

REPUBLIC OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED  
UPON THE AUDIT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

His Excellency Kessai Note  
President  
Republic of the Marshall Islands:

We have audited the financial statements of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2003, and have issued our report thereon dated April 2, 2004, which report was qualified due to our inability to determine the propriety of receivables from federal agencies, the incomplete presentation of capital assets, and the omission of the Health Care Revenue Fund, the Ministry of Education Headstart Program, and the Marshall Islands Scholarship, Grant and Loan Board from the Governmental Fund Type - Special Revenue Fund, the Kwajalein Atoll Development Authority from the Governmental Fund Type - Capital Projects Fund, and Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank and the Marshall Islands Drydock, Inc. from the Component Units - Proprietary Funds. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

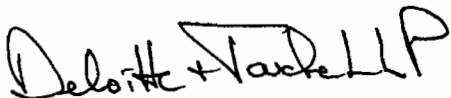
As part of obtaining reasonable assurance about whether RepMar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 16 through 53) as items 2003-2 and 2003-15 through 2003-33. We also noted certain immaterial instances of noncompliance, which we have reported to management of RepMar in a separate letter dated April 2, 2004.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered RepMar's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect RepMar's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-1 through 2003-14 and 2003-28.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-2, 2003-9, 2003-10, 2003-12, 2003-13, 2003-14 and 2003-28 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of RepMar in a separate letter dated April 2, 2004.

This report is intended solely for the information and use of the management of RepMar, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

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April 2, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE  
TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

His Excellency Kessai Note  
President  
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. RepMar's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 16 through 53). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RepMar's management. Our responsibility is to express an opinion on RepMar's compliance based on our audit.

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

As described in items 2003-18 through 2003-33 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, reporting, subrecipient monitoring, and special tests and provisions of the Compact of Free Association that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

#### Internal Control Over Compliance

The management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RepMar's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

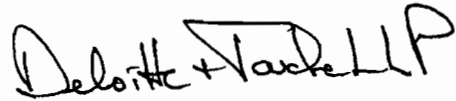
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect RepMar's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-9 and 2003-18 through 2003-33.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-9, 2003-20 through 2003-23, 2003-27, 2003-28, 2003-31 and 2003-33 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of RepMar as of and for the year ended September 30, 2003, and have issued our report thereon dated April 2, 2004, which report was qualified due to our inability to determine the propriety of receivables from federal agencies, the incomplete presentation of capital assets, and the omission of the Health Care Revenue Fund, the Ministry of Education Headstart Program, and the Marshall Islands Scholarship, Grant and Loan Board from the Governmental Fund Type - Special Revenue Fund, the Kwajalein Atoll Development Authority from the Governmental Fund Type - Capital Projects Fund, and Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank and the Marshall Islands Drydock, Inc. from the Component Units - Proprietary Funds. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 12) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RepMar. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of receivables from federal agencies been determinable, and the expenditures pertaining to the U.S. Department of Health and Human Services Headstart Program been included, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of RepMar, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

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April 2, 2004

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2003

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.027	IDEA Special Education - Grants to States	\$ 1,870,799
	84.256	Territories Freely Associated with State Education Grants	632,322
	84.287	21 <sup>st</sup> Century Community Learning Centers	693,633
U.S. Department of Health and Human Services	93.163	Pacific Basin Initiative	442,799
	93.959	Substance Abuse Prevention and Treatment Block Grant	372,481
U.S. Department of Labor	17.259	Pacific Regional WIA Services Project	1,193,499
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States:	
		Infrastructure Development and Maintenance Plan	299,546
		Financial Management Information System	400,000
		Single Audit	665,614
		Compact of Free Association:	
		Section 211(a) Capital Account	5,224,137
		Section 213(a) Military Rights	1,900,000
		Section 215(a)(1) Communications	470,980
		Section 216(a)(1) Surveillance and Enforcement	342,825
		Section 216(a)(2) Health and Medical	496,007
Section 221(b) Health and Education	<u>3,113,178</u>		
	Total CFDA #15.875	<u>12,912,287</u>	
	Total program expenditures tested	\$ <u>18,117,820</u>	
	Total federal program expenditures	\$ 66,843,782	
	Less: Section 211(a) Current Account	(13,245,900)	
	Section 217 Inflation Current Account	(4,118,000)	
	Section 211/217 Capital Account transferred to the Intergenerational Trust Fund	<u>(15,000,000)</u>	
		\$ <u>34,479,882</u>	
	% of total federal program expenditures tested	<u>52%</u>	

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2003

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	Grant Award Authorization	Receivable Balance October 1, 2002	2003 Receipts	2003 Expenditures	Receivable Balance September 30, 2003
<u>U.S. Federal Direct Assistance</u>						
<u>U.S. Department of Agriculture</u>						
<u>CFDA #10.567</u>						
Food Donations Appropriation	5702	\$ 54,173	\$ (22,313)	\$ -	\$ -	\$ (22,313)
Food Donations Appropriation	5704	54,173	1,804	-	-	1,804
Food Donations Appropriation	5705	54,173	(4,547)	-	-	(4,547)
Food Donations Appropriation	5706	54,173	(33,510)	-	-	(33,510)
Food Donations Appropriation	5707	54,173	(1,900)	-	-	(1,900)
Food Donations Appropriation	5708	54,173	47,663	54,173	6,333	(177)
Food Donations Appropriation	5709	54,173	-	-	34,395	34,395
Sub-total CFDA #10.567		379,211	(12,803)	54,173	40,728	(26,248)
<u>CFDA #10.664</u>						
Cooperative Forestry Assistance	5632	70,325	4,789	-	556	5,345
<u>CFDA #10-766</u>						
Community Facilities Grant	4720	11,512	(1,500)	-	1,500	-
Total U.S. Department of Agriculture		461,048	(9,514)	54,173	42,784	(20,903)
<u>U.S. Department of Commerce</u>						
<u>CFDA #11.460</u>						
Weather Observation Services	0903	290,325	305,298	358,483	369,325	316,140
Total U.S. Department of Commerce		290,325	305,298	358,483	369,325	316,140
<u>Institute of Museum and Library Services</u>						
<u>CFDA #45.310</u>						
Library Services and Technology Act (LSTA) Grant	6228	7,500	7,400	-	-	7,400
Library Services and Technology Act (LSTA) Grant	6229	45,681	-	-	10,954	10,954
Sub-total CFDA #45.310		53,181	7,400	-	10,954	18,354
Total Institute of Museum and Library Services		53,181	7,400	-	10,954	18,354
<u>U.S. Small Business Administration</u>						
<u>CFDA #59.005</u>						
Small Business Development Grant	5534	19,550	3,997	14,021	8,293	(1,731)
Small Business Development Grant	5537	20,000	-	2,022	13,276	11,254
Sub-total CFDA #59.005		39,550	3,997	16,043	21,569	9,523
Total U.S. Small Business Administration		39,550	3,997	16,043	21,569	9,523
<u>U.S. Department of Education</u>						
<u>CFDA #84.010</u>						
I Secondary Academic	5421	-	(1,120)	-	1,120	-
<u>CFDA #84.027</u>						
IDEA Special Education - Grants to States	5440	1,764,800	(102,410)	-	102,410	-
IDEA Special Education - Grants to States	5441	1,764,800	(775,806)	200,000	932,583	(43,223)
IDEA Special Education - Grants to States	5446	1,770,000	-	890,000	835,806	(54,194)
Sub-total CFDA #84.027		5,299,600	(878,216)	1,090,000	1,870,799	(97,417)
<u>CFDA #84.048</u>						
Pacific Vocational Education Improvement Project	5428	120,000	37,785	-	-	37,785
Pacific Vocational Education Improvement Project	5527	120,000	-	70,360	101,917	31,557
Pacific Vocational Education Improvement Project	5528	120,000	(18,031)	-	2,805	(15,226)
Pacific Vocational Education Improvement Project	5529	120,000	30,811	50,630	19,819	-
Sub-total CFDA #84.048		480,000	50,565	120,990	124,541	54,116
<u>CFDA #84.185</u>						
Robert C. Byrd Honor Scholarship Program	5436	60,000	(60,000)	-	60,000	-
Robert C. Byrd Honor Scholarship Program	5536	15,000	-	15,000	15,000	-
Sub-total CFDA #84.185		75,000	(60,000)	15,000	75,000	-
<u>CFDA #84.194</u>						
Bilingual Education Support Services	5414	237,000	134,596	-	-	134,596
Bilingual Education Support Services	5514	100,000	12,731	75,000	31,554	(30,715)
Sub-total CFDA #84.194		337,000	147,327	75,000	31,554	103,881
<u>CFDA #84.256</u>						
Territories Freely Associated with State Education Grants	5419	860,855	20,213	-	65,679	85,892
Territories Freely Associated with State Education Grants	5420	841,300	(77,085)	(250,000)	(172,915)	-
Territories Freely Associated with State Education Grants	5443	841,300	(9,852)	841,300	739,558	(111,594)
Sub-total CFDA #84.256		2,543,455	(66,724)	591,300	632,322	(25,702)

See accompanying notes to schedule of expenditures of federal awards.



REPUBLIC OF THE MARSHALL ISLANDS  
 Schedule of Expenditures of Federal Awards, Continued  
 Year Ended September 30, 2003

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	Grant Award Authorization	Receivable Balance October 1, 2002	2003 Receipts	2003 Expenditures	Receivable Balance September 30, 2003
<u>U.S. Department of Education, Continued</u>						
<u>CFDA #84.276</u>						
Goals 2000 - State and Local Education Systemic Improvement	5424	135,610	128,236	-	-	128,236
Goals 2000 - State and Local Education Systemic Improvement	5425	135,610	(9,014)	-	-	(9,014)
Goals 2000 - State and Local Education Systemic Improvement	5426	134,911	(71,757)	-	3,875	(67,882)
Goals 2000 - State and Local Education Systemic Improvement	5526	134,024	(25,973)	-	10,004	(15,969)
Sub-total CFDA #84.276		540,155	21,492	-	13,879	35,371
<u>CFDA #84.287</u>						
21st Century Community Learning Centers	5467	914,706	93,970	164,706	56,933	(13,803)
21st Century Community Learning Centers	5468	897,253	-	607,200	636,700	29,500
Sub-total CFDA #84.287		1,811,959	93,970	771,906	693,633	15,697
<u>CFDA #84.326</u>						
IDEA Special Education - TA and Dissemination	5442	80,000	(32,010)	-	18,372	(13,638)
<u>CFDA #84.346</u>						
Career Resource Network State Grant	5462	65,380	26,177	65,380	7,436	(31,767)
Total U.S. Department of Education		11,232,549	(698,539)	2,729,576	3,468,656	40,541
<u>U.S. Department of Health and Human Services</u>						
<u>CFDA #93.110</u>						
MCH Services Community Based Health Education and Systems Development Initiative - Majuro	7475	76,199	(10)	27,456	27,466	-
MCH Services Community Based Health Education and Systems Development Initiative - Ebeye	7476	12,465	-	8,585	8,585	-
MCH Services Community Based Health Education and Systems Development Initiative - Majuro	7575	84,539	-	26,376	35,855	9,479
MCH Services Community Based Health Education and Systems Development Initiative - Ebeye	7576	13,825	-	2,736	6,838	4,102
MCH Services Community Based Health Education and Systems Development Initiative - Majuro	8375	85,440	22,787	23,858	1,071	-
Sub-total CFDA #93.110		272,468	22,777	89,011	79,815	13,581
<u>CFDA #93.116</u>						
Tuberculosis Elimination and Laboratory - Majuro	7385	41,753	-	2,563	2,572	9
Tuberculosis Elimination and Laboratory - Majuro	7485	95,378	-	50,676	51,991	1,315
Tuberculosis Elimination and Laboratory - Ebeye	7486	21,301	-	12,780	13,493	713
Tuberculosis Elimination and Laboratory - Majuro	7585	68,702	-	16,370	25,826	9,456
Tuberculosis Elimination and Laboratory - Ebeye	7586	10,079	-	370	370	-
Sub-total CFDA #93.116		237,213	-	82,759	94,252	11,493
<u>CFDA #93.125</u>						
Violence Against Women Planning and Implementation	7561	50,000	-	50,000	50,000	-
<u>CFDA #93.136</u>						
Rape Prevention and Education	7424	10,010	-	5,423	5,650	227
Rape Prevention and Education	7524	5,005	-	-	3,294	3,294
Sub-total CFDA #93.136		15,015	-	5,423	8,944	3,521
<u>CFDA #93.163</u>						
Pacific Basin Initiative - Ebeye Community Health Center	6383	245,157	-	-	48,938	48,938
Pacific Basin Initiative - Healthy School Health Community	6384	245,157	2,269	-	1,416	3,685
Pacific Basin Initiative - Ebeye Community Health Center	8379	345,157	-	268	304	36
Pacific Basin Initiative - Ebeye Community Health Center	8380	392,563	(5,184)	259,287	274,739	10,268
Pacific Basin Initiative - Healthy School Health Community	8381	100,000	11,964	17,184	12,647	7,427
Pacific Basin Initiative - Mental Health	8382	75,000	-	14,015	5,922	(8,093)
Pacific Basin Initiative - Ebeye Community Health Center	8383	245,157	-	-	55,434	55,434
Pacific Basin Initiative - Healthy School Health Community	8384	100,000	-	-	18,277	18,277
Pacific Basin Initiative - Mental Health	8385	75,000	-	-	18,897	18,897
Pacific Basin Initiative - Ebeye Community Health Center	8386	345,157	-	-	6,225	6,225
Sub-total CFDA #93.163		2,168,348	9,049	290,754	442,799	161,094
<u>CFDA #93.217</u>						
Title X Family Planning Services Program - Majuro	7363	83,570	51,099	-	-	51,099
Title X Family Planning Services Program - Ebeye	7364	5,635	16,279	-	-	16,279
Title X Family Planning Services Program - Majuro	7383	151,803	-	1,239	78	(1,161)
Title X Family Planning Services Program - Majuro	7483	116,097	-	15,260	16,800	1,540
Title X Family Planning Services Program - Ebeye	7484	13,406	-	57,184	57,184	-
Title X Family Planning Services Program - Majuro	7583	145,518	88	101,140	106,885	5,833
Title X Family Planning Services Program - Ebeye	7584	36,379	-	13,477	13,477	-
Sub-total CFDA #93.217		552,408	67,466	188,300	194,424	73,590

