

**REPUBLIC OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2008**

**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**

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

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 the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2008, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated June 10, 2009. 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.

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 grants, 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 Nuclear Claims Tribunal, the Marshall Islands Social Security Administration, and the discretely presented component units, which were all audited by us. 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 these entities. The findings, if any, included in those reports are not included herein.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered RepMar's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 12 through 29) as items 2008-3 and 2008-9 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

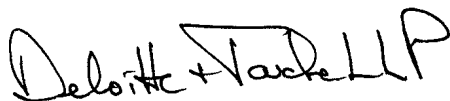
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's basic financial statements are free of 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-7.

We noted certain matters that we reported to management of RepMar in a separate letter dated June 10, 2009.

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit RepMar's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Members of the Nitijela, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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June 10, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. RepMar's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 12 through 29). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RepMar's management. Our responsibility is to express an opinion on RepMar's compliance based on our audit.

As discussed in Note 2b 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 Schedule of Expenditures of Federal Awards for the year ended September 30, 2008. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RepMar's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of RepMar's compliance with those requirements.

As described in items 2008-1, 2008-3 and 2008-4 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding cash management, and procurement and suspension and debarment that are applicable to its Food Distribution Program major program (CFDA # 10.567), and equipment and real property management that are applicable to its Compact of Free Association Sector Grants major program (CFDA # 15.875), and its Special Education - Grants to States major program (CFDA # 84.027). Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the requirements referred to above that are applicable to its Food Distribution Program major program (CFDA # 10.567), its Compact of Free Association Sector Grants major program (CFDA # 15.875), and its Special Education - Grants to States major program (CFDA # 84.027) for the year ended September 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 2008-2, 2008-5, 2008-6, 2008-7 and 2008-8.

#### Internal Control Over Compliance

The management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RepMar's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-1 through 2008-6 and 2008-8 to be significant deficiencies.

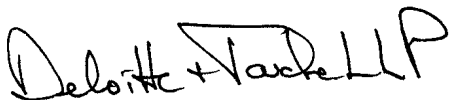
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2008-1, 2008-3, and 2008-4 to be material weaknesses.

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit RepMar's responses and, accordingly, we express no opinion on them.

## Schedule of Expenditures of Federal Awards

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, 2008, and have issued our report thereon dated June 10, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RepMar's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 and 8) 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. This schedule is the responsibility of the management of RepMar. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Honorable Members of the Nitijela, federal awarding agencies, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

June 10, 2009

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2008

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

| <u>Grantor</u>                  | <u>CFDA #</u> | <u>Description</u>   | <u>Amount of Expenditures</u> |
|---------------------------------|---------------|--|-------------------------------|
| U.S. Department of Agriculture  | 10.567        | Food Distribution Program  | \$ <u>518,824</u>             |
| U.S. Department of the Interior | 15.875        | Economic, Social, and Political Development of the Territories:<br>Compact of Free Association, As Amended,<br>Public Law 99-239, Sector Grants: |                               |
|                                 |               | Education  | 11,961,475                    |
|                                 |               | Supplemental Education Grant   | 5,648,064                     |
|                                 |               | Health   | 6,639,106                     |
|                                 |               | Public Sector Capacity Building  | 258,626                       |
|                                 |               | Ebeye Special Needs  | 2,909,013                     |
|                                 |               | Landowners Special Needs   | 1,844,344                     |
|                                 |               | Kwajalein Environment  | 209,466                       |
|                                 |               | Public Infrastructure Development  | 11,289,527                    |
|                                 |               | Infrastructure Maintenance   | <u>485,381</u>                |
|                                 |               |  | <u>41,245,002</u>             |
| U.S. Department of Education    | 84.027        | Special Education - Grants to States   | <u>2,153,035</u>              |
|                                 |               | Total program expenditures tested  | \$ <u>43,916,861</u>          |
|                                 |               | Total federal program expenditures   | \$ <u>62,289,098</u>          |
|                                 |               | % of total federal program expenditures tested   | <u>70%</u>                    |

