

Compliance and Internal Control

Republic of the Marshall Islands

*Year ended September 30, 2024
with Report of Independent Auditors*



**Shape the future
with confidence**

Republic of the Marshall Islands

Reports on Compliance and Internal Control

Year ended September 30, 2024

Contents

	<u>Page No.</u>
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	4
Summary Schedule of Expenditures of Federal Awards, by Grantor.....	9
Schedule of Expenditures of Federal Awards.....	10
Notes to Schedule of Expenditures of Federal Awards	12
Schedule of Findings and Questioned Costs.....	15

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Her Excellency Hilda C. Heine, Ed. D
President
Republic of the Marshall Islands

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), 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, 2024, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated September 1, 2026. Our report included an adverse opinion on aggregate discretely presented component units due to the omission of financial statements for College of the Marshall Islands, Kwajalein Atoll Joint Utilities Resources, Inc., Majuro Resort, Inc., Majuro Water and Sewer Company, Inc., and RMI Ports Authority; an adverse opinion on aggregate remaining fund information and qualified opinion on governmental activities due to the omission of financial statements for Health Care Revenue Fund and Marshall Islands Health Fund; and a qualified opinion on governmental activities and Grants Assistance Fund due to collectability of certain portions of federal grants receivable in the aggregate amount of \$22,849,014.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include Marshall Islands Scholarship, Grant and Loan Board; Marshall Islands Judiciary Fund; 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RepMar's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2024-003 through 2024-009 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2024-001 and 2024-002 to be significant deficiencies.

Report on Compliance and Other Matters

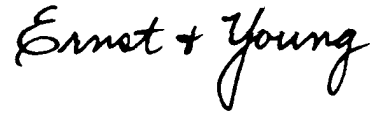
As part of obtaining reasonable assurance about whether RepMar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

RepMar's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on RepMar's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. RepMar's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

September 1, 2026

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Her Excellency Hilda C. Heine, Ed. D
President
Republic of the Marshall Islands

Report of Independent Auditors on Compliance for Each Major Federal Program

Adverse Opinions

We have audited the Republic of the Marshall Islands' (RepMar's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2024. RepMar's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Adverse Opinion on Each Major Federal Program

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, RepMar did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of the following major federal programs for the year ended September 30, 2024:

ALN	Name of Federal Program or Cluster
15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended
84.027	Special Education Cluster (IDEA)
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases

Basis for Adverse Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of 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 those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of RepMar and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion on compliance for each major federal program. Our audit does not provide a legal determination of RepMar's compliance with the compliance requirements referred to above.

Matters Giving Rise to Adverse Opinion on Each Major Federal Program

As described in Findings 2024-010 through 2024-012, 2024-015 through 2024-020, 2024-022, 2024-023, 2024-025, 2024-027 and 2024-028 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding the following:

Finding #	ALN	Name of Federal Program or Cluster	Compliance Requirement
2024-010	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2024-011	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended	Cash Management
2024-012	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended	Equipment and Real Property Management
2024-015	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended	Reporting
2024-016	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended	Subrecipient Monitoring
2024-017	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended	Special Tests and Provisions
2024-018	84.027	Special Education Cluster (IDEA)	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2024-019	84.027	Special Education Cluster (IDEA)	Equipment and Real Property Management
2024-020	84.027	Special Education Cluster (IDEA)	Matching, Level of Effort, Earmarking
2024-022	84.027	Special Education Cluster (IDEA)	Procurement and Suspension and Debarment
2024-023	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2024-025	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Equipment and Real Property Management
2024-027	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Procurement and Suspension and Debarment
2024-028	93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	Reporting

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to RepMar's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on RepMar's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about RepMar's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding RepMar's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of RepMar's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2024-014 and 2024-026. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on RepMar's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. RepMar's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

RepMar is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. RepMar's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2024-010 through 2024-013, 2024-015 through 2024-025, 2024-027 and 2024-028 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2024-014 and 2024-026 to be significant deficiencies.

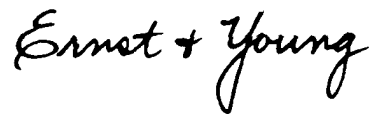
Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on RepMar's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. RepMar's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2024, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements. We issued our report thereon dated September 1, 2026, which contained adverse opinions on aggregate discretely presented component units and aggregate remaining fund information, qualified opinions on governmental activities and Grants Assistance Fund, and unmodified opinions on General Fund and Compact Trust Fund. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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September 1, 2026

REPUBLIC OF THE MARSHALL ISLANDS

Summary Schedule of Expenditures of Federal Awards, By Grantor

Year Ended September 30, 2024

<u>Agency</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture	\$ 608,192
U.S. Department of Commerce	493,247
U.S. Department of the Interior	47,734,677
U.S. Department of Labor	220,972
U.S. Institute of Museum and Library Services	46,706
U.S. Department of Education	2,093,443
U.S. Department of Health and Human Services	7,331,144
U.S. Department of Homeland Security	27,305
	<u>\$ 58,555,686</u>

Note: All awards are received direct from the Federal Agency.

Reconciliation to the 2024 financial statements is as follows:

U.S. Federal Grants Fund Total Expenditures	(1)	\$ 12,256,126
U.S. Federal Grants Fund Total Transfers Out	(1)	2,240,225
Compact - Enewetak Food and Agriculture Program Total Expenditures	(1)	2,228,622
Compact Funds - Total Expenditures	(1)	39,892,399
Compact Funds - Total Transfers Out	(1)	1,792,202
Compact - Audit Fund Total Expenditures	(1)	146,112
		<u>\$ 58,555,686</u>

(1) Presented on page 92 of the 2024 financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal ALN	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
	<u>U.S. Department of Agriculture:</u>		
	Child Nutrition Cluster:		
10.582	Fresh Fruit and Vegetable Program		\$ 561,434
	Subtotal Child Nutrition Cluster		561,434
10.664	Cooperative Forestry Assistance		46,758
	Total U.S. Department of Agriculture		608,192
	<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects		493,247
	Total U.S. Department of Commerce		493,247
	<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social, and Political Development of the Territories:		
	Compact of Free Association Program, As Amended:		
	Sector Grants:		
	Section 211(b)(1) Ebeye Special Needs	\$ 525,000	6,706,725
	Section 211(b)(2) Landowners Special Needs	1,103,930	1,370,321
	Section 211(b)(3) Kwajalein Environment		285,377
	Section 261(a)(1) Education	2,979,205	11,431,053
	Section 261(a)(2) Health	50,000	7,364,598
	Section 261(a)(5) Environment		17,334
	Section 261(a)(6) Public Infrastructure	500,000	7,925,555
	Section 261(a)(7) Enhanced Reporting and Accountability		2,449
	Section 261(a)(8) Enewetak Development		1,128,632
	Subtotal Compact of Free Association, As Amended, Sector Grants		36,232,044
	Section 213(b) Accountability		146,112
	Section 261(b) Infrastructure Maintenance Fund		63,285
	Section 261(h) Climate Fund and Working Group		25
	Supplemental Education Grant	526,065	6,517,852
	EULG Food & Agriculture Support Program		1,099,990
	Namo Renewable Energy Project		931
	177 Health Care Program Assistance Funding		2,240,225
	Providing Capacity in Grant Writing & Management		70,829
	Prefabricated Household Sanitary Toilets		170,425
	Providing Drought Resiliency to Wotje Atoll		155,675
	Retention and Recruitment of Health for Lib Island		58,334
	MIRCS (Red Cross)		237,396
	Likiep Atoll Community Dock Repair Project		525
	Ailinglaplap Atoll LG Water Catchment Project		107,750
	Ebon Atoll LG Teacher Housing Project		23,894
	Water Quality Monitoring Lab Program		82,363
	Wotho Atoll LG Solar Project		29,951
	Majuro Atoll LG TAP		114,875
	Subtotal ALN 15.875		47,352,481
15.904	Historic Preservation Fund Grants-In-Aid		382,196
	Total U.S. Department of the Interior		47,734,677
	<u>U.S. Department of Labor:</u>		
17.225	COVID-19 - Unemployment Insurance		220,972
	Total U.S. Department of Labor		220,972
	<u>U.S. Institute of Museum and Library Services</u>		
45.310	Grants to States		46,706
	Total U.S. Institute of Museum and Library Services		46,706
	<u>U.S. Department of Education:</u>		
	Special Education Cluster (IDEA):		
84.027	Special Education-Grants to States		1,849,796
	Subtotal Special Education Cluster (IDEA)		1,849,796
84.325P	The Republic of the Marshall Islands Teacher Retention Project		243,647
	Total U.S. Department of Education		2,093,443

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, continued

Federal ALN	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
	<u>U.S. Department of Health and Human Services:</u>		
	Health Center Program Cluster:		
93.069	Public Health Emergency Preparedness		479,253
93.110	Maternal and Child Health Federal Consolidated Programs		54,785
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		393,044
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)		1,301,635
	Subtotal Health Center Program Cluster		2,228,717
93.268	Immunization Cooperative Agreements		993,359
93.268	COVID-19 - Immunization Cooperative Agreements		265,672
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		1,426,325
93.323	COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		204,462
93.354	Public Health Emergency Response: Cooperative Agreement for Emergency Response:		
	Public Health Crisis Response		3,734
93.377	Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands, and P.R.		260,521
93.391	COVID-19 - Activities to Support State, Tribal, Local & Territorial (STLT) Health Department Response to Public Health or Health Care Crises		175,282
93.495	COVID-19 Mental Health Workers for Public Health Response & Resilient		383,071
93.889	National Bioterrorism Hospital Preparedness Program		388,671
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations		457,999
93.012	Rural Health Outreach and Rural Network Development Program		284,407
93.917	HIV Care Formula Grants		41,638
93.991	Preventive Health and Health Services Block Grant		20,000
93.994	Maternal and Child Health Services Block Grant to the States		197,286
	Total U.S. Department of Health and Human Services		7,331,144
	<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants		27,305
	Total U.S. Department of Homeland Security		27,305
	TOTAL EXPENDITURES OF FEDERAL AWARDS	\$ 5,684,200	\$ 58,555,686

Republic of the Marshall Islands

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2024

1. Scope

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 Single Audit. The U.S. Department of the Interior has been designated as RepMar's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of RepMar under programs of the federal government for the year ended September 30, 2024. The information in this Schedule is presented 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of RepMar, it is not intended to and does not present the financial positions or changes in financial positions of RepMar.

3. Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which RepMar maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 1 to its September 30, 2024 basic financial statements, except that the Marshall Islands Scholarship, Grant and Loan Board; the Marshall Islands Judiciary Fund; the Health Care Revenue Fund; the Marshall Islands Health Fund; the Marshall Islands Social Security Administration; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2024.

Republic of the Marshall Islands

Notes to Schedule of Expenditures of Federal Awards, continued

3. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

The federal award totals for the excluded component units as of September 30, 2024, are as follows:

<u>Component Unit</u>	<u>Federal Award Total</u>
Air Marshall Islands, Inc.	\$ -
Majuro Atoll Waste Company	\$ -
Marshall Islands Development Bank	\$ -
Marshall Islands Judiciary Fund	\$ -
Marshall Islands Marine Resources Authority	\$ -
Marshall Islands National Telecommunications Authority	\$ -
Marshall Islands Postal Service Authority	\$ -
Marshall Islands Scholarship, Grant and Loan Board	\$ 811,344
Marshall Islands Social Security Administration	\$ -
Marshall Islands Energy Company, Inc.	\$ -
National Environmental Protection Authority Fund	\$ -
RMI Office of Commerce, Investment and Tourism	\$ -
Tobolar Copra Processing Authority	\$ -

Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2024. However, for non-Compact Federal awards, RepMar elected to use the de minimis indirect cost rate allowed under the Uniform Guidance in fiscal year 2024.

Republic of the Marshall Islands

Notes to Schedule of Expenditures of Federal Awards, continued

3. Summary of Significant Accounting Policies, continued

ALN 15.875 Economic, Social, and Political Development of the Territories

ALN 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, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements.

Subrecipients

Certain program funds are passed through RepMar to subrecipient organizations. The Schedule does not contain separate schedules disclosing how the subrecipients, outside of RepMar's control, utilized the funds.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs

Year ended September 30, 2024

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Adverse, Qualified, and Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

X Yes No

Significant deficiency(ies) identified?

X Yes None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

X Yes No

Significant deficiency(ies) identified?

X Yes None reported

Type of auditor's report issued on compliance for major federal programs:

ALN 15.875 Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended

Adverse

ALN 84.027 Special Education Cluster (IDEA)

Adverse

ALN 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

Adverse

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X Yes No

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditor's Results, continued

Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended
84.027	Special Education Cluster (IDEA)
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)

Dollar threshold used to distinguish between

Type A and Type B Programs:

\$1,756,670

Auditee qualified as low-risk auditee?

_____ **Yes** X **No**

Section II - Financial Statement Findings

Reference Number	Finding
2024-001	Financial Management Information System
2024-002	Schedule of Expenditures of Federal Awards Preparation
2024-003	Significant Post-Trial Balance Adjustments
2024-004	Embassy Imprest Accounts
2024-005	Grants Receivable
2024-006	World Bank Fund Receivable
2024-007	Capital Assets
2024-008	Journal Entries
2024-009	External Financial Reporting

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Finding	Questioned Costs
2024-010	15.875	Activities Allowed or Unallowed Allowable Costs/Cost Principles	2,307,732 ^(a)
2024-011	15.875	Cash Management	--- ^(b)
2024-012	15.875	Equipment and Real Property Management	--- ^(b)
2024-013	15.875	Period of Performance	0
2024-014	15.875	Procurement and Suspension and Debarment	268,128 ^(c)
2024-015	15.875	Reporting	0
2024-016	15.875	Subrecipient Monitoring	6,795,269
2024-017	15.875	Special Tests and Provisions – Annual Performance Evaluation	0
2024-017	15.875	Special Tests and Provisions – Infrastructure Maintenance Fund Contribution	0
2024-018	84.027	Activities Allowed or Unallowed Allowable Costs/Cost Principles	338,289
2024-019	84.027	Equipment and Real Property Management	--- ^(b)
2024-020	84.027	Matching, Level of Effort, Earmarking	--- ^(b)
2024-021	84.027	Period of Performance	0
2024-022	84.027	Procurement and Suspension and Debarment	48,663
2024-023	93.323	Activities Allowed or Unallowed Allowable Costs/Cost Principles	204,064
2024-024	93.323	Cash Management	0
2024-025	93.323	Equipment and Real Property Management	--- ^(b)
2024-026	93.323	Period of Performance	25,916
2024-027	93.323	Procurement and Suspension and Debarment	228,374
2024-028	93.323	Reporting	0

^(a) Includes questioned cost of \$2,228,622 which is also reported in Finding 2024-016.

^(b) Questioned costs are undeterminable. See related finding for more information.

^(c) Includes questioned cost of \$87,240 which is also reported in Finding 2024-016.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-001

Area: Financial Management Information System

Criteria: The U.S. Government Accountability Office's (GAO) Yellow Book requires auditors to evaluate the design and operating effectiveness of an entity's internal controls over financial reporting and their compliance with applicable financial reporting frameworks.

Furthermore, the GAO's Green Book requires that management design control activities and information systems that provide relevant, reliable reporting for decision making and accountability.

Finally, Governmental Accounting Standards Board (GASB) Statement No. 34 requires governments to maintain fund accounting and to present financial statements by fund and on both the modified accrual and accrual bases, as applicable.

Condition: In 2023, RepMar's Ministry of Finance, Banking and Postal Services (MOFBPS) replaced the DILOG/4gov accounting system with Bisan, an enterprise fund accounting system commonly used in private-sector environments. While the system can produce basic governmental fund accounting reports through the existing chart of accounts configuration, limitations remain in areas of budgetary reporting, encumbrance accounting, and the generation of reports that fully align with GASB requirements without additional manual processing.

As a result, system-generated reports were exported into spreadsheets and manually compiled to produce consolidated expenditure and encumbrance reports, fund financial statements, and budget-to-actual comparison reports. The reliance on manually prepared reports affected the audit process by necessitating additional audit procedures, including increased testing of spreadsheets and reconciliations, extended effort to trace transactions to underlying source records, and limiting the ability to perform automated data analysis and audit procedures.

Cause: MOFBPS selected a private-sector accounting system without fully evaluating its capability to meet governmental fund accounting and reporting requirements or its impact on auditability prior to installation and implementation. System outputs could not be customized to meet governmental reporting needs, leading to reliance on off-system spreadsheets.

Effect or Potential Effect: With respect to internal controls over financial reporting, there is an increased risk of error or omission in fund reporting and budgetary compliance; a heavy reliance on manual workarounds that reduces efficiency and increases the likelihood of material misstatement. Furthermore, with respect to the inability to generate auditable, system-based fund reports, such may potentially impair transparency, compliance with GASB, and users' overall confidence in the financial statements.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-001, continued

Area: Financial Management Information System

Identification as a Repeat Finding: 2023-001

Recommendation: MOFBPS should conduct an independent formal needs assessment to determine whether the current system can be configured to fully support fund accounting and GASB reporting. If full configuration is not feasible, MOFBPS should consider implementing a government-specific accounting system or robust fund-accounting module that complies with GASB and provides system-generated audit trails. In the interim, MOFBPS should consider documenting and strengthening manual reconciliation processes, including supervisory review, to ensure fund balances and budgetary reports are accurate and complete. Finally, MOFBPS should provide staff training on GASB requirements and how they are to be met within the current system and through supplemental processes.

Views of Responsible Officials: Management continues to prioritize audit-related FMIS enhancements. There are GASB and FMIS Specialists hired by the PFM team to work on an enhancement contract together with key MOF staff.

The contract is being finalized with an implementation timeline tentatively set at 500 calendar days starting September 1, 2026 until December 31, 2027.

The enhancements are expected to achieve the following: automate all GASB financial statements, enhance encumbrances reporting, allow different presentations of the Trial Balance, automate generation of Required and Other Supplementary Information schedules, enhance periodic budget reports, reconfigure the budget execution setup, produce COFA prescribed reports, and create a Debt and Grant accounting module. The Chart of Accounts will also be reviewed and revised during this period.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-002

Area: Schedule of Expenditures of Federal Awards Preparation

Criteria: Paragraph 200.510(b) of OMB Uniform Guidance Part 200 states that the auditee must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements, which must include the total Federal awards expended as determined in accordance with paragraph 200.502. At a minimum, the schedule must:

- List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the U.S. Department of Health and Human Services.
- Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number (ALN) or other identifying number when the Assistance Listings information is not available. For a cluster of programs, also provide the total for the cluster.
- Include the total amount provided to subrecipients from each Federal program.
- For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.

Condition: The SEFA was not timely prepared and reconciled, resulting in revisions during the audit, with a final SEFA provided on February 18, 2026. Deficiencies in the preparation process resulted in the following errors which were identified by the auditors and subsequently rectified by MOFBPS:

- Unrelated federal programs and clusters with different titles were reported under the same Assistance Listing Number (ALN).
- Reported pass-through funding amounts for certain programs were incomplete or inaccurate.
- Inconsistencies in the SEFA presentation for sector and non-sector grants under ALN 15.875 which did not align with the Compact.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-002, continued

Area: Schedule of Expenditures of Federal Awards Preparation

Cause: RepMar lacks internal control policies and procedures over timely and accurate SEFA preparation and review. Furthermore, the SEFA preparation task is not formalized and assigned to a permanent employee of MOFBPS.

