



REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL

Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)



AUDIT NO: OAG 07/09-1671

P.O. BOX 245  
MAJURO, MH 96960  
REPUBLIC OF THE MARSHALL ISLANDS

June 19, 2014  
Date



REPUBLIC OF THE MARSHALL ISLANDS

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Honorable Tony A. deBrum  
Minister of Foreign Affairs  
Majuro, Republic of the Marshall Islands  
96960

### **Re: Inspection of the RMI Embassy in Tokyo, Japan**

Dear Minister:

We have completed our review of the RMI Embassy in Tokyo, Japan, for fiscal years 2006, 2007, 2008, 2009, and first half of 2010 (or from October 1<sup>st</sup>, 2005 through March 31<sup>st</sup>, 2010). The objectives of our review were to determine (1) whether the internal controls are adequate to safeguard the assets of Republic and that expenditures are properly authorized and expended in accordance with relevant policies, rules, and regulations, and (2) whether the Imprest Fund is properly maintained.

Based on our review, we found that financial activities of the Embassy did not comply with relevant RMI laws and policies in many instances. It appeared that RMI laws and policies were overridden for convenience and flexibility of operation. We also found that the Embassy has been 'drawing checks for cash' to pay its recurrent operational costs. This is a risky operation because checks that are 'pay to cash' can be cashed and deposited by anybody. We noted also that the Embassy Imprest Fund account has not been reconciled regularly which creates the potential for loss caused by errors or fraud to occur, which may not be detected and corrected in a timely manner. Additionally, we noted that certain personal living expenses of Embassy officials were charged to the Embassy Imprest Fund account. We question the appropriateness of charging these personal living expenses to the Imprest Fund account given that during the periods the Government provided a cost of living allowance or COLA to the Embassy officials, which intention was to supplement cost of living in the host nation. Moreover, we determined that adequate internal control measures must be put in place to (1) ensure timely reporting of monthly Embassy expenses (2) ensure only Embassy or official-related costs are paid by the Imprest Fund account (3) monitor communication expenses and (4) to ensure fixed assets under the custody of the Embassy are

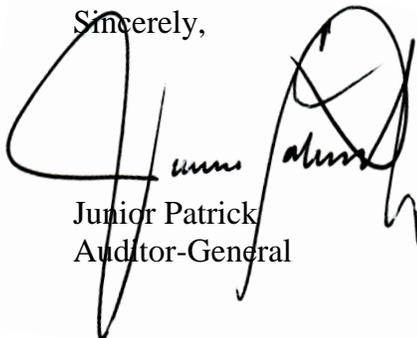
accounted in accordance with RMI policy. These issues are reported as findings and discussed in greater detail throughout our report. Finally, we noted that Regulations required under Section 33 of the Foreign Affairs Act of 2007 (P.L. 2007-88) to prescribe conditions of employments, allowances, and entitlements for overseas staff; and to prescribe government foreign policy have not been promulgated as of the date of this report.

Pursuant to the Auditor-General Act of 1986, we provided the Secretary of Foreign Affairs, Secretary of Finance, and the Ambassador with a copy of our draft findings and recommendations based on our review. We appreciated the prompt responses from the Embassy and the Ministry of Foreign Affairs, which we have included as Appendix A and Appendix B in our report. We did not receive any response from the Secretary of Finance.

The most important outcome of any audit or review is the correction of past deficiencies and an improvement in the internal controls and operation. We believe that the implementation of our recommendations is a step in that direction. This Office maintains a "Follow-Up System" and in order for this audit to be closed we would expect the actions detailed in Appendix D to be taken by your Ministry and the Ministry of Finance.

We wish to express our sincere appreciation to the Ambassador, Secretary of Foreign Affairs and Secretary of Finance, and their staffs for their cooperation during the course of the review.

Sincerely,

A handwritten signature in black ink, appearing to read "Junior Patrick", is written over a light blue rectangular background. The signature is stylized and cursive.

Junior Patrick  
Auditor-General

June 19, 2014

Cc: President  
Minister of Finance  
Secretary of Finance  
Secretary of Foreign Affairs  
Ambassador, Japan Embassy  
Attorney-General  
OAG File

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## **Background**

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The Republic of the Marshall Islands (RMI) Embassy in Tokyo, Japan (the Embassy) was established in 1990 pursuant to Cabinet Minute 192(90). The functions and responsibilities of the Embassy are set forth in RMI Public Law No. 2007-88 (Foreign Affairs Act of 2007). The functions include:

1. Pursuing foreign policy objectives of the Government in the host country and jurisdictional areas of responsibilities;
2. Seeking bilateral, multilateral and international assistance to support national development goals of the Republic;
3. Transmitting official communications between the Government of the Republic of the Marshall Islands and Government of other countries and international organizations;
4. Promoting and protecting the interest of Marshallese citizens residing in the host country and jurisdiction areas of responsibility;
5. Providing consular services for citizens of the Republic abroad; and
6. Any other functions as directed by the President and Cabinet.

The RMI laws and regulations govern all activities of the Embassy. Specifically, the operation of the Embassy is guided by the Financial Management Act, Procurement Code, Income Tax Act, Travel Policy and the Imprest Fund Guidelines as prescribed by the Secretary of Finance, and such other applicable laws and policies of the Republic.

The Ambassador is the Head of the Embassy. The Ambassador is appointed by the President and Cabinet and confirmed by the Nitijela. The Ambassador has the responsibility to ensure that the operational expenditures of the Embassy are administered and carried out in accordance with the relevant laws and policies of the Republic.

The Embassy is operating through an Imprest Fund. Imprest Fund are cash fund set aside for the operational expenditures of the Embassy. At the close of each month, the Embassy prepares and submits itemized and detailed expenses paid out of the Imprest Fund for the purposes of replenishing the Imprest Fund to its original amount. The monthly report are submitted with relevant documents, invoices, cancelled checks, bank statement/reconciliation, and such other relevant documents to the Ministry of Foreign Affairs and Finance for review and approval. Once expenses have been reviewed and approved for the month, the amount requested is processed and Imprest Fund Account is replenished to its initial amount.

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For its operational needs, each year the Embassy and the Ministry of Foreign Affairs prepares a budget for the Embassy's recurrent operational expenses. Table 1 indicates the budget allocations for the operational expenses of the Embassy during the periods from FY 2006 through FY 2010.

Table 1: Operational Budget

Periods	Approved Budget	Amended Budget
<b>FY 2006</b>	\$282,757	\$308,005
<b>FY 2007</b>	282,757	262,235
<b>FY 2008</b>	281,074	321,584
<b>FY 2009</b>	280,274	329,158
<b>FY 2010</b>	280,274	334,003

Source: Appropriation Acts & MOF Financial Budget Report (240-P)

Detail operational budgets of Tokyo Embassy during the period under review is presented in Exhibit 1

## **Objectives, Scope and Methodology**

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### **Objectives & Scope**

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The purpose of the review was to determine (1) whether the internal controls are adequate to safeguard the assets of the Republic and that expenditures are properly authorized and in accordance with relevant policies, rules and regulations and (2) whether the Imprest Fund is properly maintained. The review covered fiscal years 2006, 2007, 2008, 2009, and 2010 (October 1, 2005 through March 31, 2010). The review was conducted pursuant to Article VIII, Section 15(1) of the RMI Constitution, which states in part:

*“The Auditor-General shall audit public funds and accounts of the Republic of the Marshall Islands including those of the Department or Offices of the legislative, executive and judicial branch of government and of any other public corporation or other statutory authority constituted under the law of the Marshall Islands unless, in relation to any such public corporation or other statutory authority, provision is made by Act for audit by any other person”.*

Our review was conducted in accordance with the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency and included tests of accounting records and procedures as we considered necessary under the circumstances.

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## **Methodology**

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The fieldwork was conducted at the Embassy, the Ministry of Finance and Foreign Affairs. We reviewed accounting records, financial reports and documentations related to the financial transactions of the Embassy. We judgmentally selected expenditures from the Imprest Fund and trace them to invoices and receipts to determine whether expenditures were properly authorized and in accordance with existing policies. Additionally, we traced Embassy transactions through Ministry of Finance accounting system to verify the accuracy and completeness of accounting entries and account postings. The review included other test procedures that were necessary under the circumstances.

## **Prior Audit Coverage**

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This is the third review undertaken by the Office of the Auditor-General on the Embassy's operation covering fiscal years 2006 to 2010 (as of March 31, 2010).