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2008

| <u>CFDA#</u>                               | <u>Agency/Program</u>  | <u>Federal Expenditures</u> |
|--|--|-----------------------------|
| <b>GENERAL FUND AND REIMBURSABLE FUND:</b> |  |                             |
|  | <u>U.S. Department of Commerce:</u>                            |                             |
| 11.460                                     | Special Oceanic and Atmospheric Projects                       | \$ 387,167                  |
|  | Total U.S. Department of Commerce                              | <u>\$ 387,167</u>           |
| <b>U.S. FEDERAL GRANTS FUND:</b>           |  |                             |
|  | <u>U.S. Department of Agriculture:</u>                         |                             |
| 10.567                                     | Food Distribution Program                                      | \$ 518,824                  |
| 10.664                                     | Cooperative Forestry Assistance                                | 3,406                       |
|  | Total U.S. Department of Agriculture                           | <u>\$ 522,230</u>           |
|  | <u>U.S. Department of the Interior:</u>                        |                             |
| 15.875                                     | Economic, Social and Political Development of the Territories: |                             |
|  | Single Audit FY 2000   | \$ 12,000                   |
|  | Single Audit FY 2001   | 20,500                      |
|  | Single Audit FY 2002   | 24,500                      |
|  | Single Audit FY 2003   | 47,300                      |
|  | EPA Environmental Standards Conference                         | 3,604                       |
|  | Four Atoll Health Care   | 1,312,349                   |
|  | Tax Enhancement System   | 319,131                     |
|  | Component Units Reconciliation                                 | 634                         |
|  | RMI NGO Committee  | 1,952                       |
|  | Sub-total CFDA # 15.875  | <u>1,741,970</u>            |
| 15.904                                     | Historic Preservation Fund Grants-In-Aid                       | <u>220,237</u>              |
|  | Total U.S. Department of the Interior                          | <u>\$ 1,962,207</u>         |
|  | <u>U.S. Small Business Administration:</u>                     |                             |
| 59.037                                     | Small Business Development Center                              | \$ 17,199                   |
|  | Total U.S. Small Business Administration                       | <u>\$ 17,199</u>            |
|  | <u>U.S. Department of Homeland Security</u>                    |                             |
| 83.505                                     | State Disaster Preparedness Grant                              | \$ 10,558                   |
|  | Total U.S. Department of Homeland Security                     | <u>\$ 10,558</u>            |
|  | <u>U.S. Department of Education:</u>                           |                             |
| 84.027                                     | Special Education-Grants to States                             | \$ 2,153,035                |
| 84.256                                     | Freely Associated States-Education Grant Program               | 6,300                       |
| 84.336                                     | Teacher Quality Enhancement Grant                              | 118,615                     |
|  | Total U.S. Department of Education                             | <u>\$ 2,277,950</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, 2008

| <u>CFDA#</u>                                  | <u>Agency/Program</u>   | <u>Federal<br/>Expenditures</u> |
|---|---|---------------------------------|
| <b>U.S. FEDERAL GRANTS FUND, CONTINUED:</b>   |   |                                 |
|   | <u>U.S. Department of Health and Human Services:</u>  |                                 |
| 93.110  | Maternal and Child Health Federal Consolidated Programs   | \$ 828,618                      |
| 93.116  | Project Grants and Cooperative Agreements for Tuberculosis Control Programs   | 122,276                         |
| 93.118  | Acquired Immunodeficiency Syndrome (AIDs) Activity  | 91,594                          |
| 93.163  | Health Services in the Pacific Basin  | 568,837                         |
| 93.217  | Family Planning-Services  | 251,945                         |
| 93.230  | Consolidated Knowledge Development and Application (KD&A) Program   | 41,125                          |
| 93.268  | Immunization Grants   | 646,029                         |
| 93.283  | CDC and Prevention-Investigations and Technical Assistance  | 417,479                         |
| 93.917  | HIV Care Formula Grants   | 88,536                          |
| 93.938  | Cooperative Agreements to Support Comprehensive School Health Programs to<br>to Prevent the Spread of HIV and Other Important Health Problems | 55,417                          |
| 93.958  | Block Grant for Community Mental Health Services  | 51,601                          |
| 93.959  | Block Grants for Prevention and Treatment of Substance Abuse  | 201,268                         |
| 93.977  | Preventive Health Services-Sexually Transmitted Diseases Control Grants   | 121,405                         |
| 93.988  | Cooperative Agreements for State-Based Diabetes Control Programs and<br>Evaluation of Surveillance Systems                                    | 62,037                          |
| 93.991  | Preventive Health and Health Services Block Grant   | 2,253                           |
|   | Total U.S. Department of Health and Human Services  | <u>\$ 3,550,420</u>             |
|   | <b>TOTAL U.S. FEDERAL GRANTS FUND</b>   | <u>\$ 8,340,564</u>             |
| <b>COMPACT SECTOR GRANTS FUND:</b>            |   |                                 |
|   | <u>U.S. Department of the Interior:</u>   |                                 |
| 15.875  | Economic, Social and Political Development of the Territories:<br>Compact of Free Association Program, As Amended, Sector Grants:             |                                 |
|   | Section 211(a)(1) Education Sector  | \$ 11,961,475                   |
|   | Supplemental Education Grant  | 5,648,064                       |
|   | Section 211(a)(2) Health Sector   | 6,639,106                       |
|   | Section 211(a)(4) Public Sector Capacity Building   | 258,626                         |
|   | Section 211(b)(1) Ebeye Special Needs   | 2,909,013                       |
|   | Section 211(b)(2) Landowners Special Needs  | 1,844,344                       |
|   | Section 211(b)(3) Kwajalein Environment   | 209,466                         |
|   | Section 211(d)(1) Public Infrastructure Development   | 11,289,527                      |
|   | Section 211(d)(2) Infrastructure Maintenance  | 485,381                         |
|   | Total U.S. Department of the Interior   | <u>\$ 41,245,002</u>            |
| <b>SECTION 212 KWAJALEIN LANDOWNERS FUND:</b> |   |                                 |
|   | <u>U.S. Department of the Interior:</u>   |                                 |
| 15.875  | Economic, Social and Political Development of the Territories:<br>Compact of Free Association Program, As Amended:                            |                                 |
|   | Section 212 Kwajalein Impact and Use  | \$ 11,981,095                   |
|   | Total U.S. Department of the Interior   | <u>\$ 11,981,095</u>            |
| <b>SECTION 213 AUDIT FUND:</b>                |   |                                 |
|   | <u>U.S. Department of the Interior:</u>   |                                 |
| 15.875  | Economic, Social and Political Development of the Territories:<br>Compact of Free Association Program, As Amended:                            |                                 |
|   | Section 213 Audit   | \$ 335,270                      |
|   | Total U.S. Department of the Interior   | <u>\$ 335,270</u>               |
|   | <b>GRAND TOTAL</b>  | <u>\$ 62,289,098</u>            |

