

June 29, 2018

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

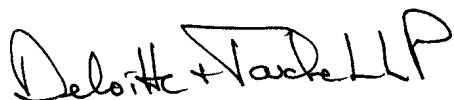
Dear President Heine:

We have performed an audit of 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, 2017, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 29, 2018.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of RepMar is responsible.

This report is intended solely for the information and use of the management of RepMar, others within the entity, the Office of the Auditor-General, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

cc: The Management of the Republic of the Marshall Islands

## **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated September 8, 2017. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the fairness of RepMar's financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, for the year ended September 30, 2017 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2017;
- To express an opinion on whether the supplementary information that accompanies the financial statements, including the schedule of expenditures of federal awards, is fairly stated, in all material respects, in relation to the financial statements taken as a whole;
- To report on RepMar's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2017, based on an audit of financial statements performed in accordance with standards applicable to financial audits contained in generally accepted government auditing standards; and
- To report on RepMar's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the President are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the President of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to RepMar's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances 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 not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered RepMar's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance. Our audit does not, however, provide a legal determination of RepMar's compliance with those requirements.

## ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in RepMar's 2017 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based on management's evaluation of the collectability of current accounts and historical trends, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2017, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

## AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on RepMar's financial reporting process. Such adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2017 financial statements.

In addition, we have attached to this letter, as Appendix A and Appendix B to Attachment II, summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior period presented, respectively, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## SIGNIFICANT ACCOUNTING POLICIES

RepMar's significant accounting policies are set forth in Note 1 to RepMar's 2017 financial statements. During the year ended September 30, 2017, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by RepMar:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether implementation of this statement will have a material effect on the financial statements.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

We have evaluated the significant qualitative aspects of the RepMar's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the RepMar's 2017 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2017.

## **SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

## **OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Office of the President.

## **MANAGEMENT'S REPRESENTATIONS**

We have made specific inquiries of RepMar's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations RepMar is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

## **SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received the full cooperation of RepMar's management and staff and had unrestricted access to RepMar's senior management in the performance of our audit.

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated June 29, 2018, on RepMar's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted certain matters that were considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. We have also issued a separate report to you, also dated June 29, 2018, involving RepMar's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance.

**CONTROL-RELATED MATTERS, CONTINUED**

We have communicated to management, in a separate letter also dated June 29, 2018, certain deficiencies and other matters related to RepMar's internal control over financial reporting that we identified during our audit.

Although we have included management's written responses to our comments, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

**Journal Entries - AJE**

#	Name	Debit	Credit
<b>AJE To correct interfund balances</b>			
950000-75411	DTF CMPT II HEALTH SECTOR	-	20,325.78
950000-75415	CMPT II EBEYE SPEC NEEDS	20,325.78	-
		<u>20,325.78</u>	<u>20,325.78</u>

<b>AJE To record land lease payment</b>			
510610-02210	LAND LEASE	-	19,239.04
100100-02210	LAND LEASE	19,239.04	-
		<u>19,239.04</u>	<u>19,239.04</u>

To record land lease payment (check # 145379) originally recorded in fund 510610.

<b>AJE To record cancellation of payment to vendor</b>			
950000-13010	GENERAL FUND TRSRY - BOG	71,236.80	-
100100-06015	BUSINESS GROSS REV TAX	2,203.20	-
510100-01520	CONTRACTUAL SERVICES	-	73,440.00
		<u>73,440.00</u>	<u>73,440.00</u>

Medical equipment purchased and received from vendor under contract # C09844 was not accepted by Ministry of Health. Check # 147725, APV # 287550 for remaining 75% purchase price was voided and associated gross receipts tax withheld (APV # 287552) is reversed.

<b>AJE To record liability to DOI</b>			
410100-07005	CMPCT II 211A EDUC SECTO	49,626.00	-
410100-72070	DUE TO DOI	-	49,626.00
410102-07058	SUPPLEMENTAL EDU. GRANT	237,413.00	-
410110-07010	CMPCT II 211A HEALTH SCT	520,362.00	-
410110-72070	DUE TO DOI	-	520,362.00
410150-07030	CMPCT II 211A 1 ESN	670,314.40	-
410150-72070	DUE TO DOI	-	670,314.40
410160-07035	CMPCT II 211A 2 KWAJ IMP	254,927.55	-
410160-72070	DUE TO DOI	-	254,927.55
410102-72070	DUE TO DOI	-	237,413.00
		<u>1,732,642.95</u>	<u>1,732,642.95</u>

To record liability for FY2016 Compact grant funds not utilized and returned to DOI per check # 160190.

