

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2006

**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 Kessai Note
President
Republic of the Marshall Islands:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2006, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated June 15, 2007, which report was qualified due to the omission of financial statements for the Kwajalein Atoll Joint Utilities Resources, Inc. and the inability of Air Marshall Islands, Inc. to produce audited financial statements. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RepMar's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect RepMar's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 14 through 31) as item 2006-1.

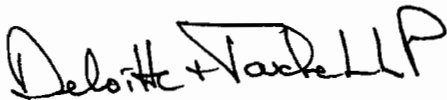
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 2006-2 through 2006-10.

We noted certain matters that we reported to management of RepMar in a separate letter dated June 15, 2007.

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

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June 15, 2007

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

His Excellency Kessai Note
President
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. RepMar's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 14 through 31). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RepMar's management. Our responsibility is to express an opinion on RepMar's compliance based on our audit.

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

As described in items 2006-1 through 2006-10 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, period of availability of funds, procurement and suspension and debarment, and subrecipient monitoring that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

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

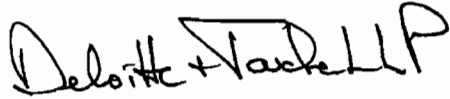
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect RepMar's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 through 2006-10.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-1, 2006-6, 2006-7 and 2006-10 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of and for the year ended September 30, 2006, and have issued our report thereon dated June 15, 2007, which report was qualified due to the omission of financial statements for the Kwajalein Atoll Joint Utilities Resources, Inc. and the inability of Air Marshall Islands, Inc. to produce audited financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise RepMar's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 11) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RepMar. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

A handwritten signature in black ink that reads "Deloitte + Tuck LLP". The signature is stylized, with the "D" and "T" being particularly prominent.

June 15, 2007

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2006

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.027	IDEA Special Education - Grants to States	\$ <u>2,233,896</u>
U.S. Department of Health and Human Services	93.283	CDC - Investigations and Technical Assistance	<u>907,462</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States: Compact of Free Association, As Amended, Public Law 99-239, Sector Grants:	
		Education	11,295,801
		Supplemental Education Grant	4,057,294
		Health	6,564,097
		Private Sector Development	354,734
		Capacity Building	331,898
		Environment	221,815
		Kwajalein Environment	203,999
		Landowners Special Needs	1,256,392
		Public Infrastructure	10,189,166
		Infrastructure Maintenance	<u>904,245</u>
		Total CFDA #15.875	<u>35,379,441</u>
		Total program expenditures tested	\$ <u>38,520,799</u>
		Total federal program expenditures	\$ <u>58,169,043</u>
		% of total federal program expenditures tested	<u>66%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards General Fund and Reimbursable Fund Year Ended September 30, 2006

CFDA#	Agency/Program	Accrued (Deferred) Balance at October 1, 2005	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2006
	<u>U.S. Department of Commerce:</u>				
11.460	Special Oceanic and Atmospheric Projects	\$ 224,173	\$ 429,453	\$ 343,099	\$ 137,819
	Total U.S. Department of Commerce	<u>\$ 224,173</u>	<u>\$ 429,453</u>	<u>\$ 343,099</u>	<u>\$ 137,819</u>
	TOTAL GENERAL FUND AND REIMBURSABLE FUND	<u>\$ 224,173</u>	<u>\$ 429,453</u>	<u>\$ 343,099</u>	<u>\$ 137,819</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
U.S. Federal Grants Fund
Year Ended September 30, 2006