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, 2008

#### (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.

##### a. Programs Subject to Single Audit

Schedules of Expenditures of Federal Awards are presented for each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of 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. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

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, 2008 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Nuclear Claims Tribunal, 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, 2008.

##### 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, 2008

(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>2008<br/>Amount of<br/>Pass-through</u> |
|--|---|--|
| <u>U.S. Department of the Interior -<br/>CFDA #15.875</u>                        |   |  |
| Compact of Free Association,<br>As Amended, Education<br>Sector Grant            | College of the Marshall Islands                       | \$ 1,000,000                               |
| Compact of Free Association,<br>As Amended, Supplemental<br>Education Grant      | College of the Marshall Islands                       | \$ 100,000                                 |
| Compact of Free Association,<br>As Amended, Public<br>Infrastructure Development | College of the Marshall Islands                       | \$ 4,989,657                               |
| Compact of Free Association,<br>As Amended, Landowner<br>Special Needs           | Kwajalein Atoll Joint Utilities<br>Resources, Inc.    | \$ 1,844,344                               |
| Compact of Free Association,<br>As Amended, Public<br>Infrastructure Development | Kwajalein Atoll Joint Utilities<br>Resources, Inc.    | \$ 1,696,507                               |
| Compact of Free Association,<br>As Amended, Education<br>Sector Grant            | Marshall Islands Scholarship, Grant<br>and Loan Board | \$ 716,428                                 |
| Compact of Free Association,<br>As Amended, Supplemental<br>Education Grant      | Marshall Islands Scholarship, Grant<br>and Loan Board | \$ 350,000                                 |
| Compact of Free Association,<br>As Amended, Ebeye Special<br>Needs Sector Grant  | Marshall Islands Scholarship, Grant<br>and Loan Board | \$ 100,000                                 |

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2008

(2) Summary of Significant Accounting Policies, Continued

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2008. RepMar did not charge federal programs for indirect costs during fiscal year 2008.

f. CFDA # 15.875

CFDA # 15.875 represents 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, 2008

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

*Financial Statements*

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditors' report issued:   | Unqualified   |
|    | Internal control over financial reporting:   |               |
| 2. | Material weakness(es) identified?  | Yes           |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. | Noncompliance material to the financial statements noted?                                | Yes           |

*Federal Awards*

- |     |  |  |
|-----|--|--|
|     | Internal control over major programs:  |  |
| 5.  | Material weakness(es) identified?  | Yes  |
| 6.  | Significant deficiency(ies) identified that is not considered to be a material weakness?                                   | Yes  |
| 7.  | Type of auditors' report issued on compliance for major programs:  | Qualified  |
| 8.  | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?     | Yes  |
| 9.  | RepMar's major programs were as follows:   |  |
|     | <u>CFDA #</u>  | <u>Name of Federal Program</u>   |
|     | 10.567   | Food Distribution Program  |
|     | 15.875   | Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants |
|     | 84.027   | Special Education - Grants to States   |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$1,868,673  |
| 11. | RepMar qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                                     | No   |

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

**Section II - Financial Statement Findings**

| <u>Finding Number</u> | <u>Findings</u>                                 | <u>Refer Page #</u> |
|-----------------------|---|---------------------|
| 2008-3                | Equipment and Real Property Management          | 17 - 18             |
| 2008-7                | Procurement and Suspension and Debarment        | 26 - 27             |
| 2008-9                | Payroll Expenditures - Employer Insurance Costs | 29                  |

