational appropriations from the Nitijela (the RepMar Legislature).

OCI is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

OCI's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. OCI considers Nitijela appropriations and operational grants and costs that are directly related to OCI's operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Cash

Custodial credit risk is the risk that in the event of a bank failure, OCI's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. OCI does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2014, the carrying amount of cash was \$129,994, and the corresponding bank balance was \$132,383, which is maintained in a financial institution not subject to depository insurance. OCI does not require collateralization of its cash deposits; therefore, deposit levels in excess of Federal Deposit Insurance Corporation insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Capital Assets

Capital assets with a cost that equals or exceeds \$1,000 are capitalized. Such assets are stated at cost. Depreciation for all fixed assets is calculated using the straight-line method over a standard estimated useful life of 5 years. When the need arises and on a case-by-case basis only, management of OCI may adjust the estimated useful life of 5 years.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. OCI has no items that qualify for reporting in this category.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. As of September 30, 2014, there is no accumulated vacation leave liability.

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. OCI has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. OCI is specifically exempt from this tax; however, gross receipts associated with business enterprise operations as directed by the Cabinet are subject to gross receipts tax.

New Accounting Standards

During the period from inception (November 25, 2013) through September 30, 2014, OCI implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of OCI.

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of OCI.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of OCI.

Risk Management

OCI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. OCI has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the period from inception (November 25, 2013) through September 30, 2014.

(3) Capital Assets

Capital asset activity for the period from inception (November 25, 2013) through September 30, 2014 was as follows:

	November 25, <u>2013</u>	Additions and Transfers	<u>Retirements</u>	September 30, <u>2014</u>
Motor vehicles	\$ -	\$ 27,000	\$ -	\$ 27,000
Computers and other equipment	_____ -	<u>9,388</u>	_____ -	<u>9,388</u>
	-	36,388	-	36,388
Less accumulated depreciation	_____ -	<u>(1,191)</u>	_____ -	<u>(1,191)</u>
	\$ _____ -	\$ <u>35,197</u>	\$ _____ -	\$ <u>35,197</u>

**REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT**

Notes to Financial Statements
September 30, 2014

(4) Related Party Transactions

OCI is a component unit of RepMar and is thus affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Marine Resources Authority (MIMRA) and the Marshall Islands Development Bank (MIDB). OCI utilizes services from certain affiliated entities at substantially the same terms and conditions as those incurred from third parties. A summary of related party transactions as of September 30, 2014 and for the period from inception (November 25, 2013) through September 30, 2014 is as follows:

	2014	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ -	\$ 1,986
Marshall Islands National Telecommunications Authority	1,214	-
Marshall's Energy Company, Inc.	<u>2,305</u>	<u>-</u>
	<u>\$ 3,519</u>	<u>\$ 1,986</u>

On February 14, 2014, MIMRA advanced \$100,000 to finance OCI start-up operations. The advance is uncollateralized and is non-interest bearing and is due and payable in April 2014. As of September 30, 2014, \$50,000 is payable to MIMRA.

For the period from inception (November 25, 2013) through September 30, 2014, OCI operations were funded by \$253,550 of RepMar appropriations.

OCI entered into an office lease with MIDB for a term of two years commencing September 1, 2014. Annual rent payments are \$12,672.

(5) Contingency

OCI receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on OCI's programs and activities. For the year ended September 30, 2015, RepMar appropriated funding of \$429,325 for the purpose of funding OCI's programs and activities.

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

Board of Directors
Republic of the Marshall Islands
Office of Commerce and Investment:

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 Republic of the Marshall Islands Office of Commerce and Investment (OCI), which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the period from inception (November 25, 2013) through September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCI'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 statements, but not for the purpose of expressing an opinion on the effectiveness of OCI's internal control. Accordingly, we do not express an opinion on the effectiveness of OCI'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 Responses as items 2014-001 and 2014-002, that we consider to be material weaknesses.

