

**REPUBLIC OF THE MARSHALL ISLANDS**

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

**YEAR ENDED SEPTEMBER 30, 2007**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2007, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated June 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Nuclear Claims Tribunal, the Marshall Islands Social Security Administration, and the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

**Internal Control Over Financial Reporting**

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 36) as items 2007-13 through 2007-15 to be significant deficiencies in internal control over financial reporting.

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

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

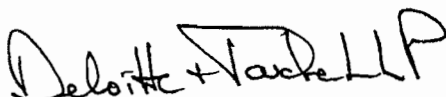
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-2, 2007-4, 2007-6 and 2007-7.

We noted certain matters that we reported to management of RepMar in a separate letter dated June 25, 2008.

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

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



June 25, 2008

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

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. 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 9 through 36). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RepMar's management. Our responsibility is to express an opinion on RepMar's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, RepMar's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2007. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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

As described in items 2007-8, 2007-9 and 2007-12 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding cash management, and equipment and real property management that are applicable to its IDEA Special Education - Grants to States major program (CFDA # 84.027), and equipment and real property management, and reporting that are applicable to its Compact of Free Association Sector Grants major program (CFDA # 15.875). Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the requirements referred to above that are applicable to its IDEA Special Education - Grants to States major program (CFDA # 84.027) and its Compact of Free Association Sector Grants major program (CFDA # 15.875) for the year ended September 30, 2007. Also, in our opinion, RepMar complied, in all material respects, with the requirements referred to above that are applicable to its Kwajalein Landowner Payments major program (CFDA # 15.875). The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-1, 2007-3, 2007-5, 2007-10 and 2007-11.

#### Internal Control Over Compliance

The management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RepMar's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-1, 2007-3, 2007-5, and 2007-8 through 2007-12 to be significant deficiencies.

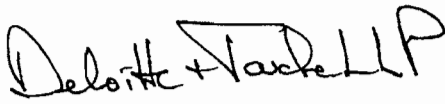
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2007-8, 2007-9, and 2007-12 to be material weaknesses.

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

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of and for the year ended September 30, 2007, and have issued our report thereon dated June 25, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RepMar's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 and 8) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RepMar. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

  
June 25, 2008

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2007

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	\$ <u>2,170,637</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States: Compact of Free Association, As Amended, Public Law 99-239, Sector Grants:	
		Education	11,432,633
		Supplemental Education Grant	4,543,607
		Health	5,479,255
		Capacity Building	8
		Ebeye Special Needs	2,452,590
		Landowners Special Needs	3,347,325
		Kwajalein Environment	201,982
		Public Infrastructure	15,890,087
		Infrastructure Maintenance	<u>262,178</u>
			<u>43,609,665</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States: Compact of Free Association, As Amended, Public Law 99-239, Kwajalein Landowner Payments:	
		Kwajalein Impact and Use	12,393,592
		Kwajalein Landowners	<u>453,565</u>
			<u>12,847,157</u>
		Total program expenditures tested	\$ <u>58,627,459</u>
		Total federal program expenditures	\$ <u>66,578,999</u>
		% of total federal program expenditures tested	<u>88%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2007

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
GENERAL FUND AND REIMBURSABLE FUND:		
	<u>U.S. Department of Commerce:</u>	
11.460	Special Oceanic and Atmospheric Projects	\$ 348,906
	Total U.S. Department of Commerce	\$ 348,906
U.S. FEDERAL GRANTS FUND:		
	<u>U.S. Department of Agriculture:</u>	
10.567	Food Distribution Program on Indian Reservations	\$ 332,081
10.664	Cooperative Forestry Assistance	36,810
	Total U.S. Department of Agriculture	\$ 368,891
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories and Freely Associated States	
	Audit Training Grant	\$ 11,604
	OMIP - MOE Procurement	19,164
	EPA Environmental Standards Conference	9,534
	Four Atoll Health Care	656,808
	Rongelap Ecotourism	14,000
	Land Survey Registration	2,524
	RMI Passport Personalization System Upgrade	39,928
	Tax Enhancement System	21,499
	Tax Financial Consultant	400
	RMI Revenue Enhancements Initiative	117,001
	Utrik Atoll Local Government Fiscal Management Improvement	73,000
	Component Units Reconciliation	49,062
	Majuro Hospital Redevelopment Plan	47,008
	MEC Operations and Maintenance Improvement	88,516
	RMI Comprehensive Survey	7,311
	RMI NGO Committee	41,620
	Sub-total CFDA # 15.875	1,198,979
15.904	Historic Preservation Fund Grants-In-Aid	129,457
	Total U.S. Department of the Interior	\$ 1,328,436
	<u>U.S. Small Business Administration:</u>	
59.037	Small Business Development Center	\$ 16,278
	Total U.S. Small Business Administration	\$ 16,278
	<u>U.S. Department of Homeland Security</u>	
83.505	State Disaster Preparedness Grant	\$ 58,188
	Total U.S. Department of Homeland Security	\$ 58,188
	<u>U.S. Department of Education:</u>	
84.027	Special Education-Grants to States	\$ 2,170,637
84.048	Vocational Education-Basic Grants to States	24,000
84.256	Freely Associated States-Education Grant Program	142,283
84.276	Goals 2000 - State and Local Education Systemic Improvement	9,225
84.336	Teacher Quality Enhancement Grant	1,105,745
84.346	Vocational Education-Occupational and Employment Information State Grants	7,620
	Total U.S. Department of Education	\$ 3,459,510

