

**REPUBLIC OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2013**

**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 Christopher J. Loeak  
President  
Republic of the Marshall Islands:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2013, and the related notes to the financial statements, which collectively comprise RepMar's basic financial statements, and have issued our report thereon dated October 30, 2014. Our report includes emphasis of matter paragraphs concerning a debt guarantee and a restatement for the correction of an error, and a reference to other auditors who audited the financial statements of the Marshall Islands National Telecommunications Authority, as described in our report on RepMar's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Marshall Islands Judiciary Fund, the Marshall Islands Social Security Administration, and the discretely presented component units, which were all audited by us, with the exception of the Marshall Islands National Telecommunications Authority, as discussed above. 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 the entities that were audited by us. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Marshall Islands National Telecommunications Authority. The findings, if any, included in those reports are not included herein.

## **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001, 2013-004, 2013-005, 2013-008, and 2013-010 through 2013-015 to be material weaknesses.

## **Compliance and Other Matters**

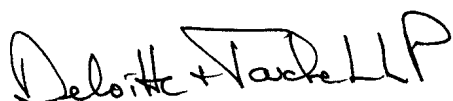
As part of obtaining reasonable assurance about whether RepMar's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2013-002, 2013-006 and 2013-009.

## **RepMar's Responses to Findings**

RepMar's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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



October 30, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

His Excellency Christopher J. Loeak  
President  
Republic of the Marshall Islands:

### **Report on Compliance for Each Major Federal Program**

We have audited the Republic of the Marshall Islands' (RepMar's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2013. RepMar's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in note 2 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 accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2013. Our audit, described below, did not include the operations of the entities identified in note 2 as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of RepMar's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of RepMar's compliance.

### ***Basis for Qualified Opinion on Each Major Federal Program***

As described in items 2013-001, and 2013-003 through 2013-007 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding the following:

<b><i>Finding #</i></b>	<b><i>CFDA #</i></b>	<b><i>Program (or Cluster) Name</i></b>	<b><i>Compliance Requirement</i></b>
2013-001	15.875	Economic, Social and Political Development of the Territories	Allowable Costs/Cost Principles
2013-004	15.875	Economic, Social and Political Development of the Territories	Equipment and Real Property Management
2013-005	15.875	Economic, Social and Political Development of the Territories	Procurement and Suspension and Debarment
2013-007	15.875	Economic, Social and Political Development of the Territories	Subrecipient Monitoring
2013-003	84.027	Special Education – Grants to States	Cash Management
2013-004	84.027	Special Education – Grants to States	Equipment and Real Property Management
2013-006	84.027	Special Education – Grants to States	Procurement and Suspension and Debarment

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

### ***Qualified Opinion on Each Major Federal Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, RepMar complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

RepMar's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of RepMar is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RepMar's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

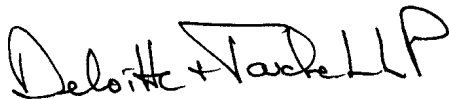
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-007 to be material weaknesses.

RepMar's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RepMar's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB A-133**

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, 2013, and the related notes to the financial statements, which collectively comprise RepMar's financial statements. We issued our report thereon dated October 30, 2014, which contained unmodified opinions on those financial statements and which report included emphasis of matter paragraphs concerning a debt guarantee and a restatement for the correction of an error, and a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



October 30, 2014

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2013

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>GENERAL FUND AND REIMBURSABLE FUND:</b>		
<u>U.S. Department of Commerce:</u>		
11.460	Special Oceanic and Atmospheric Projects	\$ <u>455,553</u>
<b>U.S. FEDERAL GRANTS FUND:</b>		
<u>U.S. Department of Agriculture:</u>		
10.567	Food Distribution Program on Indian Reservations	\$ 568,154
10.664	Cooperative Forestry Assistance	<u>8,384</u>
	Total U.S. Department of Agriculture	<u>576,538</u>
<u>U.S. Department of the Interior:</u>		
15.875	Economic, Social and Political Development of the Territories:	
	Flying Doctors	19,985
	Four Atoll Health Care	1,530,434
	HPO USAKA Grant	1,636
	Office of the Auditor General Grant	170
	RMI Legislation/On-Line VISA	<u>49,136</u>
	Sub-total CFDA # 15.875	1,601,361
15.904	Historic Preservation Fund Grants-In-Aid	<u>131,402</u>
	Total U.S. Department of the Interior	<u>1,732,763</u>
<u>U.S. Small Business Administration:</u>		
59.037	Small Business Development Centers	<u>21,603</u>
<u>U.S. Department of Education:</u>		
84.027	Special Education-Grants to States	<u>1,795,318</u>
<u>U.S. Department of Health and Human Services:</u>		
93.003	Public Health and Social Services Emergency Fund	185,356
93.069	Public Health Emergency Preparedness	171,432
93.110	Maternal and Child Health Federal Consolidated Programs	149,874
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	19,169
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	91,797
93.163	Health Services in the Pacific Basin	719,865
93.163	ARRA - Health Services in the Pacific Basin	670
93.217	Family Planning-Services	260,189
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	1,159,766
93.268	Immunization Cooperative Agreements	823,418
93.889	National Bioterrorism Hospital Preparedness Program	620,850
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	9,923
93.958	Block Grant for Community Mental Health Services	218,434
93.959	Block Grants for Prevention and Treatment of Substance Abuse	365,610
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	51,671
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	128,243
93.988	ARRA - Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	<u>109</u>
	Total U.S. Department of Health and Human Services	<u>4,976,376</u>
<u>U.S. Department of Homeland Security</u>		
97.042	Emergency Management Performance Grants	<u>119,323</u>
	<b>TOTAL U.S. FEDERAL GRANTS FUND</b>	<b>\$ <u>9,221,921</u></b>

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, 2013

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>COMPACT SECTOR GRANTS FUND:</b>		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants:	
	Section 211(a)(1) Education Sector	\$ 11,568,699
	Supplemental Education Grant	6,008,430
	Section 211(a)(2) Health Sector	6,624,631
	Section 211(a)(4) Public Sector Capacity Building	86,988
	Section 211(a)(5) Environment	323,750
	Section 211(b)(1) Ebeye Special Needs	3,184,918
	Section 211(b)(2) Landowners Special Needs	1,163,800
	Section 211(b)(3) Kwajalein Environment	197,715
	Section 211(d)(1) Public Infrastructure Development	4,268,802
	Section 211(d)(2) Infrastructure Maintenance	<u>1,629,668</u>
	<b>TOTAL COMPACT SECTOR GRANTS FUND</b>	<b>\$ <u>35,057,401</u></b>
<b>SECTION 212 KWAJALEIN LANDOWNERS FUND:</b>		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended:	
	Section 212 Kwajalein Impact and Use	\$ <u>17,356,500</u>
<b>SECTION 213 AUDIT FUND:</b>		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended:	
	Section 213 Audit	\$ <u>383,015</u>
	<b>TOTAL FEDERAL PROGRAM EXPENDITURES</b>	<b>\$ <u>62,474,390</u></b>
Reconciliation to the 2013 financial statements is as follows:		
	General Fund (Reimbursable Fund)	(1) \$ 455,553
	U.S. Federal Grants Fund	(2) 9,221,921
	Compact Sector Grants Fund	(3) 35,057,401
	Section 212 Kwajalein Landowners Fund	(4) 17,356,500
	Section 213 Audit Fund	(5) <u>383,015</u>
		<u>\$ 62,474,390</u>

