

REPUBLIC OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004

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

His Excellency Kessai Note
President
Republic of the Marshall Islands:

We have audited the financial statements of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2004, and have issued our report thereon dated June 10, 2005, which report was qualified due to the inability to determine the propriety of governmental activities capital assets, net assets invested in capital assets, net of related debt, and depreciation expense; and the inability of the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Ministry of Health Health Fund, the Ministry of Education Head Start Program, the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, the Marshall Islands Visitors Authority, and the RMI Environmental Protection Authority 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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect RepMar's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 15 through 38) as items 2004-1, 2004-2 and 2004-12.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-2 and 2004-12 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of RepMar in a separate letter dated June 10, 2005.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-3 through 2004-14. We also noted certain immaterial instances of noncompliance, which we have reported to management of RepMar in a separate letter dated June 10, 2005.

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.

Deloitte + Touche LLP

June 10, 2005

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

His Excellency Kessai Note
President
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. 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 15 through 38). 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 2004-6 through 2004-14 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, subrecipient monitoring, and special tests and provisions of the Compact of Free Association, As Amended, 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, 2004.

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 2004-6 through 2004-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-6, 2004-8, and 2004-10 through 2004-13 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of RepMar as of and for the year ended September 30, 2004, and have issued our report thereon dated June 10, 2005, which report was qualified due to the inability to determine the propriety of governmental activities capital assets, net assets invested in capital assets, net of related debt, and depreciation expense; and the inability of the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Ministry of Health Health Fund, the Ministry of Education Head Start Program, the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, the Marshall Islands Visitors Authority, and the RMI Environmental Protection Authority to produce audited financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had the expenditures pertaining to the U.S. Department of Health and Human Services Head Start Program been included, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Deloitte + Touche LLP

June 10, 2005

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2004

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.027	IDEA Special Education - Grants to States	\$ 1,596,421
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, Public Law 99-239: Section 211(a)/217 Capital Account	1,154,183
		Compact of Free Association, As Amended, Public Law 99-239: Section 211(a)(1) Education Sector	9,984,656
		Section 211(a)(2) Health Sector	6,750,018
		Section 211(a)(3) Private Sector Development	331,513
		Section 211(d)(1) Public Infrastructure Sector	2,451,347
		Section 212 Kwajalein Impact and Use	<u>11,148,214</u>
		Total CFDA #15.875	<u>31,819,931</u>
		Total program expenditures tested	\$ <u>33,416,352</u>
		Total federal program expenditures	\$ 46,938,181
		Less: Section 216 Trust Fund transferred to the Intergenerational Trust Fund	<u>(7,000,000)</u>
			\$ <u>39,938,181</u>
		% of total federal program expenditures tested	<u>84%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
 General Fund and Reimbursable Fund
 Year Ended September 30, 2004

CFDA#	Agency/Program	Accrued (Deferred) Balance at October 1, 2003	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2004
	<u>U.S. Department of Commerce:</u>				
11.460	Weather Observation Services	\$ 316,140	\$ 439,090	\$ 290,672	\$ 167,722
	Total U.S. Department of Commerce	<u>\$ 316,140</u>	<u>\$ 439,090</u>	<u>\$ 290,672</u>	<u>\$ 167,722</u>
	TOTAL GENERAL FUND AND REIMBURSABLE FUND	<u>\$ 316,140</u>	<u>\$ 439,090</u>	<u>\$ 290,672</u>	<u>\$ 167,722</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, 2004

CFDA#	Agency/Program	Accrued (Deferred) Balance at October 1, 2003	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2004
<u>U.S. Department of Agriculture:</u>					
10.567	Food Donations Appropriations	\$ (26,248)	\$ (26,248)	\$ 17,245	\$ 17,245
10.664	Cooperative Forestry Assistance	5,345	5,345	-	-
10.766	Community Facilities Grant	-	68,004	61,738	(6,266)
	Total U.S. Department of Agriculture	\$ (20,903)	\$ 47,101	\$ 78,983	\$ 10,979
<u>U.S. Department of the Interior:</u>					
15.875	Audit Training Grant	\$ -	\$ 11,484	\$ 11,484	\$ -
15.875	CMI Gugeegue Training	-	20,000	20,000	-
15.875	Economic Policy, Planning and Statistics Office (EPPSO)	31,639	31,639	8,851	8,851
15.875	Environmental Standards and Archeological Preservation	(3,161)	(3,161)	-	-
15.875	EPA Environmental Standards Conference	(82,220)	(79,688)	10,128	7,596
15.875	Feasibility of Fiber Optic Cable for RMI and FSM	(2)	-	36,000	35,998
15.875	Financial Management Information System (FMIS) 2003	100,000	100,000	-	-
15.875	FMIP Interns	37,368	35,929	57,586	59,025
15.875	FMIS Project Manager	-	8,192	7,260	(932)
15.875	Infrastructure Data Development	-	65,903	50,455	(15,448)
15.875	Infrastructure Development and Maintenance Plan	35,938	35,938	-	-
15.875	Internship Project	(12,581)	-	12,581	-
15.875	Land Survey Registration	18,598	14,663	22,074	26,009
15.875	Local Council Training	150	150	-	-
15.875	MTBIF/Performance Budgeting	-	-	258,946	258,946
15.875	OMIP - CMI Vocational Training	(7,161)	(7,161)	-	-
15.875	OMIP - Facilities Engineering	(27,750)	(27,750)	-	-
15.875	OMIP - Kwajalein Atoll Port Authority Dock Maintenance	9,990	9,990	-	-
15.875	OMIP - MOE Procurement	499	(2,063)	5,725	8,287
15.875	OMIP - Solid Waste Management Training and Assessment	24,464	24,464	-	-
15.875	OMIP - Solid Waste Management Training and Assessment	2,347	2,347	-	-
15.875	OMIP - Solid Waste Reduction	-	-	64,028	64,028
15.875	PIRAAP - Ailuk Atoll	13,500	13,500	-	-
15.875	PIRAAP - Waan Aelon in Majol	-	-	13,270	13,270
15.875	PREL Travel Grant	-	4,200	4,200	-
15.875	Project Manager - FMIP	27,950	27,950	49,668	49,668
15.875	RMI Passport Personalization System Upgrade	30,794	30,794	-	-
15.875	Single Audit FY99	12,259	-	-	12,259
15.875	Single Audit FY00	55,020	-	-	55,020
15.875	Single Audit FY01	(15,448)	(15,448)	-	-
15.875	Single Audit FY02	54,400	-	52,200	106,600
15.875	Single Audit FY03	-	174,492	280,355	105,863
15.875	Travel costs for OMIP Buddy System Training Program	14,297	14,297	-	-
15.875	Utrik Atoll Local Government Fiscal Management Improvement	73,000	73,000	-	-
15.875	Youth to Youth in Health	-	21,000	12,500	(8,500)
	Sub-total CFDA # 15.875	393,890	584,661	977,311	786,540
15.904	National Park Service - Historic Preservation Fund	52,962	(244,711)	118,557	416,230
	Total U.S. Department of the Interior	\$ 446,852	\$ 339,950	\$ 1,095,868	\$ 1,202,770