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS  
 Schedule of Expenditures of Federal Awards, Continued  
 Year Ended September 30, 2003

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	Grant Award Authorization	Receivable Balance October 1, 2002	2003 Receipts	2003 Expenditures	Receivable Balance September 30, 2003
<u>U.S. Department of Health and Human Services, Continued</u>						
<u>CFDA #93.230</u>						
Mental Health Data Infrastructure Grant	7306	50,000	(1,029)	13,981	17,134	2,124
Mental Health Data Infrastructure Grant	7307	50,000	(3,339)	9,812	15,465	2,314
Sub-total CFDA #93.230		100,000	(4,368)	23,793	32,599	4,438
<u>CFDA #93.268</u>						
Immunization and Vaccines for Children Grants - Majuro	7450	102,101	-	52,831	65,237	12,406
Immunization and Vaccines for Children Grants - Ebeye	7451	27,385	3,060	17,595	14,713	178
Immunization and Vaccines for Children Grants - Majuro	7540	282,602	-	28,521	66,205	37,684
Immunization and Vaccines for Children Grants - Ebeye	7541	20,074	-	4,139	4,947	808
Immunization and Vaccines for Children Grants - Majuro	8350	87,188	30,832	36,863	6,235	204
Sub-total CFDA #93.268		519,350	33,892	139,949	157,337	51,280
<u>CFDA #93.283</u>						
EPI Evaluation of Thyroid Disease and Exposure to Fallout	7358	95,651	(33,687)	-	-	(33,687)
Public Health Preparedness and Response for Bioterrorism	7560	348,025	-	308,950	247,101	(61,849)
EPI Evaluation of Thyroid Disease and Exposure to Fallout	8359	66,000	45,424	98,599	55,024	1,849
Sub-total CFDA #93.283		509,676	11,737	407,549	302,125	(93,687)
<u>CFDA #93.917</u>						
HIV Care Grant	8450	52,314	-	50,000	7,701	(42,299)
HIV Care Grant	8451	51,323	13,376	44,483	22,360	(8,747)
Sub-total CFDA #93.917		103,637	13,376	94,483	30,061	(51,046)
<u>CFDA #93.938</u>						
School Health Program to Prevent Serious Health Problems	5417	54,173	79,664	-	1,502	81,166
School Health Program to Prevent Serious Health Problems	5437	54,173	47,806	-	-	47,806
School Health Program to Prevent Serious Health Problems	5438	89,050	53,360	2,981	3,045	53,424
School Health Program to Prevent Serious Health Problems	5439	111,450	19,005	81,090	71,644	9,559
School Health Program to Prevent Serious Health Problems	5470	93,526	-	4,283	16,570	12,287
Sub-total CFDA #93.938		402,372	199,835	88,354	92,761	204,242
<u>CFDA #93.940</u>						
HIV Prevention Project - Majuro	7433	131,844	32,690	126,916	93,608	(618)
HIV Prevention Project - Ebeye	7434	31,757	6,131	22,607	17,659	1,183
HIV Prevention Project - Majuro	7533	103,102	-	20,593	24,752	4,159
HIV Prevention Project - Ebeye	7534	27,228	-	4,491	6,943	2,452
HIV Prevention Project - Majuro	8448	61,343	24,271	24,352	96	15
Sub-total CFDA #93.940		355,274	63,092	198,959	143,058	7,191
<u>CFDA #93.958</u>						
Block Grant for Community Mental Health Services - Ebeye	7373	11,875	3,698	-	-	3,698
Block Grant for Community Mental Health Services - Majuro	7374	35,625	52,455	-	-	52,455
Block Grant for Community Mental Health Services - Admin	7472	3,320	(438)	3,424	75	(3,787)
Block Grant for Community Mental Health Services - Majuro	7473	47,319	(21,572)	-	6,757	(14,815)
Block Grant for Community Mental Health Services - Ebeye	7474	15,773	(7,489)	-	1,311	(6,178)
Block Grant for Community Mental Health Services - Admin	7572	3,424	-	-	300	300
Block Grant for Community Mental Health Services - Majuro	7573	58,601	-	58,601	3,488	(55,113)
Block Grant for Community Mental Health Services - Ebeye	7574	6,461	-	6,461	3,500	(2,961)
Block Grant for Community Mental Health Services - Admin	8372	2,810	(941)	-	-	(941)
Block Grant for Community Mental Health Services - Majuro	8373	13,449	(4,895)	-	300	(4,595)
Block Grant for Community Mental Health Services - Ebeye	8374	40,948	(8,202)	-	-	(8,202)
Sub-total CFDA #93.958		239,605	12,616	68,486	15,731	(40,139)
<u>CFDA #93.959</u>						
SAPT Block Grant - Admin	7468	13,225	10,719	13,225	287	(2,219)
SAPT Block Grant - Majuro	7469	127,395	64,875	127,395	69,087	6,567
SAPT Block Grant - Ebeye	7470	35,932	6,758	35,932	21,137	(8,037)
SAPT Block Grant - AKATS, Inc.	7471	87,945	87,945	87,945	-	-
SAPT Block Grant - AKATS, Inc.	7568	95,910	-	95,910	95,910	-
SAPT Block Grant - Majuro	7569	178,118	-	178,118	173,330	(4,788)
SAPT Block Grant - Admin	8368	12,708	292	-	-	292
SAPT Block Grant - Majuro	8369	33,550	(5,639)	-	-	(5,639)
SAPT Block Grant - Ebeye	8370	118,953	1,094	-	12,730	13,824
Sub-total CFDA #93.959		703,736	166,044	538,525	372,481	-
<u>CFDA #93.977</u>						
Comprehensive STD Prevention Systems (CSPS) - Majuro	7442	105,580	36,302	-	-	36,302
Comprehensive STD Prevention Systems (CSPS) - Majuro	7444	110,580	3,260	3,260	-	-
Comprehensive STD Prevention Systems (CSPS) - Majuro	7544	140,058	-	142,549	145,879	3,330
Comprehensive STD Prevention Systems (CSPS) - Ebeye	7545	35,014	-	68,224	68,085	(139)
Comprehensive STD Prevention Systems (CSPS) - Majuro	7546	107,406	-	12,351	18,332	5,981
Comprehensive STD Prevention Systems (CSPS) - Ebeye	7547	26,852	-	4,727	5,434	707
Sub-total CFDA #93.977		525,490	39,562	231,111	237,730	46,181

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS  
 Schedule of Expenditures of Federal Awards, Continued  
 Year Ended September 30, 2003

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RepMar Org No.	Grant Award Authorization	Receivable Balance October 1, 2002	2003 Receipts	2003 Expenditures	Receivable Balance September 30, 2003
<u>U.S. Department of Health and Human Services, Continued</u>						
<u>CFDA #93.988</u>						
State-Based Diabetes Program - Majuro	7366	80,948	1,447	1,835	388	-
State-Based Diabetes Program - Ebeye	7367	15,802	(598)	-	-	(598)
State-Based Diabetes Program - Majuro	7481	69,906	(4)	15,696	15,620	(80)
State-Based Diabetes Program - Ebeye	7482	27,236	10,283	-	-	10,283
State-Based Diabetes Program - Majuro	7551	67,424	3,700	66,340	70,430	7,790
State-Based Diabetes Program - Ebeye	7552	12,363	-	14,029	14,029	-
State-Based Diabetes Program - Majuro	7562	73,500	-	1,430	2,058	628
State-Based Diabetes Program - Ebeye	7563	10,237	-	954	2,505	1,551
Sub-total CFDA #93.988		357,416	14,828	100,284	105,030	19,574
<u>CFDA #93.991</u>						
Preventive Health Services - Direct Service to Victims	7320	1,200	(1,200)	-	-	(1,200)
Preventive Health Services - Admin	7321	7,175	(7,175)	-	6,707	(468)
Preventive Health Services - Majuro	7322	27,323	(6,320)	-	9,596	3,276
Preventive Health Services - Ebeye	7323	6,831	(6,831)	-	5,482	(1,349)
Preventive Health Services - Direct Service to Victims	7330	1,200	(1,200)	-	1,200	-
Preventive Health Services - Admin	7331	7,312	(5,791)	-	6,280	489
Preventive Health Services - Majuro	7332	30,730	(3,911)	-	1,782	(2,129)
Preventive Health Services - Ebeye	7333	7,682	(7,682)	-	5,357	(2,325)
Preventive Health Services - Admin	7421	7,199	365	-	2,328	2,693
Preventive Health Services - Majuro	7422	27,162	377	17,097	14,027	(2,693)
Preventive Health Services - Majuro	7522	27,490	-	10,186	11,060	874
Preventive Health Services - Ebeye	7523	6,873	-	-	288	288
Sub-total CFDA #93.991		158,177	(39,368)	27,283	64,107	(2,544)
<u>CFDA #93.994</u>						
MCHS Title V Block Grant - Majuro	7354	350,499	(124,293)	-	69	(124,224)
MCHS Title V Block Grant - Admin	7453	25,020	16,366	25,020	9,713	1,059
MCHS Title V Block Grant - Majuro	7454	180,147	47,668	180,147	150,015	17,536
MCHS Title V Block Grant - Ebeye	7455	45,037	24,937	45,037	4,760	(15,340)
MCHS Title V Block Grant - Admin	7553	24,945	-	6,000	5,282	(718)
MCHS Title V Block Grant - Majuro	7554	179,602	-	152,382	154,648	2,266
MCHS Title V Block Grant - Ebeye	7555	44,900	-	14,910	16,009	1,099
MCHS Title V Block Grant - Admin	8353	6,119	(5,490)	-	-	(5,490)
MCHS Title V Block Grant - Majuro	8354	176,200	11,312	-	3,916	15,228
MCHS Title V Block Grant - Ebeye	8355	11,014	(22,418)	-	-	(22,418)
MCHS Title V Block Grant - Admin	8453	24,453	(4,082)	-	-	(4,082)
MCHS Title V Block Grant - Majuro	8454	199,242	93,261	-	(70,207)	23,054
MCHS Title V Block Grant - Ebeye	8455	20,837	(8,097)	-	1,102	(6,995)
Sub-total CFDA #93.958		1,288,015	29,164	423,496	275,307	(119,025)
Total U.S. Department of Health and Human Services		8,558,200	639,702	3,048,519	2,698,561	289,744
<u>Federal Emergency Management Agency</u>						
<u>CFDA #83.505</u>						
Planning Office	1140	25,000	(4,659)	-	6,225	1,566
Ebeye Hospital	2012	80,000	(41,869)	-	30,388	(11,481)
Hazard Mitigation Grant Program	5109	3,738	3,738	-	-	3,738
Hazard Mitigation Grant Program	5110	93,450	33,018	-	-	33,018
Hazard Mitigation Grant Program	5111	80,000	26,165	-	25,413	51,578
Hazard Mitigation Grant Program	5112	2,400	-	-	89,376	89,376
Hazard Mitigation Grant Program	5113	18,843	(9,521)	-	1,251	(8,270)
Hazard Mitigation Grant Program	5114	24,107	(13,190)	-	3,299	(9,891)
Hazard Mitigation Grant Program	5115	60,415	60,418	60,418	-	-
Hazard Mitigation Grant Program	5116	1,257	-	1,257	-	(1,257)
Sub-total CFDA #83.505		389,210	54,100	61,675	155,952	148,377
<u>CFDA #83.552</u>						
Emergency Management Preparedness Grant	5230	50,000	(14,875)	-	-	(14,875)
Emergency Management Preparedness Grant	5231	50,000	25,473	39,625	14,395	243
Emergency Management Preparedness Grant	5232	50,000	-	-	44,709	44,709
Sub-total CFDA #83.552		150,000	10,598	39,625	59,104	30,077
Total Federal Emergency Management Agency		539,210	64,698	101,300	215,056	178,454
<u>U.S. Department of Labor</u>						
<u>CFDA #17.249</u>						
School to Work Territorial Development	5460	735,000	49,414	51,631	2,217	-
School to Work Territorial Development	5461	315,119	(143,015)	73,369	187,502	(28,882)
Sub-total CFDA #17.249		1,050,119	(93,601)	125,000	189,719	(28,882)