<b>AJE To record additional A/R Compact Infrastructure</b>			
510100-07050	CMPCT II REVENUE	-	307,377.97
510100-21012	A/R - COMPACT	307,377.97	-
		<u>307,377.97</u>	<u>307,377.97</u>

To record additional A/R from grantor for Public Infrastructure expenditures in excess of revenues.



**Journal Entries - AJE**

#	Name	Debit	Credit
	<b>AJE To record receivable due from State Street</b>		
300618-06510	NET CHANGE FAIR VALUE/INV	-	60,704.84
300618-02750	TRUST FUND - OTHER EXP	-	716,242.53
300618-24201	DUE FROM STATE STREET	776,947.37	-
		<u>776,947.37</u>	<u>776,947.37</u>

To record amount reimbursed by State Street on 10/26/2017 as a result of unauthorized account activity in 2017 as a receivable at 9/30/17.

**AJE To record transfer in from fund 600350**

300612-07610	TRANSFER IN	-	1,394,774.00
300612-01520	CONTRACTUAL SERVICES	1,394,774.00	-
		<u>1,394,774.00</u>	<u>1,394,774.00</u>


To record transfer in from fund 600350 for grant funding to support the Section 177 Health Plan Agreement being administered by Global Health Ministry.

**AJE To correct annual leave payable**

985000-31170	AMOUNT TO BE PROVIDED	740,745.88	-
985000-60020	ACCRUED VACATION LEAVE	-	740,745.88
		<u>740,745.88</u>	<u>740,745.88</u>

To reconcile annual leave payable to subsidiary ledger, excluding ineligible Org #s 1010, 1315, and 1415.

We have reviewed the adjustments above for the General Fund and authorize that they be recorded in the General Ledger as of September 30, 2017. The adjustments are the result of errors and are not the result of fraud or illegal acts.



Maybelline Bing  
Secretary of Finance



Spencer Joe  
Assistant Secretary of Finance



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Deloitte & Touche LLP  
361 South Marine Corps Drive  
Tamuning GU 96913

We confirm that we are responsible for the following:

- Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
  - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
  - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - e. Required supplementary information is measured and presented within prescribed guidelines.
  - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
  - g. The financial statements properly classify all funds and activities, including special and extraordinary items.
  - h. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards ("GASB Codification") Section 2200.159 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  - i. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - j. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - k. The Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
  - l. The Government has followed GASB Codification Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.
  - m. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.
  - n. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Government has made available to you:
  - a. All financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
  - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
  - a. Action taken by Government management that contravenes the provisions of federal laws, or Republic of the Marshall Islands' laws, and laws and regulations, or of contracts and grants applicable to the Government.
  - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2016 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. The Government has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Government involving:
  - a. Management.
  - b. Employees who have significant roles in the Government's internal control.
  - c. Others, where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government's financial statements communicated by employees, former employees, analysts, regulators, or others.

## ATTACHMENT II, CONTINUED

10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 14 to the financial statements.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of the Government's government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and provisions of grants and contracts relating to the Government's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
14. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
16. No events have occurred subsequent to September 30, 2017 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
17. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2017.
18. No no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the Government with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2017.
19. Federal awards expenditures have been charged in accordance with applicable cost principles.
20. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.

21. We have disclosed all contracts or other agreements with service organizations.
22. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
23. We have:
  - a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each federal program under audit.
  - b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
  - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
  - d. Made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
  - e. Identified and disclosed all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.
  - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
  - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
  - h. Monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and terms and conditions of the sub-award and have met the other pass-through entity requirements of OMB Uniform Guidance.