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, 2004

CFDA#	Agency/Program	Accrued (Deferred) Balance at October 1, 2003	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2004
<u>U.S. Department of Labor:</u>					
17.249	School to Work Territorial Development	\$ (28,882)	\$ (28,882)	\$ -	\$ -
17.250	Pacific Regional WIA Services Project	(7,477)	772,438	829,735	49,820
	Total U.S. Department of Labor	\$ (36,359)	\$ 743,556	\$ 829,735	\$ 49,820
<u>Institute of Museum and Library Services:</u>					
45.310	Library Services and Technology Act (LSTA) Grant	\$ 18,354	\$ 18,354	\$ -	\$ -
	Total Institute of Museum and Library Services	\$ 18,354	\$ 18,354	\$ -	\$ -
<u>U.S. Small Business Administration:</u>					
59.005	Small Business Development Grant	\$ 9,523	\$ 11,958	\$ 6,011	\$ 3,576
	Total U.S. Small Business Administration	\$ 9,523	\$ 11,958	\$ 6,011	\$ 3,576
<u>Federal Emergency Management Agency:</u>					
83.505	Hazard Mitigation Grant Program	\$ 148,377	\$ 169,331	\$ 8,977	\$ (11,977)
83.552	Emergency Management Preparedness Grant	30,077	30,077	-	-
	Total Federal Emergency Management Agency	\$ 178,454	\$ 199,408	\$ 8,977	\$ (11,977)
<u>U.S. Department of Education:</u>					
84.027	IDEA Special Education - Grants to States	\$ (97,417)	\$ 1,336,075	\$ 1,596,421	\$ 162,929
84.048	Pacific Vocational Education Improvement Project	54,116	30,152	78,873	102,837
84.194	Bilingual Education Support Services	103,881	112,303	8,422	-
84.256	Territories Freely Associated with State Education Grants	(25,702)	288,946	235,738	(78,910)
84.276	Goals 2000 - State and Local Education Systemic Improvement	35,371	128,406	13,427	(79,608)
84.287	21st Century Community Learning Centers	15,697	1,030,503	839,622	(175,184)
84.326	IDEA Special Education - TA and Dissemination	(13,638)	39,496	32,426	(20,708)
84.336	Teacher Quality Enhancement Grant	-	710,001	645,794	(64,207)
84.346	Career Resource Network State Grant	(31,767)	-	-	(31,767)
	Total U.S. Department of Education	\$ 40,541	\$ 3,675,882	\$ 3,450,723	\$ (184,618)
<u>U.S. Department of Health and Human Services:</u>					
93.110	MCH Services Community Based Health Education and Systems Development Initiative	\$ 13,581	\$ 103,870	\$ 97,067	\$ 6,778
93.116	Tuberculosis Elimination and Laboratory	11,493	41,376	31,267	1,384
93.136	Rape Prevention and Education	3,521	14,799	11,278	-
93.163	Pacific Basin Initiative	161,094	457,337	294,061	(2,182)
93.217	Title X Family Planning Services Program	73,590	183,898	125,937	15,629
93.230	Mental Health Data Infrastructure Grant	4,438	30,355	26,141	224
93.268	Immunization and Vaccines for Children Grants	51,280	239,592	194,497	6,185
93.283	Public Health Preparedness and Response for Bioterrorism	(93,687)	84,731	108,323	(70,095)
93.917	HIV Care Grant	(51,046)	(51,046)	-	-
93.938	School Health Program to Prevent Serious Health Problems	204,242	233,383	44,619	15,478
93.940	HIV Prevention Project	7,191	102,507	96,333	1,017
93.958	Block Grant for Community Mental Health Services	(40,139)	12,873	18,826	(34,186)
93.959	SAPT Block Grant	-	495,193	287,062	(208,131)
93.977	Comprehensive STD Prevention Systems (CSPS)	46,181	101,951	98,872	43,102
93.988	State-Based Diabetes Program	19,574	90,460	82,803	11,917
93.991	Preventive Health Services	(2,544)	47,284	31,428	(18,400)
93.994	MCHS Title V Block Grant	(119,025)	103,441	298,692	76,226
	Total U.S. Department of Health and Human Services	\$ 289,744	\$ 2,292,004	\$ 1,847,206	\$ (155,054)
	TOTAL U.S. FEDERAL GRANTS FUND	\$ 926,206	\$ 7,328,213	\$ 7,317,503	\$ 915,496

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
 Year Ended September 30, 2004

CFDA#	Agency/Program	Prior Year Funds Carried Over October 1, 2003	Federal Cash Receipts and Adjustments	Federal Expenditures	Available Funds September 30, 2004
U.S. Department of the Interior:					
15.875	Section 177 - Four Atoll Medical Fund	\$ 547,814	\$ -	\$ -	\$ 547,814
15.875	Section 177 - Nuclear Claims Tribunal	650,146	-	-	650,146
15.875	Section 215(a)(1) Communications	819,180	-	615	818,565
15.875	Section 216(a)(1) Surveillance and Enforcement	690	-	-	690
15.875	Section 216(a)(3) Scholarship	1,593	-	-	1,593
15.875	Section 221(b) Health and Education	(7,084)	2,804	-	(4,280)
15.875	Section 111(d) Investment Development	472,253	-	-	472,253
15.875	Section 211(a)/217 Capital Account	1,604,459	-	1,154,183	450,276
15.875	Section 211(a) Current Account and 231/232 MOURA				
	Extension - Kwajalein Landowners	920,708	-	45,485	875,223
	Total U.S. Department of the Interior	\$ 5,009,759	\$ 2,804	\$ 1,200,283	\$ 3,812,280

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
 Year Ended September 30, 2004

CFDA#	Agency/Program	Accrued (Deferred)			Accrued (Deferred)																																					
		Balance at October 1, 2003	Federal Cash Receipts and Adjustments	Federal Expenditures	Balance at September 30, 2004																																					
<u>U.S. Department of the Interior:</u>																																										
15.875	Section 211(a)(1) Education Sector	\$ -	\$ 9,853,195	\$ 9,984,656	\$ 131,461																																					
15.875	Section 211(a)(2) Health Sector	-	6,319,907	6,750,018	430,111																																					
15.875	Section 211(a)(3) Private Sector Development	-	326,896	331,513	4,617																																					
15.875	Section 211(a)(5) Environment Sector	-	183,332	106,093	(77,239)																																					
15.875	Section 211(b)(1) Kwajalein Environment	-	183,332	220,244	36,912																																					
15.875	Section 211(d)(1) Public Infrastructure Development	-	2,471,982	2,451,347	(20,635)																																					
15.875	Section 216 Trust	-	7,000,000	7,000,000	-																																					
	Total U.S. Department of the Interior	\$ -	\$ 26,338,644	\$ 26,843,871	\$ 505,227																																					
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Prior Year Funds</th> <th rowspan="2">Available Funds September 30, 2004</th> </tr> <tr> <th>Carried Over October 1, 2003</th> <th>Federal Cash Receipts and Adjustments</th> <th>Local Expenditures</th> <th>Federal Expenditures</th> </tr> </thead> <tbody> <tr> <td colspan="6"><u>U.S. Department of the Interior:</u></td> </tr> <tr> <td>15.875</td> <td>Section 211(d)(2) Infrastructure Maintenance</td> <td>\$ -</td> <td>\$ 1,400,000</td> <td>\$ 137,639</td> <td>\$ 137,638</td> <td>\$ 1,124,723</td> </tr> <tr> <td>15.875</td> <td>Section 212 Kwajalein Impact and Use</td> <td>-</td> <td>15,005,701</td> <td>-</td> <td>11,148,214</td> <td>3,857,487</td> </tr> <tr> <td></td> <td>Total U.S. Department of the Interior</td> <td>\$ -</td> <td>\$ 16,405,701</td> <td>\$ 137,639</td> <td>\$ 11,285,852</td> <td>\$ 4,982,210</td> </tr> </tbody> </table>							Prior Year Funds				Available Funds September 30, 2004	Carried Over October 1, 2003	Federal Cash Receipts and Adjustments	Local Expenditures	Federal Expenditures	<u>U.S. Department of the Interior:</u>						15.875	Section 211(d)(2) Infrastructure Maintenance	\$ -	\$ 1,400,000	\$ 137,639	\$ 137,638	\$ 1,124,723	15.875	Section 212 Kwajalein Impact and Use	-	15,005,701	-	11,148,214	3,857,487		Total U.S. Department of the Interior	\$ -	\$ 16,405,701	\$ 137,639	\$ 11,285,852	\$ 4,982,210
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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, 2004