Effect or Potential Effect: RepMar is noncompliant with the criteria. SEFA information is used by external auditors and grantor agencies. Incorrect SEFA information may result in unnecessary delays in the audit process and may result in additional and unnecessary audit costs.

Identification as a Repeat Finding: 2023-002

Recommendation: MOFBPS should establish internal control policies and procedures to facilitate timely and accurate SEFA preparation.

Views of Responsible Officials: The MOF acknowledges the need for multi-division coordination among the Budget, Compliance, and Accounting Divisions and will develop a process for SEFA preparation, including quarterly updates, as part of the existing Grants and Sub-Grants Monitoring Procedures Manual.

As part of the process, the Budget Division will ensure the correct ALN is entered during SPG creation.

Additionally, planned FMIS enhancements in 2027 will include automation of SEFA reporting within BISAN.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-003

Area: Significant Post-Trial Balance Adjustments

Criteria: MOFBPS is responsible for preparing complete, accurate, and timely financial statements and supporting accounting records in accordance with the applicable financial reporting framework. Accounting records should be finalized before the audit begins to support an efficient audit and reduce the risk of material misstatement.

Condition: After submitting the unaudited trial balance to the auditors, MOFBPS identified and submitted 15 additional journal entries that materially affected the financial statements. These included a \$9,322,590 adjustment to reduce deferred revenue and recognize World Bank grant revenue and a \$6,896,772 adjustment to Compact Trust Fund investment balances. The adjustments were not recorded when the audit began.

Cause: MOFBPS did not adequately complete the year-end close and financial reporting process before providing the unaudited trial balance to the auditors. Its review procedures did not identify all required adjustments before the audit began.

Effect or Potential Effect: Numerous post-trial-balance adjustments indicate weaknesses in the financial reporting process and increase the risk that material misstatements may not be identified and corrected. The adjustments also increased audit time and effort, reduced audit efficiency, and may have delayed audit completion.

Identification as a Repeat Finding: 2023-003

Recommendation: MOFBPS should strengthen its year-end financial reporting process by implementing comprehensive closing procedures, preparing all required reconciliations, and completing a thorough management review before submitting the unaudited trial balance to the auditors. The trial balance should represent management's best and final accounting records, with only exceptional adjustments identified during the audit.

Views of Responsible Officials: The MOF will continue and enhance the use of the Audit Tasks Tracker, a tool that summarizes in detail the specific tasks/accounts, identifies the preparer and alternate preparer, the reviewer and alternate reviewer, and sets the deadline. The status of each line item is updated during weekly meetings of the CORE Group.

In the past several years, MOF has been supported by ADB-RCU consultants who have been on top of the yearly closing of books and preparation of the final Financial Statements. In late 2025, a Senior Financial Analyst (SFA) was recruited and another three came on board in early 2026.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-003, continued

Area: Significant Post-Trial Balance Adjustments

Views of Responsible Officials, continued:

The ADB-RCU consultants have been facilitating knowledge transfer to the SFAs since late 2025 and Accounting Staff training was conducted in Feb-Mar 2025. Since the tasks are now distributed to more skilled individuals, assigned processes can now be completed at a faster pace than in 2024. This will give enough time and enable the team to complete the bank reconciliations, system vouchers posting, de-obligation/clearing of encumbrances, Embassy Imprest account reconciliations, AP and A/R cut-off/accruals, World Bank and Compact Funds/Grants review, Compact Trust Fund investment balances, sub-recipient monitoring, fixed assets schedule, subsequent revenue/disbursements review, and all other adjustments - before the unaudited trial balance is submitted to the Auditors.

The target date for the submission of the FY 2026 unaudited trial balance is the end of February 2027.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-004

Area: Embassy Imprest Accounts

Criteria: Embassy imprest account replenishment requests should be supported by account reconciliations, and reconciling items should be promptly investigated and properly recorded.

Condition: As of September 30, 2024, RepMar recorded nine embassy imprest accounts. The September 2024 reconciliations for these accounts reported unknown variances or shortages and included the following reconciling items that were not timely investigated or properly recorded:

- Suva, Fiji Embassy September 2024 reconciling items:
 - ▶ \$160,450 unreconciled wire transfers
 - ▶ \$113,052 unreconciled deposits
 - ▶ \$268,946 disallowed disbursements
 - ▶ \$83,619 unknown differences
- Tokyo, Japan Embassy September 2024 reconciling items:
 - ▶ \$399,197 unreconciled wire transfers
 - ▶ \$284,850 unreconciled deposits
 - ▶ \$565,376 disallowed disbursements
 - ▶ \$100,052 unidentified deposits
 - ▶ 751,489 unidentified withdrawals
 - ▶ \$582,816 unreconciled variance
- Taipei, Taiwan Embassy September 2024 reconciling items:
 - ▶ \$121,191 unreconciled deposits
 - ▶ \$40,000 unreconciled withdrawals
 - ▶ \$100,308 disallowed disbursements
 - ▶ \$8,086 unknown differences
- UN Mission September 2024 reconciling items:
 - ▶ \$125,376 unreconciled wire transfers
 - ▶ \$428,521 unreconciled deposits
 - ▶ \$16,815 unknown difference
 - ▶ \$508,688 disallowed disbursements
- Washington, D.C. Embassy September 2024 reconciling items:
 - ▶ \$70,612 unreconciled wire transfers
 - ▶ \$57,881 unreconciled deposits
 - ▶ \$171,691 disallowed disbursements
 - ▶ \$12,869 unknown differences
- Arkansas Consulate September 2024 reconciling items:
 - ▶ \$3,660 unreconciled wire transfers
 - ▶ \$30,203 unreconciled deposits
 - ▶ \$38,273 disallowed disbursements
 - ▶ \$497 unknown differences

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-004, continued
Area: Embassy Imprest Accounts

Condition, continued:

- Seoul, Korea Embassy September 2024 reconciling items:
 - ▶ \$87,163 unreconciled wire transfers
 - ▶ \$154,841 unreconciled deposits
 - ▶ \$4,033 unknown difference
 - ▶ \$266,330.19 disallowed disbursements
- Geneva Mission September 2024 reconciling items:
 - ▶ \$23,559 outstanding replenishments
 - ▶ \$141,188 unreconciled deposits
 - ▶ \$116,662 disallowed disbursements
 - ▶ \$14,801 unknown difference
- Honolulu Consulate September 2024 reconciling items:
 - ▶ \$5,410 unreconciled advances
 - ▶ \$46,918 unreconciled deposits
 - ▶ \$85,934 disallowed disbursements

Cause: RepMar has not established rules and regulations for reconciling embassy imprest accounts or promptly resolving reconciling items.

Effect or Potential Effect: This matter could result in misappropriation of RepMar assets by custodians and misstatement of cash, liabilities, and expenditures related to embassy imprest accounts. RepMar determined these amounts were not material to the financial statements.

Identification as a Repeat Finding: 2023-004

Recommendation: In accordance with the Public Financial Management Act, 2024, MOFBPS should issue rules and regulations for reconciling embassy imprest accounts and resolving reconciling items. MOFBPS should also assess accounting staff capacity and qualifications and provide appropriate training to employees responsible for imprest account reconciliations and replenishments to ensure effective investigation and review.

Views of Responsible Officials: Reporting and monitoring of RMI embassies' imprest funds has improved with minimal disallowed disbursements in FY2024 and thereafter. Unknown differences are generally attributed to foreign exchange rates (gain/loss) accumulated over the years, particularly for embassies using non-USD currencies.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-004, continued
Area: Embassy Imprest Accounts

Views of Responsible Officials, continued:

The Imprest Fund Procedures Manual has been in effect since February 2019, providing uniform procedures and reporting templates. The Manual will be updated once changes of procedures such as decentralization of reimbursement processing in the new FMIS will take effect. The decentralization process will minimize or eliminate disallowances that were mostly caused by “no sufficient funds/budget”. Additionally, MOF regularly coordinates closely with MOFAT and the embassies to prevent or resolve any disallowed disbursements.

Due to staff turnover and changes in embassy administration, MOF, in coordination with the Ministry of Foreign Affairs & Trade (MOFAT), continuously provides targeted training and timely guidance as needed.

MOFAT in close coordination with MOF, proposed to write off the accumulated disallowances of prior years. MOF will effect such write off once considered through a Nitijela resolution or the appropriation act in FY2027.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-005
Area: Grants Receivable

Criteria: Grant expenditures should be drawn down timely to reimburse the General Fund.

Condition: Grants may not have been billed and collected timely. Specifically, certain federal grant receivables for the Public Infrastructure Sector and various grants recorded by RepMar had not been timely billed and collected. As of September 30, 2024, RepMar recorded federal agency receivables in the Grants Assistance Fund totaling \$22,849,014, which was comprised of the following:

Fund #	Fund Name	Amount
10305	U.S. Federal Grants Fund	\$ 3,216,239
10414	Section 213 Audit Fund	567,473
10415	Enewetak Food and Agriculture Support Fund	1,347,849
10401 to 10412, 10417, 10419 and 10420	Compact Sector Funds	<u>17,717,453</u>
		<u>\$22,849,014</u>

Cause: RepMar lacks adequate policies and procedures requiring periodic, timely analysis of grant expenditures to determine whether reimbursement can be requested. In addition, drawdown requests are not monitored to ensure timely reimbursement and resolution of errors.

Effect or Potential Effect: The General Fund absorbs grant expenditures and forgoes potential investment earnings on amounts advanced to federally funded programs. The General Fund may also be adversely affected if amounts are not fully collected. Uncertainty regarding the collectability of federal grants receivable resulted in qualified opinions on governmental activities and Grants Assistance Fund.

Identification as a Repeat Finding: 2023-005

Recommendation: MOFBPS should strengthen and implement policies and procedures requiring periodic, timely analysis of grant expenditures to determine reimbursement eligibility and monitor drawdown requests. Management should also assess staffing needs and qualifications within the accounting department and provide adequate training to employees responsible for federal grants to support timely billing and collection.

Views of Responsible Officials: FY2024 marked the beginning of COFA3 and represented the first year of implementation. During this transition, there were some initial uncertainties and delays, including several sector and infrastructure grant awards that were not finalized or received as anticipated. As a result, sector and infrastructure grant receivables were unusually higher compared to prior years.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-005
Area: Grants Receivable

Views of Responsible Officials, continued:

MOF Management continues to actively recover receivables from grantors and strengthen grant drawdown processes through the following actions:

- 1). Significant reconciliations on Compact grants resulted in the collection of \$1.23 million in FY2024, \$2.17 million in FY2025 and \$6.04 million in FY2026. After subsequent collections, the Compact receivable balance is now at \$5 million as of 3Q FY2026.
- 2). As of late FY2025, three Budget Division officials now have access to multiple online payment portals and are consistently drawing down funds on a monthly basis to prevent future accumulation of receivables.
- 3.) Strengthened monitoring via the monthly and quarterly Compact and Federal reporting requirements.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-006
Area: World Bank Fund Receivable

Criteria: General ledger balances should be reconciled and supported by adequate subsidiary ledgers.

Condition: As of September 30, 2024, the World Bank Fund (Fund 10307) reported preliminary grants receivable of \$3,179,079, based on a subsidiary ledger provided on June 24, 2026. Our review found that the year-end receivable represented preliminary project deficit balances rather than project activity recorded during the year. Through alternative audit procedures, we determined the final grants receivable balance was \$2,144,977, resulting in an overstatement of \$1,034,102. Because the overstatement was not material to the financial statements, no audit adjustment was proposed.

Cause: RepMar does not consistently reconcile project accounts during the year or timely draw down grant funds.

Effect or Potential Effect: Interim financial reporting was inaccurate, and the World Bank project grant expenditures funded by RepMar's General Fund were not reimbursed through timely drawdowns.

Identification as a Repeat Finding: 2023-006

Recommendation: MOFBPS should establish internal control policies and procedures to ensure timely, accurate general ledger reconciliations and financial reporting. Reconciliations should be documented and independently reviewed. MOFBPS should also evaluate the accounting department's staffing needs and qualifications.

Views of Responsible Officials: Management acknowledges the audit finding regarding the \$3,179,079 World Bank grant receivable reported under Fund 10307 as of September 30, 2024.

The reported receivable was valid and was determined based on the project-level fund balances. Where project expenditures exceeded project revenues/advances received from the World Bank, the resulting positive balance represented amounts to be reimbursed by the World Bank and was recorded as Accounts Receivable. Conversely, projects with negative balances, indicating that revenues/advances received exceeded expenditures, does not constitute a receivable.

The RMI General Fund initially finances eligible World Bank project expenditures. These expenditures are subsequently reviewed and validated by the WB-CIU Finance Officers, after which the World Bank processes the reimbursement. The reimbursed funds are transferred to the General Fund through the World Bank Designated Account.

Management acknowledges that the subsidiary ledger did not clearly demonstrate this process and the basis for determining the receivable. Going forward, the Ministry will enhance the year-end reconciliation to clearly link project-level fund balances to eligible expenditures, advances, reimbursements, and the resulting Accounts Receivable balance.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-007
Area: Capital Assets

Criteria: Capital asset records should be timely reconciled to physical inventory records and capital asset ledgers. Records should be periodically reviewed to identify assets that have been retired, replaced, disposed of, or no longer have value or use. Capital assets should be recorded in accordance with the applicable capitalization policy.

The carrying amounts and estimated useful lives of long-lived assets should also be periodically reassessed and adjusted, as appropriate, based on actual experience and relevant facts and circumstances.

Condition:

1. RepMar has not completed a comprehensive physical inventory of capital assets. Accordingly, capital asset records were not reconciled to physical inventory results as of September 30, 2024.
2. RepMar did not consistently perform timely reconciliations and reviews of the construction-in-progress (CIP) rollforward. During the audit, management provided a revised CIP schedule and reconciliation that identified duplicate additions, omitted retirement activity, and errors in the initial schedule, requiring revisions and adjustments after the schedule was submitted for audit.
3. RepMar did not document or implement policies and procedures to routinely assess whether impairment indicators exist and, when present, test long-lived capital assets for impairment.
4. Assets placed in service or transferred to a component unit were not timely removed from CIP and, when applicable, transferred to depreciable assets. The following items were noted:

Item	Asset	Cost	Placed in Service
1	ECC PHASE 2 (EXTERIOR & INTERIOR WORKS)	\$ 5,273,751	June 2024
2	Surgical Ward Project (Phase 1)	\$ 2,988,684	2019
3	(2) Cummins Open Generator model C1500D6 (Engine KTA50-G9)	\$ 2,590,863	Transferred to component unit in 2021

We proposed an audit adjustment to transfer Item # 1 to depreciable assets as of September 30, 2024. Management adjusted Item #s 2 and 3 as of year-end.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-007, continued

Area: Capital Assets

Cause: RepMar did not enforce physical inventory and capital asset reconciliation policies and procedures, and capital asset records were not updated timely. In addition, responsibility for maintaining capital asset records has not been assigned to an adequately trained permanent MOFBPS employee, and MOFBPS does not coordinate with the Ministry of Works, Infrastructure and Utilities throughout the year as construction projects begin, progress, and conclude.

Effect or Potential Effect: Capital assets may be materially misstated.

Identification as a Repeat Finding: 2023-014

Recommendation: MOFBPS should implement and enforce its capital asset policies and procedures, including independent review of capital asset and related general ledger reconciliations. Given RepMar's significant ongoing and anticipated construction projects, MOFBPS should assign dedicated personnel to review and record capital asset activity to support timely and accurate reporting.

Views of Responsible Officials:

Condition 1-3

Repeat finding: same response as 2024-012 (COFA), 2024-025 (ELC/HHS) and 2024-019 (PSS/IDEA)

Condition 4

All projects have outstanding balances and punch lists at the end of the fiscal year. MOF agrees with the audit finding to record a capital asset when it becomes operational in close coordination with MWIU and ministries/agencies concerned to determine the substantial completion of the assets.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-008
Area: Journal Entries

Criteria: Journal entries and adjustments should be adequately supported, independently reviewed timely, and approved by knowledgeable personnel before posting.

Condition: Numerous journal entries recorded during the year, although approved, were inaccurate or lacked adequate support. Management corrected material errors during year-end reconciliations for the annual audit, and several additional errors were corrected during the audit.

Cause: MOFBPS lacks sufficient internal control policies and procedures requiring journal entries to be adequately supported, independently reviewed timely, and approved by knowledgeable personnel before posting.

Effect or Potential Effect: Financial reporting may be inaccurate during the year.

Identification as a Repeat Finding: 2023-009

Recommendation: MOFBPS management should establish internal control policies and procedures requiring journal entries to be adequately supported, independently reviewed timely, and approved by knowledgeable personnel before posting. MOFBPS management should also assess staffing needs and qualifications within the accounting department and provide adequate training to employees responsible for maintaining and updating financial records.

Views of Responsible Officials: The MOF recruited three CPAs as Senior Financial Analysts (SFAs), new permanent positions in the MOF Accounting Division. The SFAs will be actively involved in the review and approval of journal entries for accuracy, completeness, and compliance with accounting policies.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-009

Area: External Financial Reporting

Criteria: GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement Nos. 39 and 61, requires a reporting entity's financial statements to include component units for which the primary government is financially accountable or whose exclusion would make the statements misleading or incomplete.

Condition: The following component units did not provide audited financial statements for inclusion in RepMar's 2024 reporting entity financial statements:

Discretely presented component units:

- 1) College of the Marshall Islands (CMI)
- 2) Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR)
- 3) Majuro Resort, Inc. dba Marshall Islands Resort (MIR)
- 4) Majuro Water & Sewer Company, Inc. (MWSC)
- 5) RMI Ports Authority (RMIPA)

Blended component units:

- 1) Health Care Revenue Fund (HCRF)
- 2) Marshall Islands Health Fund (MIHF)

Cause: The component units did not complete their annual financial statement audits timely because preliminary trial balances and related account reconciliations were submitted late to the external auditors. RepMar also lacks adequate internal control policies and procedures to support compliance with financial reporting framework requirements.

Effect or Potential Effect: RepMar did not comply with GASB Statement No. 14, as amended. The omission of component unit financial statements resulted in an adverse opinion on the aggregate discretely presented component units.

Identification as a Repeat Finding: 2023-010

Recommendation: RepMar should continue efforts to ensure the component units complete their financial statement audits timely.

Views of Responsible Officials: The MOF and the Component Units recognize the need for technical assistance in financial management, particularly on matters pertaining to the audit.

Corrective measures implemented include:

- 1) Withholding subsidy disbursements until reporting requirements are met, and
- 2) Recruiting a Senior Financial Analyst to strengthen SOEs' financial reporting.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-009, continued

Area: External Financial Reporting

Views of Responsible Officials, continued:

MEC and KAJUR are in the process of merging. Effective FY2027, the MEC CFO will be responsible for finalizing the Trial Balance and Financial Statements of both entities.

The audits for CMI, MIR, MWSC, RMIPA, HCRF and MIHF are all ongoing, but just could not meet the target date of August 31 for issuance of the FY2024 Audited Financial Statements.