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, 2007

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
U.S. FEDERAL GRANTS FUND, CONTINUED:		
	<u>U.S. Department of Health and Human Services:</u>	
93.110	Maternal and Child Health Federal Consolidated Programs	\$ 427,807
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	107,948
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	216,575
93.136	Injury Prevention and Control Research and State and Community Based Programs	18,603
93.163	Health Services in the Pacific Basin	555,899
93.217	Family Planning-Services	290,254
93.230	Consolidated Knowledge Development and Application (KD&A) Program	116,515
93.268	Immunization Grants	813,378
93.283	CDC and Prevention-Investigations and Technical Assistance	1,002,785
93.917	HIV Care Formula Grants	20,477
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to to Prevent the Spread of HIV and Other Important Health Problems	80,599
93.958	Block Grant for Community Mental Health Services	111,241
93.959	Block Grants for Prevention and Treatment of Substance Abuse	262,785
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	181,445
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	82,677
93.991	Preventive Health and Health Services Block Grant	69,222
	Total U.S. Department of Health and Human Services	\$ 4,358,210
	TOTAL U.S. FEDERAL GRANTS FUND	\$ 9,589,513
KWAJALEIN ATOLL TRUST FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association - Section 211(a) 231/232 Military Use and Operating Rights Agreement (MUORA) Extension - Kwajalein Landowners	\$ 453,565
	Total U.S. Department of the Interior	\$ 453,565
COMPACT SECTOR GRANTS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association Program, As Amended, Sector Grants:	
	Section 211(a)(1) Education Sector	\$ 11,432,633
	Supplemental Education Grant	4,543,607
	Section 211(a)(2) Health Sector	5,479,255
	Section 211(a)(4) Public Sector Capacity Building	8
	Section 211(b)(1) Ebeye Special Needs	2,452,590
	Section 211(b)(2) Landowners Special Needs	3,347,325
	Section 211(b)(3) Kwajalein Environment	201,982
	Section 211(d)(1) Public Infrastructure Development	15,890,087
	Section 211(d)(2) Infrastructure Maintenance	262,178
	Total U.S. Department of the Interior	\$ 43,609,665
SECTION 212 KWAJALEIN LANDOWNERS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association Program, As Amended:	
	Section 212 Kwajalein Impact and Use	\$ 12,393,592
	Total U.S. Department of the Interior	\$ 12,393,592
SECTION 213 AUDIT FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association Program, As Amended:	
	Section 213 Audit	\$ 183,758
	Total U.S. Department of the Interior	\$ 183,758
	GRAND TOTAL	\$ 66,578,999

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, 2007

(1) Scope of Audit

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

a. Programs Subject to Single Audit

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

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Small Business Administration

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, RepMar's reporting entity is defined in Note 1A to its September 30, 2007 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Nuclear Claims Tribunal, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2007.

c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2007

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2007 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Compact of Free Association, As Amended, Sector Grant	College of the Marshall Islands	\$ 6,100,000
Compact of Free Association, As Amended, Sector Grant	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 3,326,805
Compact of Free Association, As Amended, Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 1,052,100

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2007. RepMar did not charge federal programs for indirect costs during fiscal year 2007.

f. CFDA # 15.875

CFDA # 15.875 represents the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2007

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

1. The Independent Auditors' Report on the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information expressed an unqualified opinion.
2. Significant deficiencies 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. Significant deficiencies 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:	
Compact of Free Association, As Amended, Sector Grants	15.875
Kwajalein Landowner Payments	15.875
IDEA Special Education - Grants to States	84.027

8. A threshold of \$1,997,370 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, 2007

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2007-13	Cash and Investment Balances	33 - 34
2007-14	Travel Advances/Accounts Payable	35
2007-15	Accounts Payable	36

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2007-1	Allowable Costs/Cost Principles	\$ -	13
2007-2 - 4	Allowable Costs/Cost Principles and Procurement and Suspension and Debarment	\$ 423,905	14 - 20
2007-5 - 6	Procurement and Suspension and Debarment	\$ 182,842	21 - 24
2007-7	Procurement and Suspension and Debarment/ Period of Availability of Federal Funds	\$ 19,712	25
2007-8	Cash Management	Undeterminable	26
2007-9	Equipment and Real Property Management	\$ -	27 - 28
2007-10	Period of Availability of Federal Funds	\$ 82,161	29
2007-11	Subrecipient Monitoring	\$ -	30
2007-12	Reporting	\$ -	31 - 32
2007-15	Reporting	\$ -	36

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-1

Allowable Costs/Cost Principles

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

Questioned Costs: \$0

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives.

Condition: Of \$265,954 in payroll expenditures of the Compact Sector grants relating to the employer share for group life insurance premiums, two items, totaling \$5,419, were tested and the following exception was noted:

<u>Employee #</u>	<u>Actual Employer Share</u>	<u>Expected Employer Share</u>	<u>Variance</u>	<u>Actual Employee Share</u>	<u>Expected Employee Share</u>	<u>Variance</u>
31104	\$ 5,394.00	\$ 5.94	\$ 5,388.06	\$ 4.05	\$ 4.05	\$ -

The variance of \$5,388.06 represented an overpayment of group life insurance premiums for the selected pay period. We examined the detailed payroll transaction reports for the entire 2007 fiscal year and noted that the same overpayment occurred for all 26 pay periods. Additionally, we examined the detailed payroll transaction reports for the 2006 fiscal year and noted that the same overpayment occurred for all 26 pay periods in 2006. No overpayments were noted for pay periods prior to the beginning of fiscal year 2006; however, 6 pay periods for the 2008 fiscal year included overpayments prior to the payroll master file being corrected. On March 7, 2008, RepMar reimbursed the Compact Sector bank account in the amount of \$307,119.