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS  
 Schedule of Expenditures of Federal Awards, Continued  
 Year Ended September 30, 2003

Grantor/Grant Title CFDA No. or Other Applicable Grant No.	RcpMar Org No.	Grant Award Authorization	Receivable Balance October 1, 2002	2003 Receipts	2003 Expenditures	Receivable Balance September 30, 2003
<u>U.S. Department of Labor, Continued</u>						
<u>CFDA #17.259</u>						
Pacific Regional WIA Services Project - Youth	5117	210,181	-	210,181	210,181	-
Pacific Regional WIA Services Project - Adult	5118	43,444	-	43,444	43,444	-
Pacific Regional WIA Services Project - Dislocated Workers	5119	77,374	-	77,374	77,374	-
Pacific Regional WIA Services Project - Youth	5213	220,366	(4,500)	-	-	(4,500)
Pacific Regional WIA Services Project - Adult	5218	244,324	-	245,520	245,520	-
Pacific Regional WIA Services Project - Dislocated Workers	5219	398,546	-	400,327	397,350	(2,977)
Pacific Regional WIA Services Project - Youth	5310	183,430	-	91,715	91,715	-
Pacific Regional WIA Services Project - Adult	5311	237,050	-	127,915	127,915	-
Sub-total CFDA #17.259		<u>1,614,715</u>	<u>(4,500)</u>	<u>1,196,476</u>	<u>1,193,499</u>	<u>(7,477)</u>
Total U.S. Department of Labor		<u>2,664,834</u>	<u>(98,101)</u>	<u>1,321,476</u>	<u>1,383,218</u>	<u>(36,359)</u>
<u>U.S. Department of the Interior</u>						
<u>CFDA #15.875</u>						
Internship Project	6130	107,060	7,776	28,636	8,279	(12,581)
Environmental Standards and Archeological Preservation	5221	55,000	(34,641)	-	13,884	(20,577)
Environmental Standards and Archeological Preservation	5223	20,000	-	-	17,596	17,596
Feasibility of Fiber Optic Cable for RMI and FSM	5555	36,000	-	36,000	35,998	(2)
PIRAAP - Ailuk Atoll	5693	33,500	13,500	-	-	13,500
Successful Adjustment of Marshallese Immigrants in Hawaii	6131	50,900	-	25,450	25,450	-
EPA Environmental Standards Conference	6204	30,000	(21,499)	-	-	(21,499)
EPA Environmental Standards Conference	6205	30,000	(60,721)	-	-	(60,721)
Land Survey Registration	6230	218,000	(7,677)	-	7,677	-
Land Survey Registration	6231	52,000	14,868	37,338	41,068	18,598
Local Council Training	6318	13,900	150	-	-	150
Infrastructure Development and Maintenance Plan	6325	350,000	-	263,608	299,546	35,938
Economic Policy, Planning and Statistics Office (EPPSO)	6565	31,400	-	-	31,639	31,639
OMIP - Facilities Engineering	6722	78,000	(27,750)	-	-	(27,750)
OMIP - CMI Vocational Training	6726	50,000	(7,161)	-	-	(7,161)
OMIP - Kwajalein Atoll Port Authority Dock Maintenance	6727	21,000	-	-	9,990	9,990
OMIP - Solid Waste Management Training and Assessment	6728	25,200	24,464	-	-	24,464
OMIP - MOE Procurement	6729	25,000	159	5,263	5,603	499
PIRAAP - Waan Aelon in Majo! Program	6730	87,117	-	53,894	53,894	-
Financial Management Information System (FMIS) 2003	6731	400,000	-	300,000	400,000	100,000
Performance Based Budget Submission	6732	117,600	-	117,600	117,600	-
OMIP - Solid Waste Management Training and Assessment	6828	109,305	-	-	2,347	-
Single Audit FY00	6900	678,579	13,493	50,293	91,820	55,020
Single Audit FY01	6901	708,167	94,181	166,402	56,773	(15,448)
Single Audit FY02	6902	620,000	-	382,962	437,362	54,400
Travel costs for OMIP Buddy System Training Program	6929	15,000	6,323	1,298	9,272	14,297
FMIP Interns	6969	120,000	(29,348)	20,694	87,410	37,368
Project Manager - FMIP	6970	80,000	-	46,608	74,558	27,950
RMI Embassy Information Network Upgrade	6971	24,000	-	17,892	17,892	-
RMI Passport Personalization System Upgrade	6972	104,294	-	-	30,794	30,794
Utrik Atoll Local Government Fiscal Management Improvement	6979	73,000	-	-	73,000	73,000
Single Audit FY94	6994	-	-	-	-	-
Single Audit FY98	6998	620,000	(1,000)	-	1,000	-
Single Audit FY99	6999	620,000	17,400	83,800	78,659	12,259
Sub-total CFDA #15.875		<u>5,604,022</u>	<u>2,517</u>	<u>1,637,738</u>	<u>2,029,111</u>	<u>393,890</u>
<u>CFDA #15.904</u>						
National Park Service - Historic Preservation Funds	5222	25,000	(28,577)	-	-	(28,577)
National Park Service - Historic Preservation Funds	6216	159,819	3,787	-	-	3,787
National Park Service - Historic Preservation Funds	6217	160,847	(2,506)	-	-	(2,506)
National Park Service - Historic Preservation Funds	6421	197,073	-	-	80,258	80,258
Sub-total CFDA #15.904		<u>542,739</u>	<u>(27,296)</u>	<u>-</u>	<u>80,258</u>	<u>52,962</u>
Total U.S. Department of the Interior		<u>6,146,761</u>	<u>(24,779)</u>	<u>1,637,738</u>	<u>2,109,369</u>	<u>446,852</u>
Total U.S. Federal Direct Assistance		<u>\$ 29,985,658</u>	<u>\$ 190,162</u>	<u>\$ 9,267,308</u>	<u>\$ 10,319,492</u>	<u>\$ 1,242,346</u>

The above receivable balance due from federal agencies does not reconcile to the financial statements as follows:

Balance per Schedule of Expenditures of Federal Awards	<u>\$ 1,242,346</u>
Balance per financial statements:	
General Fund	316,140
U.S. Federal Grants Fund	778,230
	<u>1,094,370</u>
Unreconciled variance	<u>\$ 147,976</u>

Refer Independent Auditors' Report for qualification relating to receivables from federal agencies

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Compact of Free Association Funding  
 Year Ended September 30, 2003

	Prior Year Funds Carried Over	2003 Receipts	Total Funding Available	2003 Expenditures	September 30, 2003 Available Funds
<u>Compact of Free Association Funding</u>					
<u>CFDA #15.875</u>					
General Fund:					
Section 211(a) Current Account	\$ -	\$ 6,360,000	\$ 6,360,000	\$ 6,360,000	\$ -
Special Revenue Fund:					
Section 215(a)(1) Communications	790,160	500,000	1,290,160	470,980	819,180
Section 216(a)(2) Health and Medical	(35,593)	531,600	496,007	496,007	-
Section 216(a)(3) Scholarship	86,303	797,400	883,703	882,110	1,593
Section 221(b) Health and Education	106,094	3,000,000	3,106,094	3,113,178	(7,084)
Section 214(a) Energy	416	1,866,667	1,867,083	1,867,083	-
	<u>947,380</u>	<u>6,695,667</u>	<u>7,643,047</u>	<u>6,829,358</u>	<u>813,689</u>
Capital Projects Funds:					
Section 111(d) Investment Development	472,253	-	472,253	-	472,253
Section 211 (a) Capital Account:					
Section 211(a) Capital Account	2,223,263	8,973,333	11,196,596	9,958,137	1,238,459
Section 217 Capital Account	-	10,266,000	10,266,000	10,266,000	-
Section 217 Capital Account (Kwajalein)	366,000	-	366,000	-	366,000
	<u>2,589,263</u>	<u>19,239,333</u>	<u>21,828,596</u>	<u>20,224,137</u>	<u>1,604,459</u>
Section 216(a)(1) Surveillance and Enforcement					
	(71,485)	415,000	343,515	342,825	690
	<u>2,990,031</u>	<u>19,654,333</u>	<u>22,644,364</u>	<u>20,566,962</u>	<u>2,077,402</u>
Private Purpose Trust:					
Kwajalein Atoll Trust Fund:					
Section 211(a) Current Account	452,245	7,100,000	7,552,245	6,885,900	666,345
Section 217 Current Account	-	4,118,000	4,118,000	4,118,000	-
Section 213(a) Military Rights	-	1,900,000	1,900,000	1,900,000	-
Section 231/232 MOURA Extension	254,363	-	254,363	-	254,363
	<u>706,608</u>	<u>13,118,000</u>	<u>13,824,608</u>	<u>12,903,900</u>	<u>920,708</u>
Total Compact Funds	\$ <u>4,644,019</u>	\$ <u>45,828,000</u>	\$ <u>50,472,019</u>	\$ <u>46,660,220</u>	\$ <u>3,811,799</u>
Other Compact Funds:					
Other Section 177 Programs (A):					
Four-Atoll Medical Fund	\$ 492,346	\$ 2,000,000	\$ 2,492,346	\$ 1,944,532	\$ 547,814
Nuclear Claims Tribunal	261	8,569,423	8,569,684	7,919,538	650,146
	<u>\$ 492,607</u>	<u>\$ 10,569,423</u>	<u>\$ 11,062,030</u>	<u>\$ 9,864,070</u>	<u>\$ 1,197,960</u>

All federal awards have been received by RepMar directly from the grantor agency except for the following:

- (A) These funds are not administered by RepMar and are reflected as transfers out of the NCTF to the Nuclear Claims Tribunal and the Four-Atoll Medical Fund.

See accompanying notes to schedule of expenditures of federal awards.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

#### (1) Scope of Review

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

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

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

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Labor
- U.S. Small Business Administration
- Federal Emergency Management Agency
- Institute of Museum and Library Services

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RepMar and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

RepMar, for purposes of the general purpose financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Schedule of Expenditures of Federal Awards excludes the federal awards received by the College of the Marshall Islands (CMI) as this entity has separately satisfied the audit requirements of OMB Circular A-133.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

The following entities have not satisfied audit requirements of OMB Circular A-133:

Air Marshall Islands, Inc.  
Kwajalein Atoll Development Authority  
Kwajalein Atoll Joint Utilities Resources, Inc.  
Marshall Islands Development Bank  
Marshall Islands Scholarship, Grant and Loan Board  
Ministry of Education Headstart Program

RepMar is considered to have responsibility for any questioned costs that could result from Single Audits of these entities.

c. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2003 Amount of Pass-through</u>
<u>U.S. Department of Labor CFDA #17.259</u>		
Pacific Regional WIA Services Project	Republic of the Marshall Islands Private Industry Council, Inc.	\$ 1,193,499
<u>Institute of Museum and Library Services CFDA # 45.310</u>		
LSTA Grant	Alele, Inc.	\$ 10,954
<u>U.S. Department of Education CFDA #84.185</u>		
Robert C. Byrd Honor Scholarship Program	Marshall Islands Scholarship, Grant and Loan Board	\$ 75,000
<u>U.S. Department of Education CFDA #84.287</u>		
21 <sup>st</sup> Century Community Learning Centers	C.A.R.E. Program	\$ 686,700

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2003 Amount of Pass-through</u>
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>		
Compact of Free Association Title II, Article I, Section 211	Air Marshall Islands, Inc.	\$ 150,000
Compact of Free Association Title II, Article I, Section 211	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,242,600
Compact of Free Association Title II, Article I, Section 213	Kwajalein Atoll Development Authority	\$ 1,900,000
Compact of Free Association Title II, Article I, Section 214	Marshalls Energy Company, Inc.	\$ 1,866,667
Compact of Free Association Title II, Article I, Section 216(a)(3)	Marshall Islands Scholarship, Grant and Loan Board	\$ 833,781
Compact of Free Association Title II, Article I, Section 221(b)	Health Care Revenue Fund	\$ 73,618
<u>U.S. Department of the Interior</u> <u>CFDA #15.904</u>		
Historic Preservation Funds	Alele, Inc.	\$ 80,258

The following entities have not satisfied audit requirements of OMB Circular A-133:

Alele, Inc.  
C.A.R.E. Program  
Republic of the Marshall Islands Private Industry Council, Inc.

d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2003. RepMar did not charge federal programs for indirect costs during fiscal year 2003.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2003

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

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. RepMar's major programs were as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Economic, Social and Political Development of the Territories and the Freely Associated States:	
Infrastructure Development and Maintenance Plan	15.875
Financial Management Information System	15.875
Single Audit	15.875
Compact of Free Association:	
Section 211(a) Capital Account	15.875
Section 213(a) Military Rights	15.875
Section 215(a)(1) Communications	15.875
Section 216(a)(1) Surveillance and Enforcement	15.875
Section 216(a)(2) Health and Medical	15.875
Section 221(b) Health and Education	15.875
Pacific Regional WIA Services Project	17.259
IDEA Special Education - Grants to States	84.027
Territories Freely Associated with State Education Grants	84.256
21 <sup>st</sup> Century Community Learning Centers	84.287
Pacific Basin Initiative	93.163
Substance Abuse Prevention and Treatment Block Grant	93.959

8. A threshold of \$1,034,396 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. RepMar did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2003-1 - 2	Payroll	18 - 19
2003-3 - 4	Expenditures	20 - 21
2003-5 - 7	Revenue/Receipts	22 - 24
2003-8	Cash and Cash Equivalents	25 - 26
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**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2003-9	Receivables from Federal Grantor Agencies	\$ -	27
2003-18 - 19	Allowable Costs/Cost Principles	\$ 32,584	37 - 38
2003-22	Allowable Costs/Cost Principles	\$ -	41
2003-20 - 23	Procurement and Suspension and Debarment	\$ 761,305	39 - 42
2003-24 - 26	Period of Availability of Federal Funds	\$ 79,436	43 - 45
2003-27	Subrecipient Monitoring	\$ 4,539,211	46 - 47
2003-31	Subrecipient Monitoring	\$ -	51
2003-28	Equipment and Real Property Management	\$ -	48
2003-29 - 30	Reporting	\$ -	49 - 50
2003-32	Special Tests and Provisions of the Compact of Free Association	\$ -	52
2003-33	Reporting	\$ -	53

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

**Section II - Financial Statement Findings**

Payroll

Finding No. 2003-1

Criteria: Differential payments to employees should be made in accordance with established Public Service Commission policies and procedures and at prescribed rates.