Furthermore, the MOF will focus on providing technical training to component units, through the ADB-RCU and the SOE SFA.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-010

Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: Compact of Free Association, As Amended
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$2,307,732

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award, in accordance with activities allowed or unallowed and allowable costs/cost principles requirements, and be directly related to, and in accordance with, program intent and objectives.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: For 2 (or 9%) of 22 payroll transactions tested, aggregating \$13,560 of \$17,799,660 in total payroll program expenditures, leave hours were not supported by an approved leave form for the following:

<u>Item #</u>	<u>Employee #</u>	<u>PPE</u>	<u>Hours</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	4216312	9/21/2024	8	\$ 57	\$ 57
2	4244959	7/27/2024	2.60	16	16
				\$ 73	\$ 73

Condition 2: For 6 (or 16%) of 38 non-payroll transactions tested, aggregating \$4,498,991 of \$30,128,050 in total non-payroll program expenditures, cost was not adequately documented due to lack of supporting vendor invoice or internship program timesheet for the following:

<u>Item #</u>	<u>Fund #</u>	<u>Encumbrance #</u>	<u>Account</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	10401	23/00002464TRAVELMISS	Repatriation and Home Leave	\$ 525	\$ 525
2	10402	23/00001606 BRV	Contractual Services (internship)	216	216
3	10402	23/00001575 BRV	Contractual Services (internship)	240	240
4	10402	23/00001486 BRV	Contractual Services (internship)	221	221
5	10403	23/00000485TRAVELMISS	Travel – Domestic	1,550	1,550
6	10409	23/00002363 BRV	Construction In Progress	76,285	76,285
				\$ 79,037	\$ 79,037

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-010, continued

Condition 3: The terms and conditions for grant award nos. D23AF000740, D24AF00030, D24AF00071, and D24AF00369 state that assistance under the awards may not be sub-granted or transferred. However, \$2,228,622 of the grant assistance was disbursed directly to the Enewetak/Ujelang Local Government (EULGOV) and a subgrant agreement with EULGOV was not available. Accordingly, reportable questioned cost results. This item is also reported as a matter of noncompliance within Finding No. 2024-016, including associated questioned costs.

Cause: RepMar did not effectively maintain documentation to support expenditures charged to federal programs and did not effectively monitor the validity and allowability of expenditures. Furthermore, RepMar lacks adequate internal control policies and procedures to facilitate adherence with grant terms and conditions.

Effect or Potential Effect: RepMar is in noncompliance with activities allowed or unallowed and allowable costs/cost principles requirements. The reportable questioned cost is \$2,307,732.

Identification as a Repeat Finding: 2023-011

Recommendation: Documents supporting expenditures should be maintained. Further, RepMar management should strengthen monitoring controls so that expenditures are verified for validity and allowability. Finally, RepMar should adopt adequate internal control policies and procedures to facilitate adherence with grant terms and conditions.

Views of Responsible Officials:

Condition 1: Effective FY2025, all ministries submit leave forms for all annual and sick leave taken, regardless of the number of days. The Ministry of Finance issued a clarifying memorandum on July 29, 2025.

Condition 2:

Item 1. MOF to set a policy providing a repatriation allowance of \$500 to expatriates who have completed their employment contracts and exiting for good, and receipt is not required.

Item 2-4. During the second year of FMIS implementation, limited staffing and scanning equipment prevented the timely upload of supporting documents. The Ministry has since improved its staffing and equipment, and in FY2025 all supporting documentation is uploaded to FMIS before payment processing.

Item 5. The Ministry disagrees with the finding. The per diem and transportation expenses are accounted for in the liquidation supporting documents. The Government accepts acknowledgment receipts as supporting documentation for transportation services provided in neighboring islands due to the vendors' limited resources and inability to issue invoices or printed receipts.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-010, continued

Views of Responsible Officials, continued:

Item 6. The Laura Elementary School PDP & Detailed Design contract was an old/completed project originally funded under expired grant D21AF102130 and was subsequently regranted under FY2024 grant D24AF00024 along with three other projects. The payment was supported by a PMU letter identifying the contractor's total outstanding unpaid invoices.

Condition 3.

Effective 3rd quarter of FY2025, all transactions charged to the Enewetak grant go through the national procurement and payment process.

Auditor's Response: Condition 2, item # 5: We acknowledge management's disagreement; however, supporting documentation was not provided by the agreed-upon deadline. Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-011

Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories/
Federal Award No.: Compact of Free Association, As Amended
Area: Cash Management
Questioned Costs: \$ Undeterminable

Criteria: Compact payments shall be made in accordance with Article VI of Fiscal Procedure Agreement (FPA). Further, Article VIII stipulates that to the extent that the Government of the Republic of the Marshall Islands awards Sub-Grants to local governments or other entities, it shall establish reasonable procedures to ensure the timely receipt of the reports on cash balances and cash disbursements to enable the preparation of complete and accurate transactions reports.

2 CFR section 200.305(b) states that for recipients other than States, payment methods must minimize the time elapsing between the transfer of funds from the Federal agency and the disbursement of funds by the recipient.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: RepMar does not have effective cash management monitoring procedures to facilitate compliance with Article VI of the Fiscal Procedure Agreement. Furthermore, there is no expenditures report on file to support drawdowns made during the year, to ascertain whether expenditures were incurred prior to the date of reimbursement request and whether the time elapsing between transfer of funds was minimized. Lack of such report hinders the preparation of complete and accurate transactions reports.

Questioned costs, if any, that may result from inadequate records are not determinable.

Condition 2: RepMar utilizes a cumulative deductive reimbursement method for payment, therefore, management is unable to provide or correlate when an invoice or drawdown is made.

Cause: RepMar lacks adequate internal controls over compliance related to cash management, including retention of documentation supporting cash drawdowns.

Effect or Potential Effect: RepMar is in noncompliance with applicable cash management requirements.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-011, continued

Identification as a Repeat Finding: 2023-013

Recommendation: RepMar should strengthen controls to ensure that complete and accurate transactions reports are retained to evidence compliance with applicable cash management requirements.

Views of Responsible Officials: Effective FY2025, the Accounting Division is now required to prepare drawdown request forms using the detailed expenditure report (journal listing). Each request is submitted to the Finance Secretary only after approval by Accounting Management.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-012

Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories/
Federal Award No.: Compact of Free Association, As Amended
Area: Equipment and Real Property Management
Questioned Costs: \$ Undeterminable

Criteria: Section 200.313(d) of the Uniform Guidance and Article VIII, Section 1(f)(iv) of the Fiscal Procedures Agreement state that procedures for managing equipment, whether acquired in whole or in part with grant funds, must meet the following requirements:

- a. Property records shall 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 Grants 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 once every two years;
- c. A control system must be in place to ensure safeguards for preventing property loss, damage, or theft. Any loss, damage, or theft of equipment must be investigated. The recipient or subrecipient must notify the Federal agency or pass-through entity of any loss, damage, or theft of equipment that will have an impact on the program;
- d. Adequate maintenance procedures shall be developed to keep the property in good condition; and
- e. If the property is sold, proper sales procedures shall be established to ensure the highest possible return.

Additionally, the carrying amount of long-lived assets and the estimated useful lives of assets should be periodically re-assessed and adjusted, as appropriate, based on actual experience and relevant factors and circumstances.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-012, continued

Condition:

1. Ministry of Finance, Banking and Postal Services (MOFBPS) lacks adequate internal control policies and procedures over compliance with the applicable federal property rules and regulations.
2. MOFBPS's does not maintain capital asset records that meet the criteria above.
3. MOFBPS has not conducted a physical inventory of program equipment, whether acquired in whole or in part with program funds. Therefore, as of September 30, 2024, the required biannual physical inventory and reconciliation of program property records was not performed.
4. As capital asset records are not effectively maintained, it does not appear that MOFBPS has implemented an effective means of adequately safeguarding capital assets from loss, damage or theft, or to reasonably investigate such occurrences.
5. MOFBPS has not established policies and procedures governing property maintenance.

We are unable to assess the overall cumulative monetary value of these deficiencies. In addition, MOFBPS is unable to provide a list of program equipment.

Cause: RepMar lacks adequate entity-wide internal control policies and procedures to satisfy compliance with federal property rules and regulations and lacks effective procedures governing equipment management.

Effect or Potential Effect: RepMar is in noncompliance with applicable equipment and real property management requirements. Questioned costs, if any, which may result from inadequate property records, maintenance procedures, and the lack of physical inventory and reconciliation are not determinable.

Identification as a Repeat Finding: 2023-014

Recommendation: MOFBPS should implement adequate internal control policies and procedures to facilitate compliance with applicable property rules and regulations. MOFBPS should conduct a physical inventory of program equipment and reconcile the results with property records and should develop adequate maintenance procedures in order to keep equipment in good condition. In addition, MOFBPS should consider coordinating with other RepMar ministries and agencies to offer training on property management requirements to all personnel responsible for capital assets.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-012, continued

Views of Responsible Officials: The MOF recruited a dedicated asset management officer and began a government-wide asset inventory in April 2026. Upon completion, the FMIS asset module will be fully implemented in FY2027 to improve the classification, recording, reporting, and monitoring of capital assets. The MOF also continues to coordinate with Ministries and Agencies to update and reconcile asset records.

Repeated finding: same response on Finding Nos. 2024-007, 2024-019, and 2024-25

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-013

Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories/
Federal Award No.: Compact of Free Association, As Amended
Area: Period of Performance
Questioned Costs: \$0

Criteria: 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: RepMar lacks adequate internal controls, as required by 2 CFR 200.303(a), to provide reasonable assurance that costs charged to Federal awards are incurred within the approved period of performance.

Cause: Adequate internal controls have not been implemented, as required.

Effect or Potential Effect: The lack of adequate internal controls over period-of-performance requirements increases the risk that expenditures may be charged to the Federal award outside the period of performance and not be timely detected. No questioned cost is reported because the condition relates to inadequacies in internal control policies and procedures.

Identification as a Repeat Finding: 2023-015

Recommendation: RepMar should implement adequate internal controls over compliance with period of performance requirements.

Views of Responsible Officials: The Bisan system includes functionality to control expenditures within a specified funding period, typically the Budget Period or Period of Performance. These are the Start Date, End Date and Closing Date in each SPG code setup. The Ministry utilizes this feature to help ensure compliance with funding requirements. The Ministry acknowledges, however, that the process still requires human input and oversight. As a result, there remains a risk that expenditures may be processed or incurred outside the approved funding period due to human error. The Ministry will reinforce and continue to strengthen its review and monitoring procedures to minimize this risk and ensure expenditures are charged to the appropriate funding period.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-014

Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories/
Federal Award No.: Compact of Free Association, As Amended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$268,128

Criteria: Section 200.317 of 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards states that, when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds.

RepMar enacted *Procurement Code Act, 2023*, which took effect on October 1, 2023. RepMar's new Procurement Code states the following:

- (a) Section 118 - Unless otherwise provided for in Section 119, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 119(b) - A contract may be awarded for a supply, service, or construction item without competition when, under regulations, the Chief Procurement Officer, the head of a Procurement Entity, or a designee of either officer above the head of a Procurement Entity, or a designee of either officer above the level of the Procurement Officer determines in writing that there is only one source for the required supply, service, or construction item.
- (c) Section 119(c) - Any procurement not exceeding \$50,000, or a lesser amount established by regulation, may be made in accordance with small purchase procedures promulgated in accordance with the Regulation.

Ministry of Finance, Banking and Postal Services has declared that if small purchase procedures are used, price or rate quotations shall be obtained from three sources.

Section 123 of the new Procurement Code stipulates that debarred, suspended, or sanctioned parties are ineligible to participate in solicitations or contract awards.

Section 151 stipulates that regulations shall be issued to implement its provisions.

2 CFR 200.214 states that recipients and subrecipients are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, as well as 2 CFR part 180. The regulations in 2 CFR part 180 restrict making Federal awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from receiving or participating in Federal awards.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-014, continued

Criteria, continued:

2 CFR 180.300 states that when an entity enters into a covered transaction with another person at the next lower tier, the entity must verify that the person with whom the entity intends to do business is not excluded or disqualified by doing the following:

- (a) Checking SAM.gov Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: To date, Regulations have not been issued as required by Section 151 of the Procurement Code.

Despite the absence of finalized implementing guidance, procurement officials applied the new Procurement Code thresholds in practice without adequate supporting regulations, documented procedures, or formally approved guidance to ensure consistent and compliant implementation.

Condition 2: Of 60 procurement transactions tested, aggregating \$4,418,361 of \$14,241,569 in total non-payroll program transactions subject to procurement requirements, the following deficiencies were noted:

1. For 9 (or 15%), supporting procurement documentation was not sufficient to substantiate compliance with applicable procurement requirements:

<u>Item #</u>	<u>Fund #</u>	<u>Encumbrance #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	10401	23/00000348 PORDER	\$ 4,889	\$ 4,889
2	10401	23/00000358 PORDER	799	799
3	10401	23/00001156TRAVELMISS	508	508

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-014, continued

Condition 2, continued:

<u>Item #</u>	<u>Fund #</u>	<u>Encumbrance #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
4	10406	23/00001316 TRAVELMISS	3,482	3,482
5	10406	23/00002686 TRAVELMISS	508	508
6	10406	23/00002687 TRAVELMISS	508	508
7	10305	23/00002983 PORDER	40,000	40,000
8	10406	23/00003511 BRV	36,000	36,000
9	10403	23/00001396 BRV	<u>600</u>	<u>600</u>
			<u>\$ 87,294</u>	<u>\$ 87,294</u>

2. For 4 (or 7%), the procurement documentation is insufficient to support the rationale for vendor selection in accordance with 2CFR section 200.323 and 48 CFR section 15.404-3:

<u>Item #</u>	<u>Fund #</u>	<u>Encumbrance #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	10403	23/00000404PORDER	\$ 9,150	\$ 9,150
2	10401	23/00000793PORDER	403	403
3	10401	23/00002008PORDER	867	867
4	10415	23/00005212 BRV	<u>87,240</u>	<u>87,240</u>
			<u>\$ 97,660</u>	<u>\$ 97,660</u>

Item # 4 pertains to expenditures also reported as questioned cost under Finding No. 2024-016.

3. For 9 (or 15%), supporting procurement files were not provided, as follows:

<u>Item #</u>	<u>Fund #</u>	<u>Encumbrance/Voucher #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	10406	23/00001108PORDER	\$ 4,333	\$ 4,333
2	10403	23/00002692 BRV	3,253	3,253
3	10406	23/00002708 BRV	718	718
4	10406	23/00003836PORDER	1,664	1,664
5	10402	23/00004196PORDER	9,999	9,999
6	10402	23/00004275PORDER	1,140	1,140
7	10402	23/00004466PORDER	19,115	19,115
8	10402	23/00004622 BRV	25,900	25,900
9	10406	23/00014479 PV	<u>17,052</u>	<u>17,052</u>
			<u>\$ 83,174</u>	<u>\$ 83,174</u>

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-014, continued

Condition 3: Documented evidence of compliance with Section 123 of the RMI procurement code and 2 CFR 200.214 and 2 CFR 180.300 regarding debarred, suspended, or otherwise excluded persons or entities was not available.

Cause: RepMar did not enforce adequate internal control policies and procedures over documentation of the procurement process to satisfy compliance with applicable procurement requirements. Further, RepMar lacks procurement regulations requiring verification of the status of an entity with which RepMar intends to enter into a covered transaction.

Effect or Potential Effect: RepMar is in noncompliance with applicable procurement requirements. The reportable questioned cost is \$268,128.

Identification as a Repeat Finding: 2023-016

Recommendation: Responsible personnel should require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for contractor or vendor selection, and verification of whether an entity or person with whom RepMar intends to do business is not excluded or disqualified. Furthermore, Procurement Regulations required by Section 151 of the Procurement Code should be issued.

Views of Responsible Officials:

Condition 1.

The Ministry disagrees with this finding. The revised procurement threshold of \$25,000 to \$50,000 became effective upon adoption of the Procurement Code of 2023 on October 1, 2023, as provided under Section 119(c) Small Purchases. A Regulation is not necessary to support this change. All other provisions of the Procurement Code remained in force and continue to govern procurement activities. Furthermore, an amended Procurement Code was endorsed by Cabinet in March 2026 and will be introduced to Parliament during the August session. Upon its adoption, the corresponding Regulation will be formally issued.

Condition 2-1.

Items 1-2,7 The Ministry disagrees with the findings. All three purchase orders were supported by the required documentation at the time of review and prior to the issuance of the purchase orders.

Items 3-6 The Ministry intends to revisit the existing travel policy and update accordingly.

Item 8 The vendor was directly selected as the authorized distributor & service provider for medical equipment & supplies in the Marshall Islands. Going forward, the Ministry will ensure a signed justification letter from the Head of Department is attached to support sole-source procurements.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-014, continued

Views of Responsible Officials, continued:

Item 9 The Ministry will return requisitions with insufficient supporting documentation and will conduct a procurement training in October 2026 to reinforce procurement requirements.

Condition 2-2

Item 1 The Ministry now requires a Request for Quotation (RFQ) form to be submitted as evidence of compliance with competitive procurement requirements.

Items 2-3 The Ministry disagrees with the findings. Supporting documentations can be found on PR 23/00023360 (#2) & PR 23/00001990 (#3)

Item 4 Effective in FY2025, the Enewetak/Ujelang Local Government operations were transferred to the Ministry of Finance. As a result, all procurement activities are now processed through the Ministry and are required to comply with the applicable procurement code, established regulations, and the Ministry's internal procurement policies and procedures, thereby strengthening oversight and ensuring compliance.

Condition 2-3

1-7 The Ministry now requires a Request for Quotation (RFQ) form to be submitted as evidence of compliance with competitive procurement requirements

8 The Ministry of Finance will require that the PSS Hot Lunch Vendor selection Report (endorsed by the Bid Committee) be submitted with the initial payment to the Hot Lunch Vendors.

9 Once the DLS contract expires, it will be advertised for competitive bidding.

Condition 3

At the start of a new fiscal year, the MOF Compliance team will perform an annual screening of all Funder/Client (Supplier) in Bisan against the SAM.gov list of debarred/suspended entities.

Auditor's Response:

Condition 1: We acknowledge management's disagreement; however, Section 151 of the Procurement Code requires adoption of Procurement Regulations, which has not occurred to date.

Condition 2-1, item #s 1, 2 and 7 and Condition 2-2, item #s 2 and 3: We acknowledge management's disagreement; however, supporting documentation was not provided by the agreed-upon deadline.

Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-015

Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: Compact of Free Association, As Amended
 Area: Reporting
 Questioned Costs: \$0

Criteria: Grant agreements stipulate the type and frequency of reports to be submitted. Furthermore, timely, accurate and complete reporting should be facilitated by an internal control framework conducive to effective monitoring, preparation and independent review of required reports. Lastly, financial reports should reconcile with underlying accounting records.

2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: There are no policies and procedures to monitor the due dates of required reports and track the status of report submissions. It does not appear that RepMar has developed means to monitor compliance with reporting requirements.