(1) Scope of Review

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

a. Programs Subject to Single Audit

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

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

b. Reporting Entity

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2004

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

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

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

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

c. Subgrantees

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

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2004 Amount of Pass-through</u>
<u>U.S. Department of Labor</u> <u>CFDA #17.259</u>		
Pacific Regional WIA Services Project	Republic of the Marshall Islands Private Industry Council, Inc.	\$ 829,735
<u>U.S. Department of Education</u> <u>CFDA #84.287</u>		
21 st Century Community Learning Centers	C.A.R.E. Program	\$ 839,622
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>		
Compact of Free Association Title II, Article I, Section 211	Air Marshall Islands, Inc.	\$ 900,000
Compact of Free Association, As Amended, Title II, Article I, Section 211(a)(1)	College of the Marshall Islands	\$ 1,540,874
Compact of Free Association, As Amended, Title II, Article I, Section 211(a)(1)	Marshall Islands Scholarship, Grant and Loan Board	\$ 856,938

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2004

(2) Summary of Significant Accounting Policies, Continued

d. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2004. RepMar did not charge federal programs for indirect costs during fiscal year 2004.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to the inability to determine the propriety of governmental activities capital assets, net assets invested in capital assets, net of related debt, and depreciation expense; and the inability of the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Ministry of Health Health Fund, the Ministry of Education Head Start Program, the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank, the Marshall Islands Visitors Authority, and the RMI Environmental Protection Authority 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:	
Section 211(a) Capital Account	15.875
Compact of Free Association, as amended:	
Section 211(a)(1) Education Sector	15.875
Section 211(a)(2) Health Sector	15.875
Section 211(a)(3) Private Sector Development	15.875
Section 211(d) Public Infrastructure Sector	15.875
Section 212 Kwajalein Impact and Use	15.875
IDEA Special Education - Grants to States	84.027

8. A threshold of \$1,408,145 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, 2004

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2004-1	Loans Payable	17
2004-2	External Financial Reporting	18
2004-3 - 5	RepMar Local Noncompliance	19 - 21
2004-12	Equipment and Real Property Management	36

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-6- 7	Allowable Costs/Cost Principles	\$ 6,528	22 - 25
2004-8 - 9	Procurement and Suspension and Debarment	\$ 1,115,458	26 - 31
2004-10	Period of Availability of Federal Funds	\$ -	32 - 33
2004-11	Subrecipient Monitoring	\$ 3,523,507	34 - 35
2004-12	Equipment and Real Property Management	\$ -	36
2004-13	Subrecipient Monitoring	\$ -	37
2004-14	Special Tests and Provisions of the Compact of Free Association	\$ -	38

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

Loans Payable

Finding No. 2004-1

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

Condition: As of September 30, 2004, RepMar recorded a loan payable (Loan A/c # 1) to the Bank of China in the amount of \$1,900,000; however, the Bank of China, in response to a confirmation request, indicated the amount payable by RepMar is \$2,060,202. The request included confirmation of two loans (Loan A/c # 1 and Loan A/c # 2) of \$2,000,000 and \$60,202, respectively. No explanation was available for the increase in loan balances of \$160,202. As the amount was not considered material to the financial statements, no audit adjustment was proposed. Furthermore, debt service relating to Loan A/c # 1 was due to commence on June 1, 2001; however, RepMar has not made any payments on this loan through September 30, 2004.

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

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

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

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

Prior Year Status: The lack of reconciliation of loans payable was reported as a finding in the Single Audit of RepMar for fiscal year 2003.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, presenting this issue to the Cabinet in order to determine if the loan payable is still considered a valid debt of RepMar. The anticipated completion date of our corrective action plan is October 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

External Financial Reporting

Finding No. 2004-2

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 2004:

Governmental Funds

Marshall Islands Scholarship, Grant and Loan Board
Health Care Revenue Fund
Ministry of Health Health Fund
Ministry of Education Head Start Program

Component Units

Kwajalein Atoll Joint Utilities Resources, Inc.
Marshall Islands Development Bank
Marshall Islands Visitors Authority
RMI Environmental Protection Authority

Instead, the Ministry of Finance included unaudited financial information for these entities in RepMar's financial statements for 2004.

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

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

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

Prior Year Status: The lack of including component units' in RepMar's financial statements was reported as a finding in the Single Audits of RepMar for fiscal years 1998 through 2003.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. As in the past, the Ministry of Finance continues to urge government agencies and component units to get their audits completed in a timely manner. There have been some improvements in this light as all of the mentioned entities are becoming more up to date with their audits. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, continuing to liaise with these entities in order to ensure that all of them are audited and included in RepMar's financial statements within the next two years. The anticipated completion date of our corrective action plan is October 2006.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

RepMar Local Noncompliance

Finding No. 2004-3

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

Condition: The Appropriations (Financial Year 2004) Act of 2004, as passed by the Nitijela of RepMar, provided appropriated amounts for fiscal year 2004 from the General Fund of \$30,795,861. No reconciliation of the Appropriations Act of 2004 to budget appropriations recorded in the DILOG accounting system was made available by the Ministry of Finance's Budget Office. This condition was resolved through alternative auditing procedures.

Furthermore, the following program areas recorded in the DILOG accounting system reported expenditures in excess of budget appropriations for the year ended September 30, 2004. The over-expenditures of government electricity billings and land leases result from proposed audit adjustments to correctly record 2004 expenditures:

<u>Program Area</u>	<u>Budgeted Expenditures</u>	<u>Budgetary Expenditures</u>	<u>Over-Expenditure</u>
Government Electricity Billings - Majuro	\$ 863,926	\$ 883,750	\$ 19,824
Government Electricity Billings - Ebeye	\$ 4,350	\$ 15,279	\$ 10,929
Land Leases	\$ 829,875	\$ 954,720	\$ 124,845
ADB Loan Repayment	\$ 1,286,883	\$ 1,568,974	\$ 282,091
Ministry of Transportation and Communication	\$ 2,343,997	\$ 2,354,243	\$ 10,246
Ministry of Foreign Affairs and Trade	\$ 2,860,395	\$ 2,869,112	\$ 8,717

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

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

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

Prior Year Status: The lack of compliance with Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 1977 was reported as a finding in the Single Audits of RepMar for fiscal years 2000 through 2003.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Ministry of Finance, with utmost efforts, shall continue strict adherence to Section 2 of the Over-expenditure and Over-obligation of Appropriated Funds Act of 1977. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, and the Assistant Secretary of Budgets, Mr. Smith Michael. The anticipated completion date of our corrective action plan is September 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

RepMar Local Noncompliance

Finding No. 2004-4

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

Condition: As of September 30, 2004, the General Fund of RepMar maintained bank deposits, totaling \$539,041, with the Marshall Islands Development Bank (MIDB), which is not a member of the FDIC or FSLIC. Furthermore, the Intergenerational Trust Fund maintained bank deposits, totaling \$7,000,000 with MIDB. No advice from the Banking Commissioner was sought in order to determine whether MIDB owned sufficient assets to cover the total amount of the deposits.

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

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

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

Prior Year Status: The lack of compliance with Section 2(a) of the General Fund Investment Act of 1979 was reported as a finding in the Single Audits of RepMar for fiscal years 2000 through 2003.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. The Banking Commissioner's advice was previously sought in regard to the deposits held with the Marshall Islands Development Bank (MIDB). However, since MIDB does not fall under the jurisdiction of the Banking Commission, no recommendation was provided in this regard. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, seeking the assistance of the Banking Commissioner and the Cabinet to determine the security of our deposits with MIDB. The anticipated completion date of our corrective action plan is September 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

RepMar Local Noncompliance

Finding No. 2004-5

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

Condition: As of September 30, 2004, two cash accounts are maintained outside of RepMar's treasury for the C.A.R.E Program and the Head Start Program (both under the Ministry of Education), for which no enabling legislation is apparent authorizing their establishment. The creation of the Head Start Program account was based on a Cabinet authorization whereas the creation of the C.A.R.E Program account was based on a Memorandum of Understanding between the Ministry of Finance and the Ministry of Education.

