



**REPUBLIC OF THE MARSHALL ISLANDS**  
**Office of the Auditor-General**

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**Republic of the Marshall Islands Government**  
**FY2012 Compliance Highlights**

The Republic of the Marshall Islands Government (RepMar) Fiscal Year 2012 Single Audit Reports on Compliance and Internal Control continue to reflect material weaknesses. RepMar has received qualifications on its Single Audit these past years. In 2012, there are a total of 11 audit findings reported, which decreased from 14 in 2011. Out of the 11 audit findings reported, the independent auditors, Deloitte and Touche LLP, reported seven (7) to be material weaknesses. Similar to prior year, the material weaknesses were: Noncompliance with the requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, and sub-recipient monitoring that are applicable under the Compact of Free Association Grants major program; and regarding cash management, equipment and real property management, procurement and suspension and debarment that are applicable to its Special Education Grants to States. These audit findings are discussed in detail in Audit Findings No. 2012-1 through 2012-7 on pages 13 thru 24 of the Independent Auditors' Reports on Internal and On Compliance, and are further summarized below.

**Federal Program Funding**

RepMar and its line ministries and agencies expended \$63.7M in federal awards in 2012 from 6 U.S. grantor agencies. Of the 6 grantor agencies, the largest amount of grants came from the Department of the Interior for \$56.1M, of which \$37.5M and \$17.1M were for the Compact Sector Grants and Kwajalein Landowners, respectively.

**Questioned Costs 2012**

During 2012, RepMar made significant efforts to improve compliance with all applicable compliance requirements resulting in only \$35,857 in questioned costs reported. RepMar is to be commended as this is the lowest amount of questioned costs ever reported in the Single Audit of RepMar.

**Single Audit Findings Reported in 2012**

Below is a summary of auditors' findings based on review of internal control and test of compliance with applicable compliance requirements, laws and regulations and all applicable requirements. For details of these audit findings, please refer to pages 13 to 29 of the Independent Auditors' Reports on Internal Control and On Compliance

**Finding No. 2012-1: Allowable Costs/Cost Principles.** RepMar incurred certain expenditures that were not in accordance with allowance costs/cost principles requirements. Specifically, two items were reviewed with the total of \$2,203 where documentation was inadequate to indicate that such expenditures were directly related to the program intent and objectives. As a result, questioned costs of \$2,203 were reported.

Prior Year Status: Lack of attendant documentation indicating that expenditures charged to a federal program are directly related to the program and are in accordance with program intent and objective was reported in prior single audits of RepMar.

**Finding No. 2012-2: Cash Management (FPA).** Lack of a formal methodology and procedures in place over the drawdown of federal funds to satisfy compliance with Fiscal Procedures Agreement cash management requirement. As a result, there are time delays in receipt and disbursement of funds.

Prior Year Status: Lack of formal methodology and procedures over the drawdown of federal funds to satisfy compliance with FPA cash management was reported in prior single audits of RepMar.

**Finding No. 2012-3: Cash Management.** Lack of a formal methodology and procedures in place over the drawdown of federal funds to minimize time elapsing between receipt and disbursement of funds as required under Treasury Regulation in 31 CFR Part 205. In addition, ten (10) items that were within the auditors' sampling test were unable to be tested.

Prior Year Status: Lack of formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements was reported in prior single audits of RepMar.

**Finding No. 2012-4: Equipment and Real Property Management.** No inventory of fixed assets has been performed to satisfy compliance with equipment management as required by the Fiscal Procedures Agreement. Capital outlay expenditures incurred by the Compact Sector Grants were \$5,030,784, \$7,188,740 and \$10,052,397, respectively, for FY2012, FY2011 and FY2010. Lack of adequate internal control policies and procedures to satisfy compliance with federal requirements was identified as cause.

Prior year Status: Lack of a fixed assets listing that reconciles with an inventory of RepMar's fixed assets was reported as a finding in prior single audits of RepMar.

**Finding No. 2012-5: Noncompliance with RMI Procurement Regulations.** Four check items totaling \$30,252 were reviewed which supporting documentation was inadequate to evidence compliance with the applicable RMI procurements requirement. As a result, the total of \$30,252

was reported as a questioned cost. Lack of adequate internal control policies and procedures was identified as the cause of the condition.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with the procurement requirement was reported in prior single audits of RepMar.