Condition 2: For 34 of 141 financial reports due in fiscal year 2024, the following deficiencies were noted:

1. For 2 (or 6%), the underlying FMIS expenditure report was not provided or was incomplete:

<u>Item #</u>	<u>Fund #</u>	<u>SPG Code</u>	<u>Award #</u>	<u>Quarter End</u>
1	10406	70020300	D23AF00006-00	9/30/2023
2	10409	71940100	D24AF00122-00	06/30/2024

2. For 21 (or 62%), the financial reports were not available for examination:

<u>Item #</u>	<u>Fund #</u>	<u>SPG Code</u>	<u>Award #</u>	<u>Quarter End</u>	<u>Due Date</u>	<u>Date Submitted</u>
1	10409	70041300	D23AF00046-00	09/30/2023	10/31/2023	unknown
2	10409	70120100	D23AF00037-00	09/30/2023	10/31/2023	unknown
3	10409	70220100	D23AF00075-00	09/30/2023	10/31/2023	unknown
4	10405	70570200	D24AF00368-00	12/31/2023	01/31/2024	unknown
5	10409	70120100	D23AF00037-00	12/31/2023	01/31/2024	unknown
6	10409	70520600	D23AF00011-01	12/31/2023	01/31/2024	unknown
7	10409	71960100	D24AF00091	12/31/2023	01/31/2024	unknown
8	10412	71880000	D20AF00061-02	12/31/2023	01/31/2024	unknown
9	10405	70570200	D24AF00368-00	03/31/2024	04/30/2024	unknown

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-015, continued

Condition 2, continued:

Item #	Fund #	SPG Code	Award #	Quarter End	Due Date	Date Submitted
10	10406	70500300	D24AF00008-00	03/31/2024	04/30/2024	unknown
11	10409	70520600	D23AF00011-01	03/31/2024	04/30/2024	unknown
12	10409	71930100	D24AF00048-00	03/31/2024	04/30/2024	unknown
13	10412	70610100	D21AF10198-02	03/31/2024	04/30/2024	unknown
14	10406	70130101	D23AF00038-00	06/30/2024	07/31/2024	unknown
15	10409	71960100	D24AF00091	06/30/2024	07/31/2024	unknown
16	10412	70610100	D21AF10198-02	06/30/2024	07/31/2024	unknown
17	10415	70620300	D24AF00071-00	12/31/2023	01/31/2024	unknown
18	10419	72090100	D24AF00416-00	12/31/2023	01/31/2024	unknown
19	10415	70620100	D24AF00030-00	03/31/2024	04/30/2024	unknown
20	10415	70620300	D24AF00071-00	03/31/2024	04/30/2024	unknown
21	10415	70620500	D24AF00369-00	03/31/2024	04/30/2024	unknown

3. For 2 (or 6%), SF-425 reports do not align with the underlying FMIS expenditure report:

Item #	Fund #	SPG Code	Award #	Quarter End	SF-425 Amount	FMIS Amount	Difference
1	10305	11030101	D23AP00147-00	06/30/2024	\$ -	\$ 421	\$ (421)
2	10305	11110101	D23AP00145-00	06/30/2024	\$ 29,950	\$ 200	\$ 29,750

Additionally, the SF-425 reports for item #s 1 and 2 and Award No. D22AP00180-00 for the same quarter end did not include the applicable Special Purpose Grant (SPG) codes. As a result, the completeness and accuracy of the reported amounts could not be verified.

Cause: RepMar lacks adequate internal control policies and procedures governing effective monitoring, preparation and independent review of required reports. Moreover, RepMar lacks adequate internal control policies and procedures over retention of required reports and the underlying accounting records.

Effect or Potential Effect: Sufficient appropriate audit evidence supporting compliance with applicable reporting requirements were not obtained which results in report modification. No questioned cost is reported as the condition relates to inadequacy of internal control policies and procedures governing monitoring, preparation, independent review and retention of required reports and the underlying accounting records.

Identification as a Repeat Finding: 2023-018

Recommendation: RepMar should establish adequate internal control policies and procedures governing monitoring, preparation, independent review and retention of required reports and the underlying accounting records.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-015, continued

Views of Responsible Officials:

Condition 1.

Item 1. A financial reporting tool was recently established to support the timely preparation and submission of reports. Additionally, the Ministry recruited a Senior Financial Analyst in February to oversee the monitoring, preparation, and timely submission of financial reports.

Condition 2-1.

Items 1-2 Effective FY2025, the Accounting Division is now required to prepare drawdown request forms using the detailed expenditure report (journal listing). Each request is submitted to the Finance Secretary only after approval by Accounting Management.

Condition 2-2.

Items 1-21 A financial reporting tool was recently established to support the timely preparation and submission of reports. Additionally, the Ministry recruited a Senior Financial Analyst in February to oversee the monitoring, preparation, and timely submission of financial reports.

Condition 2-3.

Items 1-2 Effective FY2025, the Accounting Division is now required to prepare drawdown request forms using the detailed expenditure report (journal listing). Each request is submitted to the Finance Secretary only after approval by Accounting Management.

However, the Ministry disagrees with the finding on the SF-425 not containing the SPG code since the latter is not a required US field. SPG code is internal to the MOF. Grant number D22AP00180 is also established in the FMIS as part of the setup of SPG 10450101.

Auditor's Response: Condition 2-3: We acknowledge management's disagreement; the finding does not cite omission of SPG codes from the SF-425 form. Rather, we are stating that inclusion of SPG codes could have facilitated our verification of the completeness and accuracy of the amounts reported therein. Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-016
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Compact of Free Association, As Amended
Area: Subrecipient Monitoring
Questioned Costs: \$6,795,269

Criteria: Article VIII, Section 1(a)(i) of the Fiscal Procedures Agreement (FPA) states that fiscal control and accounting procedures of RepMar, as well as its Sub-Grantees, shall be sufficient to: (a) permit the preparation of reports required by the FPA and the 2023 Amended Compact; and (b) permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used in compliance with the provisions of the 2023 Amended Compact, and applicable agreements.

Furthermore, Article VIII, Section 1(n)(i) of the FPA states that RepMar shall ensure that: (a) every Sub-Grant includes any clauses required by the 2023 Amended Compact, the Grant terms and condition, and the FPA; (b) Sub-Grantees are aware of requirements imposed upon them by the 2023 Amended Compact, the Grants terms and conditions and the FPA; and (c) Sub-Grantees can meet the financial management requirements of the FPA.

2 CFR 200.332(c) states that a pass-through entity (PTE) must evaluate each subrecipient's fraud risk and risk of noncompliance with a subaward to determine the appropriate subrecipient monitoring tool. When evaluating a subrecipient's risk, a PTE should consider the following:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits. This includes considering whether or not the subrecipient receives a Single Audit in accordance with subpart F and the extent to which the same or similar subawards have been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of any Federal agency monitoring (for example, if the subrecipient also receives Federal awards directly from the Federal agency).

2 CFR 200.332(e) states that a PTE must monitor the activities of a subrecipient as necessary to ensure that the subrecipient complies with Federal statutes, regulations, and the terms and conditions of the subaward. The PTE is responsible for monitoring the overall performance of a subrecipient to ensure that the goals and objectives of the subaward are achieved. In monitoring a subrecipient, a PTE must:

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-016, continued

Criteria, continued:

- (1) Review financial and performance reports;
- (2) Ensure that the subrecipient takes corrective action on all significant developments that negatively affect the subaward. Significant developments include Single Audit findings related to the subaward, other audit findings, site visits, and written notifications from a subrecipient of adverse conditions which will impact their ability to meet the milestones or the objectives of a subaward. When significant developments negatively impact the subaward, a subrecipient must provide the PTE with information on their plan for corrective action and any assistance needed to resolve the situation;
- (3) Issue a management decision for audit findings related to the subaward, in accordance with 2 CFR §200.521; and
- (4) Resolve audit findings that are specifically related to the subaward.

2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: RepMar did not evaluate and document each subrecipient’s fraud risk and risk of noncompliance prior to issuing subawards. In addition, RepMar did not design and implement risk-based subrecipient monitoring procedures. As a result, RepMar lacked a defined process to identify subrecipient risk and did not tailor monitoring activities to provide reasonable assurance that subawards were administered in compliance with applicable Federal requirements.

Condition 2: For 12 (or 100%) subawards tested out of 22 issued during the audit period, no documented evidence was made available to demonstrate that the Ministry of Finance, Banking and Postal Services (MOFBPS) effectively evaluated and monitored subrecipients and their activities. Consequently, we were unable to ascertain whether MOFBPS monitored subrecipient compliance with subaward agreements, Compact Agreement, grant awards, and the Fiscal Procedures Agreement (FPA).

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-016, continued

Condition 2, continued:

<u>Item #</u>	<u>Subrecipient</u>	<u>Fund #</u>	<u>BRV/ MOA #</u>	<u>Sub-Grant Amount</u>	<u>Questioned Cost</u>
1	College of the Marshall Islands	10401, 10402, 10406, 10409	BRV-23-0227	\$ 2,000,328	\$ 2,000,328
2	National Training Council	10402	BRV-23-5304	18,819	18,819
3	Kora in Okrane (KIO)	10402	BRV-23-2962	15,000	15,000
4	Assumption Schools	10401	BRV-23-7258	100,000	100,000
5	Marshall Islands Scholarship	10401	BRV-25-7100	750,000	750,000
6	National Training Council	10401	BRV-23-7253	250,000	250,000
7	College of the Marshall Islands	10401	BRV-23-7180	200,000	200,000
8	Kwajalein Atoll Joint Utilities Resources	10412	BRV-23-0226	938,930	938,930
9	KalGov-Local Council Management	10412	BRV-23-3559	150,000	150,000
10	Jabro Private School	10406	BRV-23-3148	15,475	15,475
11	Father Hacker High School	10406	BRV-23-3151	12,690	12,690
12	Gem School	10406	BRV-23-3149	23,327	23,327
				<u>\$ 4,474,569</u>	<u>\$ 4,474,569</u>

Condition 3: For 10 (or 71%) of 14 payments to subrecipients tested, aggregating \$944,078 of \$5,684,200 in total transactions, the following deficiencies were noted:

<u>Item #</u>	<u>Subrecipient</u>	<u>Fund #</u>	<u>Payment Basis</u>	<u>Payment Amount</u>	<u>Questioned Cost</u>
1	Women United Together Marshall Islands	10402	4th quarter	\$ 16,250	\$ 16,250
2	National Training Council	10402	70% initial payment	24,742	24,742
3	KORA IN OKRANE (KIO)	10412	1st Quarter	3,750	-
4	KALGOV- Local Council Management	10412	2nd quarter	37,500	-
5	KALGOV- Local Council Management	10412	3rd quarter	37,500	-
6	KALGOV- Local Council Management	10412	4th quarter	37,500	-
7	National Training Council	10401	4th quarter	62,500	-
8	College of the Marshall Islands	10401	4th quarter	50,000	-
9	Ebeye Seventh Day Adventist	10406	1st half	33,460	33,460
10	Queen of Peace	10406	1st half	17,626	17,626
				<u>\$ 320,828</u>	<u>\$ 92,078</u>

For item #s 1 through 6, RepMar did not ensure that costs were expended by the subrecipients prior to payment. Further, for item # 3, no expenditure documentation was provided. Accordingly, the reimbursement timing requirement under 2 CFR §200.305(b)(1) was not met. No additional questioned costs are reported for item #s 3 through 6 as these same subrecipients were previously tested under Condition 2 above and the full-related disbursed amounts were already reported as questioned costs. Accordingly, the amounts are not repeated under this condition.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-016, continued

Condition 3, continued:

For items #s 7 through 10, RepMar did not implement procedures to minimize the time elapsing between the transfer of Federal funds to subrecipients and the subrecipients' disbursement of such funds for program purposes. Accordingly, the requirement under 2 CFR §200.305(b)(1) was not met. No additional questioned costs are reported for item #s 7 and 8 as these same subrecipients were previously tested under Condition 2 and the full-related disbursed amounts were already reported as questioned costs. Accordingly, the amounts are not repeated under this condition.

Condition 4: Subrecipient schedule provided by MOFBPS was incomplete. Grant assistance under award nos. D23AF000740, D24AF00030, D24AF00071, and D24AF00369 aggregating \$2,228,622 was sub-granted to a subrecipient that was not included in the monitoring schedule. Further the sub-grant was prohibited by the grant award terms and conditions. Accordingly, questioned cost of \$2,228,622 results.

Cause: RepMar lacks comprehensive internal control policies and procedures governing subrecipient evaluation and monitoring for compliance with underlying grant awards, memoranda of agreement, and Compact provisions.

Effect or Potential Effect: RepMar is in noncompliance with applicable subrecipient monitoring requirements. The reportable questioned cost is \$6,795,269.

Identification as a Repeat Finding: 2023-019

Recommendation: RepMar should comply with the applicable provisions of the Fiscal Procedures Agreement (FPA) and Federal subrecipient monitoring requirements and should develop, document, and implement effective subrecipient monitoring policies and procedures. Furthermore, the Ministry of Finance, Banking and Postal Services (MOFBPS) should enforce compliance with subaward agreements, including ensuring that subrecipients obtain and timely submit Single Audit reports, as applicable.

Views of Responsible Officials:

Condition 1.

On July 31, the newly developed pre-award risk assessment tool was rolled out to all subrecipients and ministries with oversight, effective FY2027.

Conditions 2-3:

On July 29, July 31 and August 5, 2026, training was conducted on Majuro and Ebeye to introduce new and enhanced tools to strengthen subrecipient monitoring.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-016, continued

Views of Responsible Officials, continued:

It covered the following topics:

1. Audit findings related to subrecipient arrangements.
2. Grants Management Manual with emphasis on its scope and the Management Decision Letter (MDL).
3. Unique Entity Identifier (UEI), which is mandatory.
4. Memorandum of Agreement and the significance of each section.
5. MOA circulation process.
6. Procurement Code 2023
7. Reporting and Required Supporting Documents:
 - Pre-award Risk Assessment
 - Site Visit Checklist
 - Enhanced SubGrant Forms and Review Checklist (SG1/Subgrant Objectives and Budget Proposal and SG2/Performance and Financial Evaluation)
 - SG Forms supporting documentation (salaries & wages, fuel purchase, food purchase, vehicle rental, housing allowance, travel, etc.)
8. Conflict of Interest

In September 2026, officers from the Compliance and SOE Monitoring Unit will start going out to conduct the pre-award risk assessment. Results of the assessment will determine whether the entity can sign an MOA with the MOF or not as well as the entity's risk rating, which will determine the frequency of site visits to be conducted by Compliance beginning FY2027.

Condition 4

Effective 3rd quarter of FY2025, all transactions charged to the Enewetak grant go through the national procurement and payment process.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-017
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Compact of Free Association, As Amended
Area: Special Tests and Provisions – Annual Performance Evaluation
Area: Special Tests and Provisions – Infrastructure Maintenance Fund Contribution
Questioned Costs: \$0

Criteria: Education Sector, Supplemental Education Grant, and Ebeye Special Needs grants special terms and conditions state that in furtherance of the progress made under JEMFAC Resolution 2015-MT-2, all personnel funded from the grants are required to undergo an annual performance evaluation and such evaluation shall be maintained as part of the personnel files and made available when requested for purposes of grant oversight or audits.

Article IX *Terms and Conditions of Infrastructure Assistance*, Section 9(a) of the 2023 Fiscal Procedures Agreement states that the Government of the Republic of the Marshall Islands shall make annual contributions to the Infrastructure Maintenance Fund, which starts with 5 percent of \$50 million in Fiscal Year 2024 and increases thereafter. Such contributions should be made from local funds. The annual contribution is 5 percent of the annual Section 261(a) grants, as set forth in Section 266 of the 2023 Amended Compact.

2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: Documentation was not available to substantiate that Public School System performed and documented annual evaluations for all personnel funded from the Education Sector, Supplemental Education Grant, and Ebeye Special Needs as required by grant terms and conditions.

Condition 2: RepMar did not budget and transfer the required Infrastructure Maintenance Fund contribution during FY2024. Audit procedures confirmed that to date such contribution has yet to be made.

Cause: RepMar lacks comprehensive internal control policies and procedures governing oversight and monitoring of grant terms and conditions to facilitate compliance.

Effect or Potential Effect: RepMar is in noncompliance with applicable special tests and provisions requirements. For Condition 1 above, we were unable to execute appropriate audit procedures. For Condition 2 above, the condition relates to unpaid local contribution. Accordingly, questioned cost is undeterminable.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-017, continued

Identification as a Repeat Finding: 2023-021

Recommendation: RepMar should establish adequate internal control policies and procedures to facilitate oversight, monitoring, and compliance with grant special terms and conditions.

Views of Responsible Officials:

Condition 1

Public School System management concurs with the finding. While annual performance evaluations were completed for many grant-funded employees, PSS did not consistently maintain sufficient documentation to demonstrate that all required evaluations had been completed in accordance with the grant requirements. Beginning in FY2027, PSS has implemented the Orange HR Management System, which provides an electronic process for completing, approving, and storing employee performance evaluations. This system creates a centralized electronic record and audit trail, making it easier to monitor compliance and retrieve documentation for audit purposes. In addition, the Finance and Audit Compliance Specialist will conduct periodic compliance reviews to verify that all required evaluations are completed and properly documented before the close of each fiscal year.

Condition 2

FY2024 Appropriation was a continuation of FY2023 and did not reflect the new Compact yet since negotiations were still ongoing at the time. The \$2.5million matching was clarified with the US DOI team in March 2026, to be appropriated in FY2027. The MOF has not drawn down against this grant.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-018

Federal Agency: U.S. Department of Education
AL Program: 84.027 Special Education Cluster (IDEA)
Federal Award No.: H027A220011-22A, H027A220011-23A, H027A220011-24A
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$338,289

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award, in accordance with activities allowed or unallowed and allowable cost/cost principles requirements, and be directly related to, and in accordance with, program intent and objectives.

34 CFR §300.202(a)(2) states that a Local Educational Agency (LEA) must use IDEA Part B funds only to pay the excess costs of providing special education and related services for children with disabilities. Excess costs are those costs for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per student expenditure in an LEA during the preceding school year. Appendix A to 34 CFR Part 300 provides detailed guidance for calculating the average per pupil expenditures and the minimum average amounts that the LEA must spend before using IDEA funds.

Furthermore, 2 CFR §200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: Of the 51 payroll transactions tested, aggregating \$26,011 of \$1,575,769 in total payroll program expenditures we noted the following:

1. For 35 (or 69%) representing 26 employees, the employment contracts were not available for examination. As a result, we were unable to determine whether the salaries charged to the grant during the year were allowable and necessary. Section 19 of the employment contracts available for examination states that the Republic of the Marshall Islands is not obligated to provide continued employment after the current contract term ends.