Condition: Of one hundred eighty payroll disbursements from the Ministry of Finance tested, the following items indicated variances in differential wage payments:

<u>Emp. #</u>	<u>Pay Period</u>	<u>Earned Night Differential</u>	<u>Paid Night Differential</u>	<u>(Under) Overpayment</u>
1193	01/12/2003	\$ 0.00	\$ 24.30	\$ 24.30
7872	01/25/2003	\$ 28.92	\$ 27.00	\$ (1.92)
4708	02/22/2003	\$ 70.56	\$ 470.40	\$ 399.84
4708	03/08/2003	\$ 70.56	\$ 470.40	\$ 399.84
5589	03/08/2003	\$ 77.85	\$ 519.00	\$ 441.15
5589	06/28/2003	\$ 51.90	\$ 346.00	\$ 294.10

<u>Emp. #</u>	<u>Pay Period</u>	<u>Earned Ebeye Differential</u>	<u>Paid Ebeye Differential</u>	<u>(Under) Overpayment</u>
9185	11/02/2002	\$ 73.12	\$ 73.26	\$ 0.14
9045	12/28/2002	\$ 41.66	\$ 59.52	\$ 17.86
6849	05/03/2003	\$ 185.33	\$ 168.48	\$ (16.85)

<u>Emp. #</u>	<u>Pay Period</u>	<u>Earned Standby Differential</u>	<u>Paid Standby Differential</u>	<u>(Under) Overpayment</u>
8632	05/31/2003	\$ 126.96	\$ 130.80	\$ 3.84
178	05/31/2003	\$ 130.80	\$ 134.63	\$ 3.83

Cause: The cause of the above condition is the incorrect manual input of differential wages by the Payroll Department.

Effect: The effect of the above condition is noncompliance with established payroll policies and procedures and the payment of unauthorized payroll expenditures.

Recommendation: We recommend that the Payroll Department within the Ministry of Finance ensure that payments for differential wages be made in accordance with established policies and procedures.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The cause of the finding is due to the malfunctioning of certain features of the ADS system in FY 2003. The payroll personnel used to just input the hours for regular pay, night differentials and other types of employee wages. But during FY 2003, this feature had glitches that the actual rates given by the system for night differentials were regular rates instead of differential rates. Starting FY 2004, payroll is done in the new financial management system, which has features addressing the problems we had in the old system.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Payroll

Finding No. 2003-2

Criteria: Marshall Islands Social Security Administration (MISSA) deductions should be made in accordance with prescribed rates established by RepMar laws and regulations.

Condition: During the year ended September 30, 2003, certain employee withholdings for MISSA Retirement Fund and Health Fund deductions were not made in accordance with prescribed rates. Specifically, MISSA deductions were not effected for certain employees for a portion of the third quarter and the entire fourth quarter of fiscal year 2003, resulting in an under withholding of employee contributions of \$181,168. As a result of this under withholding, the corresponding employer share was also not remitted to MISSA, resulting in a total unrecorded payable to MISSA of \$362,336. As this amount was considered material to the financial statements, an audit adjustment was proposed to record a payable to MISSA.

Cause: The cause of the above condition was the lack of manual update of the quarterly threshold limits within the ADS Payroll Module commencing July 1, 2003.

Effect: The effect of the above condition is noncompliance with established payroll policies and procedures and prescribed RepMar laws and regulations, and the understatement of payroll-related expenditures.

Recommendation: We recommend that the Payroll Department within the Ministry of Finance ensure that MISSA deductions are made in accordance with prescribed RepMar laws and regulations.

Prior Year Status: Noncompliance with established payroll policies and procedures and prescribed RepMar laws and regulations and the understatement of payroll-related expenditures was reported as a finding in the Single Audit of RepMar for fiscal year 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The cause of the finding was an oversight by payroll division to manually adjust the quarter end withholdings in the old payroll accounting system. Starting FY 2004, we do not expect this condition to occur because the new Financial Management System provides an automatic limit application for the Social Security and Health Fund withholdings.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Expenditures

Finding No. 2003-3

Criteria: As required by the Financial Management Act of 1990 and established internal control procedures, all expenditures should be supported by vendor invoices or other supporting documentation.

Condition: Of fifteen non-payroll disbursements related to payments made for expenditures incurred on RepMar credit cards, totaling \$47,653, we noted three disbursements (check #s 774, 3878 and 4105 for \$3,137, \$8,827 and \$5,000, respectively) that were not evidenced by original vendor invoices or other adequate supporting documentation. Based on the supporting documentation provided, payment on check # 774 was made based on a credit card statement, which included \$2,822 of expenditures that have been paid with check # 758. Check # 3878 was based on a memo requesting payment, and a credit card statement, which again included the same \$2,822 expenditures paid for by check # 758. Check # 4105, a payment for representation charges, was not supported by invoices, but by a travel authorization.

Cause: The cause of the above condition is the lack of adequate supporting documentation to evidence expenditures incurred for credit card purchases.

Effect: The effect of the above condition is the possibility of unauthorized expenditures.

Recommendation: We recommend that accounts payable personnel within the Ministry of Finance ensure that all expenditures are properly supported prior to processing requests for payment and that all valid expenditures are accounted for in accordance with prescribed policies and procedures.

Prior Year Status: Unsupported credit card payments were reported as a finding in the Single Audit of RepMar for fiscal year 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance is exerting all its efforts to comply with the stated provision of the Financial Management Act. However, due to the urgency to pay the credit cards on time, we make payments based on account statements. Unfortunately, despite the efforts of the card user and the Ministry of Finance, we were not able to obtain all the necessary supporting documents from the vendors.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Expenditures

Finding No. 2003-4

Criteria: As required by the Financial Management Act of 1990 and established internal control procedures, all purchases should be approved by appropriate fiscal authorities. Such approval shall be evidenced on purchase orders (PO).

Condition: Our review of subsequent disbursements noted the following exceptions to the above internal control process:

- Check # 10069 includes a payment of \$24,495 for a vehicle. The vehicle was obtained from the vendor on June 4, 2003, several months before authorization by PO # 3143 in fiscal year 2004;
- Check # 11165 includes a payment of \$17,750 for a vehicle. The vehicle was obtained from the vendor on September 11, 2003, before authorization by PO # 3981 in fiscal year 2004;
- Check # 11515 for \$42,245 represents a payment for vehicles. The vehicles were obtained from the vendor on August 8, 2003, approximately four months before authorization on December 23, 2003 by C.M. 198 (2003); and
- Check # 11295 represents a payment of \$38,649 for the purchase of a solar system. The invoice was dated June 20, 2003, approximately six months before authorization by PO # 3786 on December 17, 2003.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is a breakdown in internal controls and the possibility of unauthorized expenditures.

Recommendation: We recommend that RepMar periodically review its internal control policies for relevance and ensure strict adherence to adopted internal control policies.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. We will strengthen our internal controls by reviewing the policies with concerned staff and practice strict adherence to internal control policies and procedures.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-5

Criteria: Section 105(1) of the Income Tax Act of 1989, as amended, states that “the employer shall, once every four (4) weeks or thirteen (13) times per year, pay the taxes withheld under Section 104 of this chapter. The employer shall along with the taxes, within (2) weeks following the preceding four (4) weeks period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four week period and showing the tax due and withheld thereon as provided in Section 104 of this chapter”.

Condition: Of twenty-five businesses tested, we noted the following exceptions:

- 1) One business (customer # 3150) did not file withholding tax returns from July through September 2003; and
- 2) One business (customer #3802) did not file withholding tax returns from February through September 2003.

Furthermore, we noted seven businesses (customer #s 53, 74, 2246, 3112, 10766, 10945 and 11055) where the withholding tax returns were not filed in sequential order.

Cause: The cause of the above condition is the lack of compliance by businesses in filing withholding tax returns in accordance with prescribed RepMar laws and regulations.

Effect: The effect of the above condition is that withholding tax returns have not been filed and paid by these businesses in accordance with prescribed RepMar laws and regulations resulting in an understatement of tax revenues.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Revenue and Taxation follow up on delinquent withholding tax returns and effect collection in a timely manner.

Prior Year Status: The lack of compliance with Section 105(1) of the Income Tax Act of 1989, as amended, was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the audit finding and recommendation. Steps are being undertaken to improve the government revenue system and the collection process. An audit procedures manual has already been drafted, three (3) new positions have been opened in the Tax Division (namely: tax enforcement supervisor, senior tax auditor and tax auditor), and an assessment of tax system was conducted recently in preparation for an improved computerized system for the division.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-6

Criteria: Quarterly gross receipts taxes are to be filed and paid within the time frame allowed for in the Income Tax Act of 1989, as amended. The Division and Revenue and Taxation within the Ministry of Finance should follow up on non-filing businesses in a timely manner and ensure that taxes are filed and any applicable penalties appropriately applied.

Condition: Of twenty-five businesses tested, we noted the following exceptions:

- 1) One business (customer # 3802) filed gross receipts tax returns but withheld payment to offset against amounts due on unpaid invoices for good and services rendered to RepMar;
- 2) One business (customer # 9705) did not file a gross receipts tax return for the quarter ended September 30, 2003;
- 3) One business (customer # 10512) did not file a gross receipts tax return for the quarter ended September 30, 2003; and
- 4) One business (customer # 10766) did not file a gross receipts tax return for the quarter ended December 31, 2002.

Cause: The cause of the above condition is the lack of compliance by businesses in filing gross receipts tax returns.

Effect: The effect of the above condition is that gross receipts tax returns have not been filed and paid by these businesses in accordance with prescribed RepMar laws and regulations resulting in an understatement of tax revenues.

Recommendation: We recommend that the Ministry of Finance ensure that the Division of Revenue and Taxation follow up on delinquent gross receipts tax returns and effect collection in a timely manner.

Prior Year Status: Noncompliance with the gross receipts tax provision of the Income Tax Act of 1989, as amended, was reported as a finding in the Single Audit of RepMar for fiscal year 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Steps are being undertaken to improve the government revenue system and the collection process. An audit procedures manual has already been drafted, three (3) new positions have been opened in the Tax Division (namely: tax enforcement supervisor, senior tax auditor and tax auditor) and, an assessment of tax system was conducted recently in preparation for an improved computerized system for the division.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-7

Criteria: Some effective internal controls over cash assets are: (a) monitoring of sequential numbering of receipt documents and (b) timely deposits of cash receipts.

Condition: During the year ended September 30, 2003, the Ministry of Transportation and Communication (T&C) collected shipping fees, which were remitted to the Treasury Office at sporadic intervals. Of five receipts tested, two related to collections made at T&C from August 27 through September 1, 2003. The cash remitted to the Treasury Office at two separate intervals (September 2, 2003 and September 30, 2003), was less than the total receipts by \$125.

Based on inquiries of T&C personnel and review of issued bills of lading, shipping fees are supported by sequentially numbered bills of lading. However, no mechanism is in place to ensure the sequential integrity of issued bills of lading and to ensure that all cash collected is remitted to the Treasury Office.

Cause: The cause of the above condition appears to be lack of defined procedures governing monitoring and receipting of shipping fees at the point of collection.

Effect: The effect of the above condition is possible misappropriation of cash at seaport collection points.

Recommendation: The collection function of shipping fees was transferred to the Treasury Office in fiscal year 2004. We recommend that procedures be defined and communicated to cashiers regarding the monitoring of the sequential integrity of bills of lading for each ship operated by T&C and to ensure that all cash collected is remitted to the Treasury Office.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. In order to alleviate this condition, a memo from the Secretary of Finance was in fact issued to T&C on September 3, 2003 directing the Secretary of T&C that all revenue collection for T&C services should be done at the Treasury Office at Finance. We will take note of the recommendation and issue a memorandum to the treasury cashiers on instructions and procedures to ensure sequential integrity of bills of lading and completeness of cash collection.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Cash and Cash Equivalents

Finding No. 2003-8

Criteria: Petty cash and imprest account replenishment requests should be supported by appropriate petty cash imprest account bank reconciliations and all variances identified should be investigated and properly accounted for.