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

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

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

Prior Year Status: Cash accounts maintained outside of RepMar's treasury was reported as a finding in the Single Audits of RepMar for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Both Head Start and C.A.R.E. programs will be dissolved upon the approval of the Supplemental Education Grants (SEG) under the Compact of Free Association, as amended. Thus, the two cash accounts maintained outside of RepMar's treasury will be closed as well. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, ensuring that the respective bank accounts are closed. The anticipated completion date of our corrective action plan is September 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/ Cost Principles

Finding No. 2004-6

Program	Reason for Questioned Costs	Questioned Costs																									
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(1) Education Sector / CFDA # 15.875	<p><u>Criteria:</u> Article VI, Section 1(a)(2)(v) of the Fiscal Procedures Agreement (FPA) states that applicable cost principles and Grant terms shall be followed in determining the reasonableness and allowability of costs. Specifically, expenditures incurred under the Compact of Free Association should be in accordance with allowable costs and should be directly related to and in accordance with Compact intent and objectives.</p> <p><u>Condition:</u></p>																										
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(2) Health Sector / CFDA # 15.875	<p>Section 211(a)(1) Education Sector Grant:</p> <p>Of \$6,094,000 in payroll expenditures of the Education Sector Fund (Fund 410100), thirty-nine payroll expenditures, totaling \$32,587, were tested. We noted one instance where the employee (employee # 89849) earned 320 hours for the pay periods ended 7/24/04, 8/07/04, 8/21/04 and 9/04/04; however, the employee was paid for 328 hours. No explanation was provided for the over-payment of 8 hours. The employee's authorized hourly rate was \$8.65, which resulted in an overpayment of \$69.</p>																										
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(d) Public Infrastructure Sector / CFDA # 15.875	<p>Accordingly, the error has been extrapolated to determine a potential questioned cost which exceeds the \$10,000 threshold.</p> <p>Section 211(a)(2) Health Sector Grant:</p>	\$ 69																									
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(d) Infrastructure Maintenance Fund / CFDA # 15.875	<p>Of \$1,989,889 in non-payroll expenditures of the Health Sector Fund (Fund 410110), forty-seven non-payroll expenditures, totaling \$586,259, were tested. The following expenditures do not appear to be allowable costs that are directly related to and in accordance with program objectives:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Fund</th> <th style="text-align: center;">PO #</th> <th style="text-align: center;">Vendor #</th> <th style="text-align: center;">Voucher #</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>410110</td> <td>C0011501</td> <td>501328</td> <td>001650</td> <td style="text-align: right;">\$ 1,800</td> </tr> <tr> <td>410110</td> <td>C0011601</td> <td>501328</td> <td>001650</td> <td style="text-align: right;">\$ 1,800</td> </tr> <tr> <td>410110</td> <td>C0011701</td> <td>501328</td> <td>001650</td> <td style="text-align: right;">\$ 1,800</td> </tr> <tr> <td>410110</td> <td>C0011801</td> <td>501328</td> <td>001650</td> <td style="text-align: right;">\$ 1,800</td> </tr> </tbody> </table>	Fund	PO #	Vendor #	Voucher #	Amount	410110	C0011501	501328	001650	\$ 1,800	410110	C0011601	501328	001650	\$ 1,800	410110	C0011701	501328	001650	\$ 1,800	410110	C0011801	501328	001650	\$ 1,800	
Fund	PO #	Vendor #	Voucher #	Amount																							
410110	C0011501	501328	001650	\$ 1,800																							
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410110	C0011701	501328	001650	\$ 1,800																							
410110	C0011801	501328	001650	\$ 1,800																							
	<p>The above expenditures relate to lease rental payments for the quarter ended December 31, 2003. The vendor was initially paid on check # 9718, for which a stop-payment order was subsequently issued, and a replacement check was issued (check # 9898) to the vendor. The Ministry of Finance issued check # 10454, which also replaced check # 9718, resulting in the expenditures being recorded twice and the vendor being double paid.</p> <p>The Ministry of Finance subsequently transferred these expenditures to RepMar's General Fund. Accordingly, no questioned costs have been reported.</p>																										

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Allowable Costs/ Cost Principles

Finding No. 2004-6, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Condition, Continued:</u></p> <p>Section 211(d) Public Infrastructure Sector Grant:</p> <p>Of \$2,451,347 in non-payroll expenditures of the Public Infrastructure Sector Fund (Fund 510100), sixteen non-payroll expenditures, totaling \$2,451,347, were tested. The project planning, engineering and design costs associated with a Service Agreement, dated February 27, 2004, with a consulting firm for the implementation of the Infrastructure Development and Maintenance Plan were based on pre-determined amounts of \$159,061 per month. Total costs incurred under this service agreement and charged to Fund 510100 during the year ended September 30, 2004 amounted to \$1,259,623. RepMar allocated these costs as a percentage of the individual project budget amount over the approved overall budget amount for construction projects for fiscal year 2004. No mechanism was established by RepMar to ensure that the consulting firm had performed project planning, engineering and design for the particular projects to which costs had been allocated. In addition, RepMar recorded non-payroll expenditures of \$275,277 to the Infrastructure Maintenance Fund (Fund 510110), which included costs of \$138,072 under this service agreement.</p> <p>No questioned costs have been reported as the Ministry of Finance provided correspondence, dated March 4, 2005, from the Acting Director of the Budget and Grants Management Division, United States Department of the Interior that concurred with RepMar's methodology and criteria in allocating payments to the consulting firm over individual projects for fiscal year 2004 and 2005.</p> <p><u>Cause:</u></p> <p>Section 211(a)(1) Education Sector Grant:</p> <p>The cause of the above condition is the lack of adequate internal control policies and procedures over the review and approval of hours earned by employees.</p> <p>Section 211(a)(2) Health Sector Grant:</p> <p>The cause of the above condition is the lack of adequate internal control policies and procedures to ensure double payments are not made to vendors.</p> <p>Section 211(d) Public Infrastructure Sector Grant:</p> <p>The cause of the above condition is the lack of adequate internal control policies and procedures to ensure payments made to the consulting firm were for services performed.</p> <p><u>Effect:</u> The effect of the above condition is unallowable costs incurred that do not follow the intent of the Compact.</p>	

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Allowable Costs/ Cost Principles

Finding No. 2004-6, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Recommendation:</u> We recommend RepMar comply with allowable cost principles for expenditures incurred under the Compact.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 17, 2005, the Ministry of Finance provided the following response.</p> <p>We agree with the Section 211(a)(1) Education Sector finding and recommendation. The Payroll Department within the Ministry of Finance performs a review of hours earned by employees prior to input into the payroll system. On the other hand, approval of hours worked is performed at the Ministry/Agency level. In this particular case, overpayment by 8 hours occurred due to input error. Instead of 312 hours to allow for one day holiday that the payroll system automatically calculates, 320 hours was entered.</p> <p>Our corrective action plan will involve the Ministry of Finance through the Assistant Secretary of Finance, Ms. Ann Marie Muller, and ensuring collection of the overpayment to be credited to the account charged. Furthermore, she will also ensure strict implementation of the review of hours entered into the payroll system prior to payroll processing. The anticipated completion date of our corrective action plan is July 2005.</p> <p>We agree with the Section 211(a)(2) Health Sector finding and recommendation. Note however, that policies and procedures regarding payments to vendors are present.</p> <p>Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, establishing guidelines that will specifically cover cancellation and replacements of checks. The anticipated completion date of our corrective action plan is August 2005.</p> <p>We do not agree with the Section 211(d) Public Infrastructure Sector finding and recommendation. As noted in the audit condition, the U.S. Department of the Interior has approved RepMar's project allocation methodology for contractor payments for both FY 2004 and FY 2005 as this was the most efficient way to allocate the payment for contractor services. Projects submitted by RepMar for public infrastructure under the FY 2006 budget consideration will include separate grant proposal for project management activities. Hence, no allocation will be necessary. Furthermore, the Minister of Public Works receives monthly progress reports from the contractor on its planning, engineering and design activities. Detailed plans and designs are also reviewed by staff within the Ministry of Public Works. In FY 2005, full-time RepMar employees have been hired to work with the contractor's staff thereby reinsuring adequate oversight of the project management contract. Hence, we believe corrective action is not required.</p> <p><u>Auditor's Response:</u> Although the methodology and criteria for allocating payments to the consulting firm over individual projects has been approved, we recommend that RepMar establish policies and procedures to ensure that the consulting firm has actually performed project planning, engineering and design for the particular projects to which costs had been allocated.</p>	