## **Conclusion**

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Based on our review, we found that the Embassy activities did not comply with RMI laws and policies in many instances. It appeared that RMI laws and policies were overridden for convenience and flexibility of operation. Further, written procedures and guidelines that were instituted to improve management and operation of Embassy Imprest Fund account have not been implemented effectively and followed. In general, there is a lack of management oversight over the day-to-day activities of the Embassy and enforcement of RMI policies. Additionally, the Regulations required under Section 33 of the Foreign Affairs Act 2007 (P.L. 2007-88) to prescribe matters of procedures in relation to any application under the Act; to prescribe conditions of employment, allowances and entitlements for overseas staff; and to prescribe government foreign policy have not been promulgated as of the date of this report.

Our findings, based on our review, along with our recommendations are discussed in the accompanying pages.

## **Findings and Recommendations**

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### **Finding No.1– Lack of Reconciliation of Embassy’s Accounts**

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Proper accounting procedures require that bank reconciliation be performed on a monthly basis to ensure that cash transactions are recorded and properly accounted for. In addition, Section 5.2 of the Imprest Fund Procedures and Guidelines requires that a reconciliation of both the bank and Imprest Fund be performed each month.

Our review of the Embassy records disclosed the followings:

- Monthly bank reconciliation of the Embassy Imprest Fund corresponding bank account was performed during fiscal years 2006 – 2009 but not for fiscal year 2010 (as of March 31, 2010) and subsequent months.
- The Embassy has not reconciled the Imprest Fund account for the entire fiscal years 2006 to 2010 (as of March 31, 2010) and subsequent periods. Reconciliation of the Imprest Fund was performed by the Ministry of Finance which disclosed cumulated unrecorded disbursements of \$74,564, unrecorded receipts of \$20,530 and foreign exchange gain of \$9,143. We noted that this matter was also reported in the FY 2009 RMI Single Audit Management Letter Report.

As a result of the above conditions, the accountability over the Embassy’s financial resources is greatly diminished and increases the risk that potential errors and irregularities may occur and not be detected and corrected in a timely manner.

The cause of the above is the lack of established policies and regulations requiring timely reconciliation of the Imprest Fund account. In addition, there is lack of oversight by Ministry of Foreign Affairs to ensure reconciliations are performed on a regular basis.

#### **Recommendation**

We recommend that:

1. The Embassy should reconcile the Imprest Fund and Imprest Fund bank account on a monthly basis to ensure all transactions are properly accounted for.
2. The Ministry of Foreign Affairs should:
  - Establish regulations requiring the Embassy to perform reconciliation of both Imprest Fund and bank account on a monthly basis and in accordance with the Imprest Fund Procedures and Operational Guidelines.
  - Provide proper trainings to the Embassy staff responsible for management and reconciliation of the Embassy Imprest Fund account.

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Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.2 - Bank Account Issues

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Checks are drawn for Cash:

Proper internal control procedures prohibit the drawing of checks to cash.

During the periods under review, we noted that the Embassy was drawing checks for cash in large amount to pay for operating expenses and to also reimburse staffs for purchases made with personal funds on behalf of the Embassy. Our review further revealed undisbursed funds or excess cash are kept in a cash box for later disbursements when billings and invoices are received. We were told that practice of writing checks for cash was required as most vendors in Tokyo require payment by cash. We noted also that a cashbook ledger was maintained to record these cash transactions; however, we were unable to determine whether all checks drawn for cash were adequately accounted for and reported for reimbursement as reconciliation of these cash withdrawals was not performed before another large cash withdrawal was made.

The effect of the above condition increases the possibility for misuse of funds and unauthorized transactions to occur which may not be detected and corrected in a timely manner

Embassy does not maintain two-signatory policy for its bank account:

An effective system of internal controls requires at least two signatories for every withdrawal and disbursement out of bank accounts. This control ensures that at least two people must agree that the withdrawal is legitimate and payment is appropriate for valid official purposes. In addition, the Imprest Fund Guidelines require that each Embassy must maintain at least two signatories for its bank for internal control purposes.

Our review disclosed that the Embassy does not require two signatories for withdrawal of funds: either the Ambassador or the Deputy Chief of Mission can withdraw funds from the checking account and the postal account.

The lack of an effective system of internal control over check issuance increases vulnerability to fraud and abuse, and unauthorized transactions to occur which may not be detected and corrected in a timely manner.

Cancelled Checks not returned to the Embassy:

It was noted that although monthly bank reconciliation were performed during fiscal years 2006 through 2009, management was unable to provide us with all bank cancelled (paid) checks

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because the custodial bank use by the Embassy does not routinely return them with the monthly bank statements. In the absence of the bank cancelled checks, we were unable to determine whether payees actually acknowledge receipt of their payments by an endorsed paid check, or whether checks issued were signed by appropriate and authorized signatories.

Recommendation

Checks drawn for cash: The Embassy should cease the practice of drawing checks to cash to pay for the Embassy operational needs. However, in the event this practice cannot be avoided because it is beyond control of the Embassy, we recommend cash withdrawal to be based on the actual amounts of invoices and billings. Specifically, we recommend to the Ministry of Foreign Affairs to establish policies governing ‘checks drawn for cash’ to ensure cash that are taken out of the Imprest Fund are properly accounted for, and to consider establishing a petty cash within the Imprest Fund account to pay for small purchases less than \$50 in value.

Two-signatory policy: The Ministry of Foreign Affairs should require at least two signatories for all checks drawn from the Embassy Imprest Fund checking account.

Cancelled Checks not returned to Embassy: The Embassy should work out a solution with the custodial bank to obtain, at the minimum, copies of all cancelled checks issued to enable the Embassy to verify all checks endorsement. Alternatively, the Embassy should consider changing its custodial bank.

Auditee’s Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

See also Auditors’ response to comment by Embassy in Appendix C

Finding No.3 – Embassy Operational Expenses Exceeded Budget Authorizations

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The Financial Management Act restricts departments and agencies of the government from overspending their budget authorizations. In addition, Section 2 of the Over-expenditures and Over-obligations of Fund Act (11 MIRC Chapter 9) stipulates that no person shall authorize or expend any government funds in excess of appropriated amount except in emergencies and only pursuant to procedures provided by law.

Our review of the Embassy’s budget and expense financial reports generated from the Ministry of Finance’s accounting system disclosed that the Embassy has incurred expenditures in excess of the approved budgets by \$43,461, \$6,897, and \$26,377 for fiscal year 2007, 2008, and 2009, respectively, as indicated in Table 2 below. In addition, we noted certain expenditures that were

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incurred and paid for which there were no budget allocations at all. Exhibit 2 attached to this report presents a detail analysis of expenditure items that exceeded budget authorizations.

Table 2: Expenditures Exceeding Budget Authorizations

Fiscal years	Amended Budget	Actual Expenditures	Budget Deficit
<b>2007</b>	\$262,235	\$305,696	\$ (43,461)
<b>2008</b>	\$321,584	\$328,481	\$ (6,897)
<b>2009</b>	\$329,158	\$355,535	\$ (26,377)

*Source:* Appropriation Acts and Ministry of Finance Financial Budget Reports (240-P)

We noted also during our review that over spending occurred on most vital items required for the security of operation for the Embassy, such as leased & housing rental, utilities, travels, and office/computer supplies.

Lack of adherence to the budget requirements and lack of review and verification of accounting transactions by responsible staff at Ministry of Foreign Affairs, Ministry of Finance and the Embassy has resulted in expenditures exceeding budget authorizations.

Recommendation

We recommend that the Embassy:

1. Only incur expenditures within appropriated amounts. Unexpected or emergency purchases are to be processed only in accordance within procedures prescribed by law.
2. Maintain a control log or monitoring tool (e.g. spreadsheets) indicating amounts allocated by line items. Each time a purchase is made the budget control log must reflect a decrease in the authorization. This is important to avoid the risk of incurring expenses in excess of appropriated amount.
3. Obtain on a monthly basis the financial budget report from the Ministry of Finance and reconcile to its own records. Any discrepancies are to be investigated and reported to the Ministry of Finance for correction in a timely manner.

We also recommend that:

1. The Ministry of Finance ensures strict compliance with financial management guidelines pertaining to budget control. Specifically, the Ministry should carefully review and verify that there is available funding for each expensed item being requested for reimbursement prior to processing of payment. Unbudgeted expense items are to be processed only in accordance to procedures prescribed by law.

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2. The Ministry of Finance implements the quarterly allotment scheme for the Embassy expenditures. That is, each fiscal year operational budget allocation shall be divided into quarterly allotment periods. This practice will ensure there is available funding for operation throughout the fiscal year.
3. The Ministry of Foreign Affairs prepares budget for the Embassy that incorporates all operational needs. Previous budget and actual expenditures reports should give an indication of funding level required for the operational needs of the Embassy.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.4 – Lack of documentation to support budget transfers and reprogramming

RMI Policy allows for reprogramming of funds or shifting funds to use for difference purposes other than those contemplated at the time of appropriation. The basic rationale for allowing reprogramming action is to provide government department the flexibility to deal with contingencies that were not anticipated during the budget development and formulation process. This flexibility must be dealt with prudently and in accordance with procedures prescribed by law. Specifically, RMI policy requires reprogramming action to go through certain authorization: First it must be initiated by the Secretary of the Ministry requesting the programming, approved by the Minister of the Ministry requesting the reprogramming action and forwarded to the Budget Office within the Ministry of Finance to execute the requested changes in the master budget.