Condition: As of September 30, 2003, RepMar recorded an imprest account pertaining to the operations of the Tokyo Embassy within the General Fund (Fund 100) in the amount of \$100,000. The imprest account reconciliation indicated an unreconciled variance of \$39,281 for which no explanation was made available.

Furthermore, RepMar recorded the following imprest accounts within the ADB Development Projects Fund (Fund 405), which are maintained by the Ministry of Health and Environment.

A/c # 18200-405	BOH-ADB Health Services	\$ 300,000
A/c # 19600-405	Imprest Account-MOHE	<u>50,000</u>
		\$ <u>350,000</u>

In addition, RepMar recorded the following imprest accounts within the same fund, which are maintained by the Office of the President.

A/c # 18400-405	BOMI-ADB Ebeye Health & Infrastructure	\$ 86,088
A/c # 19800-405	Imprest-Ebeye Health & Infrastructure	<u>250,000</u>
		\$ <u>336,088</u>

No imprest account reconciliation statements were made available for these balances. In addition, RepMar received a check from the Ministry of Health and Environment in the amount of \$211,380 pertaining to the closure of A/c #s 18200-405 and 19600-405; however, no explanation was made available for the variance of \$138,620.

Cause: The cause of the above condition is not performing the reconciliation of petty cash imprest accounts.

Effect: The effect of the above condition is inadequate controls over petty cash and imprest account reconciliations resulting in the possibility of misappropriation of RepMar assets by custodians, and the possibility of misstatement of cash balances pertaining to petty cash imprest accounts.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Finding No. 2003-8, Continued

Recommendation: We recommend that the Secretary of Finance, pursuant to Section 151 of the Financial Management Act of 1990, issue prescribed rules and regulations governing the reconciliation of petty cash imprest accounts by the various overseas embassies and the resolution of unreconciled variances.

Prior Year Status: Unreconciled variances in petty cash imprest accounts were reported as a finding in the Single Audit of RepMar for fiscal year 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Secretary of Finance issued procedures to all the embassies on reconciling imprest accounts in 2002. All the embassies have been complying with these procedures starting FY 2003. Moreover, training of accounting personnel in relation to maintaining their books and reconciliation of accounts is currently being undertaken. The unreconciled balance at the Embassy in Tokyo shall be resolved in FY 2004. Regarding the imprest reconciliation for accounts maintained at the Ministry of Health and the President's Office, same procedures established for the embassies will be followed starting FY 2004. Any unreconciled variances shall also be resolved, accordingly.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Receivables from Federal Grantor Agencies

Finding No. 2003-9

Criteria: Receivable reconciliations should be performed regularly to ensure all receivables are adequately supported and collectible, and requests for reimbursement of amounts due from federal grantor agencies should be submitted in a timely manner.

Condition: As of September 30, 2003, RepMar recorded a net receivable due from federal grantor agencies of \$696,836 in Fund 350 (A/c #s 28200-350 and 28300-350), which exceeded the subsidiary schedule provided by the Federal Programs Office within the Ministry of Finance by \$246,093. The subsidiary schedule provided by the Federal Programs Office included federal grant receipts within Org #s 5446, 5468 and 7570 for \$500,000, \$337,306 and \$150,000, respectively, which were not received by RepMar until October 2003. An audit adjustment was proposed to record these federal grant receipts in the correct fiscal year. Accordingly, the Federal Program's Office subsidiary schedule was understated by \$987,306. Of thirteen grant accounts tested, ten (Org #s 5102, 5104, 5414, 5428, 5446, 5468, 6994, 7363, 7374 and 7570) were not substantiated by subsequent receipts or federal financial reports at September 30, 2003.

Furthermore, RepMar recorded a receivable due from federal grantor agencies of \$316,140, which represents expenditures incurred during the year ended September 30, 2003 on a U.S. Department of Commerce grant (CFDA # 11.460) not yet reimbursed. As of April 2, 2004, nothing had been collected relating to this receivable balance.

At September 30, 2003, RepMar reported receivables due from federal grantor agencies of \$1,242,346 on the Schedule of Expenditures of Federal Awards compared with \$1,094,370 recorded in the general ledger. No explanation was made available for the variance of \$147,976.

Cause: The cause of the above condition is the lack of periodic and timely reconciliation of federal grant awards, and the lack of timely submission of reimbursement requests for amounts due from federal grantor agencies.

Effect: The effect of the above condition is the possibility of misstatement of federal grants receivables and revenues.

Recommendation: We recommend that the Ministry of Finance periodically reconcile federal grants awards and ensure that amounts owed are reimbursed by the federal grantor agencies in a timely manner.

Prior Year Status: The lack of reconciliation of amounts received from federal grantor agencies was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 11, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Based on the Schedule of Expenditures of Federal Awards, the Federal Programs Office is communicating with the respective grantor agencies to determine collectibility of the receivables included on the schedule. A more detailed analysis is also being performed to facilitate the process. Further, a reconciliation of federal grant awards will be performed at least on a quarterly basis.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Interfund Balances

Finding No. 2003-10

Criteria: Revenues and expenditures recorded in the Advanced Data System (ADS) fund accounting system should agree with balances recorded in general ledger revenue and expense control accounts.

Condition: As of September 30, 2003, the following fund trial balances did not balance:

<u>Fund</u>	<u>Fund #</u>	<u>Out of Balance Amount</u>
General Fund	100	\$ (2,325,805)
Public Works Fund	105	(728)
S 216 (a)(1) Surveillance and Enforcement	305	13,400
S 216(a)(2) Health and Medical Fund	310	26,416
S 216(a)(3) Scholarship Fund	315	1,295
Changed Circumstances Fund	317	(315)
S 221(b) Education and Health Care Fund	320	118,581
Judiciary Fund	330	26,105
Ministry of Justice Fund	332	(45,151)
Auditor General Fund	333	159,957
National Environmental Protection Authority Fund	337	8,643
Resident Workers Training Account Fund	340	(4,543)
U.S. Federal Grants Fund	350	173,487
Other Direct Assistance Fund	360	1,573
Republic of China Projects Fund	370	184,157
Ministry of T & C Fund	505	42,271
Postal Service Fund	515	(29,586)
Sea Patrol Fund	520	(35,000)
Treasury Fund	950	345,201
Treasury Fund	951	148,921
Payroll Fund	961	<u>975,737</u>
		\$ <u>(215,384)</u>

These imbalances were offset against variances between interfund receivables and payables and did not result in a material misstatement.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of misstatement of revenues and expenditures within the general ledger. There is no impact on RepMar's federal programs as the full effect of the unreconciled variance has been recorded within RepMar's General Fund.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Finding No. 2003-10, Continued

Recommendation: We recommend that the Ministry of Finance reconcile general ledger revenue and expense control accounts to revenues and expenditures recorded in the ADS fund accounting system on a monthly basis.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. During fiscal year 2003, the Ministry experienced several system glitches. These include non-posting of payroll and non-payroll checks to the general ledger and unbalanced entries generated by the system that definitely affected the resulting trial balances. The Ministry was able to correct significant amounts and portion of these system problems. This condition is addressed by the new financial management system. Thus, starting FY 2004 the Ministry is confident to have balanced trial balances.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Loans Payable

Finding No. 2003-11

Criteria: Loans payable reconciliations should be performed regularly to ensure all amounts are correctly recorded and represent valid liabilities.

Condition: As of September 30, 2003, RepMar recorded a loan payable (Loan A/c # 1) to the Bank of China in the amount of \$1,900,000; however, the Bank of China, in response to a confirmation request, indicated the amount payable by RepMar of \$2,060,202. The request included confirmation of two loans (Loan A/c # 1 and Loan A/c # 2) of \$2,000,000 and \$60,202, respectively. No explanation was made available with respect to the increase in loan balances of \$160,202. As the amount was not considered material to the financial statements, no audit adjustment was proposed. Furthermore, debt service relating to Loan A/c # 1 was due to commence on June 1, 2001; however, RepMar has not made any payments on this loan through September 30, 2003.

Discussions with the Secretary of Finance indicate that RepMar may have no intention of repaying this loan due to the severing of diplomatic relationships with the People's Republic of China.

Cause: The cause of the above condition is the lack of receipt of loan statements from Bank of China indicating change in loan balances, and the lack of appropriated funds to provide for debt service.

Effect: The effect of the above condition is the possibility of misstatement of loans payable balances.

Recommendation: We recommend that the Ministry of Finance investigate and obtain an explanation for the increase in the loan balance. Furthermore, we recommend that RepMar determine whether this loan is a valid liability.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance shall propose a cabinet paper to determine the validity of the loan.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Encumbrances

Finding No. 2003-12

Criteria: Encumbrances should be periodically reviewed for validity and encumbrance ledgers and the general ledger should be reconciled in a timely manner.

Condition: At September 30, 2003, the subsidiary encumbrance ledgers for the following Funds did not agree to general ledger balances.

<u>Fund #</u>	<u>Balance per Subsidiary Ledger</u>	<u>Balance per General Ledger</u>	<u>Variance</u>
100	\$ 176,718	\$ 115,583	\$ 61,135
210	\$ 1,584,433	\$ 568,487	\$ 1,015,946
350	\$ 782,670	\$ 1,113,318	\$ (330,648)
360	\$ -	\$ 350,380	\$ (350,380)
370	\$ 436,901	\$ 846,960	\$ (410,059)
505	\$ 3,288	\$ 47,350	\$ (44,062)

Audit adjustments were proposed to reconcile the subsidiary ledgers to the general ledger. Furthermore, we noted certain encumbered balances outstanding for over one year that had not been reviewed to determine if they continued to represent valid encumbrances.

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that the Ministry of Finance periodically review the subsidiary encumbrance ledgers for invalid encumbrances and reconcile the subsidiary ledgers to the general ledger in a timely manner.

Prior Year Status: The lack of periodic review and reconciliation of subsidiary encumbrance ledgers was reported as a finding in the Single Audit of RepMar for fiscal year 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Due to limitations in the old accounting system and the problems encountered of checks not posting to GL and encumbrance not showing correct balances, reconciliation of encumbrance ledger and the general ledger despite our efforts, was not completed in FY 2003. With the implementation of the new financial management system, the encumbrance ledgers were cleaned up before transferring to the new system.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Accounts Payable

Finding No. 2003-13

Criteria: General ledger control accounts should be periodically reconciled to their respective subsidiary ledgers to ensure all transactions are properly recorded.

Condition: During the year ended September 30, 2003, the following accounts payable control accounts were not reconciled to the respective subsidiary ledgers:

<u>Control Account Number</u>	<u>General Ledger</u>	<u>Subsidiary Ledger/Fund Accounts TB</u>	<u>Difference</u>
50000-100	\$ 2,448,122	\$ 1,438,479	\$ 1,009,643
50000-350	\$ 1,110,052	\$ 1,103,006	\$ 7,046
50000-360	\$ 175,953	\$ 164,737	\$ 11,216
50000-370	\$ 1,018,781	\$ 1,006,199	\$ 12,582

The above differences were resolved through alternative audit procedures.

Furthermore, the subsidiary ledgers for A/c #s 50000-360 and 50000-370 included two items for \$76,500 and \$80,800, respectively, for two vendors (Vendor #s 500013 and 400005, respectively) representing invalid payable balances from prior year not removed from the accounts payable subsidiary ledgers.

Cause: The cause of the above condition appears to be lack of timely reconciliation work being performed on the respective general ledger accounts.

Effect: The effect of the above condition was misstatements in general ledger accounts, which were corrected by proposed audit adjustments.

Recommendation: We recommend that the Ministry of Finance implement a policy of periodic reconciliation of general ledger control accounts to subsidiary ledgers.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Due to limitations in the old accounting system and the problems encountered of checks not posting to GL and encumbrance not showing correct balances, reconciliation of accounts payable subsidiary ledger and the general ledger despite our efforts, was not completed in FY 2003. The invalid amounts mentioned in the findings are to be removed from subsidiary ledgers in FY2004. With the implementation of the new financial management system, the accounts payable ledgers were cleaned up before transferring to the new system.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

External Financial Reporting

Finding No. 2003-14

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, requires that the general purpose financial statements of the reporting entity include component units for which the primary government is either financially accountable for, or for which exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete.

Condition: As of September 30, 2003, the following component units were excluded from RepMar's financial statements due to the lack of separate audits for the respective entities:

Governmental Funds

Health Care Revenue Fund  
Marshall Islands Scholarship, Grant and Loan Board  
Ministry of Education Headstart Program  
Kwajalein Atoll Development Authority

Component Units

Air Marshall Islands, Inc.  
Kwajalein Atoll Joint Utilities Resources, Inc.  
Marshall Islands Development Bank  
Marshall Islands Drydock, Inc.

Cause: The cause of the above condition is the lack of audited financial statements for the respective entities.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14 resulting in a qualification in the opinion on the financial statements of RepMar.

Recommendation: We recommend that RepMar conform to GASB Statement No. 14 by obtaining audited financial statements of the above entities for inclusion within the financial statements.

Prior Year Status: The lack of including component units' in RepMar's financial statements was reported as a finding in the Single Audits of RepMar for fiscal years 1998 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance will develop procedures to improve monitoring and follow-up of component units audits.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

RepMar Local Noncompliance

Finding No. 2003-15

**Criteria:** Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 1977 stipulates that no person shall authorize or expend any governmental funds in excess of appropriated amounts except in emergencies and only pursuant to procedures provided by law.