<u>Item #</u>	<u>Employee #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	4203689	\$ 1,245	\$ 1,245
2	4234191	8,179	8,179
3	4204796	15,378	15,378
4	4253491	12,912	12,912
5	4241920	15,105	15,105
6	4210451	14,288	14,288
7	4232073	7,868	7,868

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-018, continued

Condition 1, continued:

<u>Item #</u>	<u>Employee #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
8	4234362	8,120	8,120
9	4245585	15,664	15,664
10	4207667	29,874	29,874
11	4242073	7,933	7,933
12	4222746	7,868	7,868
13	4223509	17,676	17,676
14	4220351	8,292	8,292
15	4218541	9,031	9,031
16	4238120	7,934	7,934
17	4209657	24,132	24,132
18	4241470	7,934	7,934
19	4207438	16,219	16,219
20	4234035	15,105	15,105
21	4249967	4,354	4,354
22	4241373	3,183	3,183
23	4219227	25,142	25,142
24	4235558	6,734	6,734
25	4216083	22,023	22,023
26	4200409	<u>25,674</u>	<u>25,674</u>
		<u>\$ 337,867</u>	<u>\$ 337,867</u>

2. For 4 (or 8%), leave hours were not supported by an approved leave form:

<u>Item #</u>	<u>Employee #</u>	<u>PPE</u>	<u>Leave Hours</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	4239915	12/30/2023	48	\$ 157	\$ 157
2	4248388	01/13/2024	32	154	154
3	4239915	05/04/2024	8	26	26
4	4062594	09/07/2024	8	<u>85</u>	<u>85</u>
				<u>\$ 422</u>	<u>\$ 422</u>

Condition 2: Excess cost requirements under IDEA Part B are not met, as the entity did not perform or document the required excess cost calculation prior to charging expenditures to the program.

Cause: RepMar did not effectively maintain documentation to support expenditures charged to federal programs and did not effectively monitor the validity and allowability of expenditures, including obtaining and retaining sufficient documentation to support payroll transactions.

In addition, Public School System (PSS) did not establish and implement effective internal controls to facilitate compliance with IDEA Part B program-specific requirements. Specifically, program personnel were not aware of the excess cost requirement under Appendix A to 34 CFR Part 300 and, as a result, did not perform or document the required excess cost calculation prior to charging expenditures to the program.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-018, continued

Effect or Potential Effect: RepMar is in noncompliance with activities allowed or unallowed and allowable cost/cost principles requirements. The reportable questioned cost is \$338,289.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: Responsible personnel should strengthen monitoring controls so that expenditures are verified for validity and allowability.

In addition, PSS management should establish and implement procedures to facilitate compliance with IDEA Part B requirements, including the preparation and documentation of the excess cost calculation in accordance with Appendix A to 34 CFR Part 300 prior to charging expenditures to the program.

Views of Responsible Officials:

Condition 1-1.

Due to structural damages to the Payroll office, files were transferred from there to the warehouse for storage. After numerous attempts to recover the files, the payroll staff were not able to do so within the given time period. Effective October 2025, the Payroll team has been attaching new employee contracts to the payslips in Bisan. PSC's HRMIS already stored the scanned PAFs of employees. The PSS has now acquired the Orange Human Resource Management System, which will also make contracts available electronically.

Condition 1-2.

PSS Response: PSS Management acknowledges the finding. While leave requests were generally submitted and recorded, we recognize that approved leave forms were not consistently maintained to support all leave hours charged during the audit period.

To address this finding, beginning in FY2027, PSS will implement the Orange Human Resource Management System, which will transition the leave request process from a paper-based system to an electronic system. This will create a complete electronic audit trail for all leave requests submitted by PSS employees on islands with internet access. As internet connectivity continues to expand through solar power and Starlink installations, additional schools and offices will transition to the electronic system, with full implementation across all PSS locations targeted by the end of FY2028. In addition, the Finance and Audit Compliance Specialist will conduct periodic compliance reviews to verify that leave requests are properly approved, documented, and retained in accordance with PSS policies and applicable grant requirements. Any deficiencies identified during these reviews will be communicated promptly to management so that corrective action can be taken.

MOF response: Additionally, effective FY2025, the Ministry of Finance requires all ministries to submit leave forms for all annual and sick leave taken, regardless of the number of hours & days. The Ministry of Finance issued a clarifying memorandum on July 29, 2025.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-018, continued

Views of Responsible Officials, continued:

Condition 2.

These costs were incurred to cover the retirees' annual leave lump-sum payments. Related cost calculation of the excess will be submitted to the grantor for approval moving forward.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-019
Federal Agency: U.S. Department of Education
AL Program: 84.027 Special Education Cluster (IDEA)
Federal Award No.: H027A220011-22A, H027A220011-23A, H027A220011-24A
Area: Equipment and Real Property Management
Questioned Costs: \$ Undeterminable

Criteria: Section 200.313(d) of the Uniform Guidance states that procedures for managing equipment, whether acquired in whole or in part with grant funds, must meet the following requirements:

- a. Property records must include a description of the property, a serial number or another identification number, the source of funding for the property (including the FAIN), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The recipient and subrecipient are responsible for maintaining and updating property records when there is a change in the status of the property;
- b. A physical inventory of the property must be conducted, and the results must be reconciled with the property records at least once every two years;
- c. A control system must be in place to ensure safeguards for preventing property loss, damage, or theft. Any loss, damage, or theft of equipment must be investigated. The recipient or subrecipient must notify the Federal agency or pass-through entity of any loss, damage, or theft of equipment that will have an impact on the program;
- d. Regular maintenance procedures shall be developed to keep the property in good condition; and
- e. If the recipient or subrecipient is authorized or required to sell the property, proper sales procedures must be in place to ensure the highest possible return.

Additionally, the carrying amount of long-lived assets and the estimated useful lives of assets should be periodically re-assessed and adjusted, as appropriate, based on actual experience and relevant factors and circumstances.

Furthermore, 2 CFR §200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-019, continued

Condition:

1. RepMar, through Public School System (PSS) lacks adequate internal control policies and procedures over compliance with the applicable federal property rules and regulations.
2. RepMar, through PSS, does not maintain capital asset records that meet the criteria above.
3. RepMar, through PSS, has not conducted a physical inventory of program equipment, whether acquired in whole or in part with program funds. Therefore, as of September 30, 2024, the required biannual physical inventory and reconciliation of program property records was not performed.
4. As capital asset records are not effectively maintained by PSS, RepMar is unable to demonstrate that adequate controls have been implemented to safeguard capital assets from loss, damage, or theft and to ensure such occurrences are appropriately investigated.
5. RepMar, through PSS, has not established policies and procedures governing property maintenance.

We were unable to assess the overall cumulative monetary value of these deficiencies. Furthermore, RepMar, through PSS, was unable to provide program capital outlay information for the past three years.

Cause: RepMar lacks adequate entity-wide internal control policies and procedures to satisfy compliance with federal property rules and regulations and lacks effective procedures governing equipment management.

Effect or Potential Effect: RepMar is in noncompliance with applicable equipment and real property management requirements. Questioned costs, if any, which may result from inadequate property records, maintenance procedures, and the lack of physical inventory and reconciliation are not determinable.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: RepMar, through PSS, should implement adequate internal control policies and procedures to facilitate compliance with applicable property rules and regulations. PSS should conduct a physical inventory of program equipment and reconcile the results with property records and should develop adequate maintenance procedures in order to keep equipment in good condition. In addition, RepMar through PSS, should consider coordinating with other RepMar ministries and agencies to offer training on property management requirements to all personnel responsible for capital assets.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-019, continued

Views of Responsible Officials:

Conditions 1-5

Repeat Finding - same response for Finding No. 2027-007, 2024-012, and 2024-025

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-020
Federal Agency: U.S. Department of Education
AL Program: 84.027 Special Education Cluster (IDEA)
Federal Award No.: H027A220011-22A, H027A220011-23A, H027A220011-24A
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$ Undeterminable

Criteria: The Individuals with Disabilities Education Act (IDEA) Part B requires States to maintain a specified level of financial support for special education and related services for children with disabilities as a condition of receiving Federal funds. Specifically, IDEA section 612(a)(18) and 34 CFR 300.163 require a State to demonstrate Maintenance of State Financial Support (MFS) by ensuring that the level of State financial support for special education and related services for the most recent State Fiscal Year is equal to or greater than the level provided in the preceding State Fiscal Year. The requirement may be met on either a total or per capita basis.

In addition, pursuant to IDEA section 618(a)(3), the State must report State fiscal data for the applicable fiscal years and certify the accuracy of the reported amounts through the State budget office or an authorized representative. Only State-funded amounts that are allowable under IDEA may be included in the level of effort calculation, and the categories of expenditures used must be applied consistently from year to year.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: Public School System did not maintain sufficient documentation to support the completeness and accuracy of the Maintenance of State Financial Support (MFS) calculation. Specifically, locally funded personnel salary information provided by program personnel could not be reconciled to the subsidiary ledger or to the MFS amount reported in the IDEA Part B application.

Ministry of Finance, Banking and Postal Services (MOFBPS) does not utilize a Special Purpose Grant code to track and summarize special education program expenditures, resulting in reliance on manually prepared personnel listings. As a result, supporting amounts could not be independently traced to underlying accounting records or distinguished by funding sources.

In addition, the personnel listing provided for examination lacked sufficient detail, including information related to employee turnover (resignations, replacements, and related hire and termination dates), and did not include adequate identifiers to determine whether payroll costs were charged exclusively to State funding sources.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-020, continued

Cause: PSS lacks adequate internal controls, formalized procedures, and documentation standards to facilitate compliance with IDEA Maintenance of State Financial Support (MFS) requirements. Specifically, management did not establish processes to maintain consistent and accurate personnel records in sufficient detail to support allowability and funding source determinations. Additionally, responsibilities for tracking employee turnover, verifying payroll charges to State funds, and reviewing the completeness and accuracy of MFS calculations were not clearly defined or consistently performed, resulting in insufficient oversight and documentation to support reported MFS amounts.

Effect or Potential Effect: RepMar is in noncompliance with IDEA Part B MFS requirements. Lack of adequate documentation limits program management's ability to verify that only allowable local funded expenditures are included in the MFS calculation and that expenditure categories are applied consistently across fiscal years. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: PSS management should strengthen internal controls and implement formalized policies and procedures to facilitate accurate, complete, and supportable Maintenance of State Financial Support (MFS) calculations. At a minimum, PSS should:

- Establish written procedures defining roles and responsibilities for preparing, reviewing, and approving the MFS calculation.
- Maintain detailed personnel records, including employee identifiers, funding source designations, hire and termination dates, and documentation of employee turnover.
- Implement tracking controls (e.g., SPG) to identify, summarize, and distinguish local funded special education expenditures from Federal expenditure.
- Verify that only allowable State-funded expenditures are included and that expenditure categories are applied consistently across fiscal years.

Views of Responsible Officials: PSS response: Management concurs with the finding. At the time of the FY2024 audit, the Public School System (PSS) calculated the Maintenance of State Financial Support (MFS) using the gross salaries of locally funded Special Education administrative staff and teachers. While management believes that only allowable State-funded salary expenditures were included in the calculation, the supporting documentation and reconciliation to the underlying accounting records were not maintained in sufficient detail to fully support the reported MFS amount. The Ministry of Finance has implemented a Special Purpose Grant (SPG) code to improve the identification and reporting of all expenditures.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-020, continued

Views of Responsible Officials, continued:

Management will also develop and implement written procedures defining the responsibilities for preparing, reviewing, and approving the annual MFS calculation. These procedures will require the retention of supporting payroll reports, reconciliation to the accounting records, and documentation identifying the employees included in the calculation, their funding sources, and any personnel changes that occurred during the fiscal year. Beginning in FY2027, the Finance and Audit Compliance Specialist will conduct periodic compliance reviews to verify that the MFS calculation is adequately supported, reconciled to the accounting records, and prepared in accordance with IDEA requirements before submission. Any deficiencies identified during these reviews will be communicated promptly to management for corrective action. Management expects these corrective actions to be fully implemented by the end of FY2027.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-021
Federal Agency: U.S. Department of Education
AL Program: 84.027 Special Education Cluster (IDEA)
Federal Award No.: H027A220011-22A, H027A220011-23A, H027A220011-24A
Area: Period of Performance
Questioned Costs: \$0

Criteria: 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: RepMar lacks adequate internal controls, as required by 2 CFR 200.303(a), to provide reasonable assurance that costs charged to Federal awards are incurred within the approved period of performance.

Cause: Adequate internal controls have not been implemented, as required.

Effect or Potential Effect: The lack of adequate internal controls over period-of-performance requirements increases the risk that expenditures may be charged to the Federal award outside the period of performance and not be timely detected. No questioned cost is reported because the condition relates to inadequacies in internal control policies and procedures.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: RepMar should implement adequate internal controls over compliance with period of performance requirements.

Views of Responsible Officials: The Bisan system includes functionality to control expenditures within a specified funding period, typically the Budget Period or Period of Performance. These are the Start Date, End Date and Closing Date in each SPG code setup. The Ministry utilizes this feature to help ensure compliance with funding requirements. The Ministry acknowledges, however, that the process still requires human input and oversight. As a result, there remains a risk that expenditures may be processed or incurred outside the approved funding period due to human error. The Ministry will reinforce and continue to strengthen its review and monitoring procedures to minimize this risk and ensure expenditures are charged to the appropriate funding period.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-022
Federal Agency: U.S. Department of Education
AL Program: 84.027 Special Education Cluster (IDEA)
Federal Award No.: H027A220011-22A, H027A220011-23A, H027A220011-24A
Area: Procurement and Suspension and Debarment
Questioned Costs: \$48,663

Criteria: Section 200.317 of 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* states that, when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds.

RepMar enacted *Procurement Code Act, 2023*, which took effect on October 1, 2023. RepMar's new Procurement Code states the following:

- (a) Section 118 - Unless otherwise provided for in Section 119, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 119(b) - A contract may be awarded for a supply, service, or construction item without competition when, under regulations, the Chief Procurement Officer, the head of a Procurement Entity, or a designee of either officer above the head of a Procurement Entity, or a designee of either officer above the level of the Procurement Officer determines in writing that there is only one source for the required supply, service, or construction item.
- (c) Section 119(c) - Any procurement not exceeding \$50,000, or a lesser amount established by regulation, may be made in accordance with small purchase procedures promulgated in accordance with the Regulation.

Ministry of Finance, Banking and Postal Services has declared that if small purchase procedures are used, price or rate quotations shall be obtained from three sources.

Section 123 of the new Procurement Code stipulates that debarred, suspended, or sanctioned parties are ineligible to participate in solicitations or contract awards.

Section 151 stipulates that regulations shall be issued to implement its provisions.

2 CFR 200.214 states that recipients and subrecipients are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, as well as 2 CFR part 180. The regulations in 2 CFR part 180 restrict making Federal awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from receiving or participating in Federal awards.

2 CFR 180.300 states that when an entity enters into a covered transaction with another person at the next lower tier, the entity must verify that the person with whom the entity intends to do business is not excluded or disqualified by doing the following:

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-022, continued

Criteria, continued:

- (a) Checking SAM.gov Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: To date, Regulations have not been issued as required by Section 151 of the Procurement Code. Despite the absence of finalized implementing guidance, procurement officials applied the new Procurement Code thresholds in practice without adequate supporting regulations, documented procedures, or formally approved guidance to facilitate consistent and compliant implementation.

Condition 2: For 9 (or 53%) of 17 procurement transactions tested, aggregating \$61,863 of \$261,862 in total transactions subject to procurement requirements, supporting procurement documentation was not sufficient to substantiate compliance with applicable procurement requirements as follows:

<u>Item #</u>	<u>Fund#</u>	<u>Encumbrance #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	10305	23/00001413 TRAVELMISS	\$ 1,818	\$ 1,818
2	10305	23/00001507 BRV	21,000	21,000
3	10305	23/00001676PORDER	1,999	1,999
4	10305	23/00002745 TRAVELMISS	3,734	3,734
5	10305	23/00002923 TRAVELMISS	3,871	3,871
6	10305	23/00003339 TRAVELMISS	3,224	3,224
7	10305	23/00004864 BRV	2,868	2,868
8	10305	23/00002184PORDER	7,597	7,597
9	10305	23/00003157 TRAVELMISS	<u>2,552</u>	<u>2,552</u>
			\$ <u>48,663</u>	\$ <u>48,663</u>

Condition 3: Documented evidence of compliance with Section 123 of the RMI Procurement Code, 2 CFR 200.214 and 2 CFR 180.300 regarding debarred, suspended, or otherwise excluded parties was not available.

Cause: RepMar did not enforce adequate internal control policies and procedures over documentation of the procurement process to satisfy compliance with applicable procurement requirements. Further, RepMar lacks policies and procedures requiring verification of the status of an entity with which RepMar intends to enter into a covered transaction.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-022, continued

Effect or Potential Effect: RepMar is in noncompliance with applicable procurement requirements. The reportable questioned cost is \$48,663.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: Responsible personnel should require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for contractor or vendor selection, and verification of whether an entity or person with whom RepMar intends to do business is not excluded or disqualified.

Views of Responsible Officials:

Condition 1.

The Ministry disagrees with this finding. The revised procurement threshold of \$25,000 to \$50,000 became effective upon adoption of the Procurement Code of 2023 on October 1, 2023, as provided under Section 119(c) Small Purchases. A Regulation is not necessary to support this change. All other provisions of the Procurement Code remained in force and continue to govern procurement activities. Furthermore, an amended Procurement Code was endorsed by Cabinet in March 2026 and will be introduced to Parliament during the August session. Upon its adoption, the corresponding Regulation will be formally issued.

Condition 2.

Except for items #1 & #8, the Ministry of Finance agrees with the finding and will ensure that vendor selection and the justification for the selected vendor are clearly documented in all TMVs and BRVs to demonstrate compliance with procurement requirements.

Condition 3.

Same response as Finding No.: 2024-014 - Condition 3

Auditor's Response:

Condition 1: We acknowledge management's disagreement; however, Section 151 of the Procurement Code requires adoption of Procurement Regulations, which has not occurred to date.

Condition 2: We acknowledge management's disagreement; however, supporting documentation was not provided by the agreed-upon deadline.

Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-023

Federal Agency: U.S. Department of Health and Human Services
 AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases
 Federal Award No.: NU50CK000558
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$204,064

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award, in accordance with activities allowed or unallowed and allowable costs/cost principles requirements, and be directly related to, and in accordance with, program intent and objectives.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: Of 15 payroll transactions tested, aggregating \$11,918 of \$462,101 in total payroll program expenditures, we noted the following:

For 3 (or 20%), overtime hours charged to the program were not adequately supported or lacked justification demonstrating that the overtime costs were allocable to the grant. Accordingly, the unsupported overtime hours were identified as questioned costs.