- (1) Included within total expenditures for the Reimbursable Fund of \$638,789 presented on page 107 of the 2013 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$7,691,487 and \$1,530,434, respectively, presented on page 97 of the 2013 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$33,985,476 and \$1,071,925, respectively, presented on page 102 of the 2013 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$17,356,500 presented on page 87 of the 2013 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$383,015 presented on page 97 of the 2013 financial statements.

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, 2013

#### (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

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. 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. 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, 2013 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2013.

##### 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, 2013

(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>2013 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 1,000,000
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 283,112
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	College of the Marshall Islands	\$ 50,000
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 332,190
Compact of Free Association, As Amended, Landowners Special Needs	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,000,000
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company, Inc.	\$ 323,750
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Atoll Waste Company, Inc.	\$ 543,139
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Water and Sewer Company, Inc.	\$ 150,000

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2013 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories, Continued:		
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 471,925
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 500,000
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 100,000

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2013. RepMar did not charge federal programs for indirect costs during fiscal year 2013.

f. CFDA # 15.875

CFDA # 15.875 represents funding from 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, 2013

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued:                      | Unmodified    |
|    | Internal control over financial reporting:            |               |
| 2. | Material weakness(es) identified?                     | Yes           |
| 3. | Significant deficiency(ies) identified?               | None reported |
| 4. | Noncompliance material to financial statements noted? | Yes           |

*Federal Awards*

- |               | Internal control over major programs:  |               |                                |        |  |        |                                      |  |
|---------------|--|---------------|--------------------------------|--------|--|--------|--------------------------------------|--|
| 5.            | Material weakness(es) identified?  | Yes           |                                |        |  |        |                                      |  |
| 6.            | Significant deficiency(ies) identified?  | None reported |                                |        |  |        |                                      |  |
| 7.            | Type of auditors' report issued on compliance for major programs:  | Qualified     |                                |        |  |        |                                      |  |
| 8.            | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   | Yes           |                                |        |  |        |                                      |  |
| 9.            | Identification of major programs:  |               |                                |        |  |        |                                      |  |
|               | <table><thead><tr><th><u>CFDA #</u></th><th><u>Name of Federal Program</u></th></tr></thead><tbody><tr><td>15.875</td><td>Economic, Social and Political Development of the Territories:<br/>Compact of Free Association, As Amended, Sector Grants</td></tr><tr><td>84.027</td><td>Special Education – Grants to States</td></tr></tbody></table> | <u>CFDA #</u> | <u>Name of Federal Program</u> | 15.875 | Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants | 84.027 | Special Education – Grants to States |  |
| <u>CFDA #</u> | <u>Name of Federal Program</u>   |               |                                |        |  |        |                                      |  |
| 15.875        | Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants   |               |                                |        |  |        |                                      |  |
| 84.027        | Special Education – Grants to States   |               |                                |        |  |        |                                      |  |
| 10.           | Dollar threshold used to distinguish between Type A and Type B Programs:   | \$ 1,874,231  |                                |        |  |        |                                      |  |
| 11.           | Auditee qualified as low-risk auditee?   | No            |                                |        |  |        |                                      |  |

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>
2013-001	Allowable Costs/Cost Principles
2013-002	Allowable Costs/Cost Principles
	RMI Procurement Code
2013-004	Equipment and Real Property Management
2013-005	RMI Procurement Code
2013-006	RMI Procurement Code
2013-008	Grant Revenues/Receipts
2013-009	Expenditures/RMI Procurement Code
2013-010	General Ledger Account Reconciliations
2013-011	Accounts Receivable
2013-012	Construction-in-Progress/Retention Payable
2013-013	Encumbrances
2013-014	General Ledger Journal Entries
2013-015	External Financial Reporting

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

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2013-001	15.875	Allowable Costs/Cost Principles	\$ 642
2013-002	93.889	Allowable Costs/Cost Principles	\$ 58,278
		Procurement and Suspension and Debarment Period of Availability of Federal Funds	
2013-003	84.027	Cash Management	Undeterminable
2013-004	15.875	Equipment and Real Property Management	\$ -
	84.027	Equipment and Real Property Management	\$ -
2013-005	15.875	Procurement and Suspension and Debarment	\$ 4,725
2013-006	84.027	Procurement and Suspension and Debarment	\$ 7,649
2013-007	15.875	Subrecipient Monitoring	\$ -

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-001  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$642

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

Condition: Of \$14,014,261 in payroll expenditures for the Compact Sector Grants, forty-seven (47) items totaling \$24,831 were tested. For two expenditures, the following exceptions were noted:

- Employee # 63405 was overpaid \$256 during fiscal year 2013 due to an incorrect hourly rate, which has been paid to the employee since fiscal year 2010.
- There was no documented approval on the pay period ended 07/27/2013 timesheet to support \$386 paid to employee # 31195.

The above have been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

Cause: The cause of the above conditions is the 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 objectives. Furthermore, an incorrect hourly rate was paid to an employee.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs in the amount of \$642 are reported.

Recommendation: Management should require that expenditures incurred under federal programs be evidenced by supporting documentation indicating that such expenditures are directly related to and in accordance with program intent and objectives. Furthermore, management should verify that employees are paid the correct hourly rates.

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 objectives was reported as a finding in prior single audits as items 2009-1, 2009-2, 2010-1, 2011-1 and 2012-01.

Auditee Response and Correction Action Plan: We agree with the finding and recommendation. For item #1, per the instruction of the Public Service Commission (PSC), the Ministry of Finance (MOF) paid employee an additional \$0.12 per pay period because of a housing allowance that was included in his gross pay rate. For item #2, MOF paid the employee from a timesheet that was not approved. MOF will immediately verify with PSC the correct rate to pay the employee who was overpaid. Additionally, although it is standard procedure for MOF to only pay from properly approved timesheets, MOF will reinforce this standard operating procedure with its payroll staff.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-002  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.889 National Bioterrorism Hospital Preparedness Program  
Grant Number: 1U90TP000549-01 (budget period 07/01/2012-06/30/2013)  
Grant Number: 5U90TP000549-02 (budget period 07/01/2013-06/30/2014)  
Area: Allowable Costs/Cost Principles  
Area: Procurement and Suspension and Debarment  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$58,278

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives. Furthermore, section 92.36 of 45 CFR Subtitle A, *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. Lastly, the budget periods for the National Bioterrorism Hospital Preparedness Program grants are from July 1, 2012 through June 30, 2014. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period.