CFDA#	Agency/Program	Accrued (Deferred) Balance at October 1, 2005	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2006
<u>U.S. Department of Agriculture:</u>					
10.567	Food Distribution Program on Indian Reservations	\$ (9,685)	\$ 60,108	\$ 64,561	\$ (5,232)
10.664	Cooperative Forestry Assistance	22,669	-	44,854	67,523
10.766	Community Facilities Loans and Grants	-	6,266	-	(6,266)
	Total U.S. Department of Agriculture	\$ 12,984	\$ 66,374	\$ 109,415	\$ 56,025
<u>U.S. Department of the Interior:</u>					
15.875	Anti-money Laundering	\$ 63,997	\$ 79,997	\$ 16,000	\$ -
15.875	EPA Environmental Standards Conference	47,622	56,021	9,164	765
15.875	EPA Travel	4,417	-	3,490	7,907
15.875	EPA Environmental Standards Conference - USAKA	10,377	25,000	25,131	10,508
15.875	Feasibility of Fiber Optic Cable for RMI and FSM	-	390,000	390,000	-
15.875	FMIS Project Manager	(137)	-	-	(137)
15.875	FMIS HR Module	9,401	18,371	8,970	-
15.875	Four Atoll Health Care	-	1,150,334	1,314,691	164,357
15.875	Infrastructure Data Development	-	95,925	89,843	(6,082)
15.875	Rongelap Ecotourism	-	14,000	-	(14,000)
15.875	Land Survey Registration	7,401	53,347	49,022	3,076
15.875	MTBIF/Performance Budgeting	3,666	-	(64,347)	(60,681)
15.875	PIRAAP - Waan Aelon in Majol	(13,316)	-	-	(13,316)
15.875	Project Manager - FMIP	(3,772)	-	-	(3,772)
15.875	RMI Passport Personalization System Upgrade	206,874	304,690	57,888	(39,928)
15.875	Fixed Asset System	8	76,407	7,836	(68,563)
15.875	Single Audit FY01	(448)	-	-	(448)
15.875	Single Audit FY02	-	-	4,200	4,200
15.875	Single Audit FY03	18,000	4,400	81,200	94,800
15.875	Tax Enhancement System	(19,689)	40,380	68,208	8,139
15.875	Tax Financial Consultant	70,098	79,994	9,996	100
15.875	Customs Tax System	32,268	66,455	46,955	12,768
15.875	Trust Fund Committee	28,407	53,407	25,008	8
15.875	Utrik Atoll Local Government Improvement Project	-	48,448	42,500	(5,948)
15.875	Utrik Atoll Local Government Fiscal Management Improvement	(5,940)	67,060	-	(73,000)
15.875	Washington DC Embassy Network	(1,492)	-	-	(1,492)
15.875	Component Units Reconciliation	-	-	18,576	18,576
15.875	RMI Comprehensive Survey	-	-	47,922	47,922
15.875	RMI NGO Committee	-	-	43,572	43,572
	Sub-total CFDA # 15.875	457,742	2,624,236	2,295,825	129,331
15.904	Historic Preservation Fund Grants-In-Aid	169,970	-	41,111	211,081
	Total U.S. Department of the Interior	\$ 627,712	\$ 2,624,236	\$ 2,336,936	\$ 340,412

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
U.S. Federal Grants Fund, Continued
Year Ended September 30, 2006

CFDA#	Agency/Program	Accrued (Deferred) Balance at October 1, 2005	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2006
<u>U.S. Small Business Administration:</u>					
59.005	Internet-Based Technical Assistance	\$ 430	\$ 12,500	\$ 26,364	\$ 14,294
	Total U.S. Small Business Administration	\$ 430	\$ 12,500	\$ 26,364	\$ 14,294
<u>U.S. Department of Homeland Security</u>					
83.552	Emergency Management Performance Grants	\$ (20,531)	\$ 24,803	\$ 39,899	\$ (5,435)
	Total U.S. Department of Homeland Security	\$ (20,531)	\$ 24,803	\$ 39,899	\$ (5,435)
<u>U.S. Department of Education:</u>					
84.027	Special Education-Grants to States	\$ 130,509	\$ 2,209,096	\$ 2,233,896	\$ 155,309
84.048	Vocational Education-Basic Grants to States	(69,339)	6,070	100,886	25,477
84.194	Bilingual Education Support Services	264	-	-	264
84.256	Freely Associated States-Education Grant Program	19,168	339,916	344,076	23,328
84.276	Goals 2000 - State and Local Education Systemic Improvement	(44,435)	-	41,620	(2,815)
84.287	21st Century Community Learning Centers	1	87,975	78,987	(8,987)
84.326	Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	(16,284)	-	-	(16,284)
84.336	Teacher Quality Enhancement Grant	18,152	1,232,513	1,309,697	95,336
84.346	Vocational Education-Occupational and Employment Information State Grants	(25,331)	6,436	-	(31,767)
	Total U.S. Department of Education	\$ 12,705	\$ 3,882,006	\$ 4,109,162	\$ 239,861
<u>U.S. Department of Health and Human Services:</u>					
93.003	Public Health and Social Services Emergency Fund	\$ -	\$ 57,328	\$ 203,233	\$ 145,905
93.110	Maternal and Child Health Federal Consolidated Programs	155,621	514,667	421,911	62,865
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	11,608	131,545	124,979	5,042
93.136	Injury Prevention and Control Research and State and Community Based Programs	4,112	9,454	7,202	1,860
93.163	Health Services in the Pacific Basin	120,662	521,414	423,503	22,751
93.217	Family Planning-Services	2,091	201,813	202,276	2,554
93.230	Consolidated Knowledge Development and Application (KD&A) Program	(2,417)	4,950	27,903	20,536
93.268	Immunization Grants	19,655	272,957	288,338	35,036
93.283	CDC and Prevention-Investigations and Technical Assistance	(269,864)	622,914	907,462	14,684
93.889	National Bioterrorism Hospital Preparedness Program	-	382,456	389,034	6,578
93.917	HIV Care Formula Grants	10,026	53,892	52,447	8,581
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	16,638	111,071	94,433	-
93.940	HIV Prevention Activities-Health Department Based	17,439	129,360	140,934	29,013
93.958	Block Grant for Community Mental Health Services	(21,067)	55,896	80,774	3,811
93.959	Block Grants for Prevention and Treatment of Substance Abuse	21,090	602,886	546,531	(35,265)
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	(35,627)	60,430	102,973	6,916
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	3,908	76,090	76,540	4,358
93.991	Preventive Health and Health Services Block Grant	15,257	4,042	27,587	38,802
	Total U.S. Department of Health and Human Services	\$ 69,132	\$ 3,813,165	\$ 4,118,060	\$ 374,027
	TOTAL U.S. FEDERAL GRANTS FUND	\$ 702,432	\$ 10,423,084	\$ 10,739,836	\$ 1,019,184