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

Effect: The effect of the above condition is the overpayment of group life insurance premiums. As RepMar subsequently reimbursed the Compact Sector bank account, no questioned cost is reported.

Recommendation: We recommend that management obtain reimbursement from the insurance company in the amount of \$280,179 representing overpayments for fiscal years 2006 and 2007, and reimbursement of \$26,940 representing overpayments for fiscal year 2008. Additionally, we recommend that management establish internal control procedures to ensure that changes made to the payroll master file are independently verified.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The overpayment to the Insurance Company occurred as a result of an input error during the maintenance of the Employee's file back in October 2005. Subsequently, the Insurance Company has returned the overpayment amount.

To prevent this from occurring in the future, the Ministry of Finance's (MOF) Payroll supervisor has been assigned as the Ministry's designated official in charge of reviewing and ensuring that Employee/Employer's contributions reflect the correct amount being remitted to the Insurance Company.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-2

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

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

U.S. Department of Homeland Security - CFDA # 83.505: State Disaster Preparedness Grant

Questioned Costs: \$118,491 (Comprising CFDA # 15.875 \$100,000; CFDA # 83.505 \$18,491)

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Additionally, the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the Common Rule.

Condition: Of \$5,907,484 in non-payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), sixty-six items, totaling \$2,061,514, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>CFDA #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	15.875	C0172201	42602	Contractual Services	\$ 100,000
2	83.505	P1996201	48063	Other Charges and Expenses	\$ 18,491

For item #s 1 and 2, no evidence supporting the procurement process was noted on file. Furthermore, for item # 2, the expenditure related to costs associated with the National Disaster Management Office meetings (1/31/05, 3/17/06 – 3/20/06, and 10/14/06 – 10/18/06), SOPAC meeting (5/28/07 – 6/8/07), and the 13<sup>th</sup> SOPAC Regional conference (6/26/07 – 6/29/07). These expenditures included costs associated with entertainment and bar charges, which are unallowable under OMB Circular A-87.

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

Effect: The effect of the above condition is noncompliance with procurement standards as required by the Common Rule, and allowable costs/cost principles as required by OMB Circular A-87.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The MOF has taken initiative with the Director of Budget and especially the Chief of the Procurement and Supply to come up to par under the federal procurement requirements on documentation. In addition, RepMar has established a no-host bar policy which came into effect recently.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-3

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

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

Questioned Costs: \$127,497

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Additionally, Article VI, Section 1(j) (1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$30,503,282 in non-payroll expenditures of the Compact Sector Grant Fund, one hundred and three items, totaling \$13,105,675, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	410100	P1750701	39420	Food Stuffs	\$ 30,435
2	410110	P1798401	40109	Food Stuffs	\$ 740
3	410102	P1912901	42289	Food Stuffs	\$ 477
4	410110	Q0353301	8265	Other Supplies and Materials	\$ 1,721
5	410102	P2042901	45492	Food Stuffs	\$ 315
6	410102	P2044801	45492	Food Stuffs	\$ 1,200
7	410110	P2133601	47959	Repairs	\$ 4,929
8	510100	C0178901	47558/48759	Construction	\$ 87,680

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-3, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item #s 1 and 8, the procurement process was limited to informal price quotations; however, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding.

For item #s 2, 3, 4, 5, 6, and 7 no evidence supporting the procurement process was noted on file. Furthermore, item # 4 was not adequately supported by a vendor invoice. Accordingly, we were unable to determine whether the expenditures were necessary and reasonable for the program needs and were directly related to and in accordance with program intent and objectives.

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

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

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The MOF is in the process of establishing a new manual of procurement procedures that will simplify, clarify and modernize the procurement system of the RMI Government. In addition, the Chief of Procurement and Supply has already taken steps to ensure that all procurement made with all public funds, including federal funds, are expended in accordance with the program needs and are directly related to and in accordance with program intent and objectives.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-4

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

U.S. Department of Health and Human Services:

- CFDA # 93.110 - MCH Services Community Based Health Education
- CFDA # 93.118 - Acquired Immune Deficiency (AIDS) Activity
- CFDA # 93.136 - Rape Prevention and Education
- CFDA # 93.217 - Title X Family Planning Services
- CFDA # 93.268 - Immunization and Vaccines for Children
- CFDA # 93.283 - Public Health Preparedness and Response to Bioterrorism
- CFDA # 93.977 - Comprehensive STD Prevention Systems
- CFDA # 93.988 - State-based Diabetes Program

Questioned Costs: \$179,482 (Comprising CFDA # 93.110 \$3,163; CFDA # 93.118 \$16,539; CFDA # 93.136 \$4,917; CFDA # 93.217 \$17,851; CFDA # 93.268 \$36,170; CFDA # 93.283 \$91,358; CFDA # 93.977 \$7,919; CFDA # 93.988 \$1,565)

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Additionally, the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the Common Rule.

