REPUBLIC OF THE MARSHALL ISLANDS
TELECOMMUNICATIONS AND ICT TECHNICAL ASSISTANCE
PROJECT GRANT (TF015226) FUNDED BY THE WORLD BANK

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
AND
INDEPENDENT AUDITORS’ REPORT

PERIOD FROM INCEPTION (AUGUST 7, 2013) THROUGH
SEPTEMBER 30, 2015
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INDEPENDENT AUDITORS' REPORT

Her Excellency Dr. Hilda C. Heine
President
Republic of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statement of the Republic of the Marshall Islands Telecommunications and ICT Technical Assistance Project Grant (TF015226) (the “Project Grant”) Funded by the World Bank, which comprises the schedule of receipts and disbursements for the period from inception (August 7, 2013) through September 30, 2015, and the related notes to the financial statement. The Project Grant is administered by the Republic of the Marshall Islands Ministry of Finance.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2 to the financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Ministry of Finance’s preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry of Finance’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Basis for Qualified Opinion

Because of the inadequacy of accounting records, we are unable to form an opinion regarding the amount of contractual services recorded in the accompanying schedule of receipts and disbursements for the period from inception (August 7, 2013) through September 30, 2015 (stated at $8,124). Contractual services enter materially into the determination of disbursements for the period from inception (August 7, 2013) through September 30, 2015.

Opinion

In our opinion, except for the matter described in the “Basis for Qualified Opinion” paragraph, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Project Grant for the period from inception (August 7, 2013) through September 30, 2015, in accordance with the cash basis of accounting described in Note 2 to the financial statement.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the receipts and disbursements of the Project Grant and is not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands Ministry of Finance in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2016, on our consideration of the Ministry of Finance’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Ministry of Finance’s internal control over financial reporting and compliance.

August 16, 2016
Schedule of Receipts and Disbursements
Period from Inception (August 7, 2013) through September 30, 2015

Receipts:
  World Bank Grant $ 100,000

Disbursements:
  Contractual services 8,124
  Office equipment 5,690
  Travel 2,301
  Supplies and materials 1,349
  Advertising 780

  Total disbursements 18,244

  Excess of receipts over disbursements $ 81,756

See accompanying notes to Schedule of Receipts and Disbursements.
(1) Organization

On August 7, 2013, the International Development Association (IDA), acting as administrator of grant funds provided by various donors under the Pacific Regional Infrastructure Fund (PRIF), approved a Telecommunications and ICT Technical Assistance Project Grant (Grant No. TF015226) (the “Project Grant”) to the Republic of the Marshall Islands (RMI) in an amount not to exceed $1,250,000. The IDA is an international financial institution which offers concessional loans and grants to the world’s poorest developing countries. The IDA is a member of the World Bank Group that was established in 1960 to complement the existing International Bank for Reconstruction and Development (IBRD) by lending to developing countries which suffer from the lowest gross national income, from troubled creditworthiness, or from the lowest per capita income. Together, the IDA and IBRD are collectively generally known as the World Bank, as they follow the same executive leadership and operate with the same staff.

The RMI Ministry of Finance, as the Implementing Agency, is responsible for administering grant funds drawn down against the grant.

The accumulated amount drawn from the grant is $100,000 as of September 30, 2015. The accompanying statement of receipts and disbursements is prepared for the period from inception (August 7, 2013) through September 30, 2015 and solely incorporates the activities of the Project Grant administered by the RMI Ministry of Finance.

(2) Summary of Significant Accounting Policies

Basis of Accounting

For the purposes of accounting for activities of the Project Grant, the RMI Ministry of Finance uses the cash basis of accounting. Transactions are recognized as receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts (revenues) are recognized when received rather than when earned and disbursements (expenses) are recognized when paid rather than when the obligation is incurred. Commitments are recorded separately from the accounting records and are not recorded in these financial statements.

As described above, this financial statement was prepared on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Cash

Cash is stated at nominal values.