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Compact of Free Association, Public Law 99-239
U.S. Department of the Interior - CFDA # 15.875
Year Ended September 30, 2006

<u>CFDA#</u>	<u>Agency/Program</u>	Prior Year Funds Carried Over October 1, 2005	Federal Cash Receipts and Adjustments	Federal Expenditures	Available Funds September 30, 2006
15.875	<u>Compact of Free Association Program</u>				
	Section 215(a)(1) Communications	\$ 60,380	\$ -	\$ 20,000	\$ 40,380
	Section 216(a)(1) Surveillance and Enforcement	690	-	-	690
	Section 216(a)(3) Scholarship	1,593	-	-	1,593
	Section 221(b) Health and Education	(4,280)	-	-	(4,280)
	Section 111(d) Investment Development	472,253	-	-	472,253
	Section 211(a) 231/232 Military Use and Operating Rights Agreement (MUORA) Extension - Kwajalein Landowners	875,223	-	-	875,223
	Total U.S. Department of the Interior	\$ 1,405,859	\$ -	\$ 20,000	\$ 1,385,859

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Compact of Free Association, As Amended, Public Law 99-239
U.S. Department of the Interior - CFDA # 15.875
Year Ended September 30, 2006

CFDA#	Agency/Program	Prior Year Funds Carried Over October 1, 2005	Federal Cash Receipts and Adjustments	Local Expenditures	Federal Expenditures	Available Funds September 30, 2006
15.875	Compact of Free Association Program, As Amended					
	Compact Sector Grants:					
	Section 211(a)(1) Education Sector	\$ (5,589)	\$ 12,049,081	\$ -	\$ 11,295,801	\$ 747,691
	Supplemental Education Grant	315,256	4,476,193	-	4,057,294	734,155
	Section 211(a)(2) Health Sector	(1,225)	6,682,740	-	6,564,097	117,418
	Section 211(a)(3) Private Sector Development	-	361,940	-	354,734	7,206
	Section 211(a)(4) Public Sector Capacity Building	(14,200)	309,947	-	331,898	(36,151)
	Section 211(a)(5) Environment Sector	34,436	222,142	-	221,815	34,763
	Section 211(b)(1) Kwajalein Environment	(34,418)	205,522	-	203,999	(32,895)
	Section 211(b)(2) Landowners Special Needs	-	1,308,388	-	1,256,392	51,996
	Section 211(d)(1) Public Infrastructure Development	-	9,496,589	-	10,189,166	(692,577)
	Section 211(d)(2) Infrastructure Maintenance	1,034,848	690,244	904,246	904,245	(83,399)
		1,329,108	35,802,786	904,246	35,379,441	848,207
	Compact Non-sector Grants:					
	Section 212 Kwajalein Impact and Use	7,895,451	15,448,964	-	11,489,373	11,855,042
	Section 213 Audit	-	197,294	-	197,294	-
		7,895,451	15,646,258	-	11,686,667	11,855,042
	Total U.S. Department of the Interior	\$ 9,224,559	\$ 51,449,044	\$ 904,246	\$ 47,066,108	\$ 12,703,249

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, 2006

(1) Scope of Review

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

a. Programs Subject to Single Audit

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

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

b. Reporting Entity

RepMar, for purposes of the general purpose financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Schedule of Expenditures of Federal Awards excludes the federal awards received by the College of the Marshall Islands, the Marshalls Energy Company, Inc., and the Marshall Islands National Telecommunications Authority as these entities have separately satisfied the audit requirements of OMB Circular A-133.