Condition: Of \$620,850 in non-payroll expenditures for the National Bioterrorism Hospital Preparedness Program, four (4) items totaling \$58,278 were tested and the following exceptions were noted:

<u>Item #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>	<u>Check #</u>	<u>Expenditure Type</u>
1	P46213	191790	\$ 19,999	103037	Vehicle Rental
2	P46551	194468	19,825	104271	Vehicle Rental
3	P49639	204931	9,945	108976	Vehicle Rental
4	P49696	205759	<u>8,509</u>	109628	Vehicle Rental
			\$ <u>58,278</u>		

For item # 1, three of four price quotations on file were unresponsive; however, no evidence of solicitation of other quotations was on file. The associated purchase requisition (PR) on file indicated approval for vehicle rental for 339 days to carry out the program's activities, which included community training, outreach, and monitoring efforts by hospital nurses. There was no documentation on file justifying the rental period length or specifying the type of vehicle required. Additionally, the only authorized driver was a member of the hospital's administration who did not appear directly involved with implementation of program activities. Furthermore, the vehicle was rented for a total of 364 days, which was 25 days more than was approved as per the PR and purchase order.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-002, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.889 National Bioterrorism Hospital Preparedness Program  
Grant Number: 1U90TP000549-01 (budget period 07/01/2012-06/30/2013)  
Grant Number: 5U90TP000549-02 (budget period 07/01/2013-06/30/2014)  
Area: Allowable Costs/Cost Principles  
Area: Procurement and Suspension and Debarment  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$58,278

#### Condition, Continued:

For item # 2, the associated PR on file indicated approval for vehicle rental for 305 days to carry out program activities, which included community training, outreach, and monitoring efforts by hospital nurses. There was no documentation on file justifying the rental period length. Additionally, the only authorized driver was a member of the hospital's administration who did not appear directly involved with implementation of program activities. Furthermore, per the rental agreement, the vehicle was rented for a total of 419 days, which was 114 days more than was approved per the PR and purchase order.

For item # 3, one of two price quotations on file was unresponsive; however, no evidence of solicitation of other quotations, including from the selected vendor, was on file. The associated PR on file indicated approval of a 117-day rental of a van to be used as a temporary ambulance; however, the justification letter seeking exemption from a freeze on government rentals indicated a period of a month or less. The 117-day rental period was not supported by a rental agreement since the payment was applied against Ministry of Health delinquent invoices dating to 2009. We examined such invoices noting that all pre-date the grant's budget period of July 1, 2012 through June 30, 2013.

For item # 4, the same justification letter used for item # 3 above was attached; however, the three price quotations on file and associated PR's all appear to be for a sedan. Furthermore, the vendor confirmed that this payment was to cover excess rental days from item #s 1 and 2 above; however, the supporting vendor invoice was for a car rental for 127 days at a daily rate which differed from that charged per item #s 1 and 2 above.

For item #s 1, 2, and 4, certain rental period days were outside of the grant funding period.

Cause: The cause of the above condition is expenditures charged to a Federal program which: (1) do not appear to be directly related to the program and do not appear to be in accordance with program intent and objective, (2) did not comply with federal procurement requirements, and (3) were incurred outside of the grant funding period.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements, procurement standards, and period of availability requirements as stipulated in the grant awards. Accordingly, questioned costs in the amount of \$58,278 are reported.



## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-002, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.889 National Bioterrorism Hospital Preparedness Program  
Grant Number: 1U90TP000549-01 (budget period 07/01/2012-06/30/2013)  
Grant Number: 5U90TP000549-02 (budget period 07/01/2013-06/30/2014)  
Area: Allowable Costs/Cost Principles  
Area: Procurement and Suspension and Debarment  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$58,278

Recommendation: We recommend that RepMar verify that expenditures incurred under federal programs are directly related to and are in accordance with program intent and objectives, are in compliance with federal procurement requirements, and are within the funding period.

Auditee Response and Corrective Action Plan: The Ministries of Finance and Health agree to all the findings. Two vehicles were rented for the period stated above, exceeding the period of availability stated on the Purchase requisitions (PR) and grant budget period. Both vehicles were not used for the purposes stated on the PR but solely used by hospital administrators. For finding #3, a PR was submitted for purposes of temporary ambulance. The Purchase order, however, was used to pay off prior year liabilities that the Ministry of Health had not paid the vendor due to cessation of business with the vendor from the fraud cases in fiscal year 2010.

The following corrective action plans have been implemented to correct these deficiencies:

- 1) Disciplinary action taken against any RMI public servants including MOH and MOF employees who intentionally violate procurement policies and procedures. If necessary, legal action will also be taken.
- 2) Reinforcement of standard operating procedures with Hospital US Federal grant program managers and MOF budget and procurement officers to ensure that:
  - a. Sufficient quotations are available for all procurements,
  - b. Activities budgeted in the grant award are strictly adhered to
  - c. Payments are only for the period of availability of the grant award
  - d. MOF procurement and supply clerks and MOH fiscal officers ensure receipt and use of purchases as indicated in the PR and supported by the grant award.
  - e. The RMI vehicle rental policy be strictly followed.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-003  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A110011  
Questioned Costs: Undeterminable

Area: Cash Management

Criteria: Section 21 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, prescribes the basic standards 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 Part 205.

Condition: Of \$380,521 in non-payroll expenditures, thirteen (13) items totaling \$65,620 were tested. For the following eight (8) expenditures, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not available for examination:

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
102265	190663	\$ 4,994
103559	194251	\$ 2,063
104725	196343	\$ 800
106774	200731	\$ 915
106923	201239	\$ 24,940
109814	206923	\$ 1,235
110079	207400	\$ 12,960
112141	212679	\$ 1,855

Due to the lack of available information from the grantee, the amount of interest liability and questioned costs, if any, applicable to the above is undeterminable.

Cause: The cause of the above condition is the lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements.

Effect: The effect of the above condition is noncompliance with cash management requirements.