<u>Item #</u>	<u>Employee #</u>	<u>PPE</u>	<u>OT hours</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	4245375	10/21/2023	11.42	\$ 99	\$ 99
2	4240743	12/16/2023	10	94	94
3	4091127	12/30/2023	5	51	51
				\$ 244	\$ 244

Condition 2: For 27 (or 60%) of 45 non-payroll transactions tested, aggregating \$856,345 of \$1,341,003 in total non-payroll program expenditures, the following deficiencies were noted:

<u>Item #</u>	<u>SPG #</u>	<u>Encumbrance #</u>	<u>COVID</u>	<u>Non-COVID</u>	<u>Expenditure Total</u>	<u>Questioned Cost</u>
1	10134502	23/00005119 BRV	\$ -	\$ 43,800	\$ 43,800	\$ 43,800
2	10134502	23/00005408 BRV	-	15,000	15,000	15,000
3	11180109	23/00009318 BRV	15,000	-	15,000	15,000
4	10136601	23/00001683 BRV	-	2,669	2,669	2,669

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-023, continued

Condition 2, continued:

<u>Item #</u>	<u>SPG #</u>	<u>Encumbrance #</u>	<u>COVID</u>	<u>Non-COVID</u>	<u>Expenditure Total</u>	<u>Questioned Cost</u>
5	10135501	23/00006639 BRV	-	5,000	5,000	5,000
6	11180104	23/00009318 BRV	-	5,000	5,000	5,000
7	10580201	23/00002218PORDER	-	1,936	1,936	1,936
8	10136401	23/00000509PORDER	-	356	356	356
9	10131401	22/00003795PORDER	-	788	788	788
10	10131401	22/00003795 PORDER	-	788	788	788
11	10131501	23/00002672PORDER	-	788	788	788
12	10131501	23/00002672PORDER	-	244	244	244
13	10290101	22/00001901PORDER	-	80	80	80
14	10132501	23/00001563PORDER	-	740	740	740
15	10132501	23/00001563 PORDER	-	50	50	50
16	10132401	23/00001532PORDER	-	160	160	160
17	10610201	23/00004146PORDER	27,000	-	27,000	27,000
18	10610201	23/00000651 PORDER	5,500	-	5,500	5,500
19	10610201	22/00003593 PORDER	33,950	-	33,950	33,950
20	10610201	23/00001148 PORDER	23,995	-	23,995	23,995
21	10610201	23/00000597 PORDER	2,904	-	2,904	2,904
22	10610201	23/00000981 PORDER	559	-	559	559
23	10610201	23/00002757 PORDER	420	-	420	420
24	10610201	23/00004140 PORDER	1,500	-	1,500	1,500
25	10610201	23/00002042PORDER	4,000	-	4,000	4,000
26	10610201	23/00000579 PORDER	663	-	663	663
27	10480101	22/00001519 BRV	-	10,930	10,930	10,930
			\$ 115,491	\$ 88,329	\$ 203,820	\$ 203,820

Item # 1 pertains to Ministry of Health and Human Services (MOHHS) utility expenditures for which there was inadequate documentation to support cost allocation to the program.

Items #s 2 through 6 pertain to MOHHS communication expenditures for which there was inadequate documentation to support cost allocation to the program.

Item # 7 pertains to MOHHS food expenditures for which there was inadequate documentation to support cost allocation to the program.

Items #s 8 through 12 pertain to MOHHS advertising expenditures for which there was inadequate documentation to support cost allocation to the program.

Items #s 13 through 16 pertain to fuel expenditures for which there was inadequate documentation to support cost allocation to the program.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-023, continued

Condition 2, continued:

Items #s 17 through 26 pertain to communication, motor vehicle, food, office and computer supplies, other supplies and materials, fuel, equipment and tools, and other charges and expenditures for the Marshall Islands Police Department. We are unable to ascertain relevance to the program.

Items # 27 pertains to prior year contractual services for which no supporting contract was made available for examination.

Cause: RepMar lacks adequate internal control over compliance with applicable allowed and unallowed activity requirements, as well as obtaining and retaining sufficient documentation to support all transactions.

Effect or Potential Effect: RepMar is in noncompliance with activities allowed or unallowed and allowable cost/cost principles requirements. The reportable questioned cost is \$115,735 (COVID) and \$88,329 (Non-COVID).

Identification as a Repeat Finding: 2023-012

Recommendation: RepMar management should strengthen monitoring controls so that expenditures are verified for validity and allowability.

Views of Responsible Officials:

Condition 1

All pay slips claiming OT will include supporting OT approval including justification that are allocable to grants.

Condition 2

Item 1. Utilities are paid out of the de minimis rate of 10% for Federal grants. \$43,800 for utilities is included in the budget breakdown of the grant.

Items #1 to #27. Except for items #1, #7 to #27, the Ministry of Finance agrees with the finding and will ensure that all invoices or billings are attached to support payment accuracy and demonstrate compliance with procurement requirements.

Auditor's Response: Condition 2, item #s 1, and 7 through 27: We acknowledge management's disagreement; however, supporting documentation was not provided by the agreed-upon deadline. Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-024
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases
Federal Award No.: NU50CK000558
Area: Cash Management
Questioned Costs: \$0

Criteria: 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: RepMar does not have effective cash management monitoring procedures, to provide reasonable assurance that expenditures charged to Federal awards under the reimbursement method are incurred prior to the drawdown of Federal funds, in accordance with 2 CFR § 200.303(a).

Cause: RepMar did not implement effective monitoring and oversight controls to verify that reimbursement requests were supported by allowable expenditures incurred prior to the drawdown of Federal funds.

Effect or Potential Effect: RepMar may not timely detect and prevent reimbursement requests that do not comply with Federal cash management requirements. No questioned costs are reported because the condition relates to inadequacies in internal control policies and procedures.

Identification as a Repeat Finding: 2023-013

Recommendation: RepMar should strengthen controls over cash management to ensure that Federal funds are drawn only after allowable expenditures have been incurred and reimbursement requests are adequately supported and reviewed.

Views of Responsible Officials: The fiscal officers of the MOF Budget Division have strengthened their review of expenditures prior to disbursements and started to conduct weekly evaluation and monitoring of draw downs.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-025

Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases
Federal Award No.: NU50CK000558
Area: Equipment and Real Property Management
Questioned Costs: \$ Undeterminable

Criteria: Section 200.313(d) of the Uniform Guidance states that procedures for managing equipment, whether acquired in whole or in part with grant funds, must meet the following requirements:

- a. Property records must include a description of the property, a serial number or another identification number, the source of funding for the property (including the FAIN), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property. The recipient and subrecipient are responsible for maintaining and updating property records when there is a change in the status of the property;
- b. A physical inventory of the property must be conducted, and the results must be reconciled with the property records at least once every two years;
- c. A control system must be in place to ensure safeguards for preventing property loss, damage, or theft. Any loss, damage, or theft of equipment must be investigated. The recipient or subrecipient must notify the Federal agency or pass-through entity of any loss, damage, or theft of equipment that will have an impact on the program;
- d. Regular maintenance procedures shall be developed to keep the property in good condition; and
- e. If the recipient or subrecipient is authorized or required to sell the property, proper sales procedures must be in place to ensure the highest possible return.

Additionally, the carrying amount of long-lived assets and the estimated useful lives of assets should be periodically re-assessed and adjusted, as appropriate, based on actual experience and relevant factors and circumstances.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-025, continued

Condition:

1. RepMar, through Ministry of Health and Human Services (MOHHS) lacks adequate internal control policies and procedures over compliance with the applicable federal property rules and regulations.
2. RepMar, through MOHHS, does not maintain capital asset records that meet the criteria above.
3. RepMar, through MOHHS, has not conducted a physical inventory of program equipment, whether acquired in whole or in part with program funds. Therefore, as of September 30, 2024, the required biannual physical inventory and reconciliation of program property records was not performed.
4. As capital asset records are not effectively maintained by PSS, RepMar is unable to demonstrate that adequate controls have been implemented to safeguard capital assets from loss, damage, or theft and to ensure such occurrences are appropriately investigated.
5. RepMar, through MOHHS, has not established policies and procedures governing property maintenance.

We were unable to assess the overall cumulative monetary value of these deficiencies. Furthermore, RepMar, through MOHHS, was unable to provide program capital outlay information for the past three years.

Cause: RepMar lacks adequate entity-wide internal control policies and procedures to satisfy compliance with federal property rules and regulations and lacks effective procedures governing equipment management.

Effect or Potential Effect: RepMar is in noncompliance with applicable equipment and real property management requirements. Questioned costs, if any, which may result from inadequate property records, maintenance procedures, and the lack of physical inventory and reconciliation are not determinable.

Identification as a Repeat Finding: 2023-014

Recommendation: RepMar, through MOHHS, should implement adequate internal control policies and procedures to facilitate compliance with applicable property rules and regulations. MOHHS should conduct a physical inventory of program equipment and reconcile the results with property records and should develop adequate maintenance procedures in order to keep equipment in good condition. In addition, RepMar through MOHHS, should consider coordinating with other RepMar ministries and agencies to offer training on property management requirements to all personnel responsible for capital assets.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-025, continued

Views of Responsible Officials:

Conditions 1-5

Repeat Finding, same response for Finding Nos. 2024-007, 2024-012, and 2024-019

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-026

Federal Agency: U.S. Department of Health and Human Services
 AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases
 Federal Award No.: NU50CK000558
 Area: Period of Performance
 Questioned Costs: \$25,916

Criteria: Grant agreements stipulate the period of performance during which time only costs resulting from obligations of the funding period may be charged.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: For 6 (or 24%) of 25 transactions tested aggregating \$359,848 of \$544,405 in non-payroll expenditures, costs were incurred outside of the period of performance:

Item #	Voucher #	Cost Incurred Date	Period Ending Date	Expenditure Amount	Questioned Cost
1	23/00018308PV	8/1/2024 to 8/30/2024	7/31/2024	\$ 5,076	\$ 5,076
2	23/00007770INVOICE	9/24/2024 to 9/26/2024	7/31/2024	3,000	3,000
3	23/00006090PINVOICE	8/7/2024	7/31/2024	788	788
4	23/00007033INVOICE	9/12/2024	7/31/2024	150	150
5	23/00007702INVOICE	10/7/2024	7/31/2024	201	201
6	23/00005895JOURNAL/ 23/00017983PV	02/21/2024 to 8/20/2024	7/31/2024	151,979	16,701
				\$ 161,194	\$ 25,916

Item # 6 questioned cost is prorated for the 20 days outside of the period of performance.

Cause: RepMar did not establish and enforce adequate internal control policies and procedures to ensure that expenditures charged to Federal awards comply with applicable period of performance requirements.

Effect or Potential Effect: RepMar is in noncompliance with applicable period of performance requirements. The reportable questioned cost is \$25,916.

Identification as a Repeat Finding: This is not a repeat finding.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-026, continued

Recommendation: In accordance with 2 CFR 200.303(a), RepMar should implement adequate internal controls policies and procedures over period of performance requirements. Such controls should clearly define procedures for identifying grant award start and end dates, periodic supervisory reviews of expenditures for allowability and timing, and ongoing monitoring activities to verify compliance.

Views of Responsible Officials: The Ministry disagrees with the findings. The Bisan system includes functionality to control expenditures within a specified funding period, typically the Budget Period or Period of Performance. These are the Start Date, End Date (last day for obligations) and Closing Date (last day to liquidate encumbrances) in each SPG code setup. The Ministry utilizes this feature to help ensure compliance with funding requirements.

Auditor's Response: We acknowledge management's disagreement; however, the expenditures identified were outside of the period of performance based on the substantive audit procedures performed. Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-027
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases
Federal Award No.: NU50CK000558
Area: Procurement and Suspension and Debarment
Questioned Costs: \$228,374

Criteria: Section 200.317 of 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* states that, when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds.

RepMar enacted *Procurement Code Act, 2023*, which took effect on October 1, 2023. RepMar's new Procurement Code states the following:

- (a) Section 118 - Unless otherwise provided for in Section 119, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 119(b) - A contract may be awarded for a supply, service, or construction item without competition when, under regulations, the Chief Procurement Officer, the head of a Procurement Entity, or a designee of either officer above the head of a Procurement Entity, or a designee of either officer above the level of the Procurement Officer determines in writing that there is only one source for the required supply, service, or construction item.
- (c) Section 119(c) - Any procurement not exceeding \$50,000, or a lesser amount established by regulation, may be made in accordance with small purchase procedures promulgated in accordance with the Regulation.

Ministry of Finance, Banking and Postal Services has declared that if small purchase procedures are used, price or rate quotations shall be obtained from three sources.

Section 123 of the new Procurement Code stipulates that debarred, suspended, or sanctioned parties are ineligible to participate in solicitations or contract awards.

Section 151 stipulates that regulations shall be issued to implement its provisions.

2 CFR 200.214 states that recipients and subrecipients are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, as well as 2 CFR part 180. The regulations in 2 CFR part 180 restrict making Federal awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from receiving or participating in Federal awards.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-027, continued

Criteria, continued:

2 CFR 180.300 states that when an entity enters into a covered transaction with another person at the next lower tier, the entity must verify that the person with whom the entity intends to do business is not excluded or disqualified by doing the following:

- (a) Checking SAM.gov Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Furthermore, 2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: To date, Regulations have not been issued as required by Section 151 of the Procurement Code.

Despite the absence of finalized implementing guidance, procurement officials applied the new Procurement Code thresholds in practice without adequate supporting regulations, documented procedures, or formally approved guidance to facilitate consistent and compliant implementation.

Condition 2: Of 17 procurement transactions tested, aggregating \$482,746 of \$1,093,787 in total non-payroll program transactions subject to procurement requirements, the following exceptions were noted:

1. For 9 (or 53%), supporting procurement files were not sufficient to substantiate compliance with applicable procurement requirements.

<u>Item #</u>	<u>SPG #</u>	<u>Encumbrance #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
1	10610201	23/00001148PORDER	\$ 23,995	\$ 23,995
2	10131501	23/00001404 BRV	47,670	47,670
3	10290101	23/00001406 BRV	45,504	45,504
4	10131501	23/00001439 BRV	22,638	22,638
5	10610201	23/00004146PORDER	27,000	27,000
6	10136401	23/00000668 TRAVELMISS	597	597
7	10580101	23/00002788PORDER	2,568	2,568
8	10610201	23/00004349PORDER	11,298	11,298
9	10320101	23/00000067PORDER	5,450	5,450
			\$ 186,720	\$ 186,720

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-027, continued

Condition 2, continued:

2. For 1 (or 6%), although the selection method was indicated as “Competitive” and management represented that the original contract was competitively procured in 2019, no documentation was provided to demonstrate that the 2024 contract representing a new five-year project period under a new grant was procured through a new competitive process or that a formal sole source or noncompetitive justification was obtained. The apparent noncompetitive procurement was not supported by documented justification and approval.

<u>SPG #</u>	<u>Encumbrance #</u>	<u>Expenditure Amount</u>	<u>Questioned Cost</u>
11180105	23/00007686 BRV	\$ 41,654	\$ 41,654

Condition 3: Documented evidence of compliance with Section 123 of the RMI Procurement Code, 2 CFR 200.214 and 2 CFR 180.300 regarding debarred, suspended, or otherwise excluded parties was not available.

Cause: RepMar did not enforce adequate internal control policies and procedures over documentation of the procurement process to satisfy compliance with applicable procurement requirements. Further, RepMar lacks policies and procedures requiring verification of the status of an entity with which RepMar intends to enter into a covered transaction.

Effect or Potential Effect: RepMar is in noncompliance with applicable procurement requirements. The reportable questioned cost is \$228,374.

Identification as a Repeat Finding: 2023-017

Recommendation: Responsible personnel should require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the rationale for contractor or vendor selection, and verification of whether an entity or person with whom RepMar intends to do business is not excluded or disqualified.

Views of Responsible Officials:

Condition 1: The Ministry disagrees with this finding. The revised procurement threshold of \$25,000 to \$50,000 became effective upon adoption of the Procurement Code of 2023 on October 1, 2023, as provided under Section 119(c) Small Purchases. A Regulation is not necessary to support this change. All other provisions of the Procurement Code remain in force and continue to govern procurement activities. Furthermore, an amended Procurement Code was endorsed by Cabinet in March 2026 and will be introduced to Parliament during the August session. Upon its adoption, the corresponding Regulation will be formally issued.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-027, continued

Views of Responsible Officials, continued:

Condition 2, #1: Except for items #1, #5, #6, #7, #8 & #9, the Ministry of Finance agrees with the finding and will ensure that vendor selection and the justification for the selected vendor are clearly documented in BRVs and TMV to demonstrate compliance with procurement requirements.

Condition 2, #2: The Ministry agrees with the finding. Competitive bidding should be undertaken when a multi-year contract expires.

Condition 3: At the start of a new fiscal year, the MOF Compliance team will perform an annual screening of all Funder/Client (Supplier) in Bisan against the SAM.gov list of debarred/suspended entities.

Auditor's Response:

Condition 1: We acknowledge management's disagreement; however, Section 151 of the Procurement Code requires adoption of Procurement Regulations, which has not occurred to date.

Condition 2, item #s 1, and 5 through 9: We acknowledge management's disagreement; however, supporting documentation was not provided by the agreed-upon deadline.

Accordingly, based on the evidence available at the time of audit conclusion, the finding remains unchanged.

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-028
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases
Federal Award No.: NU50CK000558
Area: Reporting
Questioned Costs: \$0

Criteria: Grant agreements stipulate the type and frequency of reports to be submitted. Furthermore, timely, accurate and complete reporting should be facilitated by an internal control framework conducive to effective monitoring, preparation and independent review of required reports. Lastly, financial reports should reconcile with underlying accounting records.

2 CFR 200.303(a) states that a recipient of a Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition 1: There are no policies and procedures to monitor the due dates of required reports and track the status of report submissions. It does not appear that RepMar has developed means to monitor compliance with reporting requirements.

Condition 2: RepMar uses the ELC Cooperative Agreement Management Platform (CAMP) portal to report financial progress to the Federal Grantor. RepMar was unable to provide evidence that such reporting occurred during the audit period. Furthermore, no evidence was provided indicating that the financial information reported thereon agreed to RepMar’s underlying accounting records.

Cause: RepMar lacks adequate internal control policies and procedures governing effective monitoring, preparation and independent review of required reports. Moreover, RepMar lacks adequate internal control policies and procedures over retention of reports submitted to grantors and the underlying accounting records.

Effect or Potential Effect: Sufficient appropriate audit evidence supporting compliance with applicable reporting requirements were not obtained which results in report modification. No questioned cost is reported as the condition relates to inadequacy of internal control policies and procedures governing monitoring, preparation, independent review and retention of required reports and the underlying accounting records.

Identification as a Repeat Finding: 2023-018

Republic of the Marshall Islands

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-028, continued

Views of Responsible Officials:

Condition 1: ELC Program Leads complete and submit Work Plan Progress Reports through the ELC CAMP as required by the grant. To monitor compliance, ELC will notify the Ministry of Finance of submitted reports and provide MOF with view-only access to relevant files and supporting documentation as needed.

Condition 2:

The ELC Program Leads completes the required financial reports in ELC CAMP using information provided by the MOF Fiscal Officer and submits the reports through ELC CAMP and GrantSolutions. ELC will notify MOF of each submission to support compliance monitoring.

To strengthen the process, MOF and MOHHS will establish a formal reporting process. MOHHS will maintain a tracking tool with required reports, reporting periods, due dates, and submission status, and share it with MOF. MOF will have access to ELC CAMP and the MOHHS GrantSolutions account to retrieve reports as needed.