Our review of the budget reports of the Japan Embassy disclosed that a number of budget adjustments were made throughout the financial periods under review. In fiscal year 2009, however, we noted a transfer from Travel account in the amount of \$24,000 to an unknown account or accounts as the relevant budget transfer authorization was not available for review.

In the absence of the necessary documentary evidence, we were unable to determine whether the budget transfer indicated above was properly executed pursuant to procedures prescribed by law.

Recommendation

We recommend that:

1. The Ministry of Finance should ensure that all budget transfers are executed pursuant to procedures prescribed by law. All documentations relevant to the budget transfers are to be maintained and kept on file for review and evaluation purposes.

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2. The Ministry of Foreign Affairs prepares budget for the Embassy that incorporates all recurrent operational needs. Previous budget and actual expenditures reports should give an indication of funding level required for the operational needs of the Embassy.

Auditee’s Response:

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.5 – Monthly Reimbursement Reports not submitted in a timely manner

Management is required to maintain a level of cash availability at the Embassy at all times to secure payment for its core obligations such as payment for rental of Embassy and residence, and other essential services that directly affect security of operations, such as communication, electricity, and water.

During our review, we noted that monthly expenses reports and relevant supporting documentations and receipts were not reported to the Ministry of Finance for reimbursement in a timely manner. Accordingly, the replenishment of the Embassy Imprest Fund is not timely. We specifically noted instances where monthly reimbursement reports were submitted 1 to 4 months after expenditures were incurred resulting in replenishment checks received as late as 18 days to 2 months after reports were submitted. Table 3 below indicates days lapsed between expenses date, expenses reporting date, and expenses reimbursement date.

Table 3: Days lag between Report Date and Reimbursement Date

Expenses date	Expenses Reporting date	Expenses reimbursement date
<b>May 2006</b>	August 14, 2006 (3 months later)	September 8, 2006 (30 days later)
<b>March 2007</b>	July 27, 2007 (4 months later)	September 27, 2007 (2 months later)
<b>April 2008</b>	July 14, 2008 (2 months later)	August 6, 2008 (24 days later)
<b>February 2009</b>	April 28, 2009 ( 2 months later)	May 15, 2009 (18 days later)

Source: Monthly Reimbursement Reports & Embassy Monthly Bank Statements

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The cause of the above conditions is due to lack of policies requiring timely submission of monthly expenses claims.

The effect of the above conditions may affect the security of the Embassy operation and payment of its obligations.

Recommendation

We recommend that:

1. The Embassy should prepare and submit report of all expenses incurred and paid out of the Imprest Fund account immediately after each month end to ensure the Imprest Fund account is replenished in a timely manner.
2. The Ministry of Foreign Affairs should establish policies requiring timely submission of Embassy reimbursement reports in order for the funds disbursed out of the Embassy to be replenished in a timely manner to ensure there is sufficient cash on hand at all times to pay for operational expenses and all obligations.
3. The existing Imprest Fund Operational Guidelines should be amended to include specific deadlines for which monthly reimbursement reports are to be submitted (e.g. 15 days after each month end). Further, these guidelines should be supported by policies and regulations.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.6 – Disbursements per Check Register not reconciled with monthly Replenishment Reports

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Expenditures recorded in the monthly cash/check registers should agree to monthly expenditures reported for reimbursement.

We examined the monthly cash/check registers maintained by the Embassy for the periods under review and the monthly replenishment reports to determine whether amounts reported to the Ministry of Finance for reimbursement agreed to amounts disbursed from the Embassy Imprest Fund account. Based on our examination and analysis, we noted differences between amounts disbursed monthly and reported for reimbursement during fiscal years 2007, 2008, and 2009 as shown in Table 4 below. Detail analyses of these differences are presented in Exhibit 3A-3C attached to this report.

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Table 4: Variations between Actual and Expenses Reported

Fiscal Year	Per Monthly Expenditure Reports	Per Cash/Check Registers	Variances Over/(Under)
<b>2007</b>	\$191,121	\$153,394	\$37,727
<b>2008</b>	\$187,312	\$200,072	(\$12,760)
<b>2009</b>	\$232,210	\$237,014	(\$4,804)
<b>Total</b>	\$610,643	\$590,480	\$20,163

*Source: Embassy Monthly Check Registers & Monthly Reimbursement Reports*

The variances have occurred due to the followings:

- In fiscal year 2007, bills and invoices related to September 2007 amounting to JPY4,340,926 (or equivalent to \$37,558) that were received and paid in October 2007 were reported as September 2007 claims rather than as October 2007 claims. Additionally, the check register on file for the month of March 2007 is not complete and we were unable to identify the variance of JPY20, 140 (or equivalent to \$169.99) resulting in a net variance of \$37,727 for the period. Refer to Exhibits 3-A to 3-C for details of the variances.
- In fiscal year 2008, expenses for October 2007 and September 2008 were not properly reported, resulting in expenses reported for reimbursement in October 2007 to be understated by JPY4,340,926 (or \$37,809) and expenses reported for reimbursement in September 2008 to be overstated by JPY2,902,862 (or \$27,017). In addition, it was noted that JPY265,000 (or \$2,508) relates to difference in claims for lease housing or rental payment for the Embassy, which the Ministry of Finance had identified as unrecorded disbursement, and a variance of \$539 which relates to incorrect application of exchange rate, resulting in a net variance of \$12,760. Refer to Exhibit 3-B for further details.
- Net variance in fiscal year 2009 in the amount of JPY691,375 (or \$4,805) related to salaries and wages for an Embassy staff in the amount of JPY67,500 (or \$673), which was reported twice for reimbursement; excess claim for bank charges of JPY240,996 (or \$2,542); under reporting of October-December 2008 expenses in the amount of JPY2,314,168 (or \$28,014.56); incorrect application of foreign exchange rate of \$67 (net amount) and additional claims identified by the Ministry of Finance in its Imprest Fund reconciliation for September 2008 in the amount of JPY1,895,123 (or \$20,599). Refer to Exhibit 3-C for details.

The Embassy did not maintain any cash/check registers for fiscal year 2010 (as of March 31, 2010) and subsequent months, hence no information is provided for FY 2010.

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Recommendation

We recommend that:

1. The Embassy should ensure expenditures are reported in the proper periods.
2. The Ministry of Foreign Affairs should perform review of Embassy monthly reimbursement reports with the monthly check register to ensure all expenses disbursed out of the Embassy Imrest Fund account are reported. Reports with discrepancies should be communicated to the Embassy promptly for correction.
3. The Ministry of Finance should thoroughly review Embassy claims to ensure only legitimate expenses are reimbursed. Specifically, the Ministry should deduct the overpayment in salaries \$673 and excess claims of \$2,542 in bank charges from future Embassy claims to offset the overpayment amounts.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Fining No.7 – Disallowed Expenditures

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Proper internal control system dictates that disbursements should be properly authorized and adequately supported by invoices, receipts and relevant supporting documentation.

We noted during our review that funds in the amount of \$42,941 were recorded by Ministry of Finance as disallowed claims due to lack of supporting documentation, unauthorized expenditures and employee advances. This amount has been accumulated from fiscal year 2006 and appeared to have not been reported to management of the Embassy or the Ministry of Foreign Affairs for correction. Of the \$42,941 disallowed, \$5,662.29 relates to employee advances. Detail of the \$42,941 is presented in Exhibit 4 attached to this report.

Additionally, claims in the amount of \$2,137 reported for reimbursement during fiscal year 2006, were not paid due to inadequate supporting documentation to justify the expenses incurred. Table 5 below provides a detail of these additional disallowed claims.

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Table 5: Additional unpaid claims

Expenses	US Dollar	Japanese Yen
<b>Other Charges/Expenses</b>	1,481	170,170
<b>Other supplies</b>	8	899
<b>Bank charge</b>	43	5,000
<b>New Residence Expense</b>	605	70,651
<b>Total</b>	2,137	246,720

*Source:* October 2005 Reimbursement Report and MOF Financial report (135-P)

The cause of the above is due to lack of adequate policies requiring only legitimate and Embassy related expenses are paid out of the Imprest Fund account.