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Allowable Costs/Cost Principles

Finding No. 2004-7

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / IDEA Special Education - Grants to States / CFDA # 84.027 (PR/Award Number H027B990003)	<p><u>Criteria:</u> Expenditures incurred under federal programs should be in accordance with allowable costs and should be directly related to and in accordance with program intent and objectives.</p> <p><u>Condition:</u> Of \$690,445 in non-payroll expenditures of the IDEA Special Education - Grants to States program, fifty-two non-payroll expenditures, totaling \$286,872, were tested. We noted one item relating to a payment on check # 11565 in the amount of \$6,459 for storage charges for furniture donated and shipped from Hawaii. The container was stored at the Port of Majuro for 166 days, which appears to be an excessive time period. This amount does not appear to be a reasonable and necessary cost that meets the overall needs of the program.</p> <p>Accordingly, this exception has been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.</p> <p><u>Cause:</u> The cause of the above condition is the lack of an available budget allotment to pay for the stevedoring charges at the time the shipment arrived.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with allowable costs/cost principles as required by the Common Rule.</p> <p><u>Recommendation:</u> We recommend that costs incurred under federal programs be in accordance with allowable costs per the program grant award and that such be necessary and in accordance with program intent.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 17, 2005, the Ministry of Finance provided the following response.</p> <p>We do not agree with the finding and recommendation. In regard to payment of check # 11565, it was more economical for the program to accept the donated furniture and pay for storage fees than acquiring new ones. Thus, the savings was for the benefit of the Special Education program. Hence, we believe corrective action is not required.</p> <p><u>Auditor's Response:</u> The time span over which the container remained at the Port of Majuro (166 days) appears to be excessive and hence the cost of storage charges for the 166 days does not appear to be a reasonable and necessary cost that meets the overall needs of the program.</p>	\$ 6,459

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-8

Program	Reason for Questioned Costs	Questioned Costs															
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(1) Education Sector / CFDA # 15.875	<p><u>Criteria:</u> Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the FPA.</p> <p>Section 24 of the RepMar Procurement Code states that, unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.</p>																
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(2) Health Sector / CFDA # 15.875	<p>Section 27 of the RepMar Procurement Code states that 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.</p>																
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(3) Private Sector / CFDA # 15.875	<p>Section 28 of the RepMar Procurement Code states that 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.</p> <p><u>Condition:</u></p>																
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(d) Public Infrastructure Sector / CFDA # 15.875	<p>Section 211(a)(1) Education Sector Grant:</p> <p>Of \$3,882,167 in non-payroll expenditures of the Education Sector Fund (Fund 410100), forty-four non-payroll expenditures, totaling \$3,118,293, were tested. Supporting documentation was inadequate to evidence the procurement process for the following expenditures:</p>																
	<table border="1"> <thead> <tr> <th style="text-align: center;"><u>Fund</u></th> <th style="text-align: center;"><u>PO #</u></th> <th style="text-align: center;"><u>Vendor #</u></th> <th style="text-align: center;"><u>Voucher #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>410100</td> <td>M0015701</td> <td>501309</td> <td>003222</td> <td style="text-align: right;">\$ 21,359</td> </tr> <tr> <td>410100</td> <td>M0015701</td> <td>501309</td> <td>007111</td> <td style="text-align: right;">\$ 21,359</td> </tr> </tbody> </table>	<u>Fund</u>	<u>PO #</u>	<u>Vendor #</u>	<u>Voucher #</u>	<u>Amount</u>	410100	M0015701	501309	003222	\$ 21,359	410100	M0015701	501309	007111	\$ 21,359	\$ 42,718
<u>Fund</u>	<u>PO #</u>	<u>Vendor #</u>	<u>Voucher #</u>	<u>Amount</u>													
410100	M0015701	501309	003222	\$ 21,359													
410100	M0015701	501309	007111	\$ 21,359													
U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(d) Infrastructure Maintenance Fund / CFDA # 15.875	<p>These expenditures relate to a total contract amount of \$73,400. As this amount exceeds the small purchases threshold, competitive sealed bidding should have been performed. Supporting documentation indicated that competitive sealed bidding was not performed but rather price quotations were received from local vendors. although no price quotation was evident for the winning bidder. Furthermore, the procurement process was supported by a newspaper advertisement dated September 20, 2002 (with a response deadline of October 1, 2002) even though the period of service under the contract was January 2004 to June 2004.</p> <p>In addition, we noted two expenditures on PO #s P0332701 and P0412301 for \$17,500 and \$17,500, respectively, where two price quotations were obtained from local vendors. Justification as to the adequacy of obtaining two price quotations was based on correspondence received from the Acting Director of the Budget and Grants Management Division, United States Department of the Interior. However, RepMar did not solicit price quotations from any off-island vendors nor was the justification for not obtaining off-island quotations documented during the procurement process.</p>																

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-8, Continued

Program	Reason for Questioned Costs				Questioned Costs
<u>Condition, Continued:</u>					
Section 211(a)(2) Health Sector Grant:					
Of \$1,989,889 in non-payroll expenditures of the Health Sector Fund (Fund 410110), forty-seven non-payroll expenditures, totaling \$586,259, were tested. Supporting documentation for the sole-sourced procurement process was not available for the following expenditures:					
Fund	PO #	Vendor #	Voucher #	Amount	
410110	C0029401	502275	011502	\$ 8,293	
410110	T0247901	620001	017674	\$ 9,947	
410110	P0696701	400509	018604	\$ 6,625	
410110	P0678601	500000	018654	\$ 4,330	
410110	P0463301	503034	006224	\$ 9,175	
410110	K0699501	N/A	00006656	\$ 5,817	
410110	K0699201	N/A	00006656	\$ 9,721	
410110	K0699401	N/A	00006656	\$ 12,773	
410110	K0699301	N/A	00006656	\$ 11,595	
410110	P5954	480041	00006104	\$ 22,640	\$ 100,916

Furthermore, PO # P0463301 included the purchase of a duplicator machine (Model # DP-21L) with a unit cost of \$7,995. A similar purchase for the same model on PO # P0374101 indicated a purchase price of \$5,995.