Recommendation: The Ministry of Finance should establish a formal methodology governing the drawdown of federal funds to minimize the time elapsed between the receipt of federal funds and the date applicable payments clear the bank.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-003, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A110011  
Questioned Costs: Undeterminable

Area: Cash Management

Prior Year Status: Lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements was reported as a finding in prior single audits as items 2005-7, 2006-5, 2007-8, 2008-1, 2009-3 and 2012-03.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The MOF now has a cash management plan governing the drawdown of federal funds with consideration given to minimizing the time elapsed between receipt of the drawdown and the bank clearance date. This Plan will be in full effect in fiscal year 2015 and available to retroactively apply to fiscal year 2014 drawdowns.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-004  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Questioned Costs: \$0

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A110011  
Questioned Costs: \$0

Area: Equipment and Real Property Management

Criteria: Article VI, Section 1(f)(4) of the Fiscal Procedures Agreement (FPA) 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 satisfy compliance with applicable equipment management requirements. Capital outlay expenditures incurred by RepMar within the Compact Sector Grants Fund for fiscal years 2013, 2012 and 2011 were as follows:

Fiscal Year 2013	\$ 4,399,331
Fiscal Year 2012	\$ 5,030,784
Fiscal Year 2011	\$ 7,188,740

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

Effect: The effect of the above condition is noncompliance with federal equipment management requirements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-004, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Questioned Costs: \$0

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A110011  
Questioned Costs: \$0

Area: Equipment and Real Property Management

Recommendation: The Ministry of Finance should perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements and should complete such inventory in accordance with applicable federal property rules and regulations.

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 for fiscal years 1988 through 2000 and as items 2001-8, 2002-28, 2003-28, 2004-12, 2005-11, 2006-10, 2007-9, 2008-3, 2009-5, 2010-3, 2011-3, and 2012-04.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. In June 2014, the MOF commenced a physical inventory of all assets with an acquisition cost of \$5,000 and higher. The inventory will be completed in August, 2014 and RepMar's fixed asset register adjusted as of September 30, 2014.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-005  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$4,725

Criteria: 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 the 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 promulgated by RepMar’s Policy Office. 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. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three 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 \$14,328,507 in non-payroll expenditures for the Compact Sector Grants, ninety-eight (98) items totaling \$7,460,539 were tested. For the following three (3) items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	410102	102175	P4637101	190413	\$ 966
2	410102	106944	A1454601	199237	2,930
3	410150	17657	Q1516201	00017657	<u>829</u>
					\$ <u>4,725</u>

For item #s 1 and 3, no evidence of obtaining informal price quotations was provided.

For item # 2, no documentation was provided to substantiate that the most economical fare was procured.

The above expenditures have been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-005, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$4,725

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

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$4,725.

Recommendation: RepMar should require that supporting documentation be adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for vendor selection.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2003-20, 2003-21, 2003-22, 2003-23, 2004-08, 2004-09, 2005-09, 2005-10, 2006-07, 2006-08, 2006-09, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2008-04, 2008-05, 2008-06, 2008-07, 2009-08, 2009-09, 2010-04, 2010-05, 2011-04, 2011-05, 2011-06, 2012-05 and 2012-06.

Auditee Response and Correction Action Plan: We only partially agree with the finding:

Item # 1 is for the purchase of fresh fish from a local vendor for the school feeding program and is likewise not subject to the receipt of informal price quotations.

Item # 3 is for the contract purchase from a Ebeye non-profit for MOE school feeding....all such contracts are approved for the same unit price by the bid committee and divided among several Ebeye organizations; likewise not subject to price quotations.

Only item # 2 (international travel) references a finding whereby RepMar did not document it obtained the lowest fare for international travel, in this case to Fiji.

Auditor Response: Supporting documentation was inadequate to evidence the procurement process for the stated items. Accordingly, the reported questioned cost remains.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-006  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A110011  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$7,649

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.

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 promulgated by RepMar's Policy Office. 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. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (d) 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 \$380,521 in non-payroll expenditures, thirteen (13) items totaling \$65,620 were tested. For the following three (3) items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	600350	102265	A1401001	190663	\$ 4,994
2	600350	104725	P4678201	196343	800
3	600350	112141	T1239101	212679	<u>1,855</u>
					\$ <u>7,649</u>

For item #s 1 and 3, no documentation was provided to substantiate that the most economical fare was procured.

For item # 2, the expenditure was not supported by an underlying purchase requisition and price quotations.



## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-006, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A110011  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$7,649

#### Condition, Continued:

The above expenditures have been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

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

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and procurement standards. Accordingly, questioned costs in the amount of \$7,649 are reported as the projected questioned cost exceeds the \$10,000 threshold.

Recommendation: RepMar should require that supporting documentation be adequate to comply with federal procurement requirements.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2011-06 and 2012-06.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The two international travel expenditures (\$6,849 total) pertain to situations where the TA form did not document the lowest fare was obtained after Honolulu to mainland destinations. Instead, the traveler continued to use United Airlines, the only airliner flying out of Majuro. In both cases the mainland destination was serviced by United Airlines, so the assumption was made that straight-through travel on a single airline was cheaper than potentially switching airlines. Although this was not documented on the TA form, we believe the assumption is generally valid. In July of fiscal year 2013, the MOF instructed the only travel agent in Majuro to indicate on the travel itinerary form that it secures the cheapest airfare for government travelers. The two cited exceptions occurred prior to this arrangement with the travel agent.

It is standard operating procedure to only pay vendor invoices supported by purchase requisitions and price quotations. The \$800 exception cited a check number where multiple vendor invoices were paid and the individual quotes supporting the particular purchase were not available behind the check copy.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-007  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Subrecipient Monitoring  
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 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 the requirements imposed upon them by the Compact, as amended, the sector Grants and the FPA; and (iii) Sub-Grantee can meet the financial management standards of the FPA.

Condition: During the year ended September 30, 2013, RepMar sub-granted Compact funding to various subrecipients. We examined the underlying Sub-Grant Agreements or Memorandum of Agreements (MOA) and noted the following exceptions:

- College of the Marshall Islands was sub-granted Education Sector and Supplemental Education funding under MOA #s M08590 and M08446, respectively; however, the MOAs do not mention these funding sources or also indicate RepMar's General Fund as a funding source. Additionally, for MOA # M07385, the period of performance does not comply with the underlying Compact grant award and no reference is made to the Compact Agreement, grant award, or FPA.
- Kwajalein Atoll Joint Utilities Resources, Inc. was sub-granted Landowners Special Needs funding under MOA # M08377; however, the MOA does not reference the Compact Agreement, grant award, or FPA. Furthermore, the grant award terms and conditions specified that such should be administered directly by RepMar and not sub-granted.
- Majuro Atoll Waste Company was sub-granted Environment Sector funding under MOA # 08528; however, the MOA indicated the Public Infrastructure Sector as the source of funding. Furthermore, the amount passed-through was short by \$1,250. The MOA also did not reference the Compact Agreement, grant award, or FPA. Additionally, for MOA # M07565, the period of performance does not comply with the underlying Compact grant award and no reference is made to the Compact Agreement, grant award, or FPA.
- Marshall Islands Scholarship, Grant and Loan Board was sub-granted Education Sector, Supplemental Education and Ebeye Special Needs funding under MOA # M08212; however, the MOA does not reference the Compact Agreement, grant award, or FPA.
- Majuro Water and Sewer Company, Inc. was sub-granted Public Infrastructure Sector funding under MOA # M08089. The MOA's period of performance does not comply with the underlying Compact grant award and no reference is made to the Compact Agreement, grant award, or FPA.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-007, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Subrecipient Monitoring  
Questioned Costs: \$0

#### Condition, Continued:

As separate OMB Circular A-133 audits are performed on these entities, no questioned costs are reported.