Condition: Of \$5,907,484 in non-payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), sixty-six items, totaling \$2,061,514, were tested. We noted the following items pertaining to RepMar’s Ministry of Health where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>CFDA #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	93.110	A0669301	39642	International Travel	\$ 3,163
2	93.118	P1856601	41328	Office and Computer Supplies	\$ 16,539
3	93.136	P1976401	44153	Other Charges and Expenses	\$ 4,917
4	93.217	P1884901	41882	Other Charges and Expenses	\$ 15,165
5	93.217	A0755801	45629	International Travel	\$ 2,686
6	93.268	P1848601	40976	Other Charges and Expenses	\$ 24,821
7	93.268	A0707101	42570	International Travel	\$ 3,589
8	93.268	P1980001	43839	Other Charges and Expenses	\$ 5,000
9	93.268	P2062401	46904	Equipment	\$ 2,320
10	93.268	P1972201	47248	POL (Fuel)	\$ 440
11	93.283	P1891101	42054	Other Charges and Expenses	\$ 4,000
12	93.283	C0185401	48065	Equipment	\$ 16,250
13	93.283	P2097601	N/A	Contractual Services	\$ 71,108
14	93.977	P2022201	44969	Other Charges and Expenses	\$ 7,919
15	93.988	A0807901	48996	International Travel	\$ 1,565

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-4, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item # 1, expenditures related to international travel for which no supporting documentation was on file evidencing the procurement process, indicating the nature of the expenditure, and how the expenditure was directly related to and in accordance with program intent and objectives. For item #s 5, 7 and 15, expenditures related to international travel on full economy fares. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination.

For item #s 2, 3, 9 and 14, the purchase requisition dates preceded the dates of the informal price quotations on file. Hence, it appears that the vendors were already selected before all price quotations were obtained.

For item #4, two informal price quotations were on file; however, one of the quotations was not on vendor letterhead. We enquired with this vendor who indicated that such did not represent a price quotation from their company.

For item # 6, three informal price quotations were on file; however, only two vendors indicated items in stock. The Ministry of Health selected the higher price quotation without adequate documentation indicating the rationale for vendor selection.

For item # 8, three informal price quotations were on file; however, two quotations were dated 10/30/06 and 10/31/06 and related to a Ministry of Education vehicle. Additionally, the services were provided on 2/4/06, which pre-dates the price quotations and purchase requisition date of 12/5/06.

For item #s 10, 11 and 12, no evidence supporting the procurement process were noted on file. Furthermore, item # 11 related to two functions dated June 2006 and October 2006. The June 2006 function related to off-site catering whereas the October 2006 function was not adequately supported by a vendor invoice. The purchase requisition referred to a Ministry of Health Pandemic Flu workshop to be held in January 2007. Accordingly, we were unable to determine whether the expenditures were necessary and reasonable for the program needs and were directly related to and in accordance with program intent and objectives.

For item # 13, expenditures related to Bioterrorism/Hazmat contract for which we were unable to determine if the actual services were provided by the contractor. As of June 6, 2008, this item was still recorded as accounts payable, hence no check disbursement has been made to the vendor.

As the supporting documentation was not adequately maintained for item #s 1 through 12, 14 and 15 indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs will be reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-4, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

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

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

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

Auditee Response and Corrective Action Plan: We agree with the auditor finding and recommendation. The MOF, particularly the Procurement and Supply Division, will take immediate corrective actions to ensure that supporting documentation includes procurement history, rationale for and method of procurement, criterion used in selecting or rejecting contractor(s), and the bases for the contract price.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-5

Procurement and Suspension and Debarment

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

Questioned Costs: \$16,679

Criteria: Section 80.36 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in this section.

Condition: Of \$852,722 in non-payroll expenditures of the IDEA Special Education - Grants to States program, thirty-five items, totaling \$173,545, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	A0697601	41951	International Travel	\$ 2,876
2	P1939301	42970	Other Charges and Expenses	\$ 287
3	P1939301	43184	Other Charges and Expenses	\$ 363
4	P2046501	46893	Equipment	\$ 5,500
5	A0784401	47915	International Travel	\$ 3,153
6	P2162001	48501	Training and Staff Development	\$ 4,500

For item #s 1 and 5, expenditures related to international travel on full economy fares. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination. As no supporting documentation was maintained indicating the history of procurement, including the rationale for purchasing full economy fares, a questioned cost will be reported.

For item #s 2, 3, and 6, we noted only one price quotation from a local vendor for each purchase. Accordingly, RepMar appears to have sole-sourced these purchases. Section 128 of RepMar's Procurement Code states a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item. No supporting documentation was noted to indicate the sole-source procurement process. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, a questioned cost will be reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-5, Continued

Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item # 4, we noted three price quotations from vendors for the purchase of audiometers. Section 127 of RepMar's Procurement Code states any procurement not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Two of the price quotations were not obtained by the Ministry of Education but rather were obtained for and on behalf of the Ministry by the vendor who was ultimately awarded the purchase. As no supporting documentation was maintained indicating the history of procurement, including the rationale for allowing the selected vendor to obtain price quotations for and on behalf of the Ministry of Education, a questioned cost will be reported.