The effect of the above conditions have resulted in the Imprest Fund being depleted, thereby affecting the Embassy's ability to maintain cash availability on hand to pay for its recurrent operational expenses and other unexpected billings that may arise during the course of the operation. Further, there is the possibility that unauthorized transactions and advances have occurred without being corrected in a timely manner.

### Recommendation

We recommend that:

1. The Embassy should only incur expenses that are Embassy or official-related and to ensure all expenses submitted for reimbursement are adequately supported with proper receipts and documentations.
2. The Ministry of Foreign Affairs should:
  - Thoroughly review monthly reimbursement reports by the Embassy to ensure all claims are adequately supported by receipts and invoices. Claims with missing documentations are to be communicated to the Embassy for correction in a timely manner.
  - Investigate the nature of the disallowed claims accumulated at \$42,941 and the disallowed claims of \$2,137 during fiscal year 2006, and determine the appropriate course of actions to ensure that all amount expended from Imprest Fund are put back to the fund, or if necessary, seek the assistance of the Attorney-General Office.
3. The Ministry of Finance should promptly notify the Embassy and the Ministry of Foreign Affairs each time a claim submitted for reimbursement is disallowed and the reason for the disallowance so that corrective action can be taken in a timely manner.

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Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No. 8 – Personal Living Expenses paid by Embassy

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In addition to base salaries, the RMI Government provided a cost of living allowance (COLA) to the diplomat personnel to accommodate and supplement the cost of living expenses in the host nation. The amount of COLA is determined by the cost of living in the host nation and is to be reviewed periodically.

During the period under review, we noted that COLAs were provided to a former Head of Mission and a Deputy Chief of Mission in the amount of \$20,000 and \$15,000, respectively. Our review further revealed that nearly all of their major living expenses of these diplomats, such as utilities and communications expenses were being paid directly out of the Embassy Imprest Fund summarized below.

- From fiscal year 2006 to 2009, the Embassy has paid a total of \$43,485 in utility expenses (electricity, gas, water and cable television). Of this amount, \$13,339 or 30.6% represent utility expenses of the diplomats.
- During the same periods, the Embassy has paid \$59,369 for communication expenses (domestic and long distance telephone charges). Of this amount, \$10,603 or 17.8% represent communication expenses in the residences of the diplomats.

A more detail analyses of utilities and communication expenses incurred and paid by the Imprest Fund during the period under review is presented in Exhibit 5 attached to this report.

The appropriateness of charging 100% of the diplomats' utility and communication expenses to the Embassy Imprest Fund was not being questioned by the Ministry of Foreign Affairs and Finance. The lack of established policies and scrutiny of embassy replenishment requests may result in government funds expended in a manner inconsistent with RMI policies.

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Recommendation

We recommend that:

1. The Ministry of Foreign Affairs should:
  - Establish written guidelines indicating clearly the intention of the cost of living allowance entitlements or COLA and specific types of personal living expenses that are covered by the allowance. The guidelines should also be accompanied by specific regulations to clearly indicate that living expenses which are covered under the COLA are not chargeable to the Imprest Fund account.
  - Review and determine the eligibility of all personal utilities and communication expenses paid out of the Embassy Imprest Fund account and if necessary require the responsible officials to reimburse the Embassy Imprest Fund, or seek the assistance of the Attorney-General's Office.
2. The Ministry of Finance should review carefully all reimbursement requests from the Embassy for appropriateness and eligibility of all expenses prior to process of reimbursement check to ensure that all questionable and unrelated embassy expenses are not reimbursed by the Government.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.9 – Personal travels paid by Embassy

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Borrowing from the Embassy Imprest Fund is prohibited. Further, the Imprest Fund Procedures and Operational Guidelines indicate that borrowing or cash advance from the Embassy Imprest Fund is prohibited.

Review of the check register for Embassy Imprest Fund account for the month of January 2006 disclosed payments for two airline tickets for a former Embassy official and a dependent from Tokyo to Majuro in the amount of JPY166,650 (\$1,453.11) and JPY126,630 (\$1,102.28), respectively. We noted a memo dated January 26, 2006 from the official to the Head of Mission at the time requesting the Embassy Imprest Fund to purchase airfare ticket for a dependent. The memo specifically indicated that this amount would be reimbursed back to the Embassy at a later date. On the same day, another memo from the official confirmed that total sum of JPY126,630 (\$1,102.28) was received from the Imprest Fund account for the dependent's ticket.

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We did not note any correspondence for the withdrawal of JPY166,650 (\$1,453.11) for the official's ticket which was also taken out from the Imprest Fund during the same period.

Both travels above did not appear to be official in nature, and we did not note any authorization instrument approving use of Imprest Fund account to pay for the airfares. Further, we inquired with the former Head of Mission whom the memo was addressed requesting the Embassy Imprest Fund to purchase the ticket for the dependent. This former Head of Mission indicate to us that no approval was given to use the Imprest Fund account to pay for the dependent's travels. We further discussed the travels with a Ministry of Foreign Affairs official who asserted that government does not pay for personal travels of Embassy officials.

Our review further revealed that on February 23, 2006, the dependent's travel was reimbursed in the amount of JPY126,630 per check register. However, we were unable to confirm if this amount was actually put back to the Imprest Fund. Furthermore, on April 17, 2006, the official's travel airfare was included in an Embassy replenishment report for January 2006 which was paid by Ministry of Finance per Wire Transfer Check No. 9000279 on April 17<sup>th</sup>, 2006.

It is our view that the former Embassy official's personal travels above should not have been included Embassy expenses report submitted for replenishment and should not have been paid by the Government.

Lack of review and scrutiny of the Embassy reimbursement vouchers has resulted in the government reimbursing for unrelated Embassy expenditures that should have otherwise been paid by the traveler.

**Recommendation**

We recommend that:

1. The Embassy and the Ministry of Foreign Affairs must strictly comply with the established Imprest Fund Guidelines and Procedures that restricts any officials from borrowing from the Embassy imprest account.
2. The Ministry of Foreign Affairs should require the former Embassy official to pay back the full amount related to the personal travels that was reimbursed by the Government, or seek the assistance of the Attorney-General's Office.
3. The Ministry of Finance should carefully review reimbursement reports for appropriateness of all expenses prior to process of reimbursement check to ensure that all unsupported, questionable and non-Embassy related expenditures are not reimbursed.

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Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.10 – School Allowances

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Overseas diplomatic employees accompanied by children, including legally adopted children of school age are entitled to education allowance to contribute towards cost of education and related expenses in the host nation.

Our review of a contract between a former Head of Mission and Government indicates an education allowance of \$6,000 per dependent. Our review of the school expenses for a dependent revealed that expenses were incurred in excess of the authorized amount as provided below:

- In fiscal year 2006, school expenses were \$7,177.39 which exceeded the approved amount by \$1,177.39.
- In fiscal year 2008, school expenses were \$6,804.43, which exceeded the approved amount by \$804.43.

Additionally, we noted school expenses were also paid by the Embassy Imprest Fund for dependents of a former Embassy official in the amount of \$2,597, \$6,589, and \$6,652 during fiscal year 2007, 2008, and 2009, respectively. Our review of contract agreement between this former Embassy official and Government did not include school allowance. In the absence of school allowance in contract, we question the eligibility of the costs.

It is our understanding also that Embassies' officials with dependents or children of school age are provided with school allowances. Therefore, it appears that there are inconsistencies in the way RMI diplomats contracts are prepared.

The result of the above conditions is that government funds are being used in a manner inconsistent with contract agreements. Furthermore, there is possibility that unauthorized school expenses were incurred.

Recommendation

We recommend that:

1. In the future, the Embassy should ensure expenses related to school tuitions are incurred based on the authorized amount per contract agreement.

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2. The Ministry of Foreign Affairs should develop contracts for all diplomats that clearly indicates their entitlements (education allowance, etc) and in a consistent manner.
3. The Ministry of Finance should carefully review reimbursement requests for appropriateness of all expenses to ensure that all unsupported questionable and non-Embassy related expenditures are not reimbursed by the Government.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No. 11 – Housing Rental exceeded the Authorized Amount

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The Government policy on housing allowance as stipulated under Cabinet Minute [C.M 024(89)] is \$750 per month.

Review of the Embassy disbursements during fiscal year 2006 and 2007 disclosed that monthly housing rental for a former Embassy official was paid out of the Imprest Fund account. The contract agreement between the Government and this official indicates that housing assistance will be provided as deemed necessary; however, no specific amount was stated. Our review further revealed that during 2006 and 2007 the housing rental were paid by Embassy Imprest Fund account in the amount of JPY177,000 per month (equivalent to approximately \$1,500), or an excess of \$750 over the government ceiling on housing allowance.