Republic of the Marshall Islands
Ministry of Finance, Banking and Postal Services
P.O. Box D ~ Majuro ~ Marshall Islands ~ 96960
 Phone No. (692) 625-8320 ~ No. (692) 625-8311/8370/7420

Corrective Action Plan
Year ended September 30, 2024

Finding Number	ALN No.	Compliance Requirement	Questioned Cost	Corrective Action Plan	Completion Date	Responsible Person
FS						
2024-001		Financial Management Information System		Management continues to prioritize audit-related FMIS enhancements. There are GASB and FMIS Specialists hired by the PFM team to work on an enhancement contract together with key MOF staff. The contract is being finalized with an implementation timeline tentatively set at 500 calendar days starting September 1, 2026 until December 31, 2027. The enhancements are expected to achieve the following: automate all GASB financial statements, enhance encumbrances reporting, allow different presentations of the Trial Balance, automate generation of Required and Other Supplementary Information schedules, enhance periodic budget reports, reconfigure the budget execution setup, produce COFA prescribed reports, and create a Debt and Grant accounting module. The Chart of Accounts will also be reviewed and revised during this period.	December 2027	Deputy Secretary, Core Financial Services (CFS); PFM Projects; FMIS Specialist
2024-002		Schedule of Expenditures of Federal Awards Preparation		The MOF acknowledges the need for multi-division coordination among the Budget, Compliance, and Accounting Divisions and will develop a process for SEFA preparation, including quarterly updates, as part of the existing Grants and Sub-Grants Monitoring Procedures Manual. As part of the process, the Budget Division will ensure the correct ALN is entered during SPG creation.	January 2027	Chief Accountant, Senior Financial Analysts, Assistant Secretary for Accounting, Chief of Internal Audit, Budget Director, Assistant Secretary for Budget Deputy Secretary, Core Financial Services (CFS); PFM Projects; FMIS Specialist

				Additionally, planned FMIS enhancements in 2027 will include automation of SEFA reporting within BISAN.	January 2027	
2024-003		Significant Post-Trial Balance Adjustments		The MOF will continue and enhance the use of the Audit Tasks Tracker, a tool that summarizes in detail the specific tasks/accounts, identifies the preparer and alternate preparer, the reviewer and alternate reviewer, and sets the deadline. The status of each line item is updated during weekly meetings of the CORE Group. In the past several years, MOF has been supported by ADB-RCU consultants who have been on top of the yearly closing of books and preparation of the final Financial Statements. In late 2025, a Senior Financial Analyst (SFA) was recruited and another three came on board in early 2026. The ADB-RCU consultants have been facilitating knowledge transfer to the SFAs since late 2025 and Accounting Staff training was conducted in Feb-Mar 2025. Since the tasks are now distributed to more skilled individuals, assigned processes can now be completed at a faster pace than in 2024. This will give enough time and enable the team to complete the bank reconciliations, system vouchers posting, de-obligation/clearing of encumbrances, Embassy Imprest account reconciliations, AP and A/R cut-off/accruals, World Bank and Compact Funds/Grants review, Compact Trust Fund investment balances, sub-recipient monitoring, fixed assets schedule, subsequent revenue/disbursements review, and all other adjustments - before the unaudited trial balance is submitted to the Auditors. The target date for the submission of the FY 2026 unaudited trial balance is the end of February 2027.	February 2027	Senior Financial Analysts; Chief Accountant; Assistant Secretary for Accounting; Deputy Secretary, Core Financial Services (CFS)
2024-004		Embassy Imprest Accounts		Reporting and monitoring of RMI embassies' imprest funds has improved with minimal disallowed disbursements in FY2024 and thereafter. Unknown differences		Reconciliation Specialist (Imprest Funds); Assistant Secretary for Accounting; Deputy

			are generally attributed to foreign exchange rates (gain/loss) accumulated over the years, particularly for embassies using non-USD currencies. The Imprest Fund Procedures Manual has been in effect since February 2019, providing uniform procedures and reporting templates. The Manual will be updated once changes of procedures such as decentralization of reimbursement processing in the new FMIS will take effect. The decentralization process will minimize or eliminate disallowances that were mostly caused by “no sufficient funds/budget”. Additionally, MOF regularly coordinates closely with MOFAT and the embassies to prevent or resolve any disallowed disbursements. Due to staff turnover and changes in embassy administration, MOF, in coordination with the Ministry of Foreign Affairs & Trade (MOFAT), continuously provides targeted training and timely guidance as needed. MOFAT in close coordination with MOF, proposed to write off the accumulated disallowances of prior years. MOF will effect such write off once considered through a Nitijela resolution or the appropriation act in FY2027.	January 2027 Ongoing December 2026	Chief Accountant; Secretary of MOFAT; MOFAT Assistant Secretary, Bureau of Management Secretary of MOFAT, Secretary of Finance
2024-005		Grants Receivable	FY2024 marked the beginning of COFA3 and represented the first year of implementation. During this transition, there were some initial uncertainties and delays, including several sector and infrastructure grant awards that were not finalized or received as anticipated. As a result, sector and infrastructure grant receivables were unusually higher compared to prior years. MOF Management continues to actively recover receivables from grantors and strengthen grant drawdown processes through the following actions:	N/A	

				1). Significant reconciliations on Compact grants resulted in the collection of \$1.23 million in FY2024, \$2.17 million in FY2025 and \$6.04 million in FY2026. After subsequent collections, the Compact receivable balance is now at \$5 million as of 3Q FY2026. 2). As of late FY2025, three Budget Division officials now have access to multiple online payment portals and are consistently drawing down funds on a monthly basis to prevent future accumulation of receivables. 3.) Strengthened monitoring via the monthly and quarterly Compact and Federal reporting requirements.	Completed Ongoing Ongoing	Chief Accountant, Deputy Chief Accountant, SFAs, Assistant Secretary for Accounting Compact grants draw downs: Compact Accountant, Chief Accountant, Deputy Chief Accountant, Assistant Secretary for Accounting Federal grants drawdowns: Senior Federal Budget Officer, Budget Director, Assistant Secretary for Budget
2024-006		World Bank Fund Receivable		Management acknowledges the audit finding regarding the \$3,179,079 World Bank grant receivable reported under Fund 10307 as of September 30, 2024. The reported receivable was valid and was determined based on the project-level fund balances. Where project expenditures exceeded project revenues/advances received from the World Bank, the resulting positive balance represented amounts to be reimbursed by the World Bank and was recorded as Accounts Receivable. Conversely, projects with negative balances, indicating that revenues/advances received exceeded expenditures, does not constitute a receivable. The RMI General Fund initially finances eligible World Bank project expenditures. These expenditures are subsequently reviewed and validated by the WB-CIU Finance Officers, after which the World Bank processes the reimbursement. The reimbursed funds are transferred to the General Fund through the World Bank Designated Account. Management acknowledges that the subsidiary ledger did not clearly demonstrate this process	Completed	World Bank draw downs: Chief Accountant, Deputy Chief Accountant, Senior Financial Analyst, Assistant Secretary for DIDA, Assistant Secretary for Accounting

				and the basis for determining the receivable. Going forward, the Ministry will enhance the year-end reconciliation to clearly link project-level fund balances to eligible expenditures, advances, reimbursements, and the resulting Accounts Receivable balance.		
2024-007		Capital Assets		Condition 1-3 Repeat finding: same response as 2024-012 (COFA), 2024-025 (ELC/HHS) and 2024-019 (PSS/IDEA) Condition 4 All projects have outstanding balances and punch lists at the end of the fiscal year. MOF agrees with the audit finding to record a capital asset when it becomes operational in close coordination with MWIU and ministries/agencies concerned to determine the substantial completion of the assets.	N/A	Chief Procurement Officer, Senior Asset Manager Assistant Secretary for Accounting, Ministry of Works, Infrastructure and Utilities-Secretary
2024-008		Journal Entries		The MOF recruited three CPAs as Senior Financial Analysts (SFAs), new permanent positions in the MOF Accounting Division. The SFAs will be actively involved in the review and approval of journal entries for accuracy, completeness, and compliance with accounting policies.	Completed	Assistant Secretary for Accounting
2024-009		External Financial Reporting		The MOF and the Component Units recognize the need for technical assistance in financial management, particularly on matters pertaining to the audit. Corrective measures implemented include: 1) Withholding subsidy disbursements until reporting requirements are met, and 2) Recruiting a Senior Financial Analyst to strengthen SOEs' financial reporting. MEC and KAJUR are in the process of merging. Effective FY2027, the MEC CFO will be responsible for finalizing the Trial Balance and Financial Statements of both entities. The audits for CMI, MIR, MWSC, RMIPA and the Health Funds are all ongoing, but just could not meet	March 2027	Secretary of Finance

				the target date of August 31 for issuance of the FY2024 Audited Financial Statements. Furthermore, the MOF will focus on providing technical training to component units, through the ADB-RCU and the SOE SFA.		
COFA						
2024-010	15.875	Activities Allowed or Unallowed Allowable Costs/Cost Principles	\$2,307,732	Condition 1: Effective FY2025, all ministries submit leave forms for all annual and sick leave taken, regardless of the number of days. The Ministry of Finance issued a clarifying memorandum on July 29, 2025. Condition 2: Item 1. MOF to set a policy providing a repatriation allowance of \$500 to expatriates who have completed their employment contracts and exiting for good, and receipt is not required. Item 2-4. During the second year of FMIS implementation, limited staffing and scanning equipment prevented the timely upload of supporting documents. The Ministry has since improved its staffing and equipment, and in FY2025 all supporting documentation is uploaded to FMIS before payment processing. Item 5. The Ministry disagrees with the finding. The per diem and transportation expenses are accounted for in the liquidation supporting documents. The Government accepts acknowledgment receipts as supporting documentation for transportation services provided in neighboring islands due to the vendors' limited resources and inability to issue invoices or printed receipts. Item 6. The Laura Elementary School PDP & Detailed Design contract was an old/completed project originally funded under expired grant D21AF102130 and was subsequently regranted under FY2024 grant D24AF00024 along with three other projects. The payment was supported by a PMU	Completed August 31, 2026 Completed N/A N/A	N/A Deputy Secretary, Core Financial Services (CFS) N/A N/A N/A

				letter identifying the contractor's total outstanding unpaid invoices. Condition 3. Effective 3rd quarter of FY2025, all transactions charged to the Enewetak grant go through the national procurement and payment process.	Completed	N/A
2024-011	15.875	Cash Management	\$ Undeterminable	Effective FY2025, the Accounting Division is now required to prepare drawdown request forms using the detailed expenditure report (journal listing). Each request is submitted to the Finance Secretary only after approval by Accounting Management.	Completed	Assistant Secretary for Accounting
2024-012	15.875	Equipment and Real Property Management	\$ Undeterminable	The MOF recruited a dedicated asset management officer and began a government-wide asset inventory in April 2026. Upon completion, the FMIS asset module will be fully implemented in FY2027 to improve the classification, recording, reporting, and monitoring of capital assets. The MOF also continues to coordinate with Ministries and Agencies to update and reconcile asset records. Repeated finding: same response on Finding Nos. 2024-007, 2024-019, and 2024-25	March 31, 2027	Chief Procurement Officer, Assistant Secretary for Accounting
2024-013	15.875	Period of Performance	\$ 0	The Bisan system includes functionality to control expenditures within a specified funding period, typically the Budget Period or Period of Performance. These are the Start Date, End Date and Closing Date in each SPG code setup. The Ministry utilizes this feature to help ensure compliance with funding requirements. The Ministry acknowledges, however, that the process still requires human input and oversight. As a result, there remains a risk that expenditures may be processed or incurred outside the approved funding period due to human error. The Ministry will reinforce and continue to strengthen its review and monitoring procedures to minimize this risk and ensure expenditures are charged to the appropriate funding period.	Ongoing	Assistant Secretary for Accounting, Chief Accountant, Deputy Chief Accountant

2024-014	15.875	Procurement and Suspension and Debarment	\$ 183,083	Condition 1. The Ministry disagrees with this finding. The revised procurement threshold of \$25,000 to \$50,000 became effective upon adoption of the Procurement Code of 2023 on October 1, 2023, as provided under Section 119(c) Small Purchases. A Regulation is not necessary to support this change. All other provisions of the Procurement Code remained in force and continue to govern procurement activities. Furthermore, an amended Procurement Code was endorsed by Cabinet in March 2026 and will be introduced to Parliament during the August session. Upon its adoption, the corresponding Regulation will be formally issued.	January 2027	Chief Procurement Officer
				Condition 2-1. Items 1-2,7 The Ministry disagrees with the findings. All three purchase orders were supported by the required documentation at the time of review and prior to the issuance of the purchase orders.	N/A	N/A
				Items 3-6 The Ministry intends to revisit the existing travel policy and update accordingly.	January 31, 2027	Deputy Secretary, Core Financial Services (CFS)
				Item 8 The vendor was directly selected as the authorized distributor & service provider for medical equipment & supplies in the Marshall Islands. Going forward, the Ministry will ensure a signed justification letter from the Head of Department is attached to support sole-source procurements.	N/A	Chief Procurement Officer, Assistant Secretary for Budget
				Item 9 The Ministry will return requisitions with insufficient supporting documentation and will conduct a procurement training in October 2026 to reinforce procurement requirements.	Ongoing	Chief Procurement Officer
				Condition 2-2 Item 1 The Ministry now requires a Request for Quotation (RFQ) form to be submitted as evidence of compliance with competitive procurement requirements.	Completed	Chief Procurement Officer
				Items 2-3 The Ministry disagrees with the findings. Supporting	N/A	N/A

				documentations can be found on PR 23/00023360 (#2) & PR 23/00001990 (#3) Item 4 Effective in FY2025, the Enewetak/Ujelang Local Government operations were transferred to the Ministry of Finance. As a result, all procurement activities are now processed through the Ministry and are required to comply with the applicable procurement code, established regulations, and the Ministry's internal procurement policies and procedures, thereby strengthening oversight and ensuring compliance. Condition 2-3 1-7 The Ministry now requires a Request for Quotation (RFQ) form to be submitted as evidence of compliance with competitive procurement requirements 8 The Ministry of Finance will require that the PSS Hot Lunch Vendor selection Report (endorsed by the Bid Committee) be submitted with the initial payment to the Hot Lunch Vendors. 9 Once the DLS contract expires, it will be advertised for competitive bidding. Condition 3 At the start of a new fiscal year, the MOF Compliance team will perform an annual screening of all Funder/Client (Supplier) in Bisan against the SAM.gov list of debarred/suspended entities.	Completed Completed October 2026 January 2028 September 30, 2026	N/A Chief Procurement Officer Chief Procurement Officer and AS Accounting & IT Chief Procurement Officer Chief of Internal Audit
2024-015	15.875	Reporting	\$ 0	Condition 1. Item 1. A financial reporting tool was recently established to support the timely preparation and submission of reports. Additionally, the Ministry recruited a Senior Financial Analyst in February to oversee the monitoring, preparation, and timely submission of financial reports. Condition 2-1. Items 1-2 Effective FY2025, the Accounting Division is now required to prepare drawdown request forms using the detailed	FY2026 Quarter 4 Completed	Senior Financial Analyst, Compact Funds N/A

				expenditure report (journal listing). Each request is submitted to the Finance Secretary only after approval by Accounting Management. Condition 2-2. Items 1-21 A financial reporting tool was recently established to support the timely preparation and submission of reports. Additionally, the Ministry recruited a Senior Financial Analyst in February to oversee the monitoring, preparation, and timely submission of financial reports. Condition 2-3. Items 1-2 Effective FY2025, the Accounting Division is now required to prepare drawdown request forms using the detailed expenditure report (journal listing). Each request is submitted to the Finance Secretary only after approval by Accounting Management. However, the Ministry disagrees with the finding on the SF-425 not containing the SPG code since the latter is not a required US field. SPG code is internal to the MOF. Grant number D22AP00180 is also established in the FMIS as part of the setup of SPG 10450101.	FY2026 Quarter 4 Completed	Senior Financial Analyst, Compact Funds Senior Financial Analyst, Compact Funds
2024-016	15.875	Subrecipient Monitoring	\$ 6,795,269	Condition 1. On July 31, the newly developed pre-award risk assessment tool was rolled out to all subrecipients and ministries with oversight, effective FY2027. Conditions 2-3: On July 29, July 31 and August 5, 2026, training was conducted on Majuro and Ebeye to introduce new and enhanced tools to strengthen subrecipient monitoring. It covered the following topics: 1. Audit findings related to subrecipient arrangements. 2. Grants Management Manual with emphasis on its scope and the Management Decision Letter (MDL).	Completed September 2027	Chief of Internal Audit Chief of Internal Audit, Assistant Secretary for SOE MU

				3. Unique Entity Identifier (UEI), which is mandatory. 4. Memorandum of Agreement and the significance of each section. 5. MOA circulation process. 6. Procurement Code 2023 7. Reporting and Required Supporting Documents: - Pre-award Risk Assessment - Site Visit Checklist - Enhanced SubGrant Forms and Review Checklist (SG1/Subgrant Objectives and Budget Proposal and SG2/Performance and Financial Evaluation) - SG Forms supporting documentation (salaries & wages, fuel purchase, food purchase, vehicle rental, housing allowance, travel, etc.) 8. Conflict of Interest In September 2026, officers from the Compliance and SOE Monitoring Unit will start going out to conduct the pre-award risk assessment. Results of the assessment will determine whether the entity can sign an MOA with the MOF or not as well as the entity's risk rating, which will determine the frequency of site visits to be conducted by Compliance beginning FY2027. Condition 4 Effective 3rd quarter of FY2025, all transactions charged to the Enewetak grant go through the national procurement and payment process.		
2024-017	15.875	Special Tests and Provisions – Annual Performance Evaluation Special Tests and Provisions – Infrastructure Maintenance Fund Contribution	\$ 0	Condition 1 Public School System management concurs with the finding. While annual performance evaluations were completed for many grant-funded employees, PSS did not consistently maintain sufficient documentation to demonstrate that all required evaluations had been completed in accordance with the grant requirements. Beginning in FY2027, PSS has implemented the Orange HR Management System, which provides an electronic process for completing, approving, and storing employee performance evaluations. This system creates a centralized	October 2026	PSS Commissioner

				electronic record and audit trail, making it easier to monitor compliance and retrieve documentation for audit purposes. In addition, the Finance and Audit Compliance Specialist will conduct periodic compliance reviews to verify that all required evaluations are completed and properly documented before the close of each fiscal year. Condition 2 FY2024 Appropriation was a continuation of FY2023 and did not reflect the new Compact yet since negotiations were still ongoing at the time. The \$2.5million matching was clarified with the US DOI team in March 2026, to be appropriated in FY2027. The MOF has not drawn down against this grant.	September 2027	Assistant Secretary for Accounting
IDEA						
2024-018	84.027	Activities Allowed or Unallowed Allowable Costs/Cost Principles	\$ 338,289	Condition 1-1. Due to structural damages to the Payroll office, files were transferred from there to the warehouse for storage. After numerous attempts to recover the files, the payroll staff were not able to do so within the given time period. Effective October 2025, the Payroll team has been attaching new employee contracts to the payslips in Bisan. PSC's HRMIS already stored the scanned PAFs of employees. The PSS has now acquired the Orange Human Resource Management System, which will also make contracts available electronically. Condition 1-2. PSS Response: PSS Management acknowledges the finding. While leave requests were generally submitted and recorded, we recognize that approved leave forms were not consistently maintained to support all leave hours charged during the audit period. To address this finding, beginning in FY2027, PSS will implement the Orange Human Resource Management System, which will transition the leave request process from a paper-based	Completed FY2027	Chief of Payroll, Assistant Secretary for Accounting Chief of Payroll, Assistant Secretary for Accounting

				system to an electronic system. This will create a complete electronic audit trail for all leave requests submitted by PSS employees on islands with internet access. As internet connectivity continues to expand through solar power and Starlink installations, additional schools and offices will transition to the electronic system, with full implementation across all PSS locations targeted by the end of FY2028. In addition, the Finance and Audit Compliance Specialist will conduct periodic compliance reviews to verify that leave requests are properly approved, documented, and retained in accordance with PSS policies and applicable grant requirements. Any deficiencies identified during these reviews will be communicated promptly to management so that corrective action can be taken. MOF response: Additionally, effective FY2025, the Ministry of Finance requires all ministries to submit leave forms for all annual and sick leave taken, regardless of the number of hours & days. The Ministry of Finance issued a clarifying memorandum on July 29, 2025. Condition 2. These costs were incurred to cover the retirees' annual leave lump-sum payments. If not in the approved budget narrative, MOF & PSS will ensure prior approval from the grantor is obtained and sufficient supporting calculations are provided before charging excess costs to the grant to ensure allowability and compliance with grant requirements.		
2024-019	84.027	Equipment and Real Property Management	\$ Undeterminable	Conditions 1-5 Repeat Finding - same response for Finding No. 2027-007, 2024-012, and 2024-025	March 31, 2027	Chief Procurement Officer, Assistant Secretary for Accounting
2024-020	84.027	Matching, Level of Effort, and Earmarking	\$ Undeterminable	PSS response: Management concurs with the finding. At the time of the FY2024 audit, the Public School System (PSS) calculated the Maintenance of State Financial Support (MFS)	September 2027	PSS Commissioner, Assistant Secretary for Accounting, Assistant Secretary for Budget