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

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

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2006 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Compact of Free Association, As Amended, Sector Grant	College of the Marshall Islands	\$ 1,133,532
Compact of Free Association, As Amended, Sector Grant	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 776,289
Compact of Free Association, As Amended, Sector Grant	Marshall Islands Visitors Authority	\$ 100,000
Compact of Free Association, As Amended, Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 685,715
Compact of Free Association, As Amended, Sector Grant	RMI Ports Authority	\$ 500,000

d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2006. RepMar did not charge federal programs for indirect costs during fiscal year 2006.

e. CFDA # 15.875

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

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs Year Ended September 30, 2006

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information expressed an unqualified opinion and an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the Kwajalein Atoll Joint Utilities Resources, Inc. and the inability of Air Marshall Islands, Inc. to produce audited financial statements.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. RepMar's major programs were as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Economic, Social and Political Development of the Territories and the Freely Associated States:	
Compact of Free Association, As Amended, Sector Grants	15.875
IDEA Special Education - Grants to States	84.027
CDC - Investigation and Technical Assistance	93.283

8. A threshold of \$1,745,071 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. RepMar did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2006-1	External Financial Reporting	16
2006-2 - 3	Allowable Costs/Cost Principles	17 - 19
2006-4	Cash Management	20 - 21
2006-5	Period of Availability of Funds	22
2006-6 - 8	Procurement and Suspension and Debarment	23 - 29
2006-10	Subrecipient Monitoring	31

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2006-1	Subrecipient Monitoring	\$ -	16
2006-2 - 3	Allowable Costs/Cost Principles	\$ 35,108	17 - 19
2006-4	Cash Management	\$ -	20 - 21
2006-5	Period of Availability of Funds	\$ 19,000	22
2006-6 - 8	Procurement and Suspension and Debarment	\$ 367,451	23 - 29
2006-9	Equipment and Real Property Management	\$ -	30
2006-10	Subrecipient Monitoring	\$ -	31

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-1

External Financial Reporting

Subrecipient Monitoring

U.S. Department of the Interior - CFDA # 15.875

Compact of Free Association, As Amended, Kwajalein Landowners Special Needs Grant

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

Condition: The following component units were unable to produce audited financial statements in time for inclusion into RepMar's financial statements for 2006:

Component Units

Air Marshall Islands, Inc.
Kwajalein Atoll Joint Utilities Resources, Inc.

Instead, the Ministry of Finance included unaudited financial information for Air Marshall Islands, Inc.; however, unaudited information for the Kwajalein Atoll Joint Utilities Resources, Inc. was not available.

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

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

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

Prior Year Status: The lack of including component units' in RepMar's financial statements was reported as a finding in the Single Audits of RepMar for fiscal years 1998 through 2005.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance has already developed procedures to improve sub-recipient monitoring. The MOF engages the services of a consultant to assist component units' in producing audited financial statements. There have been some improvements in this light, with the removal of Marshall Islands Development Bank (MIDB) and Headstart Program, previously reported as un-audited component units. It is our hope that by the end of FY2007, the Air Marshall Islands, Inc (AMI) and Kwajalein Atoll Joint Utilities Resources, Inc (KAJUR) will be ready for audit.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-2

Allowable Costs/Cost Principles

U.S. Department of the Interior - CFDA # 15.875

Compact of Free Association, Section 211(a) Capital Account

Questioned Costs: \$0

Criteria: Article II, Section 3(e) of the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Republic of the Marshall Islands (the Fiscal Use Agreement) contains seventeen items for which funding may be expended.

Condition: During the year ended September 30, 2006, RepMar transferred \$1,901,987 from the Intergenerational Trust Fund to the General Fund to provide budgetary support for General Fund operations. This transfer does not appear to meet any of the above seventeen terms and conditions and prior grantor approval was not obtained to expend these funds for other purposes.

No questioned costs are reported as the Ministry of Finance provided correspondence, dated June 4, 2007, from the Director of the Budget and Grants Management Division, Office of Insular Affairs, United States Department of the Interior. This correspondence confirmed RepMar's understanding that the 60/40 split between Section 211 Current Account and Capital Account funds required under the Compact of Free Association (U.S. Public Law 99-239 and related agreements) was considered to have been met by the U.S. Department of the Interior, and that redesignation of an amount from Capital Account to Current Account was no longer a federal issue but is solely a decision of RepMar.

No documentation was made available by RepMar indicating redesignation of this amount from Capital Account to Current Account.

Cause: The cause of the above condition is the lack of sufficient local revenues generated to fund General Fund operations resulting in the need to transfer funds from the Intergenerational Trust Fund.

Effect: The effect of the above condition is that the use of these funds does not appear to be in compliance with the terms and conditions of the Fiscal Use Agreement.

Recommendation: We recommend that RepMar comply with the Fiscal Use Agreement when expending Section 211 (a) Compact Capital Funds.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. However, in clarifying the issue with the Grantor Agency (U.S. Department of Interior), they have confirmed that the re-designation of these Capital Account Funds to Current Accounts (General operation usage) is solely the decision of the Government of the Marshall Islands and such is no longer a matter before U.S.DOI.