Further, during this period the Imprest Fund was paying 100% of accommodation or housing rental for this official, a cost of living allowance (COLA) was provided in the amount of \$15,000 per annum. Therefore, we question the appropriateness of having the Embassy pay for 100% for accommodation when a COLA was provided which the intention was to supplement cost of living expenses in the host nation.

The effect of the above condition is noncompliance with government policy on housing allowance and resulted in government providing for 100% in accommodation cost which could have been partly and appropriately covered by the COLA.

Recommendation

We recommend that:

1. The Ministry of Foreign Affairs should:
  - Comply with Cabinet Minute 024(89). Specifically, we recommend that provisions for housing allowance for contracts of diplomat personnel are in accordance with

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RMI policy. If exceptions are required to increase the allowance based on cost of living in the host nation, such exception should be solicited through the Cabinet.

- Establish written policies indicating clearly the intention of the COLA and specific types of personal living expenses that are covered by the allowance. The policy should also be supported by specific regulation indicating that personal living expenses which are covered under the COLA are not chargeable to the Embassy Imprest Fund.
2. The Ministry of Finance should review carefully reimbursement requests from the Embassy for eligibility of all expenses prior to process of reimbursement check to ensure that all questionable and unrelated embassy expenses are not reimbursed from the Government.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

See also Auditors' response to the comments from the Embassy in Appendix C

Finding No. 12 – Lack of system in place to monitor communication expenses

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An effective system of internal controls requires that guidelines and policies be in place to provide assurance that all expenses reported for replenishment are valid expenses.

During our review, we found that the Embassy and the Ministry of Foreign Affairs do not have formal written policies and procedures that govern the use of the telephone at the Embassy and the Residences. No logs were maintained to identify and separate official business from personal telephone calls. The lack of internal control over communication expense may result in unauthorized and abuse of Embassy telephones and result in government paying for non-Embassy or unrelated official phone calls.

Recommendation

We recommend that:

1. The Embassy maintains telephone log sheet to clearly identify all outgoing calls from the Residence and Embassy telephone lines. At the minimum, the log sheet should indicate who made the calls, purpose and duration of calls.
2. The Ministry of Foreign Affairs establishes formal written policies and procedures that govern the use of telephone at the Embassy and the Residences.

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3. The Ministry of Finance should carefully review reimbursement reports for appropriateness of all communication expenses before replenishing the Embassy Imprest Fund account to ensure that all unsupported, questionable and non-Embassy related expenditures are not reimbursed.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No. 13 - Misclassification of Embassy Expenditures

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Expenditures should be recorded to the correct expense account and object class and transactions code to ensure that only authorized and relevant transactions are expensed. This practice also ensures that Embassy keeps a proper record and accurately reports operational activities, and helps with future planning and budgeting purposes. During the course of our review, we noted that certain expenses of the Embassy were incorrectly recorded and reported as follows:

- In fiscal year 2006, a payment for a notebook computer in the amount of \$1,861 was incorrectly recorded under Office/Computer Supplies Expense and payments for two (2) cell phones in the amount of \$560 were incorrectly recorded as Communications Expense.
- In fiscal year 2007, four (4) payments totaling \$3,932 were incorrectly recorded as Office/Computer Supplies Expense for 1 laptop (\$2,208); 1 scanner (\$431); 1 computer monitor (\$516) and 1 desktop computer (\$776).
- In fiscal year 2008, a payment in the amount of \$753 for a washer/drier set was incorrectly recorded as office/computer supplies.
- In fiscal year 2009, a payment in the amount of \$396 for a Sony digital camera was incorrectly recorded as Office/Computer Supplies Expense; a payment related to Travel Expense in the amount of \$466 was incorrectly recorded as Salaries Expense and a payment for bank charges in the amount of \$52 was incorrectly recorded as Furniture and Fixtures.

The lack of independent review of recording of transaction and lack of scrutiny of payment request and supporting documentation for proper identification of nature of expenditures resulted in incorrect posting and inaccurate financial reporting.

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Recommendation

We recommend that:

1. The Ministry of Foreign Affairs systematically reviews the expenditures from the Embassy for proper account classification prior to submission to Ministry of Finance for reimbursement.
2. The Ministry of Finance should carefully scrutinize each payment request along with the supporting documentation to properly identify the nature of the expenditure before inputting into the system. It is also recommended that an independent review of transactions inputted into the accounting system be performed to avoid incorrect posting.
3. The Embassy obtains the financial reports from the Ministry of Finance and reconciles them with its own records on a monthly basis. Any discrepancies should be investigated and reported to the Ministry of Finance for correction in a timely manner.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

Finding No.14- Fixed Assets not accounted for properly

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All overseas missions shall annually furnish to the Ministry of Foreign affairs a listing of fixed assets that belong to the government under the custody of the Embassy, whether donated or purchased with funds appropriated to the Embassy. All fixed assets shall be marked to indicate government ownership. In addition, the Imprest Fund Operational Guidelines developed by the Secretary of Finance requires that a Fixed Assets register be maintained at the Embassy at all times. The Imprest Fund Guidelines further indicates that the Fixed Asset Register shall be updated every two years indicating all assets acquired and disposed of every two year period.

We obtained copy of the Fixed Assets Register (FAR) prepared by the Embassy for all assets or properties purchased during the periods under review. We noted that the FAR was updated at the time of our fieldwork. The FAR listed 305 assets, and of this total, we judgmentally selected 98 items; 83 from the Embassy & Residence and 15 from a former Embassy Official's residence to physically sight for existence and to determine if items were tagged to indicate government ownership. We found no tags on all the 98 items at the Embassy and at the two residences.

The lack of enforcement of RMI Policy on fixed assets recording, maintenance and monitoring creates the potential for loss of government properties to occur and not detected and corrected in a timely manner.

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Recommendation

We recommend that:

1. The Embassy maintains proper records of all capital assets under the custody of the Embassy. The records shall be updated to indicate all fixed assets acquired and disposed of after every two year. All that assets at the Embassy and residence should be tagged with government identification number to indicate government ownership.
2. The Ministry of Foreign Affairs shall conduct an independent and physical count of all fixed assets under custody of the Embassy on a regular basis to ensure an accurate and complete account of all fixed assets.

Auditee's Response

Response from the Embassy – See Appendix A

Response from the Ministry of Foreign Affairs – See Appendix B

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**Exhibits**

**Exhibit 1: Approved Operational Budget by line items**

Acct. #	Description	FY 2006	FY 2007	FY 2008	FY 2009	FY2010
<b>1010</b>	Salaries & Wage (Expat)	29,000	18,000	18,000	18,000	18,000
<b>1011</b>	Salaries & Wage (Marsh)	75,000	75,000	98,794	74,025	74,025
<b>1115</b>	Pers Benefit (Marsh)	7,717	7,717	7,717	7,717	7,717
<b>1116</b>	Employee Ins	0	163	163	1,000	1,000
<b>1510</b>	Professional Services	1,000	0	0	0	1,178
<b>1515</b>	Audit Expense	(46)	(28)	(17)	(1).	(3)
<b>2020</b>	Travel	2,000	12,430	10,700	26,151	2,321
<b>2021</b>	International Travel	6,945	6,945	22,428	7,433	15,500
<b>2110</b>	Cost of Living Allowance	45,000	30,000	28,750	35,000	35,000
<b>2115</b>	Leased & Rental Housing	74,490	80,200	97,755	88,027	99,403
<b>2123</b>	Repatriation & Home lv.	0	1,226	0	0	608
<b>2215</b>	Utilities	10,000	7,847	7,000	6,000	6,000
<b>2305</b>	Communication	9,899	6,861	6,000	3,200	5,152
<b>2320</b>	Printing & Reproduction	500	0	0	0	0
<b>2330</b>	Subscription, Dues, Fees	500	500	250	0	97
<b>2401</b>	Freight	500	0	1,163	0	0
<b>2405</b>	Office/Computer Supp	2,000	1,648	2,624	0	719
<b>2410</b>	Pol (Fuel)	2,000	629	1,130	0	5,584
<b>2445</b>	Water	500	0	500	0	0
<b>2450</b>	Other Supplies/Material	5,000	1,000	1,000	2,000	406
<b>2505</b>	Medical Supplies	0	0	0	0	921
<b>2605</b>	Representation	5,000	3,287	4,259	26,500	1,902
<b>2615</b>	Allowances	30,000	7,994	12,086	21,000	10,797
<b>2750</b>	Other Charges & Exp.	0	272	1,282	13,106	7,676
<b>3133</b>	Furniture & Fixtures	1,000	544	0	0	40,000
<b>Total</b>		<b>308,005</b>	<b>262,235</b>	<b>321,584</b>	<b>329,158</b>	<b>334,003</b>

*Source: Ministry of Finance Financial Budget Reports (DILOG 240-P)*

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Exhibit 2: Expenses Exceeded Budget Authorization