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

| <u>Finding Number</u> | <u>CFDA #</u>     | <u>Findings</u>                          | <u>Questioned Costs</u> | <u>Refer Page #</u> |
|-----------------------|-------------------|--|-------------------------|---------------------|
| 2008-1                | 10.567/<br>84.027 | Cash Management                          | Undeterminable          | 14                  |
| 2008-2                | 15.875            | Cash Management                          | \$ -                    | 15                  |
| 2008-3                | 15.875/<br>84.027 | Equipment and Real Property Management   | \$ -                    | 17 - 18             |
| 2008-4                | 10.567            | Procurement and Suspension and Debarment | \$ 252,507              | 19 - 21             |
| 2008-5                | 15.875            | Procurement and Suspension and Debarment | \$ 74,318               | 22 - 23             |
| 2008-6                | 84.027            | Procurement and Suspension and Debarment | \$ 14,966               | 24 - 25             |
| 2008-7                | 15.875/<br>93.110 | Procurement and Suspension and Debarment | \$ 303,827              | 26 - 27             |
| 2008-8                | 15.875            | Special Tests and Provisions             | \$ -                    | 28                  |

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-1

#### Cash Management

#### U.S. Department of Agriculture - CFDA # 10.567: Food Distribution Program

#### U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

#### Questioned Costs: Undeterminable

Criteria: Section 3016.21 of 7 CFR 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* and Section 80.21 of 34 CFR 80 and Section 92.21 of 45 CFR 92, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR 205.

Condition: Of \$518,824 in non-payroll expenditures for the Special Feeding Program, forty-six items, totaling \$472,334, were tested. Furthermore, of \$809,682 in non-payroll expenditures for the IDEA Special Education - Grants to States program, thirty-six items, totaling \$197,514, were tested. We were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not made available for examination.

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

Effect: The effect of the above condition is noncompliance with cash management requirements. Due to the lack of available information provided by the grantee, the amount of questioned costs, if any, applicable to this finding are undeterminable.

Recommendation: We recommend that the Ministry of Finance establish a formal methodology governing the drawdown of Federal funds to minimize the time elapsed between the receipt of Federal funds and the date of applicable payments clear in the bank.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. Our corrective action plan will involve the Chief of Accounting and Senior Federal Grants Coordinator to establish a spending pattern and a draw down schedule for all Federal programs grants to minimize time elapsed between receipt and disbursement of funds. The anticipated completion date of this corrective action plan is September 30, 2009.

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

### Finding No. 2008-2

#### Cash Management

#### U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$0

Criteria: Article IV, Section 5(b)(2) of the Fiscal Procedures Agreement (FPA) states that all infrastructure projects and projects that are not funded by Operational Grants will be paid on the basis of accrued expenditures, provided the Government of the Republic of the Marshall Islands maintains procedures to minimize the time elapsing between transfer of funds and their disbursement.

Condition: Of \$11,182,174 in non-payroll expenditures for the Compact Sector Public Infrastructure Grant, thirty-three items, totaling \$7,319,993, were tested. We noted the following infrastructure project expenditures that were not paid in a manner that minimized the time elapsed between transfer of funds and their disbursement:

| <u>Check #</u> | <u>Expenditure Amount</u> | <u>Cash Disbursement Draw Down #</u> | <u>Drawdown Deposit Date</u> | <u>Date Check Cleared</u> | <u># of Days Elapsed</u> |
|----------------|---------------------------|--------------------------------------|------------------------------|---------------------------|--------------------------|
| 51590          | \$ 140,501                | CD-003-2008                          | 12/05/07                     | 12/14/07                  | 8                        |
| 52083          | \$ 684,157                | CD-005-2008                          | 12/27/07                     | 01/10/08                  | 13                       |
| 53425          | \$ 649,147                | CD-007-2008                          | 02/25/08                     | 03/05/08                  | 8                        |
| 53432          | \$ 84,956                 | CD-007-2008                          | 02/25/08                     | 03/06/08                  | 9                        |
| 53559          | \$ 96,743                 | CD-007-2008                          | 02/25/08                     | 03/11/08                  | 14                       |
| 54338          | \$ 22,620                 | CD-007-2008                          | 02/25/08                     | 04/08/08                  | 42                       |
| 54595          | \$ 25,000                 | CD-008-2008                          | 03/10/08                     | 06/02/08                  | 83                       |
| 55260          | \$ 430,914                | CD-012-2008                          | 04/25/08                     | 05/05/08                  | 9                        |
| 55667          | \$ 87,409                 | CD-013-2008                          | 05/09/08                     | 05/20/08                  | 10                       |
| 55703          | \$ 579,508                | CD-014-2008                          | 05/16/08                     | 05/22/08                  | 5                        |
| 55706          | \$ 37,374                 | CD-012-2008                          | 04/25/08                     | 06/05/08                  | 40                       |
| 56368          | \$ 33,163                 | CD-016-2008                          | 06/17/08                     | 06/23/08                  | 5                        |
| 57015          | \$ 696,448                | CD-017-2008                          | 07/01/08                     | 07/14/08                  | 12                       |
| 57368          | \$ 69,007                 | CD-018-2008                          | 07/24/08                     | 07/31/08                  | 6                        |
| 57667          | \$ 32,394                 | CD-019-2008                          | 08/01/08                     | 08/15/08                  | 13                       |
| 58064          | \$ 861,058                | CD-020-2008                          | 08/14/08                     | 08/22/08                  | 7                        |
| 58911          | \$ 309,416                | ESP-002-2008                         | 09/24/08                     | 09/29/08                  | 4                        |
| 58926          | \$ 283,780                | ESP-002-2008                         | 09/24/08                     | 10/01/08                  | 6                        |
| 59002          | \$ 13,222                 | CD-021-2008                          | 08/20/08                     | 11/10/08                  | 81                       |
| 59049          | \$ 90,183                 | CD-022-2008                          | 09/26/08                     | 10/10/08                  | 13                       |