The Act that established the Marshall Islands Intergenerational Trust Fund (MIITF) has been repealed in its entirety. Therefore, our corrective action plan will involve the Cabinet, through the Minister of Finance, to formally re-designate the \$1.9M *plus* any other remaining balance in the MIITF from Capital Account to Current Account.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-3

Allowable Costs/Cost Principles

U.S. Department of Health and Human Services - CFDA # 93.283

CDC - Investigation and Technical Assistance

Questioned Costs: \$35,108

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

Condition: Of \$822,841 in non-payroll expenditures of the CDC - Investigation and Technical Assistance program, twenty-eight non-payroll expenditures, totaling \$682,361, were tested. We noted the following expenditures that did not appear to be reasonable and necessary costs that meet the overall needs of the program:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	G06-197J	N/A	Equipment	\$ 22,000
2	N/A	37823	International Travel	\$ 7,108
3	P1577401	35257	Other Charges and Expenses	\$ 6,000

Item # 1 represented a general journal voucher wherein the underlying supporting documentation attendant to the journal voucher related to a DILOG Federal Grant Budget Report relating to Cost Center # F72392. The recorded expenditure related to a journal voucher transferring expenditures from Cost Center # F72392 to Cost Center # F57560; however, the expenditures did not pertain to actual allocatable items but rather related to the difference between Life-to-Date expenditures recorded under Cost Center # F72392 of \$551,523 less Budgeted expenditures of \$529,523. Accordingly, we are unable to identify the expenditures relating to the amount of \$22,000 transferred from Cost Center # F72392 to Cost Center # F57560 that have been recorded as expenditures against this federal award. Thus, we are unable to determine whether these expenditures are directly related to the federal program, and are necessary and reasonable for the program needs. Accordingly, questioned costs of \$22,000 are reported.

Item # 2 represented airfare from Majuro to Noumea via Narita for which there was no indication how the purchase of airfare was directly related to the federal program (as no trip report was made available), nor was there any indication of approval on the travel authorization by the program director. Additionally, the travel between Narita and Noumea related to business class travel. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination. Thus, we are unable to determine whether these expenditures are directly related to the federal program, and are necessary and reasonable for the program needs. Accordingly, questioned costs of \$7,108 are reported.

Item # 3 represented payment on a proforma invoice from the local telephone company instead of a standard billing statement. Accordingly, we were unable to ascertain the telephone numbers to which this expenditure relates to. Thus, we are unable to determine whether these expenditures are directly related to the federal program, and are necessary and reasonable for the program needs. Accordingly, questioned costs of \$6,000 are reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-3, Continued

Cause: The cause of the condition is the lack of attendant documentation supporting the difference of \$22,000.

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

Recommendation: We recommend that RepMar ensure that recorded expenditures within federal programs represent actual expenditures directly related to and in accordance with program intent and objectives.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance has already implemented an internal policy wherein all Journal Vouchers (JVs) are to be supported with Voucher, Check or Purchase Order No. in order for these expenditures to be traced.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-4

Cash Management

U.S. Department of Education - CFDA # 84.027

IDEA Special Education - Grants to States

Questioned Costs: \$0

U.S. Department of Health and Human Services - CFDA # 93.283

CDC - Investigation and Technical Assistance

Questioned Costs: \$0

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

Condition No. 1: Of \$1,066,385 in non-payroll expenditures of the IDEA Special Education - Grants to States program, sixty-one non-payroll expenditures, totaling \$466,061, were tested. We noted fourteen instances where Federal funds were received prior to payments being disbursed to vendors:

<u>Check #</u>	<u>Amount</u>	<u>Reimbursement Date</u>	<u>Check Clearance Date</u>	<u>Excess Days</u>
31010	\$ 12,375	02/03/06	02/21/06	18
33342	\$ 19,305	04/19/06	05/04/06	15
33741	\$ 4,500	04/19/06	04/26/06	7
33737	\$ 12,375	04/19/06	04/26/06	7
33823	\$ 15,685	04/28/06	05/03/06	5
37927	\$ 4,320	09/20/06	09/27/06	7
33341	\$ 13,875	04/19/06	04/20/06	1
33341	\$ 12,345	04/19/06	04/20/06	1
33883	\$ 12,345	04/04/06	05/09/06	35
34994	\$ 4,500	06/22/06	07/05/06	13
38063	\$ 4,132	09/20/06	09/27/06	7
38059	\$ 2,055	09/20/06	09/26/06	6
37876	\$ 20,286	09/20/06	09/21/06	1
37931	\$ 3,250	09/20/06	09/22/06	2

The total amount of estimated interest liability is below \$10,000; hence, no questioned costs are reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-4, Continued

Condition No. 2: Of \$822,841 in non-payroll expenditures of the CDC - Investigation and Technical Assistance program, twenty-eight non-payroll expenditures, totaling \$682,361, were tested. We noted twelve instances where Federal funds were received prior to payments being disbursed to vendors:

<u>Check #</u>	<u>Amount</u>	<u>Reimbursement Date</u>	<u>Check Clearance Date</u>	<u>Excess Days</u>
31148	\$ 31,834	02/03/06	03/28/06	53
31341	\$ 20,639	02/09/06	02/15/06	6
34781	\$ 13,000	06/09/06	06/13/06	4
35743	\$ 10,000	07/12/06	07/14/06	2
36470	\$ 20,000	07/06/06	08/04/06	29
37823	\$ 7,108	09/20/06	09/21/06	1
37924	\$ 7,960	09/20/06	09/22/06	2
37924	\$ 12,000	09/20/06	09/22/06	2
37924	\$ 54,091	09/20/06	09/22/06	2
37924	\$ 45,000	09/20/06	09/22/06	2
37924	\$ 40,000	09/20/06	09/22/06	2
37924	\$ 38,837	09/20/06	09/22/06	2

The total amount of estimated interest liability is below \$10,000; hence, no questioned costs are reported.

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

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

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. Our corrective action plan will involve Mr. Junior Patrick, Assistant Secretary of Accounting and Mr. Jemi Nashion, Assistant Secretary of Budget & OIDA to establish a spending pattern and a draw down schedule for all Federal programs grants to minimize time elapsed between receipt and disbursement of funds. The anticipated completion of this corrective action plan is September 30, 2007.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-5

Period of Availability of Funds

U.S. Department of the Interior - CFDA # 15.875

Compact of Free Association, As Amended, Health Sector Grant

Questioned Costs: \$19,000

Criteria: Article VI, Section 1(c)(1) of the Fiscal Procedures Agreement (FPA) states that funding for each Operational Sector grant shall generally be available for one year. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period. Furthermore, section 1(c)(2) of the FPA states that all outstanding obligations must be liquidated not later than 90 days after the end of the funding period.

Condition: Of \$1,574,494 of non-payroll expenditures of the Health Sector Fund, eleven non-payroll expenditures, totaling \$166,227, were tested. We noted one \$19,000 item (PO # Q0085401 - Check # 7574) paid to the Kwajalein Atoll Joint Utilities Resources, Inc. for utility billings relating to the Ebeye Hospital. However, the documentation attached to the check voucher indicated that the utility billings were for the month of September 2005. Hence, the provision of services was obligated outside the period of availability, which results in a questioned cost of \$19,000.

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

Effect: The effect of the above condition is noncompliance with period of availability requirements.

Recommendation: We recommend that RepMar comply with the period of availability requirements.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The incurring of the expenses outside of the funding period is an oversight on our part. It's the Ministry of Finance's standard practice to ensure that expenses are incurred within the grants availability period. Going forward, the Ministry of Finance will exert its best efforts to practice strict compliance to the period of availability requirements as stipulated under the Fiscal Procedures Agreement (FPA) and other federal requirements.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-6

Procurement and Suspension and Debarment

U.S. Department of the Interior - CFDA # 15.875

Compact of Free Association, As Amended, Education Sector Grant; Supplemental Education Grant

Questioned Costs: \$180,785

Criteria: Article VI, Section 1(j)(1) of the FPA states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (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 \$3,987,710 in non-payroll expenditures of the Education Sector Grant Fund, sixteen non-payroll expenditures, totaling \$641,285, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	P1593901	35881	Vehicle	\$ 68,735
2	P1672301	37397	Vehicle	\$ 46,265

Of \$2,522,232 in non-payroll expenditures of the Supplemental Education Grant Fund, seventeen non-payroll expenditures, totaling \$1,084,653, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
3	P1548101	34707	Vehicle	\$ 65,785

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-6, Continued

For item # 1, no evidence of competitive sealed bidding was noted on file for the purchase of a school bus for the Woja Public Elementary School, as required by Section 124. Documentation supporting the procurement process was limited to price quotations from three local vendors (equivalent to small purchases procedures); however, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding. Furthermore, the price quotations from two of the vendors were dated December 15, 2005 (in the amount of \$42,495 for CMI school bus purchase) and July 19, 2005 (in the amount of \$49,100), and did not appear to relate to this specific purchase. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the purchase price, questioned costs of \$68,735 are reported.

For item # 2, no evidence of competitive sealed bidding was noted on file for the purchase of a school bus, as required by Section 124. Documentation supporting the procurement process was limited to price quotations from three local vendors (equivalent to small purchases procedures); however, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding. Furthermore, the price quotation from one of the vendors was dated December 15, 2005 (in the amount of \$42,495 for CMI school bus purchase) and the other was dated August 22, 2006 (in the amount of \$55,900). As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the purchase price, questioned costs of \$46,265 are reported.