**Condition:** The Appropriations (Financial Year 2003) Act of 2003, as passed by the Nitijela of RepMar, provided appropriated amounts for fiscal year 2003 from the General Fund of \$38,294,000. No reconciliation of the Appropriations Act of 2003 to budget appropriations recorded in the ADS Profund accounting system was made available by the Ministry of Finance's Budget Office. This condition was resolved through alternative auditing procedures.

Furthermore, the following program areas recorded in the ADS Profund accounting system reported expenditures in excess of budget appropriations for the year ended September 30, 2003. These over-expenditures were the result of proposed audit adjustments to charge-off various interfund balances:

<u>Program Area</u>	<u>Budgeted Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Over-Expenditure</u>
Section 216(a)(2) Health and Medical Fund	\$ -	\$ 93,146	\$ 93,146
Ministry of T and C Fund	\$ -	\$ 196,370	\$ 196,370
MIDA Fund	\$ -	\$ 480,321	\$ 480,321

**Cause:** The cause of the above condition is the authorization of expenditures within the respective funds in excess of amounts available for appropriation.

**Effect:** The effect of the above condition is noncompliance with Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 1977.

**Recommendation:** We recommend that the Ministry of Finance's Budget Office only authorize expenditures within appropriated amounts.

**Prior Year Status:** The lack of compliance with Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 1977 was reported as a finding in the Single Audits of RepMar for fiscal years 2000 through 2002.

**Auditee Response and Corrective Action Plan:** In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. We will review our procedures and implement changes, if necessary, to ensure strict compliance to the Appropriations Act of 2003.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

RepMar Local Noncompliance

Finding No. 2003-16

Criteria: Section 2(a) of the General Fund Investment Act of 1979 stipulates that public money shall not be deposited with any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) of the United States or the Federal Savings and Loan Insurance Corporation (FSLIC) of the United States unless the Secretary of Finance is satisfied, on the advise of the Banking Commissioner, that a financial institution that is not a member of the FDIC or FSLIC, owns sufficient assets to cover the total amount of the investment.

Condition: As of September 30, 2003, the General Fund of RepMar maintained bank deposits, totaling \$2,680,393, with five financial institutions that were not members of FDIC or FSLIC. Furthermore, the Intergenerational Trust Fund maintained bank deposits, totaling \$12,045,947 with two financial institutions that were not members of FDIC or FSLIC. No advise from the Banking Commissioner was sought in order to determine whether the respective financial institutions owned assets to cover the total amount of the deposits.

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

Effect: The effect of the above condition is noncompliance with Section 2(a) of the General Fund Investment Act of 1979.

Recommendation: We recommend that the Ministry of Finance comply with Section 2(a) of the General Fund Investment Act of 1979.

Prior Year Status: The lack of compliance with Section 2(a) of the General Fund Investment Act of 1979 was reported as a finding in the Single Audits of RepMar for fiscal years 2000 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. We have already sought the advise of the Banking Commissioner regarding the security of investments and deposits in non-FDIC/FLIC financial institutions. We are also going to establish procedures wherein before making any new investments or deposits to a non-FDIC/FLIC financial institution in relation to public funds, the advice of the Banking Commissioner will be sought.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

RepMar Local Noncompliance

Finding No. 2003-17

Criteria: The Financial Management Act of 1990 requires that all bank accounts be maintained within RepMar's treasury and be under the control of the Secretary of Finance unless specifically authorized by enabling legislation.

Condition: As of September 30, 2003, two cash accounts are maintained outside of RepMar's treasury for the C.A.R.E Program and the Headstart Program (both under the Ministry of Education), for which no enabling legislation is apparent authorizing their establishment. The creation of the Headstart Program account was based on a Cabinet authorization whereas the creation of the C.A.R.E Program account was based on a Memorandum of Understanding between the Ministry of Finance and the Ministry of Education.

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

Effect: The effect of the above condition is noncompliance with the Financial Management Act of 1990 and the possibility of misappropriation of RepMar assets and/or the possibility of unauthorized expenditures.

Recommendation: We recommend that the Ministry of Finance comply with the Financial Management Act of 1990.

Prior Year Status: Cash accounts maintained outside of RepMar's treasury was reported as a finding in the Single Audit of RepMar for fiscal year 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. However, the separate bank accounts of C.A.R.E and Headstart Programs will continue only up fiscal year 2004. Both the federal programs shall cease to exist in FY 2005 because they are among the Supplemental Education Grants (SEG) that is part of the "cash-out" scheme under the new Compact. Thus, as much as we would like to make changes before then, it will be impracticable to do so considering the short period of time left that the separate accounts will exist.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

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

Allowable Costs/ Cost Principles

Finding No. 2003-18

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Compact of Free Association, Section 216(a)(2) Health and Medical / CFDA # 15.875	<p><u>Criteria:</u> Expenditures incurred under the Compact of Free Association should be in accordance with allowable costs and should be directly related to and in accordance with Compact intent and objectives.</p> <p><u>Condition:</u> Of \$602,565 in payroll expenditures of Section 216(a)(2) Health and Medical Compact funding, twenty-nine payroll expenditures, totaling \$30,583, were tested. We noted one instance where the Ebeye differential wage payment of \$59.52 exceeded the amount earned of \$41.66 for wages paid to employee # 9045 for the pay period ended December 28, 2002. For the year ended September 30, 2003, this employee earned \$369 for Ebeye differential wages but was paid \$476.16. Total Ebeye differential wages paid under Section 216(a)(2) amounted to \$63,064. Accordingly, the error has been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.</p> <p><u>Cause:</u> The cause of the above condition is an incorrect manual calculation by the Payroll Department.</p> <p><u>Effect:</u> The effect of the above condition is unallowable costs incurred that do not follow the intent of the Compact.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with allowable cost principles for expenditures incurred under the Compact.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation, however it is worthy to mention that for this employee, 9045, the wage payment of \$59.52 Ebeye differential is the set-up amount that is calculated into the payroll system. This set-up amount is a fixed amount that cannot exceed the required 20% threshold. Thereby the wage earnings of \$41.66 for employee 9045 PPE 12/28/02 is correct based on the number of hours worked times the hourly rate for this employee's regular earnings. This is exclusive of the additional 20% Ebeye differential. Starting FY 2004 with the new financial management system that has features to address the limitations in the old system, this condition will be avoided.</p>	\$ 14,193

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Allowable Costs/Cost Principles

Finding No. 2003-19

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / Territories Freely Associated with State Education Grants / CFDA # 84.256	<p><u>Criteria:</u> Expenditures incurred under federal programs should be in accordance with allowable costs and should be directly related to and in accordance with program intent and objectives.</p> <p><u>Condition:</u> Of \$632,322 in non-payroll expenditures of the Territories Freely Associated with State Education Grants program, twenty-three non-payroll expenditures, totaling \$370,285, were tested. We noted one instance relating to a payment on check # 5669 for \$14,600 that was not supported by adequate documentation such as a vendor invoice. Furthermore, we noted one instance relating to a payment on check # 1075 for \$3,791 for travel that was not supported by a travel report detailing the nature of the trip and the relevance of the trip to the overall objectives of the program.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate internal controls over record-keeping.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with allowable costs/cost principles as required by the Common Rule.</p> <p><u>Recommendation:</u> We recommend that costs incurred under federal programs be in accordance with allowable costs per the program grant award and that such be necessary and in accordance with program intent.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. The program manager was informed about this questioned cost and we will follow up its resolution. We will continue to implement strict compliance to the federal rules and regulations.</p>	\$ 18,391

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Procurement and Suspension and Debarment

Finding No. 2003-20

<u>Program</u>	<u>Reason for Questioned Costs</u>				<u>Questioned Costs</u>																																																
U.S. Department of Education / IDEA Special Education - Grants to States / CFDA # 84.027	<p><u>Criteria:</u> Section 80.36(d) of 34 CFR 80, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of \$1,046,734 in non-payroll expenditures of the IDEA Special Education - Grants to States program, twenty-five non-payroll expenditures, totaling \$580,401, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr><td style="text-align: center;">247</td><td style="text-align: right;">\$ 40,575</td><td style="text-align: center;">1911</td><td style="text-align: right;">\$ 7,160</td></tr> <tr><td style="text-align: center;">6291</td><td style="text-align: right;">\$ 55,000</td><td style="text-align: center;">6291</td><td style="text-align: right;">\$ 27,500</td></tr> <tr><td style="text-align: center;">6291</td><td style="text-align: right;">\$ 66,000</td><td style="text-align: center;">6982</td><td style="text-align: right;">\$ 14,070</td></tr> <tr><td style="text-align: center;">1554</td><td style="text-align: right;">\$ 15,001</td><td style="text-align: center;">6291</td><td style="text-align: right;">\$ 16,800</td></tr> <tr><td style="text-align: center;">207715</td><td style="text-align: right;">\$ 8,388</td><td style="text-align: center;">6767</td><td style="text-align: right;">\$ 9,684</td></tr> <tr><td style="text-align: center;">207739</td><td style="text-align: right;">\$ 19,916</td><td style="text-align: center;">6767</td><td style="text-align: right;">\$ 21,249</td></tr> <tr><td style="text-align: center;">207720</td><td style="text-align: right;">\$ 11,100</td><td style="text-align: center;">6982</td><td style="text-align: right;">\$ 24,425</td></tr> <tr><td style="text-align: center;">1680</td><td style="text-align: right;">\$ 7,150</td><td style="text-align: center;">2419</td><td style="text-align: right;">\$ 19,800</td></tr> <tr><td style="text-align: center;">6291</td><td style="text-align: right;">\$ 24,750</td><td style="text-align: center;">4721</td><td style="text-align: right;">\$ 12,353</td></tr> <tr><td style="text-align: center;">5646</td><td style="text-align: right;">\$ 28,374</td><td style="text-align: center;">5960</td><td style="text-align: right;">\$ 8,564</td></tr> <tr><td style="text-align: center;">4630</td><td style="text-align: right;">\$ 24,495</td><td style="text-align: center;">6326</td><td style="text-align: right;">\$ 7,094</td></tr> </tbody> </table>				<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	247	\$ 40,575	1911	\$ 7,160	6291	\$ 55,000	6291	\$ 27,500	6291	\$ 66,000	6982	\$ 14,070	1554	\$ 15,001	6291	\$ 16,800	207715	\$ 8,388	6767	\$ 9,684	207739	\$ 19,916	6767	\$ 21,249	207720	\$ 11,100	6982	\$ 24,425	1680	\$ 7,150	2419	\$ 19,800	6291	\$ 24,750	4721	\$ 12,353	5646	\$ 28,374	5960	\$ 8,564	4630	\$ 24,495	6326	\$ 7,094	\$ 469,448
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Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with federal procurement requirements.

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

Recommendation: We recommend that RepMar comply with federal procurement requirements.

Prior Year Status: The lack of compliance with procurement standards was reported as a finding in the Single Audits of RepMar for fiscal years 2000 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance is exerting all its efforts to comply with the federal requirements on procurement. The Secretary of Finance has issued memorandums regarding this issue and has been strict with its implementation. Most of the questioned costs were incurred before the issuance of the said memorandum. Furthermore, we will create a committee to review our procurement policies and guidelines to come up more comprehensive guidelines on procurement using federal grants.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Procurement and Suspension and Debarment

Finding No. 2003-21

<u>Program</u>	<u>Reason for Questioned Costs</u>				<u>Questioned Costs</u>																				
U.S. Department of Education / Territories Freely Associated with State Education Grants / CFDA # 84.256	<p><u>Criteria:</u> Section 80.36(d) of 34 CFR 80, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of \$632,322 in non-payroll expenditures of the Territories Freely Associated with State Education Grants program, twenty-three non-payroll expenditures, totaling \$370,285, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">207391</td> <td style="text-align: right;">\$ 22,670</td> <td style="text-align: center;">7120</td> <td style="text-align: right;">\$ 8,011</td> </tr> <tr> <td style="text-align: center;">715</td> <td style="text-align: right;">\$ 3,600</td> <td style="text-align: center;">6080</td> <td style="text-align: right;">\$ 3,443</td> </tr> <tr> <td style="text-align: center;">5960</td> <td style="text-align: right;">\$ 6,400</td> <td style="text-align: center;">689</td> <td style="text-align: right;">\$ 8,662</td> </tr> <tr> <td style="text-align: center;">3880</td> <td style="text-align: right;">\$ 9,529</td> <td></td> <td></td> </tr> </tbody> </table>				<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	207391	\$ 22,670	7120	\$ 8,011	715	\$ 3,600	6080	\$ 3,443	5960	\$ 6,400	689	\$ 8,662	3880	\$ 9,529			\$ 62,315
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715	\$ 3,600	6080	\$ 3,443																						
5960	\$ 6,400	689	\$ 8,662																						
3880	\$ 9,529																								
	<p>In addition, we noted one prepayment made for \$54,492 on check # 4351 for classroom supplies that did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000.</p>				\$ 54,492																				
	<p><u>Cause:</u> The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with federal procurement requirements.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards as required in the Common Rule.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with federal procurement requirements.</p> <p><u>Prior Year Status:</u> The lack of compliance with procurement standards was reported as a finding in the Single Audit of RepMar for fiscal year 2002.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. The Ministry of Finance is exerting all its efforts to comply with the federal requirements on procurement. The Secretary of Finance has issued memorandums regarding this issue and has been strict with its implementation. Most of the questioned costs were incurred before the issuance of the said memorandum. Furthermore, we will create a committee to review our procurement policies and guidelines to come up more comprehensive guidelines on procurement using federal grants.</p>																								