Compliance and Other Matters

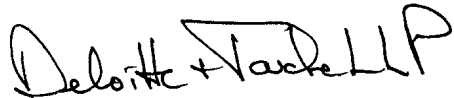
As part of obtaining reasonable assurance about whether OCI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 items 2014-003 through 2014-005.

OCI's Response to Findings

OCI's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. OCI'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 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

October 17, 2016

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF COMMERCE AND INVESTMENT

Schedule of Findings and Responses
Period from Inception (November 25, 2013) through September 30, 2014

Finding No. 2014-001

Journal Vouchers

Criteria: Journal vouchers should be prepared and reviewed by supervisory personnel independent of the preparation process.

Condition: Journal vouchers are not prepared and therefore, such are not reviewed by the Chief Executive Officer (CEO).

Cause: There are no policies and procedures in place for the review and approval of journal entries.

Effect: The effect is that we cannot determine the appropriateness of the journal entries.

Recommendation: We recommend that OCI establish policies and procedures in place requiring the review and approval of journal vouchers.

Auditee Response and Corrective Action Plan:

The OCI Management who started in July and September 2014 formulated its Financial Policy (FP) to ensure that its record of financial accounts were in place as there were no policy in place when OCI was established.

There drafts of the FP that were prepared were not ready for the Board in late 2014, however the final FP was later reviewed in the new financial year and approved by the OCI Board in the May 2015 Board meeting.

The final FP is now in place where Management has provided an update to all staff, especially with the Finance Team in OCI. In addition to the FP, Management has also adopted its new Electronic Financial Accounting system where all financial accounting records, pay roll, journal and other supportive information have been stored. There is also the Finance team who provides a report to Management in this regard on a monthly basis where a Check & Balance is verified for journal provided and approved by the CEO. Also for all Journal records and payment there is an order prepared with it for the CEO's endorsement prior to Cheque payment approval. Note all the Finance records for OCI now has an electronic and a manual Data Base for proper recording.

In addition to the above a monthly report of journal, this is inclusive of GL, Cheque payment and Bank statement are prepared each month by the Finance team where it is verified by the External accountant prior to the production of the monthly draft accounts. The same is then cross-checked by CEO, afterwards it is then presented to the Board in its monthly meeting. Note this process started from November, 2014.

**REPUBLIC OF THE MARSHALL ISLANDS
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Schedule of Findings and Responses, Continued
Period from Inception (November 25, 2013) through September 30, 2014

Finding No. 2014-002

Timesheets

Criteria: The HR Policy manual states that OCI must maintain records of time-in and time-out for every employee. Each employee of OCI shall use an electronic attendance card or sign the attendance register at the front desk if the electronic attendance card is not available.

Condition: During the period from inception (November 25, 2013) through September 30, 2014, we noted that OCI did not maintain any records of employees' hours or did not utilize any time recording method to record and monitor employees' working hours.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above condition is the possibility of unauthorized payroll expense occurring that may not be timely detected.

Recommendation: We recommend that internal control policies and procedures that are in place be enforced.

Auditee Response and Corrective Action Plan:

It is important to note that OCI started to recruit its staff from May, 2014 where the first staff on board was

The CEO, who started work on July 8, 2015. From August to end September, 2014 only the CEO and 3 other staff were on board, and these staff attendance manual records were kept by the CEO. This report was provided to Deloitte in the audit period and a copy is provided in **Attachment – findings 002**.

Management also worked hard to ensure that OCI has a **Human Resources Policy (HRP)**, as there was none available during the audit period. The draft of the initial HRP was reviewed by Management in line to the RMI Public Services HRP and was also cross-checked with some RMI SOEs prior to its submission to the OCI Board for approval and adoption in April, 2015.

It was after the HRP's approval by the OCI Board, that, Management introduced its Electronic Attendance system for use, in house, for all staff attendance record.