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

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

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

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The MOF's Procurement and Supply Division established a policy allied by improved working procedures to ascertain appropriate internal control. In that respect, the Procurement and Supply Unit will take superior measures by ensuring that the process of procuring and supplying, including observation of the relevant procedures as disclosed in the Procurement Code, are fully complied with.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-6

Procurement and Suspension and Debarment

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

U.S. Department of the Interior - CFDA # 15.875: OMIP-MOE Procurement Grant

U.S. Department of Education:

CFDA # 84.256 - Freely Associated States Education Grant

CFDA # 84.276 - Goals 2000-State and Local Education Systemic Improvement Grant

Questioned Costs: \$166,163 (Comprising CFDA # 10.567 \$119,989; CFDA # 15.875 \$9,950; CFDA # 84.256 \$24,999; CFDA # 84.276 \$11,225)

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule), states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the Common Rule.

Condition: Of \$5,907,484 in non-payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), sixty-six items, totaling \$2,061,514, were tested. We noted the following items pertaining to RepMar’s Ministry of Education where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>CFDA #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	10.567	P2123601	47914	Other Charges and Expenses	\$ 41,561
2	10.567	P2123401	47919	Other Charges and Expenses	\$ 59,038
3	10.567	P2123301	47928	Other Charges and Expenses	\$ 19,390
4	15.875	P2025401	45296	Office Equipment	\$ 9,950
5	84.256	P2127601	48067	Office and Computer Supplies	\$ 24,999
6	84.276	P1890101	41882	Other Charges and Expenses	\$ 11,225

For item #s 1, 2 and 3, no evidence supporting the procurement process were noted on file.

For item #s 4 and 6, the purchase requisition dates preceded the dates of the informal price quotations on file. Hence, it appears that the vendors were already selected before all price quotations were obtained.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-6, Continued

Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item # 5, three informal price quotations were on file for a multitude of school supplies; however, there was no documentation on file indicating the vendor selection process.

As the supporting documentation was not adequately maintained for item #s 1 through 6 indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs will be reported.

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

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

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The MOF, particularly Procurement and Supply Division, will take immediate corrective actions to ensure that supporting documentation includes procurement history, rationale for and method of procurement, criterion used in selecting or rejecting contractor(s), and the basis for the contract price.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-7

Procurement and Suspension and Debarment and Period of Availability of Federal Funds

U.S. Department of the Interior - CFDA # 15.875: Utrik Atoll Local Government (UalGov) Financial Management Improvement Project Grant

Questioned Costs: \$19,712

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives.

Condition: Of \$1,791,959 in payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), twenty items, totaling \$76,404, were tested. One item related to the reimbursement of costs incurred (APV # 60619, check # 38654 for \$68,485) for annual salaries and wages of two UalGov employees (\$63,510) and the purchase of computer equipment and cell phones (\$4,975). The grant was for the period July 2004 through September 2005. Based on the supporting salaries and wages schedule and vendor invoices attached to check voucher, salaries and wages of \$14,737 related to the period October 2005 to December 2005. Additionally, the computer equipment and cell phones were purchased in October 2005 and January 2006, which is also outside of the grant period. Furthermore, no formal documentation was noted to indicate the competitive bidding process as to how the vendor was selected by UalGov. Accordingly, questioned costs are reported.

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

Effect: The effect of the above condition is noncompliance with procurement and period of availability standards as required by the Common Rule.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as required by the Common Rule. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price. Additionally, we recommend RepMar ensure that expenditures are incurred within the grant period of availability.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. Recently, the MOF, in collaboration with the Office of the Chief Secretary, have had open discussions with the leadership of the four nuclear affected atolls on ways to ensure that the intended purposes of this program is met and at the same time RepMar complies with the federal requirements as required by the Common Rule. Furthermore, the Ministry of Finance agrees, and will ensure, that expenditures are incurred within the grant period of availability.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-8

Cash Management

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

Questioned Costs: Undeterminable

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

Condition: Of \$852,722 in non-payroll expenditures for the IDEA Special Education – Grants to States program, thirty-five items, totaling \$177,393, were tested. For one item, we noted Federal funds were received prior to payments being disbursed to vendors:

<u>Check #</u>	<u>Amount</u>	<u>Reimbursement Date</u>	<u>Check Clearance Date</u>	<u>Excess Days</u>
42947	\$ 60,000	03/15/07	08/23/07	161

For the remaining thirty-four items, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not made available for examination.

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

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

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

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Our corrective action plan will involve the Assistant Secretary of Accounting and Assistant Secretary of Budget and OIDA to establish a spending pattern and a draw down schedule for all Federal program grants to minimize time elapsed between receipt and disbursement of funds. The anticipated completion of this corrective action plan is September 30, 2008.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-9

Equipment and Real Property Management

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

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

Questioned Costs: \$0

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

- a. Property records must be maintained, which include (1) a description of the property, (2) a serial number or other identification number, (3) the source of property, (4) who holds title, (5) the acquisition date and cost of the property, (6) the percentage of United States funding used in the purchase, (7) the location, use and condition of the property, and (8) any ultimate disposition data including the date of disposal and sale price.;
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

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

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Equipment and Real Property Management, Continued

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

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 2006.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The MOF is organizing a nationwide physical inventory count of all RMI fixed assets particularly to address and include all fixed assets worth \$5,000 and greater to comply with the Federal requirement. The Ministry has in place newly installed software (database) to record and monitor all government fixed assets valued at \$5,000 dollar and greater. With the software, the Ministry of Finance is in a better position to update its fixed assets inventory in Fiscal Year 2008 and to maintain effort in continuing the updating process in the long run.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-10

Period of Availability of Federal Funds

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

Questioned Costs: \$82,161

Criteria: The grant award for the FY 2006 Supplemental Education Grant (SEG) stipulates that the effective date of the grant is September 1, 2006 through March 31, 2008. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period.