<b>Fiscal years</b>	<b>Account</b>	<b>Adjusted Budget</b>	<b>Expended</b>	<b>Budget Deficit</b>
<b>2007</b>	Salaries & wages Expat	\$18,000	\$19,598	\$(1,598)
	Employee Insurance Expense	163	814	(651)
	Travel	12,431	19,443	(7,012.55)
	International Travel	6,945	9,053	(2,108.21)
	Leased & Rental Housing	80,200	92,002	(11,801.71)
	Utilities	7,847	12,308	(4,461.02)
	Communication	6,861	15,587	(8,725.83)
	Office/computer supplies	1,647	7,334	(5,686.81)
	POL (Fuel)	629	1,115	(485.52)
	Representation	3,288	10,328	(7,040.55)
	Other charges & expenses	272	856	(584.63)
<b>2008</b>	Salaries & wages Expat	18,000	\$18,209	(209)
	Employee Insurance Expense	163	787	(624)
	Travel	10,700	18,482	(7,781)
	Repatriation & Home Leave	0	3,322	(3,322)
	Land Lease	0	3,750	(3,750)
	Utilities	7,000	8,236	,236)
	Communication	6,000	12,404	(6,404)
	Subscriptions Dues & Fee	251	507	(256)
	Office/Computer supplies	2,624	5,085	(2,461)
	POL (Fuel)	1,131	2,182	(1,052)
	Representation	4,259	15,155	(10,896)
	Furniture & Fixture	0	297	(297)
<b>2009</b>	Salaries & Wages Expat	\$18,000	\$21,247	(3,247)
	Salaries & Wages Marsh	74,025	74,310	(285)
	Employee Insurance Expense	1,000	1,037	(37)
	International Travel	7,433	12,216	(4,783)
	Lease & Rental Housing	88,027	116,909	(28,882)
	utilities	6,000	11,060	(5,060)
	Communication	3,200	15,094	(11,894)
	Subscription, Dues & Fee	0	517	(517)
	Office/Computer Supplies	0	4,805	(4,805)
	POL (Fuel)	0	2,999	(2,999)
	Other charges & expenses	13,106	17,549	(4,443)
	Furniture & Fixture	0	52	(52)

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<b>2010</b>	Travel	2,321	3,349	(1,028)
	International Travel	15,500	13,359	(29)
	Communication	5,153	6,923	(1,770)
	Other Supplies/Materials	406	706	(300)

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Exhibit 3 – A: Reconciliation of amounts claimed and amounts disbursed FY 2007

RMI Japan Embassy									
Reconciliation Between Amounts Claimed and Amounts Disbursed									
Fiscal years 2006 - 2010 (as of March 31, 2010)									
FY 2007 Report Date	Description	Amount per Reimbursement Reports			Amount per Cash/Check Registers			Variances	
		Yen	U.S Dollars	Exchange Rate	Yen	U.S Dollars	Exchange Rate	Yen Overage (Shortage)	U.S Dollars Overage (Shortage)
12/5/2006	October 2006 Reimbursement	656,089.00	\$5,561.96	117.96	656,089.00	\$5,561.96	{x}	0.00	(\$0.00)
Rpt not dtd	November 2006 Reimbursement	2,425,738.00	\$20,782.54	116.72	2,425,808.00	\$20,783.14	{x}	(70.00)	(\$0.60) {a}
Rpt not dtd	December 2006 Reimbursement	890,655.00	\$7,584.56	117.43	890,655.00	\$7,584.56	{x}	0.00	(\$0.00)
5/22/2007	January 2007 Reimbursement	1,765,432.00	\$14,686.23	120.21	1,765,425.00	\$14,686.17	{x}	7.00	\$0.06 {a}
6/29/2007	February 2007 Reimbursement	2,010,871.00	\$16,809.09	119.63	2,010,871.00	\$16,809.09	{x}	0.00	\$0.00
7/27/2007	March 2007 Reimbursement	1,007,211.00	\$8,501.11	118.48	987,071.00	\$8,331.12	{x}	20,140.00	\$169.99
8/16/2007	April 2007 Reimbursement	1,732,699.00	\$14,585.01	118.80	1,732,699.00	\$14,585.01	{x}	0.00	\$0.00
9/4/2007	May 2007 Reimbursement	2,031,188.00	\$16,825.61	120.72	2,031,188.00	\$16,825.61	{x}	0.00	(\$0.00)
10/5/2007	June 2007 Reimbursement	1,881,898.00	\$15,356.16	122.55	1,881,898.00	\$15,356.16	{x}	0.00	(\$0.00)
9/26/2007	July 2007 Reimbursement	764,817.00	\$6,315.06	121.11	764,817.00	\$6,315.06	{x}	0.00	\$0.00
10/6/2007	August 2007 Reimbursement	2,010,332.00	\$17,134.00	117.33	2,010,332.00	\$17,134.00	{x}	0.00	\$0.00
11/5/2007	September 2007 Reimbursement	5,429,965.00	\$46,980.14	115.58	1,089,039.00	\$9,422.38	{x}	4,340,926.00	\$37,557.76
	<b>TOTALS</b>	<b>22,606,895.00</b>	<b>\$191,121.47</b>		<b>18,245,892.00</b>	<b>\$153,394.27</b>		<b>4,361,003.00</b>	<b>\$37,727.20</b>
		!	!		!	!		!	!
! = Totalled & Footed									
{a} = Immaterial unidentified variances, not consider exceptions									
{x} = Exchange rate not indicated on cash/check register, therefore have used the rate indicated on the Reimbursement Report.									
	Copy of cash/check register obtained for file is incomplete as page 5 of 8 is missing. It is possible that varriance of Y20,140 (equivalent to \$170) could be related to the missing page.								
	Amount relates to September 2007 invoices and billings paid in October 2007. It appeared that these transactions were extracted out of the October 2007 cash/check register and included in the September 2007 reimbursement report submitted to the Ministry of Finance for reimbursement, rather than reporting them as October 2007 claims.								
<b>Test:</b> To determine whether expenditures reported to the Ministry of Finance for reimbursement agreed to amounts disbursed by the Embassy per the cash/check register.									
<b>Conclusion:</b> Based on the above, it appears that disbursements per the cash/check registers for FY 2007 were not reconciled or agreed to expenditures reported to the Ministry of Finance for reimbursement due to expenditures not reported in the proper periods they were disbursed.									

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Exhibit 3 – B: Reconciliation of amounts claimed and amounts disbursed FY 2008