The OCI HRP is provided in more detail in the OCI website: www.investmarshallislands.com

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Schedule of Findings and Responses, Continued
Period from Inception (November 25, 2013) through September 30, 2014

Finding No. 2014-003

Local Noncompliance

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, each employer shall submit to Social Security Administration report of wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213, and 214, respectively, and pay into the Fund the contributions due.

Condition: OCI did not prepare and file Employer's Quarterly Tax Returns nor remit social security employer and employee contributions for the period from inception (November 25, 2013) through September 30, 2014.

Cause: The cause of the above condition is lack of established policies and procedures that meet compliance with the Social Security Act of 1990 and Social Security Health Fund Act of 1991.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and Social Security Health Fund Act of 1991.

Recommendation: We recommend that OCI comply with the Social Security Act of 1990 and Social Security Health Fund Act of 1991.

Auditee Response and Corrective Action Plan:

The OCI Management admits its oversight on the above to non-compliance of the Social Security Act, which the CEO, provided a formal letter of apology in this regard and also requested for assistance in the allowance of the time for OCI to pay all its staff Social Security Overdue Tax.

The above request was granted by the Social Security office and OCI Management will ensure that future settlement of Social Security Tax for all its staff will be executed promptly.

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Schedule of Findings and Responses, Continued
Period from Inception (November 25, 2013) through September 30, 2014

Finding No. 2014-004

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: OCI did not file and pay income taxes withheld for the period from inception (November 25, 2013) through September 30, 2014.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

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

Recommendation: We recommend that OCI establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan:

The OCI Management admits its oversight on the above to non-compliance of the Income Tax Act, which the CEO, provided a formal letter of apology in this regard and also requested for assistance in the allowance of the time for OCI to pay all its staff overdue Income Tax.

The above request was granted by the Tax office and OCI Management will ensure that future settlement of Income Tax for all its staff will be executed promptly.

In addition to the above the recent OCI Board approved Financial Policy covers a section of the Income Tax Act to ensure that OCI Management is fully aware of the commitment of payment of staff Income Tax on a timely manner to the Tax office.

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Schedule of Findings and Responses, Continued
Period from Inception (November 25, 2013) through September 30, 2014

Finding No. 2014-005

Local Noncompliance

Criteria: 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 supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: OCI does not have a formal procurement policy requiring documentation indicating the history of procurement to be maintained on file. For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Check #</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
01	02/14/14	Professional services	\$ 3,400
03	02/19/14	Travel	\$ 2,500
04	02/20/14	Professional services	\$ 4,330
07	02/27/14	Professional services	\$ 8,622
10	03/18/14	Professional services	\$ 2,550
12	03/20/14	Travel	\$ 9,797
19	03/27/14	Professional services	\$ 10,787
26	05/29/14	Professional services	\$ 4,576
31	06/25/14	Travel	\$ 937
37	07/11/14	Vehicles	\$ 27,000
41	07/24/14	Professional services	\$ 4,783
52	08/27/14	Furniture	\$ 4,532

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to support compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform with RepMar's Procurement Code.

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Schedule of Findings and Responses, Continued
Period from Inception (November 25, 2013) through September 30, 2014

Finding No. 2014-005, Continued

Local Noncompliance

Auditee Response and Corrective Action Plan:

Check #s 1, 3, 4, 7, 10, 12, 19, 26 and 31 were issued when there was no management or staff on board for OCI. The new CEO joined OCI by early July 2014. Check #s 37, 41, and 52 were issued when the new CEO was on board, after two months of starting but admits that OCI did not have any management policy on HR and Finance in place to support the RepMar Procurement Code.

Action done by Management:

- 1) Formulation of HR policy to ensure the safeguard of staff and policy operational framework of OCI;
- 2) Formulation of Finance Policy that ensures that it is align to the OCI Act plus in alignment to RepMar Procurement code;
- 3) Both above policies were approved by the OCI Board for usage in its operation in the new financial year for 2015/16.

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Unresolved Prior Year Findings
Period from Inception (November 25, 2013) through September 30, 2014

This is the initial period of audit therefore there are no prior year unresolved findings.