Condition: Of \$30,503,282 in non-payroll expenditures of the Compact Sector Grant Fund, one hundred and three items, totaling \$13,105,675, were tested. We noted one item in the amount of \$82,161 (PO # M0286401 - Check # 38292) paid to the College of Marshall Islands for the reimbursement for expenditures incurred by the College on its GED Program. However, the supporting documentation attached to the check voucher indicated that the expenditures incurred by the College related to the period of May 26, 2006 through August 31, 2006. Hence the provision of services was obligated outside the period of availability resulting in a questioned cost amount of \$82,161.

Cause: The cause of the above condition is the obligation of SEG funds for services that were incurred outside of the funding period.

Effect: The effect of the above condition is noncompliance with period of availability requirements as stipulated in the grant award.

Recommendation: We recommend that RepMar comply with the period of availability requirements as stipulated in the SEG grant award.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The incurrence of the expenditures outside the period of availability of the grants is an oversight during the certification process. It is standard practice in the MOF's budget department to obligate funds and incur expenditures within the grant period availability as stipulated under the grant awards.

Going forward, the MOF will exert its best effort to comply with period of availability of the federal grant requirements.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-11

Subrecipient Monitoring

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

Questioned Costs: \$0

Criteria: Article VI, Section 1(a)(1) of the Fiscal Procedures Agreement (FPA) states that fiscal control and accounting procedures of RepMar, as well as its Sub-Grantees, shall be sufficient to: (i) permit the preparation of reports required by the FPA and the Compact, as amended; and (ii) permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used in compliance with the provisions of the Compact, as amended, and applicable agreements. Furthermore, Article VI, Section 1(k) (1) of the Fiscal Procedures Agreement (FPA) states that RepMar shall ensure that: (i) every Sub-Grant includes any clauses required by the Compact, as amended, the sector Grant awards and the FPA; (ii) Sub-Grantees are aware of requirements imposed upon them by the Compact, as amended, the sector Grants and the FPA; and (iii) the Sub-Grantee can meet the financial management standards of the FPA.

Condition: During the year ended September 30, 2007, RepMar sub-granted funds to the College of the Marshall Islands, and the Marshall Islands Scholarship, Grant and Loan Board; however, no contracts or Memoranda of Understanding (MOUs) were executed with these Sub-Grantees until subsequent to the fiscal year end.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the execution of contracts or MOUs with Sub-Grantees and ensuring compliance with special tests and provisions.

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

Recommendation: We recommend that RepMar comply with the specific provisions of the FPA and execute contracts or MOUs with all Sub-Grantees.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. In the past, the MOF used to execute Memorandum of Understanding (MOU) with Sub-recipients on the usage of Compact sector grants at the start of each financial year. It is standard practice in the MOF to execute MOUs between the Ministry and the Sub grantee before funds are released to sub-recipients. However, in FY 2007 an oversight occurred and the MOUs were not executed until the year end. Although the MOUs were not in place, the sub-recipients were complying with the FPA by providing the required financial reports, namely, the quarterly SF269 and SF272 to the MOF, as required by the FPA.

Going forward and to insure compliance with the FPA, the Accounting Department has been assigned and designated as the MOF's responsible division ensuring execution of MOUs with sub recipients of these Compact grants.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No 2007-12

Reporting

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

Questioned Costs: \$0

Criteria: Required quarterly Financial Status Reports (FSRs) for Federal awards should include all activity of the reporting period.

Condition: During the year ended September 30, 2007, the Ministry of Finance submitted quarterly FSRs for Compact Sector Grants as required under the Fiscal Procedures Agreement. We obtained the quarterly FSRs submitted to the grantor agency for fiscal year 2007 program activity and agreed reported amounts to the underlying accounting records and noted the following exceptions:

<u>Fund #</u>	<u>Sector Grant</u>	<u>Expenditure Balances</u>		<u>Variance</u>
		<u>Per FSR</u>	<u>Per DILOG 134-P</u>	
410100	Education Sector	\$ 11,581,977	\$ 11,740,698	\$ 158,721
410102	Supplemental Education Grant	\$ 4,566,629	\$ 4,583,136	\$ 16,507
410110	Health Sector	\$ 5,450,728	\$ 5,466,534	\$ 15,806
410120	Capacity Building Sector	\$ -	\$ 8	\$ 8
510100	Public Infrastructure Sector	\$ 16,089,689	\$ 17,210,181	\$ 1,120,492
510110	Infrastructure Maintenance Fund	\$ 468,826	\$ 497,654	\$ 28,828
510130	Single Audit Grant	\$ -	\$ 183,758	\$ 183,758

The above expenditure balances reported on the FSRs were based on DILOG 240-P management reports generated from the 4Gov accounting system; however, no reconciliation was performed to expenditure balances reported per the DILOG 134-P reports.

Cause: For Fund #s 410100, 410102, 410110 and 410120, it appears that the variances were the result of expenditures recorded within certain Cost Centers that were excluded from the established parameters used to generate the DILOG 240-P management reports. For Fund #s 510100 and 510110, it appears that the variances were the result of expenditures recorded subsequent to the submission of the final FSRs. For Fund # 510130, it appears that management inadvertently failed to submit the required report.