For item # 3, no evidence of competitive sealed bidding was noted on file for the purchase of a school bus for the Ajeltake Public Elementary School, as required by Section 124. Documentation supporting the procurement process was limited to price quotations from three local vendors (equivalent to small purchases procedures); however, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding. Furthermore, the price quotations from two of the vendors were dated September 12, 2005 (in the amount of \$49,904) and July 19, 2005 (in the amount of \$51,050). As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the purchase price, questioned costs of \$65,785 are reported.

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

Effect: The effect of the above condition is noncompliance with procurement standards.

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance's Procurement and Supply Division established a policy and related working procedures to strengthen internal control. In that respect, the Procurement & Supply Division will closely monitor each purchase to ensure that required procurement methods as stipulated under the RMI Procurement Code and *Fiscal Procedures Agreement* (FPA) are complied with.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-7

Procurement and Suspension and Debarment

U.S. Department of Education - CFDA # 84.027

IDEA Special Education-Grants to States

Questioned Costs: \$144,572

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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$1,066,385 in non-payroll expenditures of the IDEA Special Education - Grants to States program, sixty-one non-payroll expenditures, totaling \$466,061, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	C0126801	33342	Contractual services	\$ 19,305
2	P1221901	33823	Equipment	\$ 15,685
3	P1447201	33066	Other supplies/materials	\$ 13,875
4	P1397901	33341	Other supplies/materials	\$ 13,875
5	P1447101	33341	Other supplies/materials	\$ 12,345
6	P1499001	33883	Other supplies/materials	\$ 12,345
7	P1515101	35222	Other supplies/materials	\$ 12,345
8	P1681801	37503	Vehicle	\$ 29,450
9	A0487701	29437	International travel	\$ 3,002
10	P1265301	30530	Other supplies/materials	\$ 12,345

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No. 2006-7, Continued

For item # 1, no evidence of competitive sealed bidding was noted on file for the acquisition of contractual services to upgrade the computerized Special Education information management and student tracking system, as required by Section 124. Instead, the Ministry of Education (MOE) acquired the services of the consultant based on sole-source procedures. Justification for this sole-source procurement was that the consultant was previously contracted by MOE in 1998 to develop the system and was further contracted in 2002 to provide upgrade revisions. No competitive procurement procedures were evident for the selection of the consultant in 1998 and 2002. Accordingly, RepMar appears to have sole-sourced these purchases. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs of \$19,305 are reported.

For item # 2, we noted two price quotations from local vendors for the purchase of a complete solar system, however, the actual expenditure related to the purchase of solar batteries, which was awarded to another vendor. Accordingly, RepMar appears to have sole-sourced these purchases. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs of \$15,685 are reported.

For item #s 3, 4, 5, 6, 7 and 10, no evidence of obtaining price quotations from an adequate number of vendors were noted on file for the purchase of Duplo Digital Duplicators and related equipment. Rather, the procurement process was supported by a letter from the vendor, dated June 20, 2005, stating that the vendor is the exclusive, sole source and distributor for Duplo Products in Marshall Islands (all areas)". Accordingly, RepMar appears to have sole-sourced these purchases without mention of brand name equivalency. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs of \$77,130 are reported.

For item # 8, no evidence that competitive bid procedures occurred were noted on file for the purchase of a wheelchair accessible van for the Special Education program. Instead, the procurement process was limited to price quotations from three local vendors (equivalent to small purchases procedures); however, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding, as required by Section 127. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the purchase price, questioned costs of \$29,450 are reported.

For item # 9, no evidence of obtaining price quotations from an adequate number of vendors were noted on file for the purchase of return airfare from Majuro to Washington D.C. for the Program Director to attend the Special Education National Conference. Rather, the procurement process was supported by a fare quotation from one airline. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination. Accordingly, RepMar appears to have sole-sourced this purchase. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs of \$3,002 are reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-7, Continued

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

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

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance's Procurement and Supply Division will insure proper and adequate documentations not only for Small Purchases requiring three vendor price quotations but any procurement engagement requiring competitive seal biddings as stipulated under the RMI Procurement Code and applicable Federal Regulations.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-8

Procurement and Suspension and Debarment

U.S. Department of Health and Human Services - CFDA # 93.283

CDC - Investigation and Technical Assistance

Questioned Costs: \$42,094

Criteria: Section 92.36 of 45 CFR 92, *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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$822,841 in non-payroll expenditures of the CDC – Investigation and Technical Assistance program, twenty-eight non-payroll expenditures, totaling \$682,361, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	P1315701	31148	Training and staff development	\$ 31,834
2	P1131801	33528	Other charges and expenses	\$ 10,260
3	N/A	37823	International travel	\$ 7,108

For item # 1, the Ministry of Health entered into an MOU with a non-profit organization to provide technical assistance to improve capacity to prepare for and to respond to bioterrorism events. The vendor was selected based on sole-source procedures. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs of \$31,834 are reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-8, Continued

For item # 2, no evidence of obtaining price quotations from an adequate number of vendors were noted on file for the purchase of broadband radio antennas for outer island health centers. Rather, the procurement process indicated that "the vendor was the sole vendor on island that deals with this type of antenna made in Japan and we were unable to obtain quotations from other vendors on island". Accordingly, RepMar appears to have sole-sourced these purchases. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs of \$10,260 are reported.