We estimated a total interest liability of \$4,227 for the above draw downs based on the yield of 13-week U.S. Treasury bills. As this amount is below \$10,000, no questioned costs are reported.



**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-2, Continued

Cash Management

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$0

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

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

Recommendation: We recommend that the Ministry of Finance comply with the FPA and establish a formal methodology governing the drawdown of Federal funds to minimize the time elapsed between the receipt of Federal funds and the date of applicable payments clear in the bank.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. Our corrective action plan will involve the Chief of Accounting and Senior Compact Grants Budget Officer to establish a formal methodology governing the drawdown of Compact Funds to minimize the time elapsed between the receipt of Fund and the date of applicable payments clear in the bank, to ensure compliance with the FPA. The anticipated completion date of this corrective action plan is September 30, 2009.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-3

#### Equipment and Real Property Management

#### U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

#### U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

#### Questioned Costs: \$0

Criteria: Article VI , Section 1(f)(4) of the Fiscal Procedures Agreement (FPA) and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

- a. Property records must be maintained, 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.

Condition: No inventory of fixed assets has been performed to ensure compliance with the FPA and the Common Rule.

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

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

Recommendation: We recommend that the Ministry of Finance perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements and to ensure that it is in compliance with applicable federal property rules and regulations.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-3, Continued

Equipment and Real Property Management

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: \$0

Prior Year Status: Lack of a complete fixed assets listing was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2007.

Auditee Response and Corrective Plan: We agree with the audit finding and recommendation. The Ministry of Finance, particularly the Procurement and Supply Office is currently conducting a nationwide Physical Inventory count of all RMI Government Capital Asset worth \$5000 and greater. To date, the Ministry's inventory team has accomplished 80% completion of inventory, and the anticipated completed date of the Fixed Asset register is September 30, 2009.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-4

Procurement and Suspension and Debarment

U.S. Department of Agriculture - CFDA # 10.567: Food Distribution Program

Questioned Costs: \$252,507

Criteria: Section 3016.36 of 7 CFR 3016, *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 government or 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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. 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 \$518,824 in non-payroll expenditures for the Special Feeding Program, forty-six items, totaling \$472,334, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

| <u>Item #</u> | <u>PO #</u> | <u>Check #</u> | <u>G/L Account Name</u> | <u>Amount</u> |
|---------------|-------------|----------------|-------------------------|---------------|
| 1             | P2338301    | 52731          | Food Stuff              | \$ 39,497     |
| 2             | P2338101    | 52816          | Food Stuff              | \$ 20,000     |
| 3             | P2338001    | 52816          | Food Stuff              | \$ 17,194     |
| 4             | P2402801    | 53864          | Rentals                 | \$ 5,440      |
| 5             | P2519101    | 56112          | Food Stuff              | \$ 16,922     |
| 6             | P2536401    | 56112          | Food Stuff              | \$ 10,369     |
| 7             | P2536401    | 56112          | Food Stuff              | \$ 25,988     |
| 8             | P2536401    | 56112          | Food Stuff              | \$ 22,997     |
| 9             | P2540201    | 56113          | Food Stuff              | \$ 25,222     |
| 10            | P2550101    | 57382          | Food Stuff              | \$ 12,450     |
| 11            | P2701701    | 59384          | Food Stuff              | \$ 5,190      |
| 12            | P2697101    | 59496          | Food Stuff              | \$ 51,238     |

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-4, Continued

#### Procurement and Suspension and Debarment

#### U.S. Department of Agriculture - CFDA # 10.567: Food Distribution Program

Questioned Costs: \$252,507

#### Condition, Continued:

For item # 1, three informal price quotations were on file; however, these did not appear to have been independently completed and obtained from the respective vendors. The per unit costs for certain products did not agree with the costs documented on the price quotations, there were certain items purchased that were not documented on the price quotations, and the date of the vendor invoice (9/14/07) preceded the purchase order date (1/14/08). Furthermore, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding.