Foreign Currencies

Transactions involving foreign currencies have been recorded in United States dollars using the rates of exchange ruling on the date of the transaction.
(3) Description of the Project Grant

The development objective of the Project Grant is to strengthen the legal, regulatory and institutional environment to provide a foundation for improved access and affordability of telecommunications services. The Project Grant consists of the following parts:

(i) Policy and Regulatory Assistance - assist the RMI to: (a) build the capacity of the Ministry of Transportation and Communications to undertake its new policy functions efficiently and effectively; (b) establish the RMI’s Office of the Regulator; and (c) operationalize the RMI’s Office of the Regulator;

(ii) Restructuring of the Marshall Islands National Telecommunications Authority;

(iii) Capacity building for the Marshall Islands National Telecommunications Authority; and

(iv) Project Coordination - assist the RMI Ministry of Finance to apply World Bank policies, procedures, reporting requirements, contracting, procurement and other guidelines, and to coordinate the various activities of the consultants financed under the Project Grant.
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Her Excellency Dr. Hilda C. Heine
President
Republic of the Marshall Islands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Republic of the Marshall Islands Telecommunications and ICT Technical Assistance Project Grant (TF015226) (the “Project Grant”) Funded by the World Bank, which comprises the schedule of receipts and disbursements for the period from inception (August 7, 2013) through September 30, 2015, and the related notes to the financial statement, and have issued our report thereon dated August 16, 2016. The Project Grant is administered by the Republic of the Marshall Islands Ministry of Finance. Our report was qualified for the inadequacy of accounting records over contractual services disbursements.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies in internal control may exist that were not identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Responses as items 2015-002 and 2015-003 that we consider to be material weaknesses.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project Grant's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as item 2015-001.

Ministry of Finance’s Response to Findings

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

Purpose of this Report

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

August 16, 2016
Finding No. 2015-001

Project Monitoring and Reporting

Criteria: The grant agreement states that the Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five days after the end of the period covered by such report.

Condition: Project Reports were not prepared or provided to the World Bank.

Cause: The cause of the above condition is inadequate controls to comply with the criteria.

Effect: The effect of the above condition is noncompliance with the grant terms and conditions.

Recommendation: We recommend that management strengthen and improve internal control policies that govern compliance with the criteria.

Auditee Response and Corrective Action Plan: MOF agrees with the finding. The Ministry of Finance recently restructured the OIDA and merged it with the Grant Writing office. The Division of International Development Assistance is now established and aimed at improving aid coordination including donor fund management.
Finding No. 2015-002

Contractual Services

Criteria: Contracts between the Ministry of Finance and the Consultants state that during the course of the services, the Consultants are required to complete timesheets or any other document used to identify time spent.

Also, check vouchers should be reviewed prior to payment approval.

Condition: For the period from inception (August 7, 2013) through September 30, 2015, we noted the following:

A. Submission of timesheets or any other document used to identify time spent did not occur.
B. Inconsistencies exist in the computations of paid hours.
C. An incorrect daily rate was used for one consultant.

Cause: The cause of the above condition is a lack of established policies and procedures pertaining to review processes over payment to consultants.

Effect: The effect of the above condition is noncompliance with contracts between the Ministry of Finance and the Consultants. Also, there is a possibility of unauthorized payroll disbursements and overpayments.

Recommendation: We recommend that internal control policies and procedures be established requiring the review of check vouchers prior to check preparation and payment.

Auditee Response and Corrective Action Plan: MOF agrees with the finding. We will ensure internal control for the review and verification of attendance records for accuracy and compliance to policy. All timesheets must be properly authorized and approved prior to payment.
Finding No. 2015-003

Adequacy of Documents

Criteria: Documentation should be on file in support of all disbursement transactions.

Condition: Documentation could not be provided to support the following disbursements:

<table>
<thead>
<tr>
<th>Check #</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>113064</td>
<td>$ 1,178</td>
</tr>
<tr>
<td>113958</td>
<td>$  597</td>
</tr>
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Cause: The cause of the above condition is a lack of established policies and procedures pertaining to filing of documents.

Effect: The effect of the above condition is a possibility of unauthorized disbursements.

Recommendation: We recommend that internal control policies and procedures be established requiring filing of documents in support of all financial statement transactions.

Auditee Response and Corrective Action Plan: MOF agrees with the finding. The Ministry of Finance recently restructured the OIDA and merged it with the Grant Writing office. The Division of International Development Assistance is now established and aimed at improving aid coordination including donor fund management—which includes progress monitoring and reporting. MOF Management will ensure that proper filing in in place. MOF will also be working on a Standard operating procedure for Donor Fund, while in the meantime, will strictly follow the existing policies and general MOF SOP manual.
There are no unresolved prior year findings.