In addition, supporting documentation was inadequate to evidence the procurement process for the following expenditures:

Fund	PO #	Vendor #	Voucher #	Amount	
410110	P0502301	3106	008120	\$ 11,291	
410110	P0438101	500879	005250	\$ 22,666	
410110	P0594001	500460	012485	\$ 6,500	
410110	K0661801	400095	00006489	\$ 11,138	\$ 51,595

For PO # P0502301, although it was documented that two quotations were obtained, no price quotation was available for the successful bidder. Further, the purchase requisition was dated prior to receipt of the price quotation from the second vendor. For PO # P0438101, small purchase procedures were performed wherein three price quotations were obtained; however, the total purchase price exceeded \$25,000. Further, the purchase requisition was dated prior to the receipt of the price quotation received from one of the unsuccessful bidders. For PO # 0594001, three price quotations were obtained; however, no price quotation was made available for the winning bidder. Further, the purchase was not supported by adequate documentation such as a vendor invoice. As this amount has been questioned above, no additional questioned cost need be reported. For PO # K0661801, three price quotations were obtained; however, the dates of the two price quotations from the unsuccessful bidders were over one year old.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-8, Continued

Program	Reason for Questioned Costs	Questioned Costs			
<u>Condition, Continued:</u>					
Section 211(a)(3) Private Sector Grant:					
<p>Of \$169,320 in non-payroll expenditures of the Private Sector Fund (Fund 410130), thirteen non-payroll expenditures, totaling \$158,776, were tested. We noted an expenditure on PO # P0435401 for \$16,650 where two price quotations were obtained from local vendors. Justification as to the adequacy of obtaining two price quotations was based on correspondence received from the Acting Director of the Budget and Grants Management Division, United States Department of the Interior. However, RepMar did not solicit price quotations from any off-island vendors nor was the justification for not obtaining off-island quotations documented during the procurement process.</p>					
Section 211(d) Public Infrastructure Sector Grant:					
<p>Of \$2,451,347 in non-payroll expenditures of the Public Infrastructure Sector Fund (Fund 510100), sixteen non-payroll expenditures, totaling \$2,451,347, were tested. Supporting documentation was inadequate to evidence the procurement process for the following expenditures:</p>					
<u>Fund</u>	<u>PO #</u>	<u>Vendor #</u>	<u>Voucher #</u>	<u>Amount</u>	
510100	M0112701	400952	015161	\$ 167,229	
510100	P0645401	401243	015758	\$ 55,000	
510100	P0654101	480041	017889	\$ 286,250	
510100	P0645401	401243	020635	\$ 55,000	
510100	P0650301	401424	019463	\$ 57,000	
510100	P0654101	480041	018870	\$ 286,250	
510100	P0645501	480041	019687	\$ 13,500	\$ 920,229

For the procurement of goods and services exceeding \$25,000, RepMar's Procurement Code requires contracts to be awarded by competitive sealed bidding, which entails the issuance of an Invitation to Bid, adequate public notice in a newspaper, and the establishment of a Bid Committee for the purposes of bid evaluation. The procurement process for the above expenditures replicated that of small purchase procedures. No adequate supporting documentation was made available indicating the reasoning for the use of small purchase procedures instead of competitive bidding procedures.

Supporting documentation was inadequate to evidence the procurement process for the Service Agreement, dated February 27, 2004, with a consulting firm (with a total contract price of \$3,706,408) for the implementation of the Infrastructure Development and Maintenance Plan. Total costs incurred under this service agreement and charged to Fund 510100 during the year ended September 30, 2004 amounted to \$1,259,623. In addition, RepMar recorded non-payroll expenditures of \$275,277 to the Infrastructure Maintenance Fund (Fund 510110), which included costs of \$138,072 under this service agreement.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-8, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Condition, Continued:</u></p> <p>Section 211(d) Public Infrastructure Sector Grant, Continued:</p> <p>No questioned costs have been reported as the Ministry of Finance provided correspondence, dated March 4, 2005, from the Acting Director of the Budget and Grants Management Division, United States Department of the Interior that concurred with RepMar's sole source procurement of the service agreement insofar that the award complies with RepMar's Procurement Code.</p> <p><u>Cause:</u> 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.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards as stipulated in the FPA.</p> <p><u>Recommendation:</u> 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.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 17, 2005, the Ministry of Finance provided the following response.</p> <p>We agree with the Section 211(a)(1) Education Sector Grant finding and recommendation. Our corrective action plan will involve the Ministry of Finance and the Ministry of Education through their respective Secretaries, Mr. Jefferson Barton and Ms. Biram Stege, ensuring compliance with the federal procurement requirements as stipulated in the Fiscal Procedures Agreement, and that the procurement process is properly and thoroughly documented. The anticipated completion date of our corrective action plan is September 2005.</p> <p>We do not agree with the Section 211(a)(2) Health Sector Grant finding and recommendation. The items in question are valid expenditures that were incurred to improve the services of Majuro and Ebeye Hospitals. RepMar and the Ministry of Health has developed a good customer/supplier relationship with the concerned vendors over the years that purchasing from them has become more advantageous in terms of discounts, delivery lead time, and quality and reliability of products and services. Hence, we believe corrective action is not required.</p>	

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-8, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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Auditee Response and Corrective Action Plan, Continued:

We do not agree with the Section 211(d) Public Infrastructure Sector Grant finding and recommendation. The questioned costs noted are valid expenditures that benefited the grant programs/projects. For PO# M00112701, the College of the Marshall Islands purchased computers through a request for bidding submitted by the College to all vendors located in the Marshall Islands who could supply computer and parts and for those off-island vendors who are known to have engaged in transactions (and had performed shipments) with establishments in the Marshall Islands. Although there was no public announcement that was made in the newspaper, the procedure used is similar and followed strictly through a Selection Committee (IT Committee) of the College of the Marshall Islands. The committee selected the vendor, which is a little bit higher compared to other companies because of the quality and the Brand it carries. For PO#s 645401, 654101 and 645501, the Ministry of Finance accepted the adequacy of purchases done through the small purchase procedures considering the justification from the Ministry of Health. Hence, we believe corrective action is not required.

For future acquisitions, however, tighter controls will be instituted and adequate documentation will be maintained to comply with the federal procurement requirements stipulated in the Fiscal Procedures Agreement.

With respect to the sole-source procurement of the Service Agreement with the consulting firm, given that the U.S. Department of the Interior has concurred with the procurement process, we believe corrective action is not required.

We do not agree with the Section 211(a)(3) Private Sector Grant finding and recommendation. The purchase of the vehicle was supported by price quotations from two (2) local vendors, which was deemed sufficient. We do not have to solicit from off-island vendors because the vehicles offered by the local vendors already met the requirements for the purposes of the grant program. Furthermore, giving business to local vendors that offers reasonable prices is also beneficial to the economy of the Marshall Islands and there are only two vendors on-island that sell brand new cars. Hence, we believe corrective action is not required.

Auditors' Response: We reiterate our recommendation that 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.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-9

Program	Reason for Questioned Costs	Questioned Costs												
U.S. Department of Education / IDEA Special Education - Grants to States / CFDA # 84.027 (PR/Award Number H027B990003)	<p><u>Criteria:</u> Section 80.36 of 34 CFR 80, <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i>, 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.</p> <p>Section 28 of RepMar's Procurement Code states that 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.</p> <p><u>Condition:</u> Of \$690,445 in non-payroll expenditures of the IDEA Special Education - Grants to States program, fifty-two non-payroll expenditures, totaling \$286,872, were tested. Supporting documentation for the sole-sourced procurement process was not available for the following expenditure:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Fund</u></th> <th style="text-align: center;"><u>PO #</u></th> <th style="text-align: center;"><u>Vendor #</u></th> <th style="text-align: center;"><u>Voucher #</u></th> <th style="text-align: center;"><u>Amount</u></th> <th></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">600350</td> <td style="text-align: center;">K6201</td> <td style="text-align: center;">503034</td> <td style="text-align: center;">00006156</td> <td style="text-align: right;">\$ 6,855</td> <td style="text-align: right;">\$ 6,855</td> </tr> </tbody> </table> <p><u>Cause:</u> 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.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards as required in the Common Rule.</p> <p><u>Recommendation:</u> We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as stipulated in 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.</p> <p><u>Prior Year Status:</u> The lack of compliance with procurement standards was reported as a finding in the Single Audits of RepMar for fiscal years 2000 through 2003.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 17, 2005, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. For future purchases, tighter controls will be instituted and adequate documentation will be maintained to ensure compliance to the federal procurement requirements as stipulated in the Common Rule. Our corrective action plan will involve the Ministry of Education through the Secretary of Education, Ms. Biram Stege. The anticipated date of completion of our corrective action plan is September 2005.</p>	<u>Fund</u>	<u>PO #</u>	<u>Vendor #</u>	<u>Voucher #</u>	<u>Amount</u>		600350	K6201	503034	00006156	\$ 6,855	\$ 6,855	\$ 6,855
<u>Fund</u>	<u>PO #</u>	<u>Vendor #</u>	<u>Voucher #</u>	<u>Amount</u>										
600350	K6201	503034	00006156	\$ 6,855	\$ 6,855									