For item #s 2 and 3, three informal price quotations were on file; however, these did not appear to have been independently completed and obtained from the respective vendors. The per unit costs for certain products did not agree with the costs documented on the price quotations, there were certain items purchased that were not documented on the price quotations, and the date of the vendor invoice (11/14/07 and 11/26/07) preceded the purchase order date (1/24/08) and purchase requisition date (11/29/07).

For item # 4, three informal price quotations were on file; however, such were not based on common parameters (one was based on miles while the other two were based on a daily rate).

For item # 5, procurement was supported by a memo, dated 4/17/08, from the Division of Procurement and Supply documenting sole source due to an emergency due to limited timeframe and transportation yet vendor invoice was dated 2/1/08. Such appears to be the lack of adequate planning and does not appear to relate to an emergency procurement.

For item #s 6, 7 and 8, three informal price quotations were on file; however, the purchase price exceeds \$25,000 thus the procurement should have been awarded by competitive sealed bidding.

For item # 9, procurement was supported by a memo, dated 5/14/08, from the Division of Procurement and Supply documenting sole source due to the vendor being the merchant on the ship thus freight and handling costs would be less. Furthermore, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding.

For item # 10, procurement was not supported by informal price quotations, thus purchase appears to have been sole sourced.

For item # 11, procurement was supported by a memo, dated 9/15/08, from the Division of Procurement and Supply documenting sole source due to the vendor being the only merchant on island with rice in stock. No other documentation was on file verifying that the vendor was the sole supplier.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-4, Continued

Procurement and Suspension and Debarment

U.S. Department of Agriculture - CFDA # 10.567: Food Distribution Program

Questioned Costs: \$252,507

Condition, Continued:

For item # 12, procurement was supported by one informal price quotation; however, the purchase price exceeds \$25,000 thus the procurement should have been awarded by competitive sealed bidding.

For item #s 1 through 12, as supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$252,507 will be reported.

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

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The 4-Atoll Feeding Program was recently relocated to the Ministry of Finance where the Director of Budget and the Chief of the Procurement and Supply have been designated as the Ministry's Officials in-charge of overseeing the program activities. Thus, all incoming requests will be channeled through a screening process to ensure compliance with Federal and RMI procurement regulations.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-5

Procurement and Suspension and Debarment

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$74,318

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 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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. 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 \$14,337,611 in non-payroll expenditures of the Compact Sector Grant, sixty-three items, totaling \$3,247,975, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

| <u>Item #</u> | <u>Fund</u> | <u>PO #</u> | <u>Check #</u> | <u>G/L Account Name</u>  | <u>Amount</u> |
|---------------|-------------|-------------|----------------|--------------------------|---------------|
| 1             | 410150      | K1147501    | 13717          | International Travel     | \$ 1,606      |
| 2             | 410150      | Q0785801    | 13759          | Medical Supplies         | \$ 19,430     |
| 3             | 410102      | P2415701    | 53731          | Food Stuff               | \$ 1,155      |
| 4             | 410102      | P2423801    | 53996          | Other Supplies/Materials | \$ 5,200      |
| 5             | 410150      | Q0821701    | 9639           | Contractual Services     | \$ 5,454      |
| 6             | 410102      | P2428701    | 54974          | Food Stuff               | \$ 906        |
| 7             | 410100      | P2510101    | 55508          | POL (Fuel)               | \$ 1,402      |
| 8             | 410150      | Q0857601    | 9880           | Training and Development | \$ 1,000      |
| 9             | 410100      |             | 10165          | Contractual Services     | \$ 4,572      |
| 10            | 410150      |             | 13902          | Equipment                | \$ 33,593     |

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-5, Continued

#### Procurement and Suspension and Debarment

#### U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$74,318

#### Condition, Continued:

For item #1, expenditure related to international travel on full economy fare. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination.

For item # 2, procurement was supported by a memo, dated 9/15/07, from the Kwajalein Atoll Healthcare Bureau documenting sole source due to an emergency due to the lack of pharmaceutical supplies in stock yet vendor invoices were dated 10/18/07, 10/24/07, 11/16/07, 11/23/07 and 11/27/07. Such appears to be the lack of adequate planning and does not appear to relate to an emergency procurement.