For item # 3, no evidence of obtaining price quotations from an adequate number of vendors was note on file for the purchase of airfare from Majuro to Noumea via Narita. The airfare was selected based on sole-source procedures. No supporting documentation was noted to indicate the sole-source procurement basis, as required by Section 128. As documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, noncompliance with procurement standards is reported as this amount is reported as questioned costs at Finding No. 2006-4.

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

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

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

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance's Procurement and Supply Division will ensure that all incoming Purchase Requisitions (PR) are properly screened and reviewed to ensure that the history of procurement is documented. In addition, before issuing any payment the Accounts Payable Supervisor will make sure that all supporting documents are properly attached to the check voucher.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-9

Equipment and Real Property Management - All Federal Programs

Questioned Costs: \$0

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

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

Condition: No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in the financial statements.

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

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

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

Prior Year Status: Lack of a complete fixed assets listing was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2005.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance has already conducted a nationwide physical inventory count of all government assets worth \$50,000.00 and above. Our corrective action plan will involve designating a property coordinator within each line ministry and/or agency to take full responsibility of monitoring and maintaining a complete record of all the assets of that ministry or agency. It is our hope that by September 30, 2007 the fixed asset issue will be resolved.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-10

Subrecipient Monitoring

U.S. Department of the Interior - CFDA # 15.875

Compact of Free Association, Section 177, Section 211(a) Capital Account

U.S. Department of Health and Human Services - CFDA # 93.600

Headstart Program

Questioned Costs: \$0

Criteria: OMB's "Questions and Answers on the Single Audit provisions of OMB Circular A-128", question number twenty-three states that prime recipients of federal funding are expected to establish a system to assure that audits of subrecipients meet the requirements of Circular A-128 and such a system should include a desk review of each subrecipient report to ensure it conforms to A-128.

Condition: The following subrecipients have not yet been released for the noted fiscal years.

Enewetak/Ujelang Local Government: 1992 and 2000 - 2005

Kili/Bikini Local Government: 2001 - 2005

Kwajalein Atoll Development Authority: 2003

Kwajalein Atoll Joint Utilities Resources, Inc.: 2005

Marshall Islands Development Bank: 2005

Ministry of Education Head Start Program: 2002 - 2005

Rongelap Atoll Local Government: 1991, 1992, 2003 - 2005

Utrik Atoll Local Government: 1992, 1994, 2003 - 2005

Due to the unavailability of these reports, the questioned costs relating to this condition cannot presently be determined.

Cause: The cause of the above condition is the lack of timely resolution of questioned costs by RepMar as the primary recipient of the funding.

Effect: The effect of the above condition is the possibility of disallowed costs.

Recommendation: We recommend that RepMar establish procedures to ensure timely follow-up of questioned costs of sub-recipients.

Prior Year Status: Monitoring of subrecipients was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2005.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. Our corrective action plan will involve the Ministry of Finance through Jefferson Barton, the Secretary of Finance and the Chairman of the Audit Resolutions Committee, to regularly meet with the and sub recipients to develop procedures in monitoring and addressing the sub recipients' questioned costs. Our anticipated completion date or our corrective action plan is on September 30, 2007.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs Year Ended September 30, 2006

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, 2006:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported:			
Fiscal year 2003 Single Audit	\$ 738,127	\$ 4,286,694	\$ 5,024,821
Fiscal year 2004 Single Audit	1,128,841	3,514,381	4,643,222
Fiscal year 2005 Single Audit	<u>1,026,150</u>	<u>-</u>	<u>1,026,150</u>
	2,893,118	7,801,075	10,694,193
Less questioned costs resolved in fiscal year 2006:			
Questioned costs of fiscal year 2003 Single Audit (1)	(738,127)	(4,286,694)	(5,024,821)
Questioned costs of fiscal year 2005 Single Audit (2)	<u>(342,660)</u>	<u>-</u>	<u>(342,660)</u>
	1,812,331	3,514,381	5,326,712
Questioned costs of fiscal year 2006 Single Audit	<u>408,451</u>	<u>-</u>	<u>408,451</u>
Unresolved questioned costs of RepMar at September 30, 2006	<u>\$ 2,220,782</u>	<u>\$ 3,514,381</u>	<u>\$ 5,735,163</u>

(1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on July 12, 2004, which is in excess of the two year threshold.

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

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 14 through 31).