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

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

Recommendation: RepMar should comply with the specific provisions of the FPA and execute Sub-Grant agreements with all Sub-Grantees.

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 as a finding in prior single audits as items 2009-10, 2010-07, 2011-07 and 2012-07.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. For fiscal year 2015, Sub-recipient agreements or Memorandum of Agreements (MOA) will be executed in October 2014 for those receiving Compact funds and will reference the following:

- 1) All funding sources applicable to the agreement to specifically include US sector grant numbers if applicable.
- 2) All sector sub-grantees MOA's to reference the Compact agreement and applicable sections of Fiscal Procedures Agreement (FPA) to specifically include: 1) sub-grantees are aware of the requirements imposed on them by the Compact, as amended, the sector Grants and FPA; and 2) sub-grantee can meet the financial management standards of the FPA.

The Ministry will also look into adjusting FY2014 MOA's to ensure compliance with relevant provisions of the FPA, the Compact, as amended, Grant awards, and other applicable agreements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-008  
Area: Grant Revenue/Receipts

Criteria: Adequate internal control policies and procedures should be established to require that proper documentation is retained to both support recorded grant revenues and the transfer of grant funds between bank accounts.

Condition: Of \$6,330,480 in other non-US grants assistance revenues recorded, fifteen (15) items totaling \$5,099,956 were tested. For the following six foreign grant amounts received for the Pacific Islands Forum (PIF), while we were able to verify deposits into RepMar’s general bank account or into the separately established PIF bank account, we were unable to trace the subsequent transfers of such between the two bank accounts due to lack of associated transfer documents.

<u>Fund</u>	<u>Receipt/JV #</u>	<u>Date</u>	<u>Amount</u>
700360	459927	06/14/2013	\$ 200,000
700360	G13-543P	07/19/2013	\$ 135,264
700360	G13-600P	07/31/2013	\$ 100,000
700360	G13-594P	08/02/2013	\$ 179,175
700360	G13-935P	09/30/2013	\$ 100,000
700360	G13-797P	09/30/2013	\$ 100,000

Additionally, solicitation letters and grant documents, if any, were not available for examination. Therefore, we were unable to ascertain the existence of donor restrictions and whether all solicited funds were received and recorded.

Cause: The cause of the above condition is the lack of policies and procedures requiring retention of documentation to support foreign grants and transfer of associated monies.

Effect: The effect of the above condition is inability to verify completeness of foreign grants and compliance with grant terms and conditions, if any.

Recommendation: We recommend that RepMar establish policies and procedures requiring that proper documentation is retained to support recorded grant revenues.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The Cabinet-level decision to not coordinate the receipt of donor revenues for the Pacific Islands Forum (PIF) through the Ministry of Finance but rather through the Ministry of Foreign Affairs (MOFA) resulted in these receipts and transfers to the PIF bank account being poorly documented and independent internal verification by MOF difficult. It is the Ministry of Finance’s firm position not to decentralize such revenue recording functions and this policy will be reiterated in the future with implementing Ministries.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-009  
Area: Expenditures/RMI Procurement Code

Criteria: Procurement of goods and services should be in accordance with RepMar’s Procurement Code, which 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 promulgated by RepMar’s Policy Office. 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. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (e) 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 \$3,012,972 in other non-US grants assistance non-payroll expenditures for drought disaster relief efforts and the Pacific Islands Forum (PIF), eleven (11) items totaling \$553,446 were tested. For the following eight (8) items, there was no documentation to evidence the procurement process:

<u>Expenditure</u>			
<u>Class</u>	<u>Check #</u>	<u>Date</u>	<u>Amount</u>
Drought	127	05/06/2013	\$ 17,000
Drought	587	08/01/2013	\$ 52,884
Drought	455	07/03/2013	\$ 23,500
Drought	221	05/26/2013	\$ 6,473
Drought	657	08/21/2013	\$ 6,000
PIF	372	08/31/2013	\$ 6,388
PIF	226	08/09/2013	\$ 17,156
PIF	115	04/29/2013	\$ 27,995

For check # 221, attendant documentation supporting the purpose of the expenditure was not available for examination.

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

Effect: The effect of the above condition is noncompliance with the RMI Procurement Code.

Recommendation: RepMar should require that supporting documentation be adequate to comply with the RMI procurement requirements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-009, Continued  
Area: Expenditures/RMI Procurement Code

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Both Forum and Emergency Drought Purchases were decentralized from regular government cash disbursements with limited management oversight over the method of procurement. As noted, the PIF expenditures were made exempt from the general rule for small procurements of having 3 price quotations. Nevertheless, documentation should have been available to support the purpose and method of expenditure and MOF management will reinforce this compliance condition in all future cases where independent checking accounts are established to handle such procurements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-010  
Area: General Ledger Account Reconciliations

Criteria: Adequate internal control policies and procedures should be established to require periodic and timely reconciliation of all significant general ledger accounts, independent supervisory approval of reconciliations, and timely recording of transactions and adjustments identified through the reconciliation process to facilitate accurate financial reporting.

Condition # 1: As of March 31, 2014, various cash and investment reconciliations had not been completed by the Ministry of Finance, including the following accounts:

<u>Item #</u>	<u>G/L Account #</u>	<u>Account Name</u>	<u>G/L Balance</u>
1	100100-15040	Investment in PIDB	\$ 498,250
2	300400-19030	Investment in Pacific Forum Line	\$ 318,630
3	300614-19060	NCT Investments	\$ 2,289
4	300618-15020	Compact Trust Fund	\$ 46,351,522
5	950000-11095	Asia Pacific Disaster Response Fund	\$ 100,100
6	950000-12010	Imprest Fund – Fiji Embassy	\$ 69,700
7	950000-12020	Imprest Fund – Tokyo Embassy	\$ 150,000
8	950000-12030	Imprest Fund – UN Mission	\$ 100,000
9	950000-12035	Imprest Fund – Washington DC	\$ 50,000
10	950000-12045	Imprest Fund – Arkansas Consulate	\$ 20,000
11	950000-12060	Dengue Fever Account	\$ 96
12	950000-12070	Imprest Fund – Honolulu Consulate	\$ 10,000
13	950000-12075	44 <sup>th</sup> Annual Pacific Islands Forum	\$ 100
14	950000-13010	General Fund Treasury	\$ (1,233,121)
15	950000-13035	RMI/ADB Program Account	\$ (444)
16	950000-13085	RMI Compact Fund	\$ 1,263,165
17	950000-15085	RMI 9 <sup>th</sup> Micro President’s Summit	\$ 311
18	950000-15086	Micro President/Chief Summit	\$ 14,999
19	950000-15087	2 <sup>nd</sup> Taiwan Pacific Allies Summit	\$ 218