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Allowable Costs/Cost Principles  
Procurement and Suspension and Debarment

Finding No. 2003-22

Program	Reason for Questioned Costs	Questioned Costs																				
U.S. Department of Health and Human Services / Pacific Basin Initiative / CFDA # 93.163	<p><u>Criteria:</u> Section 92.36(d) of 45 CFR 92, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources. Furthermore, all federal program expenditures are to be properly supported with vendor invoices, contracts or receipts and should be in accordance with the nature and intent of the program.</p> <p><u>Condition:</u> Of \$204,515 in non-payroll expenditures of the Pacific Basin Initiative Grant program, eleven non-payroll expenditures, totaling \$120,559, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5313E</td> <td style="text-align: right;">\$ 24,372</td> <td style="text-align: center;">5497E</td> <td style="text-align: right;">\$ 9,275</td> </tr> <tr> <td style="text-align: center;">5316E</td> <td style="text-align: right;">\$ 29,462</td> <td style="text-align: center;">5497E</td> <td style="text-align: right;">\$ 7,755</td> </tr> <tr> <td style="text-align: center;">12705E</td> <td style="text-align: right;">\$ 24,372</td> <td style="text-align: center;">5497E</td> <td style="text-align: right;">\$ 11,211</td> </tr> <tr> <td style="text-align: center;">5595E</td> <td style="text-align: right;">\$ 3,489</td> <td style="text-align: center;">5747E</td> <td style="text-align: right;">\$ 2,745</td> </tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	5313E	\$ 24,372	5497E	\$ 9,275	5316E	\$ 29,462	5497E	\$ 7,755	12705E	\$ 24,372	5497E	\$ 11,211	5595E	\$ 3,489	5747E	\$ 2,745	\$ 112,681
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Furthermore, we noted that the payment on check # 12705E for \$24,372 (Vendor invoice # 796785) was not supported by adequate documentation such as a vendor invoice. As this amount has been questioned above, no additional questioned cost need be reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with federal procurement requirements, and the lack of adequate internal controls over record-keeping.

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

Recommendation: We recommend that RepMar comply with federal procurement requirements and that vendor invoices support costs incurred.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance is exerting all its efforts to comply with the federal requirements on procurement. The Secretary of Finance has issued memorandums regarding this issue and has been strict with its implementation. Most of the questioned costs were incurred before the issuance of the said memorandum. Some of the questioned costs were also supported with two vendor price quotations, however, discussions with the auditors indicate that this is inadequate. Furthermore, we will create a committee to review our procurement policies and guidelines to come up with a more comprehensive guideline.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Procurement and Suspension and Debarment

Finding No. 2003-23

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Health and Human Services / Substance Abuse, Prevention and Treatment Block Grant / CFDA # 93.959	<p><u>Criteria:</u> Section 92.36(d) of 45 CFR 92, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that for all small purchases for securing services, supplies or other property that do not cost more than \$100,000, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of \$359,751 in non-payroll expenditures of the Substance Abuse Prevention and Treatment Block Grant program, seventeen non-payroll expenditures, totaling \$297,279, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning small purchases less than \$100,000:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3188</td> <td style="text-align: right;">\$ 14,294</td> <td style="text-align: center;">5164E</td> <td style="text-align: right;">\$ 8,500</td> </tr> <tr> <td style="text-align: center;">2660</td> <td style="text-align: right;">\$ 13,390</td> <td style="text-align: center;">5216E</td> <td style="text-align: right;">\$ 8,500</td> </tr> <tr> <td style="text-align: center;">207418</td> <td style="text-align: right;">\$ 3,921</td> <td style="text-align: center;">304</td> <td style="text-align: right;">\$ 3,504</td> </tr> <tr> <td style="text-align: center;">305</td> <td style="text-align: right;">\$ 3,420</td> <td style="text-align: center;">859</td> <td style="text-align: right;">\$ 3,420</td> </tr> <tr> <td style="text-align: center;">1910</td> <td style="text-align: right;">\$ 3,420</td> <td></td> <td></td> </tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	3188	\$ 14,294	5164E	\$ 8,500	2660	\$ 13,390	5216E	\$ 8,500	207418	\$ 3,921	304	\$ 3,504	305	\$ 3,420	859	\$ 3,420	1910	\$ 3,420			\$ 62,369
<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>																							
3188	\$ 14,294	5164E	\$ 8,500																							
2660	\$ 13,390	5216E	\$ 8,500																							
207418	\$ 3,921	304	\$ 3,504																							
305	\$ 3,420	859	\$ 3,420																							
1910	\$ 3,420																									

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

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

Recommendation: We recommend that RepMar comply with federal procurement requirements.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance is exerting all its efforts to comply with the federal requirements on procurement. The Secretary of Finance has issued memorandums regarding this issue and has been strict with its implementation. Most of the questioned costs were incurred before the issuance of the said memorandum. Furthermore, we will create a committee to review our procurement policies and guidelines to come up with a more comprehensive guideline.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Period of Availability of Federal Funds

Finding No. 2003-24

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																		
U.S. Department of Education / IDEA Special Education - Grants to States / CFDA # 84.027	<p><u>Criteria:</u> Section 80.23(b) of 34 CFR 80, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. The Federal agency may extend this deadline at the request of the grantee.</p> <p><u>Condition:</u> Of \$1,046,734 in non-payroll expenditures of the IDEA Special Education - Grants to States program, twenty-five non-payroll expenditures, totaling \$580,401, were tested. The following expenditures were liquidated in excess of 90 days after the end of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Org #</u></th> <th style="text-align: center;"><u>PO #</u></th> <th style="text-align: center;"><u>PO Date</u></th> <th style="text-align: center;"><u>Funding Period</u></th> <th style="text-align: center;"><u>Date Deobligated</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5440</td> <td style="text-align: center;">88143</td> <td style="text-align: center;">11/26/01</td> <td style="text-align: center;">10/01/00 - 09/30/02</td> <td style="text-align: center;">09/02/03</td> <td style="text-align: right;">\$ 73,988</td> </tr> <tr> <td style="text-align: center;">5440</td> <td style="text-align: center;">87663</td> <td style="text-align: center;">10/01/01</td> <td style="text-align: center;">10/01/00 - 09/30/02</td> <td style="text-align: center;">01/09/03</td> <td style="text-align: right;">\$ 15,001</td> </tr> </tbody> </table> <p>The expenditure incurred under PO # 87663 was liquidated and paid on check # 1554. This expenditure was previously reported as a questioned cost due to noncompliance with procurement standards, thus no additional questioned cost need be reported.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with period of availability requirements.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with period of availability requirements as required in the Common Rule.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with federal period of availability requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. We will do our best efforts to practice strict compliance to the federal period of availability requirements.</p>	<u>Org #</u>	<u>PO #</u>	<u>PO Date</u>	<u>Funding Period</u>	<u>Date Deobligated</u>	<u>Amount</u>	5440	88143	11/26/01	10/01/00 - 09/30/02	09/02/03	\$ 73,988	5440	87663	10/01/01	10/01/00 - 09/30/02	01/09/03	\$ 15,001	\$ 73,988
<u>Org #</u>	<u>PO #</u>	<u>PO Date</u>	<u>Funding Period</u>	<u>Date Deobligated</u>	<u>Amount</u>															
5440	88143	11/26/01	10/01/00 - 09/30/02	09/02/03	\$ 73,988															
5440	87663	10/01/01	10/01/00 - 09/30/02	01/09/03	\$ 15,001															

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Period of Availability of Federal Funds

Finding No. 2003-25

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																								
U.S. Department of Health and Human Services / Pacific Basin Initiative / CFDA # 93.163	<p><u>Criteria:</u> Section 92.23(a) of 45 CFR 92, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted. Furthermore, Section 92.23(b) states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. The Federal agency may extend this deadline at the request of the grantee.</p> <p><u>Condition:</u> Of \$204,515 in non-payroll expenditures of the Pacific Basin Initiative Grant program, eleven non-payroll expenditures, totaling \$120,559, were tested. The following expenditure was liquidated in excess of 90 days after the end of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Org #</u></th> <th style="text-align: center;"><u>PO #</u></th> <th style="text-align: center;"><u>PO Date</u></th> <th style="text-align: center;"><u>Funding Period</u></th> <th style="text-align: center;"><u>Date Deobligated</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">8380</td> <td style="text-align: center;">5264E</td> <td style="text-align: center;">01/15/03</td> <td style="text-align: center;">02/01/02 - 01/31/03</td> <td style="text-align: center;">05/05/03</td> <td style="text-align: right;">\$ 24,372</td> </tr> </tbody> </table> <p>Furthermore, the following expenditure was incurred outside of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Org #</u></th> <th style="text-align: center;"><u>PO #</u></th> <th style="text-align: center;"><u>PO Date</u></th> <th style="text-align: center;"><u>Funding Period</u></th> <th style="text-align: center;"><u>Date Deobligated</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">8380</td> <td style="text-align: center;">97450</td> <td style="text-align: center;">02/20/03</td> <td style="text-align: center;">02/01/02 - 01/31/03</td> <td style="text-align: center;">07/28/03</td> <td style="text-align: right;">\$ 2,028</td> </tr> </tbody> </table> <p>The expenditure incurred under PO # 5264E was liquidated and paid on check # 12705 (Ebeye). This expenditure was previously reported as a questioned cost due to noncompliance with procurement standards, thus no additional questioned cost need be reported.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with period of availability requirements.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with period of availability requirements as required in the Common Rule.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with federal period of availability requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. We will do our best efforts to practice strict compliance to the federal period of availability requirements.</p>	<u>Org #</u>	<u>PO #</u>	<u>PO Date</u>	<u>Funding Period</u>	<u>Date Deobligated</u>	<u>Amount</u>	8380	5264E	01/15/03	02/01/02 - 01/31/03	05/05/03	\$ 24,372	<u>Org #</u>	<u>PO #</u>	<u>PO Date</u>	<u>Funding Period</u>	<u>Date Deobligated</u>	<u>Amount</u>	8380	97450	02/20/03	02/01/02 - 01/31/03	07/28/03	\$ 2,028	\$ 2,028
<u>Org #</u>	<u>PO #</u>	<u>PO Date</u>	<u>Funding Period</u>	<u>Date Deobligated</u>	<u>Amount</u>																					
8380	5264E	01/15/03	02/01/02 - 01/31/03	05/05/03	\$ 24,372																					
<u>Org #</u>	<u>PO #</u>	<u>PO Date</u>	<u>Funding Period</u>	<u>Date Deobligated</u>	<u>Amount</u>																					
8380	97450	02/20/03	02/01/02 - 01/31/03	07/28/03	\$ 2,028																					

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Period of Availability of Federal Funds

Finding No. 2003-26

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Health and Human Services / Substance Abuse, Prevention and Treatment Block Grant / CFDA # 93.959	<p><u>Criteria:</u> Section 92.23(a) of 45 CFR 92, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, states that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted. Furthermore, Section 92.23(b) states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. The Federal agency may extend this deadline at the request of the grantee.</p> <p><u>Condition:</u> Of \$359,751 in non-payroll expenditures of the Substance Abuse Prevention and Treatment Block Grant program, seventeen non-payroll expenditures, totaling \$297,279, were tested. The following expenditure was incurred outside of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Org #</th> <th style="text-align: center;">PO #</th> <th style="text-align: center;">PO Date</th> <th style="text-align: center;">Funding Period</th> <th style="text-align: center;">Date Deobligated</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">7469</td> <td style="text-align: center;">96287</td> <td style="text-align: center;">01/06/03</td> <td style="text-align: center;">10/01/00 - 09/30/02</td> <td style="text-align: center;">02/05/03</td> <td style="text-align: right;">\$ 14,294</td> </tr> </tbody> </table> <p>Furthermore, the following expenditure was liquidated in excess of 90 days after the end of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Org #</th> <th style="text-align: center;">PO #</th> <th style="text-align: center;">PO Date</th> <th style="text-align: center;">Funding Period</th> <th style="text-align: center;">Date Deobligated</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">7469</td> <td style="text-align: center;">93854</td> <td style="text-align: center;">09/26/02</td> <td style="text-align: center;">10/01/00 - 09/30/02</td> <td style="text-align: center;">01/31/03</td> <td style="text-align: right;">\$ 3,420</td> </tr> </tbody> </table> <p>The expenditure incurred under PO # 96287 was liquidated and paid on check # 3188. This expenditure was previously reported as a questioned cost due to noncompliance with procurement standards, thus no additional questioned cost need be reported.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with period of availability requirements.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with period of availability requirements as required in the Common Rule.</p> <p><u>Recommendation:</u> We recommend that RepMar comply with federal period of availability requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. We will do our best efforts to practice strict compliance to the federal period of availability requirements.</p>	Org #	PO #	PO Date	Funding Period	Date Deobligated	Amount	7469	96287	01/06/03	10/01/00 - 09/30/02	02/05/03	\$ 14,294	Org #	PO #	PO Date	Funding Period	Date Deobligated	Amount	7469	93854	09/26/02	10/01/00 - 09/30/02	01/31/03	\$ 3,420	\$ 3,420
Org #	PO #	PO Date	Funding Period	Date Deobligated	Amount																					
7469	96287	01/06/03	10/01/00 - 09/30/02	02/05/03	\$ 14,294																					
Org #	PO #	PO Date	Funding Period	Date Deobligated	Amount																					
7469	93854	09/26/02	10/01/00 - 09/30/02	01/31/03	\$ 3,420																					