				Items #1 to #27. Except for items #1, #7 to #27, the Ministry of Finance agrees with the finding and will ensure that all invoices or billings are attached to support payment accuracy and demonstrate compliance with procurement requirements.		
2024-024	93.323	Cash Management	\$ 0	The fiscal officers of the MOF Budget Division have strengthened their review of expenditures prior to disbursements and started to conduct weekly evaluation and monitoring of draw downs.	Completed	Assistant Secretary for Budget, Budget Director, Senior Federal Budget Fiscal Officers
2024-025	93.323	Equipment and Real Property Management	\$ Undeterminable	Conditions 1-5 Repeat Finding, same response for Finding Nos. 2024-007, 2024-012, and 2024-019	March 31, 2027	Chief Procurement Officer, Assistant Secretary for Accounting
2024-026	93.323	Period of Performance	\$ 25,916	The Ministry disagrees with the findings. The Bisan system includes functionality to control expenditures within a specified funding period, typically the Budget Period or Period of Performance. These are the Start Date, End Date (last day for obligations) and Closing Date (last day to liquidate encumbrances) in each SPG code setup. The Ministry utilizes this feature to help ensure compliance with funding requirements.	N/A	N/A
2024-027	93.323	Procurement and Suspension and Debarment	\$ 228,374	Condition 1: The Ministry disagrees with this finding. The revised procurement threshold of \$25,000 to \$50,000 became effective upon adoption of the Procurement Code of 2023 on October 1, 2023, as provided under Section 119(c) Small Purchases. A Regulation is not necessary to support this change. All other provisions of the Procurement Code remain in force and continue to govern procurement activities. Furthermore, an amended Procurement Code was endorsed by Cabinet in March 2026 and will be introduced to Parliament during the August session. Upon its adoption, the corresponding Regulation will be formally issued. Condition 2, #1: Except for items #1, #5, #6, #7, #8 & #9, the Ministry of Finance agrees with the finding and will ensure that vendor selection and the justification for the selected vendor are clearly documented in BRVs and TMV to	January 2027	Chief Procurement Officer Chief Procurement Officer, Assistant Secretary for Budget, Assistant Secretary for Accounting

				using the gross salaries of locally funded Special Education administrative staff and teachers. While management believes that only allowable State-funded salary expenditures were included in the calculation, the supporting documentation and reconciliation to the underlying accounting records were not maintained in sufficient detail to fully support the reported MFS amount. The Ministry of Finance has implemented a Special Purpose Grant (SPG) code to improve the identification and reporting of all expenditures. Management will also develop and implement written procedures defining the responsibilities for preparing, reviewing, and approving the annual MFS calculation. These procedures will require the retention of supporting payroll reports, reconciliation to the accounting records, and documentation identifying the employees included in the calculation, their funding sources, and any personnel changes that occurred during the fiscal year. Beginning in FY2027, the Finance and Audit Compliance Specialist will conduct periodic compliance reviews to verify that the MFS calculation is adequately supported, reconciled to the accounting records, and prepared in accordance with IDEA requirements before submission. Any deficiencies identified during these reviews will be communicated promptly to management for corrective action. Management expects these corrective actions to be fully implemented by the end of FY2027.		
2024-021	84.027	Period of Performance	\$ 0	The Bisan system includes functionality to control expenditures within a specified funding period, typically the Budget Period or Period of Performance. These are the Start Date, End Date and Closing Date in each SPG code setup. The Ministry utilizes this feature to help ensure compliance with funding requirements. The Ministry acknowledges, however, that the	Ongoing	Assistant Secretary for Budget

				process still requires human input and oversight. As a result, there remains a risk that expenditures may be processed or incurred outside the approved funding period due to human error. The Ministry will reinforce and continue to strengthen its review and monitoring procedures to minimize this risk and ensure expenditures are charged to the appropriate funding period.		
2024-022	84.027	Procurement and Suspension and Debarment	\$ 48,663	Condition 1. The Ministry disagrees with this finding. The revised procurement threshold of \$25,000 to \$50,000 became effective upon adoption of the Procurement Code of 2023 on October 1, 2023, as provided under Section 119(c) Small Purchases. A Regulation is not necessary to support this change. All other provisions of the Procurement Code remained in force and continue to govern procurement activities. Furthermore, an amended Procurement Code was endorsed by Cabinet in March 2026 and will be introduced to Parliament during the August session. Upon its adoption, the corresponding Regulation will be formally issued. Condition 2. Except for items #1 & #8, the Ministry of Finance agrees with the finding and will ensure that vendor selection and the justification for the selected vendor are clearly documented in all TMVs and BRVs to demonstrate compliance with procurement requirements. Condition 3. Same response as Finding No.: 2024-014 - Condition 3	January 2027 Ongoing September 2026	Chief of Procurement Assistant Secretary for Accounting, Assistant Secretary for Budget Chief of Internal Audit
ELC						
2024-023	93.323	Activities Allowed or Unallowed Allowable Costs/Cost Principles	\$ 204,064	Condition 1 All pay slips claiming OT will include supporting OT approval including justification that are allocable to grants. Condition 2 Item 1. Utilities are paid out of the de minimis rate of 10% for Federal grants. \$43,800 for utilities is included in the budget breakdown of the grant.	Completed	ELC Program Leads, Chief of Payroll, Assistant Secretary for Accounting Chief Procurement Officer, Assistant Secretary for Budget, Assistant Secretary for Accounting

				demonstrate compliance with procurement requirements. Condition 2, #2: The Ministry agrees with the finding. Competitive bidding should be undertaken when a multi-year contract expires. Condition 3: At the start of a new fiscal year, the MOF Compliance team will perform an annual screening of all Funder/Client (Supplier) in Bisan against the SAM.gov list of debarred/suspended entities.	September 30, 2026	Chief Procurement Officer, Assistant Secretary for Budget Chief Internal Auditor
2024-028	93.323	Reporting	\$ 0	Condition 1: ELC Program Leads complete and submit Work Plan Progress Reports through the ELC CAMP as required by the grant. To monitor compliance, ELC will notify the Ministry of Finance of submitted reports and provide MOF with view-only access to relevant files and supporting documentation as needed. Condition 2: The ELC Program Leads completes the required financial reports in ELC CAMP using information provided by the MOF Fiscal Officer and submits the reports through ELC CAMP and GrantSolutions. ELC will notify MOF of each submission to support compliance monitoring. To strengthen the process, MOF and MOHHS will establish a formal reporting process. MOHHS will maintain a tracking tool with required reports, reporting periods, due dates, and submission status, and share it with MOF. MOF will have access to ELC CAMP and the MOHHS GrantSolutions account to retrieve reports as needed.	Condition 1-2: August 2026	Condition 1-2: Secretary of Health & Human Services, ELC Program Leads, Deputy Secretary of Core Financial Services, Assistant Secretary for Budget



Ministry of Finance Banking & Postal Services

Government of the Republic of the Marshall Islands

August 15, 2026

Ms. Deanna Gilmar
Ernst & Young LLP
4th Floor Napa Building
Majuro, Marshall Islands 96960

RE: FY 2024 Single Audit Reports – Schedule of Prior Years Single Audit Findings

Dear Ms. Gilmar,

The Ministry of Finance is actively pursuing resolutions to matters reported to matters reported on the Schedule of Findings and Questioned Costs for the year ended September 30, 2024. The Ministry recognizes that some of these findings are repeated from FY2008 to FY2023. These findings are the subject of ongoing resolutions. Enclosed with this memorandum are our responses to the audit findings for FY 2023 and prior.

Should you have any questions or concerns, please do not hesitate to contact the Ministry.

Sincerely,

Ayako Yamaguchi-Eliou
Secretary of Finance



P.O. Box D
Majuro, MH 96960



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All Federal Programs - Schedule of Prior Year Findings

**Audit Findings
Fiscal Year 2008**

Audit Finding No.	Status
2008-7	Ministry of Finance and Ministry of Health and Human Services On-going for Items #2-4. Pending DOHHS Determination Letter (MDL).

**Audit Findings
Fiscal Year 2010**

Audit Finding No.	Status
2010-4	Ministry of Health and Human Services On-going for CFDA #93.003, #93.069, #93.110, #93.118, #93.163, #93.268, #93.889, #93.938, #93.958, #93.959, #93.977, and #93.988; Pending DOHHS MDL.
2010-4	Ministry of Finance CFDA USDA/MOF ALN #10.567 On June 5, 2026, USDA's Grant Management Specialist of the Western Regional Office said that Audit Finding 2010-4 is similar in nature and closely aligned with the issues addressed in Audit Finding 2015-006. Therefore, Audit Finding 2010-4 may also be considered closed. No additional documentation, control testing, or corrective actions are required.
2010-4	PSS/USDA CFDA #84.027 - MDL dated May 18, 2012 was received from DOE. - A Closeout Letter dated Sep. 5, 2013 was received from DOE. Based on a review of the information submitted, the Department has determined that RMI has adequately addressed the issues identified in Finding 2010-04 of the above-referenced audit report and subsequent PDL. Thus, the Acting Assistant Secretary considers this audit finding to be resolved and closed, and no further action is required.
2010-5	Ministry of Health and Human Services On-going. Pending DOHHS MDL.

Audit Findings
Fiscal Year 2011

Audit Finding No.	Status
2011-05	Ministry of Finance/ Department of Commerce ALN 11.460 On-going for Condition 1 Items 1,2,3,5, and 6 and Condition 2. Pending Determination Letter from DOC.
2011-05	Ministry of Health and Human Services ALN 93.959 On-going. Pending Determination Letter from DOHHS

**Audit Findings
Fiscal Year 2013**

Audit Finding No.	Status
2013-002	Ministry of Health and Human Services On-going. Pending DOHHS MDL.

**Audit Findings
Fiscal Year 2015**

Audit Finding No.	Status
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2015-006	Ministry of Natural Resources and Commerce Per USDA MDL and Closeout Letter dated 02/18/25, this audit matter is considered closed.
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**Audit Findings
Fiscal Year 2018**

Audit Finding No.	Status
2018-007	Ministry of Health and Human Services Area: Reporting On-going. Pending DOHHS Determination Letter. <i>Repeat Findings, same as 2018-007</i> 2021-011 2021-012 2022-009 MOF & MOHHS 2023-018 MOF & MOHHS
2021-011	Ministry of Justice - Labor Division On-going, pending Determination Letter
2021-012	Ministry of Health and Human Services MDL dated Dec. 19, 2023 received from CDC/DOHHS, finding sustained.
2022-009	Ministry of Finance ALN 15.875 EULG/CSG On-going. Pending DOI Determination Letter.
2022-009	Ministry of Health and Human Services ALN 93.323 On-going. Pending DOHHS Determination Letter.
2023-018	Ministry of Finance ALN 15.875 COFA MDL dated May 8, 2026 received from DOI, considered resolved.
2023-018	Ministry of Health and Human Services ALN 93.323 On-going. Pending DOHHS Determination Letter.
2018-009	Ministry of Health and Human Services Area: Sub-recipient monitoring: On-going. Pending DOHHS Determination Letter <i>Repeat Findings, same as 2018-009</i> 2019-005

2022-010
2022-011
2023-019
2023-020

2019-005	Ministry of Health and Human Services MDL dated March 10, 2023 received from SAMHSA, finding sustained.
2022-010	Ministry of Finance/DOI On-going. Pending DOI Determination Letter
2022-011	Ministry of Finance/DOI On-going. Pending DOI Determination Letter
2023-019	Ministry of Finance MDL dated May 8, 2026 received from DOI, subject to cost recovery.
2023-020	Ministry of Health and Human Services MDL dated July 31, 2026 received from SAMHSA, finding sustained.
2018-010	Ministry of Finance Area: Embassy Imprest Accounts On-going <i>Repeat Findings, same as 2018-010:</i> 2019-006 2020-005 2021-014 2022-015 2023-004
2019-006	Ministry of Finance On-going, pending Determination Letter
2020-005	Ministry of Finance On-going, pending Determination Letter
2021-014	Ministry of Finance On-going, pending Determination Letter
2022-015	Ministry of Finance On-going, pending Determination Letter

2023-004	Ministry of Finance On-going, pending Determination Letter
2018-011	Ministry of Finance Area: Accounts Receivable On-going, pending Determination Letter Repeat Findings, same as Finding 2018-011 2019-007 2020-006 2021-015 2022-016
2019-007	Ministry of Finance On-going, pending Determination Letter
2020-006	Ministry of Finance On-going, pending Determination Letter
2021-015	Ministry of Finance On-going, pending Determination Letter
2022-016	Ministry of Finance On-going, pending Determination Letter
2023-005	Ministry of Finance On-going, pending Determination Letter

**Audit Findings
Fiscal Year 2019**

Audit Finding No.	Status
2019-002	Ministry of Education (PSS) Program Determination Letter dated July 8, 20 and Closeout letter dated March 17, 2023 received from DOE, considered resolved. <i>Repeat Findings, same as 2019-002</i> <i>Area: Equipment & Real Property Management</i> 2021-003 2022-004 2023-014 DOI & MOHHS
2021-003	Ministry of Health and Human Services MDL dated Dec. 19, 2023 received from CDC/DOHHS, finding sustained.
2022-004	Ministry of Finance On-going. Pending DOI Determination Letter.
2023-014	Ministry of Finance ALN 15.875 COFA MDL dated May 8, 2026 received from DOI, considered resolved
2023-014	Ministry of Health & Human Services ALN 93.323 On-going. Pending DOHHS Determination Letter.

**Audit Findings
Fiscal Year 2020**

Audit Finding No.	Status
2020-007	Ministry of Finance Area: Journal Entries/Adjustments On-going, pending Determination Letter Repeat Findings, same as 2020-007 <i>2021-017</i> <i>2022-018</i> <i>2023-009</i>
2021-017	Ministry of Finance On-going, pending Determination Letter
2022-018	Ministry of Finance On-going, pending Determination Letter
2023-009	Ministry of Finance On-going, pending Determination Letter

Audit Findings
Fiscal Year 2021

Audit Finding No.	Status
2021-002	Ministry of Health and Human Services MDL dated Dec. 19, 2023 received from CDC/DOHHS, finding sustained.
2021-006	Ministry of Health & Human Services MDL dated Dec. 19, 2023 received from CDC/DOHHS, finding sustained.
2021-007	Ministry of Health & Human Services MDL dated Dec. 19, 2023 received from CDC/DOHHS, finding sustained.
2021-009	Ministry of Justice - Labor Division Ongoing. MoF Senior Financial Analyst and Internal Audit is currently working closely with PUA and DOL to resolve this issue.
2021-013	Ministry of Justice - Labor Division Ongoing. Findings 1–3, remains in progress. Overpayment claimants have been identified, and each will be issued a formal Determination Letter along with a Waiver Form to ensure proper documentation and compliance with program requirements. Pending DOL Determination Letter
2021-016	Ministry of Finance Area: Revenue recognition On-going, pending Determination Letter <i>Repeat finding, same as 2021-016</i> <i>2022-017</i> <i>2023-008</i>
2022-017	Ministry of Finance On-going, pending Determination Letter
2023-008	Ministry of Finance On-going, pending Determination Letter

Audit Findings
Fiscal Year 2022

Audit Finding No.	Status
2022-001	Ministry of Finance On-going. Pending DOI Determination Letter.
2022-002	Ministry of Finance On-going. Pending DOI Determination Letter.
2022-003	Ministry of Health and Human Services On-going. Pending DOHHS Determination Letter.
2022-005	Ministry of Finance/DOI ALN 15.875 CSG & EULG On-going. Pending DOI Determination Letter.
2022-005	Ministry of Health and Human Services ALN 93.323 On-going. Pending DOHHS Determination Letter.
2022-006	Ministry of Finance On-going. Pending DOI Determination Letter.
2022-007	Ministry of Finance On-going. Pending DOI Determination Letter.
2022-008	Ministry of Finance and Ministry of Health and Human Services On-going. Pending DOHHS Determination Letter.
2022-012	Ministry of Finance Area: Schedule of Expenditures of Federal Awards Preparation <i>Repeat Finding, same as 2022-012</i> <i>2023-002</i>
2023-002	Ministry of Finance On-going. Pending DOI Determination Letter.
2022-013	Ministry of Finance Area: Implementation of GASB Statement No. 87, Leases Resolved in 2023
2022-014	Ministry of Finance

Area: Timely & Accurate Financial Reporting
Ongoing

*Repeat Finding, same finding as 2022-014
2023-003*

2023-003

Ministry of Finance

On-going. Pending Determination Letter.

2022-019

Ministry of Finance

On-going. Pending Determination Letter.

Repeat Finding, same as 2022-019

Area: External Financial Reporting

2023-010

2023-010

Ministry of Finance, CMI, KAJUR, and MWSC

On-going. Pending Determination Letter.

**Audit Findings
Fiscal Year 2023**

Audit Finding No.	Status
2023-001	Ministry of Finance On-going. Pending Determination Letter.
2023-006	Ministry of Finance On-going. Pending Determination Letter.
2023-007	Ministry of Finance and Ministry of Foreign Affairs & Trade On-going. Pending Determination Letter.
2023-011	Ministry of Finance ALN 15.875 COFA MDL dated May 8, 2026 received. DOI to consider resolved once CAP has been implemented
2023-012	Ministry of Finance and Ministry of Health and Human Services On-going. Pending DOHHS Determination Letter
2023-013	Ministry of Finance ALN 15.875 COFA MDL dated May 8, 2026 received from DOI, considered resolved.
2023-013	Ministry of Health & Human Services ALN 93.323 On-going. Pending DOHHS Determination Letter
2023-015	Ministry of Finance MDL dated May 8, 2026 received. DOI to consider resolved once CAP has been implemented
2023-016	Ministry of Finance MDL dated May 8, 2026 received. DOI to consider resolved once CAP has been implemented
2023-017	Ministry of Finance and Ministry of Health and Human Services On-going. Pending DOHHS Determination Letter
2023-021	Ministry of Finance MDL dated May 8, 2026 received from DOI. Considered resolved.