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Period of Availability of Federal Funds

Finding No. 2004-10

Program	Reason for Questioned Costs	Questioned Costs																																			
<p>U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(1) Education Sector / CFDA # 15.875</p>	<p><u>Criteria:</u> 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.</p>																																				
<p>U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(2) Health Sector / CFDA # 15.875</p>	<p><u>Condition:</u> Section 211(a)(1) Education Sector Grant: Of \$3,882,167 in non-payroll expenditures of the Education Sector Fund (Fund 410100), thirty non-payroll expenditures, totaling \$1,161,355, were tested. The following expenditures were incurred outside of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Fund</th> <th style="text-align: center;">PO #</th> <th style="text-align: center;">Vendor #</th> <th style="text-align: center;">Voucher #</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>410100</td> <td>M0129401</td> <td>500029</td> <td>019271</td> <td>\$ 19,824</td> </tr> <tr> <td>410100</td> <td>K0625401</td> <td>600042</td> <td>00006161</td> <td>\$ 7,639</td> </tr> <tr> <td>410100</td> <td>K0625401</td> <td>600042</td> <td>00006161</td> <td>\$ 3,291</td> </tr> </tbody> </table>	Fund	PO #	Vendor #	Voucher #	Amount	410100	M0129401	500029	019271	\$ 19,824	410100	K0625401	600042	00006161	\$ 7,639	410100	K0625401	600042	00006161	\$ 3,291																
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<p>U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(a)(3) Private Sector / CFDA # 15.875</p>	<p>Section 211(a)(2) Health Sector Grant: Of \$1,989,889 in non-payroll expenditures of the Health Sector Fund (Fund 410110), forty-seven non-payroll expenditures, totaling \$586,259, were tested. The following expenditures were incurred outside of the funding period:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Fund</th> <th style="text-align: center;">PO #</th> <th style="text-align: center;">Vendor #</th> <th style="text-align: center;">Voucher #</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>410110</td> <td>P5954</td> <td>480041</td> <td>00006104</td> <td>\$ 22,640</td> </tr> <tr> <td>410110</td> <td>P0361501</td> <td>620001</td> <td>002330</td> <td>\$ 1,549</td> </tr> <tr> <td>410110</td> <td>P0361501</td> <td>620001</td> <td>002327</td> <td>\$ 2,200</td> </tr> <tr> <td>410110</td> <td>P0361501</td> <td>620001</td> <td>002329</td> <td>\$ 1,412</td> </tr> <tr> <td>410110</td> <td>P0355701</td> <td>620001</td> <td>011339</td> <td>\$ 1,549</td> </tr> <tr> <td>410110</td> <td>P0355701</td> <td>620001</td> <td>011338</td> <td>\$ 3,606</td> </tr> </tbody> </table>	Fund	PO #	Vendor #	Voucher #	Amount	410110	P5954	480041	00006104	\$ 22,640	410110	P0361501	620001	002330	\$ 1,549	410110	P0361501	620001	002327	\$ 2,200	410110	P0361501	620001	002329	\$ 1,412	410110	P0355701	620001	011339	\$ 1,549	410110	P0355701	620001	011338	\$ 3,606	
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<p>U.S. Department of the Interior/Compact of Free Association, As Amended - Section 211(d) Public Infrastructure Sector / CFDA # 15.875</p>	<p>The Ministry of Finance subsequently transferred these expenditures to RepMar's General Fund. Accordingly, no questioned cost has been reported.</p>																																				

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Period of Availability of Federal Funds

Finding No. 2004-10, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
As of September 30, 2004, Fund 410100, Fund 410110, the Private Sector Fund (Fund 410130) and the Public Infrastructure Sector Fund (Fund 510100) recorded encumbrances, totaling \$262,641, \$398,556, \$1,402 and \$14,200, respectively, of which encumbrance balances in the amount of \$213,211, \$305,936, \$900 and \$14,200, respectively, were tested. The following encumbrances remained unliquidated 90 days after the end of the funding period (December 31, 2004):						
Fund	PO #	PO Date	PO Amount	09/30/04 Unliquidated Balance	12/31/04 Unliquidated Balance	
410100	C0037601	09/07/04	\$ 100,000	\$ 39,891	\$ 33,044	
410100	P0692804	09/28/04	\$ 15,000	\$ 15,000	\$ 15,000	
410100	P0692803	09/28/04	\$ 15,323	\$ 15,323	\$ 15,323	
410100	P0692801	09/28/04	\$ 51,389	\$ 51,389	\$ 51,389	
410100	P0692802	09/28/04	\$ 260,997	\$ 87,678	\$ 87,678	
410100	P0692805	09/28/04	\$ 3,930	\$ 3,930	\$ 3,930	
410110	K0665601	06/30/04	\$ 23,100	\$ 23,100	\$ 23,100	
410110	P0479601	03/04/04	\$ 376,448	\$ 245,300	\$ 232,394	
410110	C0026501	03/08/04	\$ 7,000	\$ 7,000	\$ 7,000	
410110	M0028801	03/12/04	\$ 13,500	\$ 13,500	\$ 13,500	
410110	K0670401	07/08/04	\$ 9,900	\$ 9,900	\$ 9,900	
410110	K0690201	08/31/04	\$ 7,106	\$ 7,106	\$ 7,106	
410130	C0034601	08/26/04	\$ 5,700	\$ 900	\$ 900	
510100	P0645501	08/13/04	\$ 25,700	\$ 14,200	\$ 14,200	

The Ministry of Finance subsequently adjusted the September 30, 2004 encumbrance ledger and deobligated amounts relating to PO #s K0665601, P0479601 and M0028801.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the review of federal grants expenditures to ensure compliance with period of availability requirements.

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

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

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Our corrective action plan will involve the Ministry of Finance through the Assistant Secretary of Finance, Ms. Ann Marie Muller, ensuring that the review of open encumbrances is performed prior to the year-end. For the FY 2004 Grant, the closing date was extended to March 31, 2005 wherein all open encumbrances were liquidated and/or cancelled, as applicable. The anticipated completion date of our corrective action plan is September 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Subrecipient Monitoring

Finding No. 2004-11

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Compact of Free Association, Title I, Article VII, Section 177(c) / CFDA # 15.875	<u>Criteria:</u> OMB's "Questions and Answers on the Single Audit provisions of OMB Circular A-128", question number twenty-three states that prime recipients of federal funding are expected to establish a system to assure that audits of subrecipients meet the requirements of Circular A-128 and such a system should include a desk review of each subrecipient report to ensure it conforms to A-128.	
U.S. Department of the Interior / Compact of Free Association, Title II, Article I, Section 211 / CFDA # 15.875	<u>Condition:</u> The following questioned costs of subrecipients remain unresolved for more than six months after issuance of the audit reports. <u>Enewetak/Ujelang Local Government</u> Fiscal Years 1998 and 1999	\$ 2,804,980
U.S. Department of the Interior / Enewetak Food and Agricultural Support Program / CFDA # 15.875	<u>Utrik Atoll Local Government</u> Fiscal Year 2002	\$ 284,440
U.S. Department of Education / Federal Pell Grant Program / CFDA # 84.063	<u>Ministry of Education Head Start Program</u> Fiscal Years 2000 and 2001	\$ 373,812
U.S. Department of Health and Human Services / Head Start / CFDA # 93.600	<u>RMI Private Industry Council, Inc.</u> Fiscal Year 1999	\$ 41,360
U.S. Department of Labor / Job Training Partnership Act (JTPA Title II) / CFDA # 17.250	<u>College of the Marshall Islands</u> Fiscal Years 1998 and 2002	\$ 18,915
	Details of the above questioned costs are contained in the separately issued reports of the subrecipients. In addition, A-128/A-133 audits of the following subrecipients have not yet been released for the noted fiscal years. Enewetak/Ujelang Local Government: 1992 and 2000 - 2003 Kili/Bikini Local Government: 2001 - 2003 Kwajalein Atoll Development Authority: 2003 Ministry of Education Head Start Program: 2002 and 2003 Rongelap Atoll Local Government: 1991, 1992 and 2003 Utrik Atoll Local Government: 1992, 1994 and 2003 Due to the unavailability of these reports, the questioned costs relating to this condition cannot presently be determined.	