For item #s 3 through 10, no evidence of obtaining informal price quotations were on file.

For item #s 1 through 10, as supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$74,318 will be reported.

Cause: The cause of the above condition is the lack of vendor invoices supporting recorded expenditures, and the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with allowable costs/cost principles, and federal procurement requirements as stipulated in the FPA. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Chief of Procurement and Supply and Budget Director have been designated as the Ministry's officials' in-charge to develop procedures and adequate internal control policies to ensure compliance with the procurement requirements as stipulated under the FPA. Currently, the Chief of Procurement & Supply is taking comprehensive measures to ensure all supporting documents are provided and attached to all incoming requests prior to processing.



**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-6

Procurement and Suspension and Debarment

U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: \$14,966

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 government or 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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. 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 \$809,682 in non-payroll expenditures of the IDEA Special Education - Grants to States program, thirty-six items, totaling \$197,514, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

| <u>Item #</u> | <u>PO #</u> | <u>Check #</u> | <u>G/L Account Name</u> | <u>Amount</u> |
|---------------|-------------|----------------|-------------------------|---------------|
| 1             | P2255501    | 53502          | POL (Fuel)              | \$ 1,121      |
| 2             | A0859801    | 55001          | International Travel    | \$ 1,959      |
| 3             | A0874901    | 55935          | International Travel    | \$ 3,238      |
| 4             | A0879501    | 56231          | International Travel    | \$ 1,959      |
| 5             | A0883301    | 56394          | International Travel    | \$ 3,078      |
| 6             | A0899801    | 58320          | International Travel    | \$ 3,486      |
| 7             |             | 59014          | Travel                  | \$ 125        |

For item # 1, expenditure related to the purchase of gasoline. No evidence supporting the procurement process was noted on file. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$1,121 will be reported.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-6, Continued

#### Procurement and Suspension and Debarment

#### U.S. Department of Education - CFDA # 84.027: Special Education - Grants to States

Questioned Costs: \$14,966

#### Condition, Continued:

For item #s 2, 3, 4, 5 and 6, expenditures related to international travel on full economy fares. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$13,720 will be reported.

For item # 7, expenditure related to the purchase of outer island boat charter. No evidence supporting the procurement process was noted on file. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$125 will be reported.

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

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance particularly Procurement & Supply Division will make sure that adequate documentations are attached to all Purchased Requisitions, specifically, to ensure that three vendor price quotations requirements have been met before further approval for process.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-7

Procurement and Suspension and Debarment

U.S. Department of Health and Human Services - CFDA # 93.110: MCH Services Community Based Health Education

U.S. Department of the Interior - CFDA # 15.875: RMI Revenue Enhancements Initiative Grant

Questioned Costs: \$303,827

Criteria: Section 92.36 of 45 CFR 92, *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 government or its Sub-Grantees, provided that they meet the standards identified in this section. Furthermore, Section 12.76 of 43 CFR 12, *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 government or 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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. 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 \$25,981,109 in non-payroll expenditures of the Grants Assistance Fund (excluding the Compact Sector Grants, IDEA Special Education - Grants to States program, and Special Feeding Program, which were separately tested), twenty-seven items, totaling \$2,972,293, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

| <u>Item #</u> | <u>CFDA #</u> | <u>PO #</u> | <u>Check #</u> | <u>G/L Account Name</u> | <u>Amount</u> |
|---------------|---------------|-------------|----------------|-------------------------|---------------|
| 1             | 15.875        | C0215801    | 53136          | Contractual Services    | \$ 97,000     |
| 2             | 93.110        | A0819701    | 50396          | International Travel    | \$ 3,751      |
| 3             | 93.110        | A0829501    | 51784          | International Travel    | \$ 1,966      |
| 4             | 93.110        | A0855801    | 54197          | International Travel    | \$ 3,210      |

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-7, Continued

#### Procurement and Suspension and Debarment

#### U.S. Department of Health and Human Services - CFDA # 93.110: MCH Services Community Based Health Education

#### U.S. Department of the Interior - CFDA # 15.875: RMI Revenue Enhancements Initiative Grant

Questioned Costs: \$303,827

#### Condition, Continued:

For item # 1, the expenditure relates to services of a contractor for the installation of a Customs Management Information System in the amount of \$100,000. No documentation supporting the procurement process was on file. Since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding. Total payments made during fiscal year 2008 under this contract amounted to \$294,900. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the purchase price, a questioned cost in the amount of \$294,900 will be reported.

For item #s 2, 3 and 4, expenditures related to international travel on full economy fares. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$8,927 will be reported.