RMI Japan Embassy Reconciliation Between Amounts Claimed and Amounts Disbursed Fiscal Year 2006 - 2010 (as of March 31, 2010)									
FY 2008 Report Date	Description	Amount per Reimbursement Reports			Amount per Cash/Check Registers			Variances	
		Yen	U.S Dollars	Exchange Rate	Yen	U.S Dollars	Exchange Rate	Yen Overage (Shortage)	U.S Dollars Overage (Shortage)
01/11/08	October 2007 Reimbursement	155,645.00	\$ 1,355.68	114.81	4,496,571.00	\$ 39,165.33	{x}	(4,340,926.00)	\$ (37,809.65)
01/09/08	November 2007 Reimbursement	1,195,908.00	\$ 10,599.20	112.83	1,195,908.00	\$ 10,599.20	{x}	0.00	\$ 0.00
	December 2007 Reimbursement	2,974,458.00	\$ 26,430.23	112.54	2,974,458.00	\$ 26,430.23	{x}	0.00	\$ 0.00
03/19/08	January 2008 Reimbursement	1,565,090.00	\$ 14,511.73	107.85	1,565,090.00	\$ 14,511.73	{x}	0.00	\$ 0.00
03/06/08	February 2008 Reimbursement	1,040,022.00	\$ 9,841.24	105.68	1,305,022.00	\$ 12,348.81	{x}	(265,000.00)	\$ (2,507.57)
05/30/08	March 2008 Reimbursement	708,498.00	\$ 6,895.36	102.75	708,498.00	\$ 6,895.36	{x}	0.00	\$ 0.00
07/14/08	April 2008 Reimbursement	2,832,071.00	\$ 28,040.31	101	2,832,071.00	\$ 28,040.31	{x}	0.00	\$ 0.00
07/25/08	May 2008 Reimbursement	716,446.00	\$ 6,900.85	103.82	716,446.00	\$ 6,900.85	{x}	0.00	\$ 0.00
Rpt not dtd	June 2008 Reimbursement	657,838.00	\$ 6,213.64	105.87	657,838.00	\$ 6,213.64	{x}	0.00	\$ 0.00
Rpt not dtd	July 2008 Reimbursement	1,783,184.00	\$ 17,175.73	107.19	1,783,193.00	\$ 16,635.81	{x}	(9.00)	\$ 539.92 {b}
Rpt not dtd	August 2008 Reimbursement	1,263,593.00	\$ 11,740.16	107.63	1,263,593.00	\$ 11,740.16	{x}	0.00	\$ 0.00
Rpt not dtd	September 2008 Reimbursement	4,364,733.00	\$ 40,622.00	107.45	2,212,554.00	\$ 20,591.48	{x}	2,152,179.00	\$ 20,030.52
	September 2008- additional	750,683.00	\$ 6,986.35	107.45	-	\$ -		750,683.00	\$ 6,986.35
	<b>Totals</b>	<b>20,008,169.00</b>	<b>\$ 187,312.48</b>		<b>21,711,242.00</b>	<b>\$ 200,072.89</b>		<b>(1,703,073.00)</b>	<b>\$ (12,760.41)</b>
		!	!		!	!		!	!
! = Totalled & Footed									
{b} = Variance is caused by incorrect application of exchange rate, resulting in over reporting of expenses									
{x} = Exchange rate not indicated to convert to U.S. dollars, therefore have used the rate indicated on the Reimbursement Report.									
	Amount relates to September 2007 invoices and billings paid in October 2007. The Embassy extracted these out of the October 2007 cash/check register and included them in the September 2007 reimbursement report submitted to the Ministry of Finance for reimbursement, rather than reporting them as October 2007 claims,								
	Amount relates to difference in claim for lease housing (Embassy lease). Ministry of Finance has identified this amount in its imprest fund reconciliation at 9/30/09 as unrecorded disbursement.								
	Amounts relate to September 2008 invoices and billings that were paid in October 2008. It appeared that these transactions were pull out of the October 2008 cash/check register and included in the September 2008 reimbursement report submitted to the Ministry of Finance for reimbursement, rather than reported as October 2008 claims. In addition, Ministry of Finance has identified certain discrepancies in the September 2008 reimbursement report totaling Y750,683 and informed the Embassy to report these as additional claims for September 2008								
<b>Test:</b> To determine whether expenditures reported to the Ministry of Finance for reimbursement agreed to amount disbursed per the cash/check registers.									
<b>Conclusion:</b> Based on the above, it appears that disbursements per the cash/check registers for FY 2008 were not reconciled or agreed to expenditures reported to the Ministry of Finance for reimbursement due to expenditures not reported in the period they were disbursed.									

**Office of the Auditor-General  
Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)**

**Exhibit 3 – C: Reconciliation of amounts claimed and amounts disbursed FY 2009**

RMI Japan Embassy										
Reconciliation Between Amounts Claimed and Amounts Disbursed										
Fiscal Year 2006 - 2010 (as of March 31, 2010)										
FY 2009	Amount per Reimbursement Reports				Amount per Cash/Check Registers				Variances	
Report Date	Description	Yen	U.S Dollars	Exchange Rate	Yen	U.S Dollars	Exchange Rate	Yen Overage (Shortage)	U.S Dollars Overage (Shortage)	
11/25/08	October 2008 Claims	758,781.00	\$ 7,476.00	101.5	3,072,949.00	\$ 30,275.36	{x}	(2,314,168.00)	\$ (22,799.36)	
Rpt not dtd	November 2008 Claims	2,665,723.00	\$ 26,572.00	100.32	3,031,296.00	\$ 30,216.27	{x}	(365,573.00)	\$ (3,644.27)	
Rpt not dtd	December 2008 Claims	919,916.00	\$ 9,783.00	94.03	1,067,610.00	\$ 11,353.93	{x}	(147,694.00)	\$ (1,570.93)	
02/19/09	January 2009 Claims	2,915,346.00	\$ 31,706.00	91.95	2,915,346.00	\$ 31,706.00	{x}	0.00	0.00	
04/28/09	February 2009 Claims	1,061,826.00	\$ 11,197.00	94.83	1,061,826.00	\$ 11,197.00	{x}	0.00	0.00	
05/28/09	March 2009 Claims	1,644,065.00	\$ 16,717.00	94.83	1,644,065.00	\$ 17,336.97	{x}	0.00	\$ (619.97)	{b}
Rpt not dtd	April 2009 Claims	1,904,050.00	\$ 19,272.00	98.8	1,904,050.00	\$ 19,272.00	{x}	0.00	0.00	
07/01/09	May 2009 Claims	751,077.00	\$ 7,975.00	94.18	751,136.00	\$ 7,975.00	{x}	(59.00)	0.00	{a}
Rpt not dtd	June 2009 Claims	2,424,218.00	\$ 25,419.00	95.37	2,424,218.00	\$ 25,419.00	{x}	0.00	0.00	
Rpt not dtd	July 2009 Claims	1,518,789.00	\$ 15,637.00	97.13	1,518,789.00	\$ 15,637.00	{x}	0.00	0.00	
Rpt not dtd	August 2009 Claims	1,552,063.00	\$ 16,375.00	94.78	1,311,067.00	\$ 13,832.74	{x}	240,996.00	\$ 2,542.26	
Rpt not dtd	September 2009 Claims	2,160,354.00	\$ 23,482.00	94.78	2,160,354.00	\$ 22,793.35	{x}	0.00	\$ 688.65	{b}
Rpt not dtd	September 2009 Addn'l Claims	1,895,123.00	\$ 20,599.00	94.78	-	\$ -		1,895,123.00	\$ 20,599.00	
	<b>TOTALS</b>	<b>22,171,331.00</b>	<b>\$ 232,210.00</b>		<b>22,862,706.00</b>	<b>\$ 237,014.62</b>		<b>(691,375.00)</b>	<b>\$ (4,804.62)</b>	
		!	!		!	!		!	!	
! = Totalled & Footed										
{a} = Immaterial unidentified variances, not consider exceptions										
{b} = Variance is caused by incorrect application of exchange rate, resulting in over reporting of expenses										
{x} = Exchange rate not indicated to convert to U.S. dollars, therefore have used the rate indicated on the Reimbursement Report.										
	Amount relates to September 2008 invoices and billings that were paid in October 2008. It appears that the Embassy extracted these out of the October 2008 cash/check register and included them in the September 2008 reimbursement report submitted to the Ministry of Finance for reimbursement, rather than reporting them as October 2008 claims									
	Actual variance is Y433,072, which relates to September 2008 invoices & billings that were paid in November 2008. Of this amount, Y67,500 related to salaries for September 2008 that was paid in November 2008 and reported for reimbursement as additional claims for September 2008. Noted also that this amount was also reported in the November reimbursement report, therefore it appeared that the Embassy was reimbursed twice for this amount									
	Amount relates to Salaries for a contract employee for September 2008 that was paid in December 2008. The Embassy extracted this out of the December 2008 cash/check register and included in the September 2008 additional claims, rather than reporting it as December 2008 claim.									
	Amount appeared to be not recorded in the cash/check register for August 2009 but was reported for reimbursement and charged under Other Charges & Expenses. This amount was reflected in the Ministry of Finance imprest fund reconciliation as excess claim of bank charges.									
	Cash/check registers subsequent to September 30, 2009 were not available for review, therefore we were unable to determine whether these additional claims reported for reimbursement were related to September 2009 expenditures.									
	<b>Test:</b> To determine whether claims reported to the Ministry of Finance for reimbursement agreed to amounts disbursed per the cash/check registers.									
	<b>Conclusion:</b> Based on the above, it appears that disbursements per the cash/check registers for FY 2009 were not reconciled or agreed to expenditures reported to the Ministry of Finance for reimbursement due to expenditures not reported in the period they were disbursed.									