For item #s 6 through 10, 12, 14 and 16, monthly bank reconciliations through September 2013 were eventually completed; however, audit procedures identified the following exceptions:

- The reconciliations identified errors and old reconciling items which remained unadjusted as of September 30, 2013. As such errors/items were not considered material to the financial statements, no audit adjustments were proposed.
- Nine checks processed for wire transfers continue to be included as reconciling items in the general account even though the related wire transfers were paid in July and August 2013. These checks have been misplaced and cannot be located by the Ministry of Finance for re-deposit.
- General account check # 101027 was voided in an incorrect amount, thereby understating cash by \$278, which was not considered material to the financial statements. Check # 106836, amounting to \$18,594, was voided but is still included as a reconciling item; and an audit adjustment was proposed to correct this error.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-010, Continued  
Area: General Ledger Account Reconciliations

#### Condition # 1, Continued:

- The RMI Compact Fund account reconciliation included an unadjusted \$145,000 variance, which was the result of duplicate recording of grant revenue. An audit adjustment was proposed to correct this error.

Reconciliations for item #s 1, 2, 4, 5 and 13 were not completed for the entire fiscal year. Audit adjustments were proposed to correct these accounts. For item # s 3, 11, 15 and 17 through 19, bank confirmation responses indicated that the associated bank accounts had been closed.

The September 2013 Payroll Account reconciliation (G/L Acct # 950000-13020) included \$34,939 in net bank errors, including some dating to October 2011. This matter was discussed in our separate letter to management in the fiscal year 2007 through 2012 audits.

Certain stale-dated checks totaling \$34,193, which had been adjusted to cash and a liability in a prior year were included as reconciling items for Ebeye General, Ebeye USAKA and Payroll accounts (G/L #s 950000-13015, 950000-13018 and 950000-13020, respectively).

Bank confirmations verified three accounts, totaling \$58,413, which had not been recorded in the general ledger. The accounts were discovered through audit procedures performed. Management has since recorded these cash accounts under G/L Acct #s 950000-12055, 950000-13098 and 950000-13099.

Condition # 2: As of March 31, 2014, various general ledger account reconciliations had not been completed by the Ministry of Finance, including the following accounts, which were not performed for the entire fiscal year:

<u>G/L Account #</u>	<u>Account Name</u>	<u>Unadjusted Acct Balance</u>	<u>Adjusted Acct Balance</u>	<u>Variance</u>
100100-07505	Foreign Operating Grant	\$2,700,000	\$3,600,000	\$900,000
100100-21020	A/R ROC Grants	\$0	\$900,000	\$900,000
700370-07505	Foreign Operating Grant	\$3,705,000	\$7,405,000	\$3,700,000
700370-21020	A/R ROC Grants	\$0	\$3,700,000	\$3,700,000
985000-77010	ADB Loans Payable	\$62,159,875	\$64,704,881	\$2,545,006

The above variances were resolved through the performance of alternative audit procedures.

Cause: The cause of the condition is the lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of general ledger account reconciliations.

Effect: The effect of the above condition is material misstatements of account balances, increased risk of undetected errors and fraud, and inaccurate financial reporting. Furthermore, delays in performance of audit procedures occurred due to modifications to the trial balances submitted for audit.



## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-010, Continued  
Area: General Ledger Account Reconciliations

Recommendation: Management should establish policies and procedures requiring periodic and timely performance of and independent supervisory verification of significant general ledger account reconciliations. Furthermore, such policies and procedures should also require timely resolution of errors and recording of unrecorded transactions identified through the reconciliation process.

Prior Year Status: Lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of cash and investments accounts was reported as a finding in prior single audits as items 2010-09, 2010-12, 2011-11 and 2010-12.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. A senior accountant vacancy throughout most of FY-2013 and FY-2014 resulted in many control accounts not getting reconciled until year-end. Management acknowledges the need to reconcile and correct the accounts at more frequent intervals and is in the process of hiring a senior accountant to perform such, no later than September 30, 2014. Effective for bank reconciliations beginning in August, 2014, management will issue procedures to require:

- 1) Independent management approval for each month's bank reconciliation.
- 2) Recording of all adjustments to RepMar's general ledger within 10 days of completion of each month's bank reconciliation.
- 3) For all bank errors, follow-through with the bank to require correction within 30 days of notification by MOF.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-011  
Area: Accounts Receivable

Criteria: Timely drawdowns of grant expenditures should occur to reimburse the General Fund.

Condition: Three of ten non-payroll expenditures for the Public Infrastructure Sector Grant had not been reimbursed six months after year end, as follows:

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
101763	189331	\$ 15,000
105153	197727	\$ 84,018
106849	201094	\$ 18,594

Furthermore, drawdown request #s CD-03-2013 and CD-15-2013, dated 12/05/2012 and 09/11/2013, respectively, included prior year expenditures of \$81,749 and \$64,451, respectively, which had been rejected due to inadequate supporting documentation. Such have not been resubmitted for reimbursement six months after year end.

Additionally, it appears that other grants may not be timely billed.

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

Effect: The effect of the above condition is that the General Fund bears the cost of grant expenditures.

Recommendation: Management should establish policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur.

Auditee Response and Corrective Action Plan: We agree with the finding, although the issue of receiving compact infrastructure reimbursements does not affect the timing of reimbursement of the General Fund so much as it does having sufficient public infrastructure funds available to timely pay contractors for progress payments on infrastructure construction. In fiscal year 2014 management took several steps to get caught up on grant reimbursements: over \$2 million of US federal grant pending reimbursements were collected and considerable progress was made on becoming up-to-date on reimbursement of public infrastructure funds particularly those grant accounts that required reconciling with OIA records. MOF management has targeted September 30, 2014 to be completely current on its Infrastructure development and Landowner special needs grant funds.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-012  
Area: Construction-In-Progress/Retention Payable

Criteria: Adequate internal control policies and procedures should be established to require that the fixed asset and retention payable subsidiary ledgers are updated in accordance with the progress of construction projects to facilitate accurate financial reporting.

Condition: The construction-in-progress (CIP) and retention payable subsidiary ledgers (SL) were not updated during fiscal year 2013.

Audit procedures performed identified the following exceptions in the CIP SL provided for audit:

- Total additions during fiscal year 2013 per the CIP SL for the following projects did not agree with the underlying contractor progress billings, as follows:

<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per CIP SL</u>	<u>Difference</u>
IDMP0044	\$ 570,335	\$ 604,077	\$ (33,742)
IDMP0086/87	\$ 778,442	\$ 741,375	\$ 37,067
IDMP0092	\$ 105,393	\$ 205,225	\$ (99,832)
IDMP0096	\$ 366,229	\$ 372,076	\$ 5,847

The above projects were completed and capitalized at the correct costs in fiscal year 2013; thus, adjustments to the CIP SL for the above differences were not necessary.