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Subrecipient Monitoring

Finding No. 2003-27

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of the Interior / Compact of Free Association, Title I, Article VII, Section 177(c) / CFDA # 15.875	<u>Criteria:</u> OMB's "Questions and Answers on the Single Audit provisions of OMB Circular A-128", question number twenty-three states that prime recipients of federal funding are expected to establish a system to assure that audits of subrecipients meet the requirements of Circular A-128 and such a system should include a desk review of each subrecipient report to ensure it conforms to A-128.	
U.S. Department of the Interior / Compact of Free Association, Title II, Article I, Section 211 / CFDA # 15.875	<u>Condition:</u> The following questioned costs of subrecipients remain unresolved for more than six months after issuance of the audit reports.  <u>Enewetak/Ujelang Local Government</u> Fiscal Years 1995 - 1997	\$ 1,782,897
U.S. Department of the Interior / Enewetak Food and Agricultural Support Program / CFDA # 15.875	<u>Kili/Bikini Local Government</u> Fiscal Years 1997 - 2000  <u>Kwajalein Atoll Development Authority</u> Fiscal Year 2002	\$ 1,200,000
U.S. Department of the Interior / Enewetak Elementary School Renovation / CFDA # 15.875	<u>Ministry of Education Headstart Program</u> Fiscal Year 1999	\$ 1,031,115
U.S. Department of Education / Federal Supplemental Educational Opportunity Grant / CFDA # 84.007	<u>RMI Private Industry Council, Inc.</u> Fiscal Year 1998  <u>College of the Marshall Islands</u> Fiscal Years 1999 - 2001	\$ 32,982
U.S. Department of Education / Federal Work - Study Program / CFDA # 84.033	Details of the above questioned costs are contained in the separately issued reports of the subrecipients.	\$ 440,440
U.S. Department of Education / TRIO - Student Support Services / CFDA # 84.042		
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047		

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Finding No. 2003-27, Continued

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Federal Pell Grant Program / CFDA # 84.063	<p>In addition, A-128/A-133 audits of the following subrecipients have not yet been released for the noted fiscal years.</p> <p><u>Enewetak/Ujelang Local Government</u></p>	
U.S. Department of Education / Effective Teacher Training Project and Formal Coursework / CFDA # 84.124	<p>Fiscal Years 1992, 1998 - 2002</p> <p><u>Kili/Bikini Local Government</u></p> <p>Fiscal Years 2001 and 2002</p> <p><u>Ministry of Education Headstart Program</u></p>	
U.S. Department of Health and Human Services / Head Start / CFDA # 93.600	<p>Fiscal Years 2000 - 2002</p> <p><u>Republic of the Marshall Islands Private Industry Council, Inc.</u></p>	
U.S. Department of Labor / Job Training Partnership Act (JTPA Title II) / CFDA # 17.250	<p>Fiscal Year 1999 - 2002</p> <p><u>Rongelap Atoll Local Government</u></p> <p>Fiscal Years 1991, 1992 and 2002</p> <p><u>Utrik Atoll Local Government</u></p> <p>Fiscal Years 1992, 1994 and 2002</p>	
	<p>Due to the unavailability of these reports, the questioned costs relating to this condition cannot presently be determined.</p>	
	<p><u>Cause:</u> The cause of the above condition is the lack of timely resolution of questioned costs by RepMar as the primary recipient of the funding.</p>	
	<p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p>	
	<p><u>Recommendation:</u> We recommend that RepMar establish procedures to ensure timely follow-up of questioned costs for subrecipients.</p>	
	<p><u>Prior Year Status:</u> Monitoring of subrecipients was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2002.</p>	
	<p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 1, 2004, the Ministry of Finance provided the following response.</p>	
	<p>We agree with the finding and recommendation. The Ministry of Finance will develop procedures to improve monitoring and follow-up of subrecipients' questioned costs.</p>	



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Equipment and Real Property Management - All Federal Programs

Finding No. 2003-28

Criteria: The Common Rule states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

- a. Property records must be maintained;
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: The Ministry of Finance has recorded certain fixed asset acquisitions for fiscal years 1999 through 2003 as well as acquisitions through fiscal year 1988. No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in the financial statements.

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

Effect: The effect of the above condition is noncompliance with federal property standards as required in the Common Rule and the lack of presentation of all capital assets within the financial statements.

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

Prior Year Status: Lack of a complete fixed assets listing was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance conducted an inventory count in June, 2003 and we'll soon receive the assistance of an expert consulting firm in meeting the GASB 34 requirements on fixed assets that is consistent to the federal property rules and regulations.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Reporting - Infrastructure Development and Maintenance Plan  
CFDA # 15.875

Finding No. 2003-29

Criteria: Reports of Federal Cash Transactions (SF-272) should include all cash transactions effected during the reporting period.

Condition: RepMar failed to report the following cash drawdowns in the SF-272 reports filed during the year ended September 30, 2003:

May 14, 2003	\$ 134,213
August 26, 2003	\$ 263,608

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

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

Recommendation: We recommend that the Office of International Development Assistance, within the Ministry of Finance, ensure federal financial reports are accurate and reflect financial information consistent with the financial records of RepMar.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Policy on review of the reports for federal grants will be strengthened to ensure compliance with prescribed federal rules and regulations.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Reporting - Territories Freely Associated with State Education Grants  
CFDA # 84.256

Reporting - Pacific Basin Initiative  
CFDA # 93.163

Reporting - Substance Abuse Prevention and Treatment Block Grant  
CFDA # 93.959

Finding No. 2003-30

Criteria: The grantee should comply with reporting requirements as specified by the grantor in the grant agreements.

Condition: The following programs failed to comply with the reporting requirements specified in their respective grant agreements as follows:

- CFDA #84.256: The grant agreement specifies that the grantee should submit a final performance report within ninety days after the expiration or termination of grant support. The grant support expired on October 3, 2003; however, the final performance report has not been filed as of April 2, 2004.
- CFDA #93.163: The grant agreement specifies that the grantee should submit a Financial Status Report (SF-269) within ninety days after the expiration of the budget period. The budget period ended January 31, 2003, but the Financial Status Report (SF-269) was filed on May 7, 2003, which was seven days late.
- CFDA #93.959: The grant agreement specifies that the grantee should submit a Financial Status Report (SF-269) by December 31, 2003, which is ninety days after the end of the obligation and expenditure period of the grant. It further specifies that within fourteen days of receipt of the Notice of Grant Award (NGA), the grantee shall revise and resubmit the FY2002 Intended Use Plan (Form 11). The Financial Status Report (SF-269) was filed on January 12, 2004, or twelve days late. The FY2002 Intended Use Plan (Form 11) was filed three days late on September 14, 2002, as the NGA was stamped as received on August 28, 2002.

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

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

Recommendation: We recommend that the grantee monitor program requirements to ensure compliance.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the audit finding and recommendation. A system of monitoring program requirements has already been established in the federal grants office. We will continue to improve on submission of reports on a timely manner to avoid the condition stated in this finding.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Subrecipient Monitoring

Pacific Regional WIA Services Cluster - CFDA # 17.258/17.259/17.260

21<sup>st</sup> Century Community Learning Centers - CFDA # 84-287

Compact of Free Association - Section 213 Military Rights - CFDA # 15.875

Compact of Free Association - Section 211 Capital Account - CFDA # 15.875

Finding No. 2003-31

Criteria: A-102 Common Rule or *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* provides that a pass-through entity is responsible for, among other matters, ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.

Condition: During the year ended September 30, 2003, the following exceptions were noted:

- The RMI Workforce Investment Act (WIA), which administers the Pacific Regional WIA Services Cluster program, received \$1,193,499 under this grant for 2003. WIA has not been audited for the past three years (since fiscal year 2000).
- The C.A.R.E. Program, which administers the 21<sup>st</sup> Century Community Learning Centers program, received \$686,700 under this grant for 2003. C.A.R.E. has not been audited since its inception in fiscal year 2001.
- The Kwajalein Atoll Development Authority (KADA) received \$1,900,000 under Section 213 of the Compact of Free Association for 2003. KADA has not been audited for fiscal year 2003.
- The Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) and Air Marshall Islands, Inc. (AMI) received \$1,242,600 and \$150,000, respectively, under Section 211 of the Compact of Free Association for 2003. KAJUR and AMI have not been audited for fiscal year 2003.

Cause: The cause of the above condition is a lack of procedures to guide the monitoring of subrecipient audits.

Effect: The effect of the above condition is RepMar is unable to ensure that subrecipients have complied with relevant federal requirements.

Recommendation: We recommend that RepMar establish procedures for monitoring subrecipients, for ensuring that required audits occur, and for resolving audit findings within required timeframes.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance will develop procedures to improve monitoring and follow-up of subrecipients' audits. The fiscal year 2000 to 2003 financial statements of the Work Force Investment Act were audited and waiting for the final reports from the auditors. It is the same case with the C.A.R.E. Program whose FY2002 financial statements were audited but awaiting final reports from auditors.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Special Tests and Provisions - Compact of Free Association, Title I, Section 103(j)  
CFDA # 15.875

Finding No. 2003-32

Criteria: Section 103(j)(2) of the Compact of Free Association states that “at the end of the first year after the effective date of the Compact and at the end of each year thereafter, the providing agency or agencies shall return to the Government of the Marshall Islands any unexpended funds to be returned to the Fund Manager and be made available for future use”.

Condition: Pursuant to Article II, Section 1(a) of the Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association, \$2,000,000 annually is disbursed to Trinity Health International (THI) to provide management of specified health services for eligible citizens of the Marshall Islands. As of September 30, 2003, a cumulative total of \$450,179 remains with THI, which has not been returned to RepMar to be, in turn, returned to the Fund Manager to be made available for future use.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with special tests and provisions of the Compact of Free Association.

Effect: The effect of the above condition is noncompliance with specific provisions of the Compact of Free Association.

Recommendation: We recommend that RepMar comply with the specific provisions of the Compact of Free Association and request THI to return the unexpended funds to RepMar to be returned to the Fund Manager and made available for future use.

Prior Year Status: Noncompliance with specific provisions of the Compact of Free Association was reported as a finding in the Single Audits of RepMar for fiscal years 1995 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 1, 2004, the Ministry of Finance provided the following response.

We agree on the finding and recommendation. In order to effectively collect the surplus funds in Trinity Health International (THI), the Ministry of Finance did not reimburse THI for 177 Health Plan’s operating and administration costs for the first quarter of fiscal year 2004.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

Reporting - Headstart Program  
CFDA # 93.600

Finding No. 2003-33

Criteria: OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule), require that non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year.

Condition: During the year ended September 30, 1999, RepMar transferred the financial reporting responsibility for expenditures under the Headstart Program from the Ministry of Finance to the Ministry of Education. No trial balance was made available from the Ministry of Education in order to determine expenditures incurred under the Headstart Program.

Cause: The cause of the above condition is the lack of obtaining a single or program-specific audit by the Ministry of Education for the Headstart Program.

Effect: The effect of the above condition is noncompliance with OMB Circular A-133 and the Common Rule with respect to audit requirements.

Recommendation: We recommend that RepMar ensure a single or program-specific audit is conducted for expenditures under the Headstart Program.

Prior Year Status: The lack of a single audit by the Ministry of Education for the Headstart Program was reported as a finding in the Single Audits of RepMar for fiscal years 1999 through 2002.

Auditee Response and Corrective Action Plan: In a letter dated June 11, 2004, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance will continue to follow up with the Head Start director and the Secretary of Education to ensure that the Single Audit for the program is performed.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2003

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2003:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported:			
Fiscal year 2000 Single Audit	\$ 790,115	\$ 815,522	\$ 1,605,637
Fiscal year 2001 Single Audit	298,948	4,075,962	4,374,910
Fiscal year 2002 Single Audit	<u>644,666</u>	<u>571,126</u>	<u>1,215,792</u>
	1,733,729	5,462,610	7,196,339
Less questioned costs resolved in fiscal year 2003:			
Questioned costs of fiscal year 2000 Single Audit (1)	<u>(790,115)</u>	<u>(815,522)</u>	<u>(1,605,637)</u>
	943,614	4,647,088	5,590,702
Questioned costs of fiscal year 2003 Single Audit	<u>873,325</u>	<u>4,498,234</u>	<u>5,371,559</u>
Unresolved questioned costs of RepMar at September 30, 2003	\$ <u>1,816,939</u>	\$ <u>9,145,322</u>	\$ <u>10,962,261</u>

- (1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on September 8, 2001, which is in excess of the two year threshold as of September 30, 2003.