Effect: The effect of the above condition is the understatement of federal expenditures as submitted on the quarterly financial status SF-269 reports.



REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No 2007-12, Continued

Reporting, Continued

Recommendation: We recommend that management establish internal control policies and procedures to ensure that reported federal expenditures are based on expenditures per the underlying accounting records. Furthermore, for Fund #s 410100 and 410110, we recommend that the Ministry of Finance submit revised final FSRs for fiscal year 2007 and request the necessary reimbursement from the grantor agency.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The variances noted in the audit finding is a result of several payroll related expenditures still using old Cost Centers and were inadvertently excluded from the established parameters. As a result, the expenditures recorded under these Cost Centers were not reported in the SF269.

Our corrective action for fund #410100 and 410110 will involve submitting revised final FSRs for FY 2007 and to request the necessary reimbursement from the grantor agency (DOI). Furthermore, the MOF will exert its best effort to ensure that expenditures that are being incurred are properly recorded and reported. Currently, we are in the process of reviewing all payroll related files to ensure they are using valid Cost Centers.

The MOF, while continuing to work with the line ministries on updating the personnel list every year, will take stronger measure through its Payroll Department in close collaboration with General Accounting and Budget on the changing of personnel account/cost centers process. Similar approach shall be applied to the federal programs and other roll-over funds.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-13

Cash and Investment Balances

Criteria: Bank reconciliations should be performed on a monthly basis and in a timely fashion, and be independently reviewed for accuracy.

Condition: Three months subsequent to September 30, 2007 (December 31, 2007), bank reconciliations were not completed by the Ministry of Finance for the following cash and investment accounts:

<u>G/L Acct #</u>	<u>Account Name</u>	<u>G/L Balance</u>
300614-19060	NCT Investments	\$ 1,244,135
300617-15030	Investment – MIDB	\$ 4,638,849
300618-15020	Trust Fund – FHB	\$ 41,627,147
800405-12062	Imprest Account ADB Loan # 1791	\$ 22,268
950000-12010	Imprest Fund – Fiji Embassy	\$ 19,700
950000-12020	Imprest Fund – Tokyo Embassy	\$ 100,000
950000-13010	BOG – General Fund General Account	\$ (4,234,313)
950000-13015	BOMI – General Fund General Account (Ebeye)	\$ 769,423
950000-13020	BOMI – General Fund Payroll Account	\$ (66,235)
950000-13025	Payroll Clearing Account	\$ (2,330)
950000-15020	Cash and Investments – MIITF	\$ 2,500,000
950000-15040	BOMI – TCD MIMRA	\$ 58,828
950000-15070	FHB – TCD Credit Card	\$ 55,000

Of the above cash accounts, the bank reconciliation for the BOG – General Fund General Account was only completed for the month of October 2006, the bank reconciliations for the BOMI – General Fund Payroll Account were completed for the months of October 2006 through March 2007, and the bank reconciliations for the remaining cash and investment accounts were not completed for the entire fiscal year.

We received a confirmation of cash balances at September 30, 2007 from Bank of Marshall Islands, which included the account for G/L Acct # 800405-12062 with an account balance of \$17,473. No supporting documentation was made available verifying the withdrawal of \$4,795 during 2007. As the overstatement of cash balances was not considered material to the financial statements, no audit adjustment was proposed.

In addition, we received a confirmation of cash balances at September 30, 2007 from First Hawaiian Bank, which included one account balance of \$7,113 that was not recorded in the general ledger. As the understatement of cash balances was not considered material to the financial statements, no audit adjustment was proposed.

Furthermore, we received a confirmation of cash balances at September 30, 2007 from Bank of Marshall Islands, which included one account closed in fiscal year 2007 that had a general ledger balance of \$5,042. As the overstatement of cash balances was not considered material to the financial statements, no audit adjustment was proposed.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-13, Continued

Cash and Investment Balances - Bank Reconciliations, Continued

Cause: The cause of the above condition is the lack of established policies and procedures requiring the performance of bank reconciliations on a monthly basis and in a timely fashion, and the lack of supervisory review.

Effect: The effect of the above condition is the possibility of misstatement and misappropriation of cash and investment balances going undetected.

Recommendation: We recommend that management establish internal control policies and procedures to ensure that bank reconciliations are prepared and independently reviewed on a monthly basis and in a timely fashion.

Auditee Response and Corrective Action Plan: We agree with this audit finding and recommendation. The MOF has subsequently established internal control policies to ensure that bank reconciliations are performed in a timely manner. The policy is being imposed on the Accounting Department, the Ministry's designated department in charge of bank reconciliations. Further the policy clearly sets the timeframe in which bank reconciliations must be completed. That is, the policy requires that all bank reconciliations must be completed within thirty (30) days after the end of each month and further requires the Secretary of Finance to review each reconciliation file for completion.

As of May 31, 2008, all bank accounts have been reconciled and updated.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-14

Travel Advances/Accounts Payable

Criteria: Reconciliations of the subsidiary ledger for travel advances and accounts payable to the respective general ledger control accounts should be performed on a monthly basis and in a timely fashion, and be independently reviewed for accuracy.