- i. Issued management decisions for audit findings that relate to federal awards made to subrecipients. Such management decisions were issued within six months of acceptance of the audit report by the FAC. Additionally, we have followed up to determine whether the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient from the Government.
  - j. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.
- 24. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance.
- 25. We are responsible for taking corrective action plan on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
- 26. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
- 27. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Government*. We believe that we have properly identified and reported as a component unit of the Government each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Government*. Alele Museum, Inc. and the Republic of the Marshall Islands Private Industry Council, Inc. are related organizations under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39. These entities are governed by respective Board of Directors, all of whom are appointed by the President. The Government's accountability does not extend beyond the appointments. Accordingly, these entities are each classified as another stand-alone governmental unit, not a component unit of the Government, and therefore are not part of the financial statements of the Government.

Except where otherwise stated below, matters less than \$280,000 collectively for the governmental activities, the General Fund, the Grants Assistance Fund, the Compact Trust Fund, and for the aggregate remaining fund information are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

- 28. Except as listed in Appendix A and Appendix B, there are no transactions that have not been recorded and reflected in the financial statements.
- 29. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.



30. Regarding related parties:
- a. We have disclosed to you the identity of the Government's related parties and all the related party relationships and transactions of which we are aware.
  - b. To the extent applicable, related parties and all related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
31. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
32. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
- a. The concentration exists at the date of the financial statements.
  - b. The concentration makes the Government vulnerable to the risk of a near-term severe impact.
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
33. There are no:
- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as discussed in Note 14 to the financial statements.
34. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as discussed in Note 10 to the financial statements.
35. The Government has complied with aspects of contractual agreements that may affect the financial statements.
36. No department or agency of the Government has reported a material instance of noncompliance to us.

37. The Government has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
38. No events have occurred after September 30, 2017, but before June 29, 2018, the date the financial statements were issued that requires consideration as adjustments to or disclosures in the financial statements.
39. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
  - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
40. Regarding supplementary information:
- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
41. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
42. During the year ended September 30, 2017, the Government implemented the following pronouncements:
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68.
  - GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

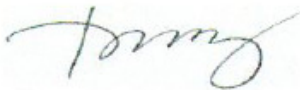
The implementation of these statements did not have a material effect on the financial statements of the Government.

43. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
44. In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
45. In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

46. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
47. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
48. In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
49. In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
50. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether implementation of this statement will have a material effect on the financial statements.
51. Management of the Government believes that it is in compliance with all significant limitations and restrictions of the respective Asian Development Bank (ADB) loan agreement covenants as of September 30, 2017. The aforementioned ADB loans payable are uncollateralized and are backed by the full faith and credit of the Government. These loans are designated and measured by the ADB using Special Drawing Rights. (SDRs). The value of a SDR is defined by a weighted currency basket of four major currencies; the U.S. dollar, the euro, the British pound, and the Japanese yen. The International Monetary Fund re-evaluates this currency basket every five years. The effects of foreign currency transaction gains or losses resulting from this re-evaluation are included in the financial statements in the period when such re-evaluation occurs.
52. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

53. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
54. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
55. The Government 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. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
56. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
57. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.
58. As of September 30, 2017, the Government has certain receivables due from federal grantor agencies recorded within the Grants Assistance Fund of \$14,654,415 that remain uncollected. The Government is currently negotiating with these grantors for a final determination insofar as collection on these amounts. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

Very truly yours,



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Maybelline Andon-Bing  
Secretary



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Spencer Joe  
Assistant Secretary

Appendix A

Republic of the Marshall Islands  
Summary of Uncorrected Misstatements  
September 30, 2017

Government-Wide

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct net overstatement of capital assets		(449,238)					449,238	
		(449,238)					449,238	

General Fund

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct misstatement of cash and accounts receivable	245,413	(245,413)						
To correct overstatement of interfund receivable		(307,235)					307,235	
		(552,648)					307,235	

Grants Assistance Fund

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To correct overstatement of interfund payable			307,235					(307,235)
To correct understatement of grants receivable	187,241							(187,241)
	187,241		307,235					(494,476)



## Appendix B

**Republic of the Marshall Islands**  
**Summary of Uncorrected Misstatements**  
**September 30, 2016**

**General Fund**

	Assets	Liabilities	Equity	Income
	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)
To correct overstatement of interfund receivable	(307,235)			307,235
	(307,235)			307,235

**Grants Assistance Fund**

	Assets	Liabilities	Equity	Income
	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)
To correct overstatement of interfund payable		307,235		(307,235)
		307,235		(307,235)