**Finding No. 2012-6: Non compliance with RMI Procurement Regulations:** One check related to travel airfare with the total of \$3,403 was reviewed where no documentation was provided to substantiate that the most economical fare was procured. As a result, the total amount of airfare of \$3,402 was reported as a questioned cost. Lack of adequate internal control policies and procedures was reported as the cause of the condition.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with the procurement requirement was reported in prior single audits of RepMar.

**Finding No. 2012-7: Subrecipient Monitoring.** During the year ended September 30, 2012, RepMar sub-granted Compact Landowners Special Needs grant to Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR). No Sub-Grant agreement or Memorandum of Agreement (MOA) was executed with KAJUR for the aforementioned funding. Additionally, two MOAs executed with the College of the Marshall Islands (CMI) indicated Compact Education Sector Grant as the sole funding source; however, funding was also sub-granted to CMI from Compact Infrastructure and Supplemental Education Grant. Both incidences resulted in non compliance with requirements stipulated under the FPA regarding pass-through grants.

The cause of the above condition is due to the lack of internal control policies and procedures requiring (1) execution of Sub-Grant agreements with Sub-Grantees; and (2) compliance with special tests and provisions of the FPA.

Prior Year Status: Lack of adequate internal control policies and procedures requiring execution of Sub-Grant agreements with Sub-Grantees and compliance with special tests and provisions of the FPA was reported in prior single audits of RepMar.

**Finding No. 2012-8: General Ledger Account Reconciliations Delay.** More than six months subsequent to September 30, 2012, reconciliations of significant general ledger accounts, including cash accounts, had not been completed by the Ministry of Finance. Consequently, significant portions of audit fieldwork could not commence until seven months after the end of fiscal year 2012, when reconciliations of significant accounts were completed.

The cause of the above condition is due to the lack of internal control policies and procedures requiring periodic and timely reconciliation performance of and independent supervisory verification of significant general ledger account reconciliations.

The effect of the above condition is material misstatements of account balances and increasing risk of undetected error and fraud, and inaccurate financial reporting.

Prior Year Status: Lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of significant general ledger accounts reconciliation was reported as a finding in the single audit of RepMar for 2010 and 2011.

**Finding No. 2012-9: Accounts Receivables not collected in timely manner:** Five (5) expenditures for the total of \$307,444 expended out of Compact Sector's Public Infrastructure and Kwajalein Landowners Special Needs had not been drawn down to reimburse the General Fund after months after the fiscal year end. The effect of the above condition is that the General Fund bears the costs of grant expenditures.

The cause of the above condition is due to the lack of policies and procedures requiring periodic and timely analysis of grants expenditures to ascertain whether reimbursement of grant expenditures can occur.

**Finding No. 2012-10: Lack of reconciliation of Construction-In-Progress/Retention Payable:** The construction-in-progress (CIP) and retention payable subsidiary ledgers (SL) were not updated during fiscal year 2012. Consequently, the CIP SL was not reconciled during the year with transactions in the General Ledger account No. 5100100-03219 construction expenditures and 510100-55050 retention payable.

The effect of the above condition is misstatement of capital assets, retention payable, and expenditures resulting in inaccurate financial reporting.

The cause of the above condition is the lack of policies and procedures requiring timely and periodic update of CIP and retention payable subsidiary ledgers and reconciliation with general ledgers accounts.

Prior Year Status: Lack of policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliations with general ledger accounts was reported in the previous single audit of RepMar.

**Finding No. 2012-11: Lack of independent review of Journal Entries.** Independent review and authorization of Journal Entries posted for fiscal year 2012 were not consistently documented,

and general journal (GL) vouchers were not supported by underlying documentation. Furthermore, daily batch edit reports run prior and subsequent to posting of journal entries and update of general ledger accounts are not reviewed to determine timely disposition of errors.

The effect of the above condition is a possible misstatement of financial statements and possible recording of unauthorized transactions.

The cause of the above condition is the lack of adequate policies and procedures requiring that journal entries and adjustments to the general ledger be subject to independent review and approval by the designated persons.

Prior Year Status: The lack of adequate independent review and approval of journal entries and adjustments was reported as a finding in the prior single audits of RepMar.

### **Unresolved Questioned Costs**

As of fiscal year 2012, RepMar's unresolved questioned costs stood at \$7,441,820.