Condition: Three months subsequent to September 30, 2007 (December 31, 2007), the subsidiary ledger for travel advances and accounts payable were not reconciled for the entire fiscal year by the Ministry of Finance. Furthermore, we noted the following general ledger accounts with significant unreconciled variances:

<u>Travel Advance (A/c # 28010) Balances</u>			
	<u>General</u>		
<u>Fund #</u>	<u>Ledger</u>	<u>Subledger</u>	<u>Variance</u>
100100	\$ (121,815)	\$ 38,159	\$ (159,974)
600350	\$ 100,051	\$ 87,004	\$ 13,047

<u>Accounts Payable (A/c # 50010) Balances</u>			
	<u>General</u>		
<u>Fund #</u>	<u>Ledger</u>	<u>Subledger</u>	<u>Variance</u>
100100	\$ 764,971	\$ 707,213	\$ 57,758
510110	\$ (7,228)	\$ 104,603	\$ (111,831)

Audit adjustments were proposed to correct travel advance balances within Fund # 100100 and accounts payable balances within Fund # 510110. The remaining two variances were not considered material to the financial statements, thus no audit adjustments were proposed.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the performance of account reconciliations for travel advances and accounts payable balances on a monthly basis and in a timely fashion, and the lack of supervisory review.

Effect: The effect of the above condition is the possibility of misstatement of travel advance and accounts payable balances and errors going undetected.

Recommendation: We recommend that management establish internal control policies and procedures to ensure that account reconciliations for travel advances and accounts payable balances are prepared and independently reviewed on a monthly basis and in a timely fashion.

Auditee Response and Corrective Action Plan: We agree with this audit finding and recommendation. The MOF has established internal controls, more specifically an in-house policy imposed on the Accounting Department, which sets out the timeframe in which Travel Advances and Accounts Payable reconciliations must be completed. That is, the policy requires that all Travel Advances/Accounts Payable reconciliations must be completed on a monthly basis and further reviewed by the Secretary of Finance for completion.

Currently, the MOF's Accounting Department is in the process of performing the reconciliations of subsidiary ledgers to the control accounts. It is anticipated that reconciliations will be completed prior to September 30, 2008.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-15

Accounts Payable/Reporting

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

Questioned Costs: \$0

Criteria: Expenditures should be recorded in the period in which the related liability is incurred.

Condition: At September 30, 2007, the Ministry of Finance recorded accounts payable, totaling \$4,616,862, for expenditures pertaining to fiscal year 2008 as follows:

<u>G/L Acct #</u>	<u>G/L Account Name</u>	<u>Amount</u>
Compact Sector related:		
410100-50010	Education Sector	\$ 308,065
410102-50010	Supplemental Education Grant	39,530
410110-50010	Health Sector	36,749
410150-50010	Ebeye Special Needs	27,519
510100-50010	Public Infrastructure Sector	2,780,548
510110-50010	Infrastructure Maintenance Fund	28,981
Non-Compact Sector related:		
700370-50010	Republic of China Projects Fund	<u>1,395,470</u>
		<u>\$ 4,616,862</u>

Accordingly, audit adjustments were proposed to reverse these expenditures and related accounts payable.

Cause: The cause of the above condition is the lack of timely roll-over of encumbrances to the current fiscal year thus requiring the Accounts Payable Department to record fiscal year 2008 expenditures in 2007 in order to liquidate the related encumbrances for payment.

Effect: The effect of the above condition is the overstatement of expenditures and related accounts payable balances, and the overstatement of Compact Sector grant expenditures as submitted by RepMar on the quarterly financial status SF-269 reports.

Recommendation: We recommend that management establish internal control policies and procedures to ensure expenditures are recorded in the period in which the related liability is incurred.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The delay in the rolling of encumbrances from prior year to the current fiscal year has resulted in FY 2008 expenditures inadvertently being recorded and posted to the prior year. An audit adjustment has already been proposed to correct the situation to post these expenditures to the respective period in which the liability was incurred.

Currently, the MOF, led by Accounting Department is developing an in-house policy that will clearly state when encumbrances must roll. That is, the policy states that open encumbrances must roll no later than ten (10) days after year end. Furthermore, all Assistant Secretaries of Finance are the MOF's designated officials who will ensure timely rolling of open encumbrances.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2007

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, 2007:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported:			
Fiscal year 2004 Single Audit	\$ 1,128,841	\$ 3,514,381	\$ 4,643,222
Fiscal year 2005 Single Audit	683,490	-	683,490
Fiscal year 2006 Single Audit	<u>421,559</u>	<u>-</u>	<u>421,559</u>
	2,233,890	3,514,381	5,748,271
Less questioned costs resolved in fiscal year 2007:			
Questioned costs of fiscal year 2004 Single Audit (1)	(1,128,841)	(3,514,381)	(4,643,222)
Questioned costs of fiscal year 2005 Single Audit (2)	<u>(419,757)</u>	<u>-</u>	<u>(419,757)</u>
	685,292	-	685,292
Questioned costs of fiscal year 2007 Single Audit	<u>710,185</u>	<u>-</u>	<u>710,185</u>
Unresolved questioned costs of RepMar at September 30, 2007	\$ <u>1,395,477</u>	\$ <u>-</u>	\$ <u>1,395,477</u>

(1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on July 11, 2005, which is in excess of the two year threshold.

(2) Questioned costs considered resolved as RepMar received a final determination letter from the Office of Insular Affairs, U.S. Department of the Interior.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 36).