- For project #s IDMP0053, IDMP0054 and IDMP0090, expenditures incurred were for repairs and maintenance and do not represent additions to capital assets. Adjustments to the CIP SL were proposed.
- Project # IDMP0079 was completed and capitalized in fiscal year 2013; however, the asset's capitalized cost was overstated by \$8,288.
- Retention payable accrued as of September 30, 2013 for the following projects was incorrect, as follows:

<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per Accrual</u>	<u>Difference</u>
IDMP0044	\$ 60,900	\$ 50,254	\$ 10,645
IDMP0053	\$ 40,995	\$ 38,945	\$ 2,050
IDMP0054	\$ 38,165	\$ 19,448	\$ 18,717
IDMP0079	\$ 39,553	\$ 37,485	\$ 2,068
IDMP0089	\$ 19,169	\$ 18,202	\$ 967
IDMP0090	\$ 26,676	\$ 12,387	\$ 14,289
IDMP0090A	\$ 5,050	\$ 19,982	\$ (14,932)
IDMP0092	\$ 24,929	\$ 23,683	\$ 1,246
IDMP0095	\$ 15,955	\$ 15,174	\$ 781
IDMP0096	\$ 23,500	\$ 20,208	\$ 3,292

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-012, Continued  
Area: Construction-In-Progress/Retention Payable

Condition, Continued:

An audit adjustment was proposed to correct the above errors.

Cause: 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 ledger accounts. A further cause for the errors in valuation of both completed and ongoing projects is the lack of reconciliations with contractor billings, which are inclusive of retention and gross receipts tax, and with RepMar's Project Management Unit's monthly project status reports.

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

Recommendation: Management should establish policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts.

Prior Year Status: Lack of policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts was reported as a finding in prior single audits as items 2011-13 and 2012-10.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. MOF has now begun using PMU payment records and progress reports to reconcile CWIP and retention payable records. Procedures will be developed no later than September 30, 2014 on compilation of the CWIP schedule for the annual audit and calculation of retention payable.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-013  
Area: Encumbrances

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

Condition # 1: Of \$4,182,175 in encumbrances for the General Fund, twelve (12) items totaling \$1,910,564 were tested and the following exceptions were noted:

<u>Item #</u>	<u>Fund</u>	<u>Encumbrance Document #</u>	<u>Balance Per SL</u>	<u>Correct Balance</u>	<u>Variance</u>
1	100100	M0890401	\$ 402,221	\$ -	\$ 402,221
2	100100	M0878901	63,385	-	63,385
3	100100	M0815001	<u>9,000</u>	<u>-</u>	<u>9,000</u>
			\$ <u>474,606</u>	\$ <u>-</u>	\$ <u>474,606</u>

Condition # 2: Of \$11,457,327 in encumbrances for the Grants Assistance Fund, thirty-three (33) items totaling \$6,451,747 were tested and the following exceptions were noted:

<u>Item #</u>	<u>Fund</u>	<u>Encumbrance Document #</u>	<u>Balance Per SL</u>	<u>Correct Balance</u>	<u>Variance</u>
1	410102	P4839501	\$ 55,694	\$ -	\$ 55,694
2	410150	Q1549901	89,564	723	88,841
3	510100	P5050901	68,000	-	68,000
4	510100	C0364901	84,473	10,454	74,019
5	510100	C0852501	66,605	38,350	28,255
6	510100	C0863501	401,138	336,290	64,848
7	510100	C0869801	359,920	344,341	15,579
8	510100	P4943901	24,974	-	24,974
9	510100	C0232304	6,076	-	6,076
10	510100	M0808901	300,000	-	300,000
11	510110	C0859402	276,257	246,819	29,438
12	510110	C0860201	49,447	21,970	24,477
13	600350	P5056801	8,929	8,864	65
14	600350	C0812601	166,000	-	166,000
15	600350	T1231301	1,425	285	1,140
16	700360	P4994301	<u>300</u>	<u>-</u>	<u>300</u>
			\$ <u>1,958,802</u>	\$ <u>1,008,096</u>	\$ <u>950,706</u>

Audit adjustments were proposed to correct the subsidiary ledgers and to reconcile with the general ledger. Furthermore, we noted certain encumbered balances outstanding for over one year which had not been reviewed to ascertain their validity.

Additionally, the underlying contract # C0879301 for a September 30, 2013 \$173,650 encumbrance in Fund 700370 was not available.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-013, Continued  
Area: Encumbrances

Cause: The cause of the above condition is the lack of policies and procedures requiring timely and periodic review and reconciliation of encumbrances.

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

Recommendation: Management should periodically review the subsidiary encumbrance ledgers for invalid encumbrances and reconcile the general ledger to the subsidiary ledgers in a timely manner.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The major cause of the noted variances is failure to liquidate the encumbrance when making a cash disbursement to the vendor, resulting in overstated reserves of fund balance. MOF will strengthen its efforts to communicate with the departments to ensure all invalid encumbrances are properly liquidated in fiscal year 2014.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-014  
Area: General Ledger Journal Entries

Criteria: Adequate accounting controls necessitate segregation of duties. Journal entries and adjustments should be adequately supported and be independently approved.

Condition: Independent review and authorization of journal entries posted for fiscal year 2013 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.

Exceptions were also noted, as follows:

- JV #s G13-22D and G13-554P were not supported by underlying documentation.
- JV # G13-1048 correct amount is \$306,814; however, actual amount recorded is \$308,814.
- JV # G13-113G indicated an incorrect amount of \$373,097; however, the correct amount of \$273,097 was recorded.
- JV #s G13-419P and G13-957P were not located.
- JV # G13-352P erroneously indicated a debit to revenue and credit to cash when it should have been vice versa.
- The following JVs recorded drought disaster relief efforts and Pacific Island Forum expenditures; however, the amounts recorded differed from the underlying records as follows:

<u>Expenditure</u> <u>Class</u>	<u>JV #</u>	<u>Per Subledger</u>	<u>Per 4gov</u>	<u>Variance</u>
Drought	G13-737P	\$ 1,134,111	\$ 1,115,072	\$ 19,039
PIF	G13-662P	\$ 1,877,157	\$ 1,866,382	\$ 10,775

No audit adjustment was proposed as the above variances were not considered material to the financial statements.

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

Effect: The effect of the above condition is a possible misstatement of financial statement balances and recording of unauthorized transactions.