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Subrecipient Monitoring

Finding No. 2004-11, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Cause:</u> The cause of the above condition is the lack of timely resolution of questioned costs by RepMar as the primary recipient of the funding.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.</p> <p><u>Recommendation:</u> We recommend that RepMar establish procedures to ensure timely follow-up of questioned costs for subrecipients.</p> <p><u>Prior Year Status:</u> Monitoring of subrecipients was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2003.</p> <p><u>Auditee Response and Corrective Action Plan:</u> In a letter dated June 17, 2005, the Ministry of Finance provided the following response.</p> <p>We agree with the finding and recommendation. Our corrective action plan will involve the Ministry of Finance, through the Secretary of Finance, Mr. Jefferson Barton, developing procedures to improve monitoring and follow-up of subrecipients' questioned costs. The "Resolution of Audit Findings General Procedures and Policies Manual" was created and taken into effect on March 3, 2005. The manual includes guidelines for the resolution of findings with respect to subrecipients. The Secretary of Finance, being the "Audit Resolution Committee" chairman is the main contact person for this audit finding. The anticipated completion date of our corrective action plan is July 2005.</p>	

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Equipment and Real Property Management - All Federal Programs

Finding No. 2004-12

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

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

Condition: The Ministry of Finance has recorded certain fixed asset acquisitions for fiscal years 1999 through 2004 as well as acquisitions through fiscal year 1988. No inventory of fixed assets has been performed to ensure that all capital assets are correctly recorded in the financial statements.

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

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

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

Prior Year Status: Lack of a complete fixed assets listing was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2003.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, and an outside consulting firm conducting a more extensive inventory of fixed assets. Furthermore, valuation of fixed assets also needs to be verified and assessed, which will be the responsibility of the consulting firm. The anticipated completion date of our corrective action plan is March 2006.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Subrecipient Monitoring - Compact of Free Association, As Amended, Section 211(a)(1), Education Sector, Section 211(a)(3) Private Sector, Section 211(d) Public Infrastructure Sector CFDA # 15.875

Finding No. 2004-13

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

Condition: During the year ended September 30, 2004, RepMar sub-granted funds to the College of the Marshall Islands, the Marshall Islands Scholarship, Grant and Loan Board, the Land Registration Authority, the Marshall Islands Visitors Authority, and the Kwajalein Atoll Joint Utilities Resources, Inc. in the amounts of \$1,587,576, \$856,938, \$18,319, \$99,500 and \$350,000, respectively. No contracts or Memoranda of Understanding (MOUs) were executed with these Sub-Grantees containing the provisions of Article VI, Section 1(a)(1) and Section 1(k)(1) of the FPA. Accordingly, the Sub-Grantees did not provide quarterly financial reports that facilitated the tracing of funds to a level of expenditures adequate for ensuring compliance with the provisions of the Compact, as amended.

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

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

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

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the finding and recommendation. Our corrective action plan will involve the Ministry of Finance through the Secretary of Finance, Mr. Jefferson Barton, entering into Memoranda of Understanding with the Sub-Grantees. For FY 2004 and FY 2005, the Ministry of Finance has subsequently entered into and executed MOUs with all Sub-Grantees. The agreements delineate the mutual responsibilities, including reporting requirements, which RepMar and the sub-grantees undertake to ensure compliance with all laws, regulations and requirements governing the use of grant funds awarded under the Compact, as amended, and its related agreements, with particular attention to the Fiscal Procedures Agreement. The anticipated completion date of our corrective action plan is June 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Special Tests and Provisions - Compact of Free Association, As Amended, Section 211(a)(1), Education Sector, Section 211(d), Public Infrastructure Sector
CFDA # 15.875

Finding No. 2004-14

Criteria: Article VI, Section 1(j)(14) of the Fiscal Procedures Agreement (FPA) states that all contracts paid with funds provided pursuant to the Compact, as amended, shall contain the following provisions: (i) for contracts in excess of \$100,000 - administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provision of such sanctions and penalties as appropriate; (ii) for contracts in excess of \$100,000 - termination for cause and for convenience by the Grantee or Sub-Grantee including the manner by which it will be effected and the basis for settlement; (iii) compliance with the local statutes regarding kickbacks and corrupt practices; (iv) access by RepMar and its Sub-Grantees, the Government of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific Contract for the purpose of making audit, examination, excerpts, and transcriptions; (v) retention of all required records for three years after Grantees or Sub-Grantees make final payments and all other pending matters are closed; and (vi) compliance with all applicable standards, orders, or requirements issued under local environmental laws.

Condition: During the year ended September 30, 2004, RepMar entered into the following contracts with contractors:

<u>Fund #</u>	<u>Vendor #</u>	<u>Contract #</u>	<u>Amount</u>
410100	502084	C0037601	\$ 100,000
410100	501309	M0015701	\$ 73,400
510100	401389	N/A	\$ 3,706,408

These contracts did not contain the provisions (i) through (vi) as required under Article VI, Section 1(j)(14) of the FPA.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring contracts to contain prerequisite provisions and ensuring compliance with special tests and provisions.

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

Recommendation: We recommend that RepMar comply with the specific provisions of the FPA and ensure contracts contain all prerequisite provisions.

Auditee Response and Corrective Action Plan: In a letter dated June 17, 2005, the Ministry of Finance provided the following response.

We agree with the auditors' finding and recommendation. We will ensure that the required provisions under the Public Infrastructure Sector Grants are present on future contracts. Our corrective action plan will involve the Ministry of Finance, through the Secretary of Finance, Mr. Jefferson Barton, and the Office of the Attorney General ensuring that the required contract provisions are inserted. For Vendor # 401389, these provisions have already been included. For Vendor #s 501309 and 502084, we are currently working on inclusion of these provisions. The anticipated completion date of our corrective action is July 2005.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs
Year Ended September 30, 2004

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, 2004:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported:			
Fiscal year 2001 Single Audit	\$ 298,948	\$ 4,075,962	\$ 4,374,910
Fiscal year 2002 Single Audit	644,666	571,126	1,215,792
Fiscal year 2003 Single Audit	<u>873,325</u>	<u>4,498,234</u>	<u>5,371,559</u>
	1,816,939	9,145,322	10,962,261
Less questioned costs resolved in fiscal year 2004:			
Questioned costs of fiscal year 2002 Single Audit (1)	<u>-</u>	<u>(186,451)</u>	<u>(186,451)</u>
	1,816,939	8,958,871	10,775,810
Questioned costs of fiscal year 2004 Single Audit	<u>1,121,986</u>	<u>3,523,507</u>	<u>4,645,493</u>
Unresolved questioned costs of RepMar at September 30, 2004	\$ <u>2,938,925</u>	\$ <u>12,482,378</u>	\$ <u>15,421,303</u>

(1) Questioned costs considered resolved as the subrecipient received a final determination letter from the grantor agency.