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

Effect: The effect of the above condition is noncompliance with procurement standards.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: RMI agree with the finding and recommendation. The Office of the Secretary of Finance has directed a policy to strengthen internal control in ensuring that all proper justification, documentations and bidding requirements have been met before further approval for purchase or contract.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

#### Finding No. 2008-8

#### Special Tests and Provisions

#### U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

#### Questioned Costs: \$0

Criteria: Article VI, Section 1(j)(14) of the Fiscal Procedures Agreement (FPA) states that all contracts paid with funds provided pursuant to the Compact, as amended, shall contain the following provisions: (i) for contracts in excess of \$100,000 - administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provision of such sanctions and penalties as appropriate; (ii) for contracts in excess of \$100,000 - termination for cause and for convenience by the Grantee or Sub-Grantee including the manner by which it will be effected and the basis for settlement; (iii) compliance with the local statutes regarding kickbacks and corrupt practices; (iv) access by the Government of the Republic of the Marshall Islands and its Sub-Grantees, the Government of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions; (v) retention of all required records for three years after Grantees or Sub-Grantees make final payments and all other pending matters are closed; and (vi) compliance with all applicable standards, orders, or requirements issued under local environmental laws.

Condition: During the year ended September 30, 2008, RepMar entered into a contract (Contract # C0213601) with a contractor (Vendor # 503298) in the amount of \$14,738 that did not contain the provisions (iii) through (vi).

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring contracts to contain prerequisite provisions and ensuring compliance with special tests and provisions.

Effect: The effect of the above condition is noncompliance with specific provisions of the FPA.

Recommendation: We recommend that RepMar comply with the specific provisions of the FPA and ensure contracts contain all prerequisite provisions.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance particularly the Budget Section, when certifying incoming contracts that involve compact funding must ensure that they contain the provisions stipulated under the Fiscal Procedures Agreement.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2008

Finding No. 2008-9

Payroll Expenditures - Employer Insurance Costs

Criteria: Recorded changes to the payroll master files should be compared to authorized source documents to ensure that they were input accurately. Identified errors should be corrected in a timely manner.

Condition: We examined the bi-weekly employer share for group life insurance premiums for payroll periods ended 10/13/07 through 07/05/08 (20 pay periods) and the following exception was noted:

| <u>Employee #</u> | <u>Actual<br/>Employer<br/>Share</u> | <u>Expected<br/>Employer<br/>Share</u> | <u>Variance</u> | <u>Actual<br/>Employee<br/>Share</u> | <u>Expected<br/>Employee<br/>Share</u> | <u>Variance</u> |
|-------------------|--------------------------------------|--|-----------------|--------------------------------------|--|-----------------|
| 14888             | \$ 1,716                             | \$ 17                                  | \$ 1,699        | \$ 12                                | \$ 12                                  | \$ -            |

The variance of \$1,699 represented an overpayment of group life insurance premiums for each of the pay periods ended 12/27/07 through 06/07/08, which represented a total overpayment of \$18,687. A correction was made by the Payroll Supervisor for the pay period 06/21/08.

Cause: The cause of the above condition is the lack of independent verification after input of changes to the payroll master file for group life insurance premiums.

Effect: The effect of the above condition is the overpayment of group life insurance premiums; however, RepMar subsequently received reimbursement from the insurance company.

Recommendation: We recommend that management establish internal control procedures to ensure that changes made to the payroll master file are independently verified.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance's Chief of Accounting has been designated as the Ministry's official in charge of verifying all changes made to the Payroll Master File to ensure errors are detected and corrected in a timely manner.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2008

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2008:

|  | <u>Questioned Costs</u> |                     |                     |
|--|-------------------------|---------------------|---------------------|
|  | <u>RepMar</u>           | <u>Subrecipient</u> | <u>Total</u>        |
| Questioned costs of RepMar as previously reported:             |                         |                     |                     |
| Fiscal year 2005 Single Audit                                  | \$ 263,733              | \$ -                | \$ 263,733          |
| Fiscal year 2006 Single Audit                                  | 421,559                 | -                   | 421,559             |
| Fiscal year 2007 Single Audit                                  | <u>710,185</u>          | <u>-</u>            | <u>710,185</u>      |
|  | 1,395,477               | -                   | 1,395,477           |
| Less questioned costs resolved in fiscal year 2008:            |                         |                     |                     |
| Questioned costs of fiscal year 2005 Single Audit (1)          | <u>(263,733)</u>        | <u>-</u>            | <u>(263,733)</u>    |
|  | 1,131,744               | -                   | 1,131,744           |
| Questioned costs of fiscal year 2008 Single Audit              | <u>645,618</u>          | <u>-</u>            | <u>645,618</u>      |
| Unresolved questioned costs of RepMar at<br>September 30, 2008 | \$ <u>1,777,362</u>     | \$ <u>-</u>         | \$ <u>1,777,362</u> |

(1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on July 13, 2006, which is in excess of the two year threshold.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 29).