Recommendation: Management should establish policies and procedures relative to independent authorization and review of journal entries and adjustments.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Finding No.: 2013-014, Continued  
Area: General Ledger Journal Entries

Prior Year Status: The lack of adequate independent review and approval of journal entries and adjustments was reported as a finding in prior single audits as items 2009-12, 2010-10, 2011-14 and 2012-11.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The MOF accounting division processed over one thousand journal entries in fiscal year 2014. Many reflect inadequate supporting documentation, lack of independent internal verification and approval, and contain errors that have to be subsequently corrected. MOF acknowledges the need to exercise better control over the journal entry functions and upon filling the senior accounting vacancy will implement procedures to independently authorize and review journal entries, no later than September 30, 2014.



## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-015  
Area: External Financial Reporting

**Criteria:** Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 24*, requires that the general purpose financial statements of the reporting entity include component units for which the primary government is financially accountable for, has a financial benefit or burden relationship with, or for which exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete.

**Condition:** Fiscal year 2013 financial audits of the following component units were not completed in a timely manner due to delayed reconciliations and year-end closing:

Majuro Water and Sewer Company  
Marshall Islands Resort  
Marshall Islands National Telecommunications Authority  
Marshall Islands Visitors Authority  
National Environmental Protection Authority Fund  
Tobolar Copra Processing Authority

**Cause:** The cause of the above condition is the lack of policies and procedures requiring regular monitoring of component units' preparations for their annual financial audits and of audit progress for the respective entities.

**Effect:** The effect of the above condition is noncompliance with GASB Statement No. 14, as amended, and lack of audited financial statements for inclusion in RepMar's general purpose financial statements.

**Recommendation:** We recommend that RepMar establish policies and procedures to facilitate compliance with GASB Statement No. 14, as amended. Furthermore, we recommend that RepMar consider consolidating the operations of certain entities back into the Ministry of Finance.

**Auditee Response and Corrective Action Plan:** Although MOF is in strong support of this recommendation, the decision to decentralize accounting functions for component units and other entities is made at the Cabinet level. Decentralization often occurs against the wishes of MOF. The tardy completion of fiscal year 2013 audits for the cited component units indicates the lack of financial management capacity within many of these entities and needs to be corrected. For the fiscal year 2014 MOF will create completion milestones for many of the audit preparation tasks and more closely intervene with component unit management and staff when difficulties arise. Moreover, the MOF is in support of the SOF being a de facto board member of all component units so that competent accounting staff can be hired for those entities for which reconsolidation with MOF is not politically feasible.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2013

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, 2013:

	<u>Questioned Costs</u>		
	<u>RepMar</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of RepMar as previously reported:			
Fiscal year 2008 Single Audit	\$ 645,618	\$ -	\$ 645,618
Fiscal year 2009 Single Audit	1,360,234	-	1,360,234
Fiscal year 2010 Single Audit	2,243,301	-	2,243,301
Fiscal year 2011 Single Audit	3,156,810	-	3,156,810
Fiscal year 2012 Single Audit	<u>35,857</u>	<u>-</u>	<u>35,857</u>
	7,441,820	-	7,441,820
Less questioned costs resolved in fiscal year 2013:			
Questioned costs of fiscal year 2008 Single Audit reported in:			
Finding No. 2008-4 (1)	(252,507)	-	(252,507)
Questioned costs of fiscal year 2009 Single Audit reported in:			
Finding No. 2009-8 (4)	(132,780)	-	(132,780)
Finding No. 2009-10 (2)	(1,000,000)	-	(1,000,000)
Questioned costs of fiscal year 2010 Single Audit reported in:			
Finding No. 2010-1 (5)	(434,282)	-	(434,282)
Finding No. 2010-6 (6)	(301,338)	-	(301,338)
Questioned costs of fiscal year 2011 Single Audit reported in:			
Finding No. 2011-1 (2) (3)	(1,097,821)	-	(1,097,821)
Finding No. 2011-4 (2)	(445,918)	-	(445,918)
Finding No. 2011-5 (2)	(493,464)	-	(493,464)
Finding No. 2011-8 (2)	<u>(1,000,000)</u>	<u>-</u>	<u>(1,000,000)</u>
	2,283,710	-	2,283,710
Questioned costs of fiscal year 2013 Single Audit	<u>71,294</u>	<u>-</u>	<u>71,294</u>
Unresolved questioned costs of RepMar at September 30, 2013	\$ <u>2,355,004</u>	\$ <u>-</u>	\$ <u>2,355,004</u>

- (1) Resolved through a grantor agency determination dated November 4, 2010
- (2) Resolved through a grantor agency determination dated September 24, 2013
- (3) Resolved through a grantor agency determination dated November 21, 2013
- (4) Resolved through a grantor agency determination dated April 3, 2014
- (5) Resolved through a grantor agency determination dated June 17, 2014.
- (6) Resolved through a grantor agency determination dated June 18, 2014.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Findings and Questioned Costs, Continued  
Year Ended September 30, 2013

Summary Schedule of Prior Audit Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>	
2008-5	15.875	\$ 74,318	Not corrected or resolved.	
2008-6	84.027	14,966	Not corrected or resolved.	
2008-7	15.875/	294,900	Not corrected or resolved.	
	93.110	8,927	Not corrected or resolved.	
2009-1	15.875	208,243	Not corrected or resolved.	
2009-2	15.875	848	Not corrected or resolved.	
2009-9	15.875	18,363	Not corrected or resolved.	
2010-4	10.567/	18,706	Not corrected or resolved.	
	15.875/	629,840	Not corrected or resolved.	
	84.027/	26,305	Not corrected or resolved.	
	93.003/	8,671	Not corrected or resolved.	
	93.069/	47,659	Not corrected or resolved.	
	93.110/	15,336	Not corrected or resolved.	
	93.118/	16,450	Not corrected or resolved.	
	93.163/	38,450	Not corrected or resolved.	
	93.268/	94,554	Not corrected or resolved.	
	93.889/	31,995	Not corrected or resolved.	
	93.938/	14,082	Not corrected or resolved.	
	93.958/	2,552	Not corrected or resolved.	
	93.959/	4,906	Not corrected or resolved.	
	93.977/	51,690	Not corrected or resolved.	
	93.988/	2,062	Not corrected or resolved.	
	2010-5	93.069/	170,600	Not corrected or resolved.
		93.217/	8,323	Not corrected or resolved.
		93.889/	155,500	Not corrected or resolved.
	2011-05	93.003	170,000	Not corrected or resolved.
		11.460/	50,705	Not corrected or resolved.
		93.959	59,400	Not corrected or resolved.
2011-06	84.027	9,502	Not corrected or resolved.	
2012-01	15.875	2,203	Not corrected or resolved.	
2012-05			See Finding 2013-001	
	15.875	30,252	Not corrected or resolved.	
2012-06			See Finding 2013-006	
	84.027	<u>3,402</u>	Not corrected or resolved.	
			See Finding 2013-007.	
		<u>\$ 2,283,710</u>		