**Office of the Auditor-General**  
**Inspection of the RMI Embassy in Tokyo, Japan**  
**Fiscal Years 2006 to 2010 (as of March 31, 2010)**

Exhibit 4: Summary of Disallowed Claims

<b>Schedule of Disallowed claims &amp; Employee Allowances</b>						
<b>Description</b>	<b>Travel</b>	<b>Tuition</b>	<b>Employee Adv</b>	<b>Leased Housing</b>	<b>Utilities</b>	<b>Other Chrgs</b>
TA Claims not Reimbursed in October	¥ 1,747,233.00					
Ambassador's Trip to Nagoya, not reimbursed in Nov	¥ 350,000.00					
Tuition not reimbursed in October (no docs provided)		¥ 43,370.00				
Due from Ambassador			¥ 551,778.01			
December 2004 Unpaid Claims Utilites					¥ 57,742.00	
Disallowed Expense to attend/meet President's delegation						¥ 702,573.00
Disallowed International travel for Feb 2007	¥ 581,969.00					
Disallowed charges/exp (per April 2007)						¥ 16,518.00
Diff in claim for leased housing (724,520-459,520)				¥ 265,000.00		
Advance to Mr.Shu for use as Fuel(3/28/09)			¥ 20,000.00			
<b>TOTAL</b>	<b>¥ 2,679,202.00</b>	<b>¥ 43,370.00</b>	<b>¥ 571,778.01</b>	<b>¥ 265,000.00</b>	<b>¥ 57,742.00</b>	<b>¥ 719,091.00</b>
<i>Source: Imprest Account Reconciliation performed by Ministry of Finance as of September 30, 2009</i>						
<b>Summary</b>	<b>Yen</b>	<b>US Dollar</b>				
<b>Travel</b>	¥ 2,679,202.00	\$ 26,532.01				
<b>Tuition</b>	¥ 43,370.00	\$ 429.49				
<b>Employee Advance</b>	¥ 571,778.01	\$ 5,662.29				
<b>Lease Housing</b>	¥ 265,000.00	\$ 2,624.28				
<b>Utilities</b>	¥ 57,742.00	\$ 571.82				
<b>Other Charges</b>	¥ 719,091.00	\$ 7,121.12				
<b>Total</b>	<b>¥ 4,336,183.01</b>	<b>\$ 42,941.01</b>				

**Office of the Auditor-General  
 Inspection of the RMI Embassy in Tokyo, Japan  
 Fiscal Years 2006 to 2010 (as of March 31, 2010)**

Exhibit 5: Breakdown of Utility and Communication expenses during fiscal years 2006 through 2009

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Utility Expenses

Utility	2006	2007	2008	2009	TOTAL
<b>Ambassador</b>	\$1,072	\$101	\$265	\$132	<b>\$1,570</b>
<b>DCM</b>	\$2,798	\$3,187	\$2,687	\$3,097	<b>\$11,769</b>
<b>Embassy</b>	\$7,977	\$9,021	\$5,286	\$7,862	<b>\$30,146</b>
<b>Total</b>	\$11,847	\$12,309	\$8,238	\$11,091	<b>\$43,485</b>

*Source:* Monthly Check/Cash Registers and Ministry of Finance Budget Reports (240-P)

Communication Expenses

Communication	2006	2007	2008	2009	TOTAL
<b>Ambassador</b>	\$612	\$771	\$772	\$754	<b>\$2,909</b>
<b>DCM</b>	\$1,304	\$1,812	\$1,474	\$3,104	<b>\$7,694</b>
<b>Embassy</b>	\$14,525	\$12,987	\$10,098	\$11,156	<b>\$48,766</b>
<b>Total</b>	\$16,441	\$15,570	\$12,344	\$15,014	<b>\$59,369</b>

*Source:* Monthly Check/Cash Registers and Ministry of Finance Budget Reports (240-P)

Office of the Auditor-General  
Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)

Appendices

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Appendix A: Embassy Response to Recommendation

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EMBASSY OF THE REPUBLIC OF THE  
MARSHALL ISLANDS

Meiji Park Heights 101, 9-9 Minamimoto-machi, Shinjuku-ku, Tokyo 160-0012 Japan

23 May 2014

Mr. Junior Patrick  
Auditor General  
Office of the Auditor General  
P.O. Box 245  
Majuro, Marshall Islands 96960



Dear Mr. Patrick:

**RE: Embassy of the Republic of the Marshall Islands'  
Comments to the Draft Review Report of RMI Embassy in Tokyo, Japan**

The Embassy of the Republic of the Marshall Islands wishes to forward to your attention the attached Comments of the Embassy to the Draft Review Report of the RMI Embassy in Tokyo submitted by your office on 02 May 2014.

Should you have any questions or concerns regarding the Embassy's comments to the draft report, please do not hesitate to contact the Embassy. Kommol tata.

Sincerely,

  
Tom D. Kilmer  
Ambassador

Cc : Hon. Tony A. deBrum, Minister of Foreign Affairs  
Hon. Jack Ading, Minister of Finance

Info : Mr. Alfred Alfred, Jr., Secretary of Finance  
Mr. Gee Leong Bing, Acting Secretary of Foreign Affairs

**Office of the Auditor-General  
Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)**

**Comments to the Office of the Auditor General's (OAG)  
Draft Review Report of  
The RMI Embassy in Japan for Fiscal Years 2006-2009**

**Finding No.1 – Lack of Reconciliation of Embassy's Account**

- The Embassy is in agreement with the OAG's recommendation (1) for the Embassy to reconcile the Imprest Fund (IF) and IF bank account on a monthly basis to ensure all transactions are properly accounted for.

**Finding No.2 – Bank Account Issues**

OAG's Recommendations:

1. Checks are Drawn for Cash:
  - As noted in the OAG's draft report, the practice of **writing checks for cash is required for the Embassy's vendors including chancery, utility companies as well as office supplies companies, the local-hired employees of the Embassy and the daily operational needs of the Embassy**, therefore, the Embassy disagrees with the OAG's recommendation to cease the practice of drawing checks to cash to pay for the Embassy's vendors and its daily operation. Japan no-longer uses checks, only cash.
2. Embassy does not maintain two-signatory policy for its bank account and its postal account:
  - As indicated above, Japan only uses cash, therefore, there is no need for the Embassy to maintain two-signatory policy for its bank and postal accounts.
3. Cancelled Checks not returned to the Embassy:
  - In the case of the cancelled checks that were not returned to the Embassy in 2009, the current Ambassador, DCM and other employees of the Embassy were not posted to the Embassy during that period and cannot make comments on this, however, the Embassy agrees to work out a solution with the custodial bank to obtain, at the minimum, copies of all cancelled checks issued to enable the Embassy to verify all checks endorsements.

**Finding No.3 – Embassy Operational Expenses Exceeded Budget Authorizations**

- The Embassy does not have any comments on this finding as both the current Ambassador and DCM were posted at the Embassy when these operations/expenses took place however, the Embassy is in **full agreement with the OAG's recommendation for the Ministry of Finance (MoF) to implement the quarterly allotment Scheme for the Embassy's expenditures to ensure that there is available funding for operation through the fiscal year.**

**Office of the Auditor-General  
Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)**

**Finding No.4 – Lack of documentation to support budget transfer & reprogramming**

- The Embassy duly noted the OAG’s finding on the lack of documentation to support budget transfer & reprogramming and further advise that the Embassy will comply with the policy to submit all required documentation to support budget transfers and reprogramming.
- The Embassy recommends that the Office of the Auditor General, the Ministry of Finance and the Ministry of Foreign Affairs (MOFA) further investigate the \$24K that was transferred to an unknown/unauthorized account in the 2009.

**Finding No.5 – Monthly Reimbursement Reports not submitted in a timely manner**

- The Embassy do noted that Monthly Reimbursement Reports are not submitted in a timely manner due to post mail problem whereas, posting mail to the Marshall Islands from Japan is categorized as International post mails, which is not only expensive but also it takes weeks and at times a month or so for a parcel to reach its final destination. In addition to the delay in the delivering of these original copies of reports, all RMI Government mails are required to be picked up from the post office by the Supplies and Procurements Office of the Ministry of Finance, which will required additional days for a report to reach the Ministry of Foreign Affairs for final review and signature before transmittal to the Ministry of Finance for processing of reimbursement.
- **The Embassy’s recommendation on this matter:** All parcels/packages from the Embassy containing Financial Reports and other important and urgent documents will be **post-mailed (registered express mails) from the U.S. Military base in Yokohama not only to avoid costly mailing expenses but also to ensure that reports are submitted in a timely manner.**

Furthermore, the Embassy **recommends that all pacels/packages from the Embassy containing Monthly Financial Reports and other important and urgent documents should be picked up from the Majuro post office by the Ministry of Foreign Affairs to ensure that there’s no delay in reviewing and submitting report to the Ministry of Finance for further processing of reimbursements.** Other packages containing office materials and supplies should only be picked up by the Office of Supplies and Procurements of the Ministry of Finance.

**Finding No.6 – Disbursements per Check Register not reconciled with monthly Replenishment Reports**

**Office of the Auditor-General**  
**Inspection of the RMI Embassy in Tokyo, Japan**  
**Fiscal Years 2006 to 2010 (as of March 31, 2010)**

- The Embassy duly noted this finding and concerns and further agrees the OAG's recommendations to ensure expenditures are reported in the proper periods and ensure that only legitimate expenses are included in the monthly reports for reimbursements.

**Finding No.7 – Disallowed Expenditures**

- The Embassy duly noted this finding and further agrees to only incur expenses that are Embassy or official-related and to ensure that all expenses submitted for reimbursement are adequately supported with proper receipts and documentations.

Further, the Embassy recommends that the OAG continues its duty and further investigate the nature of the disallowed claims accumulated during fiscal year 2006.

**Finding No.8 – Personal Living Expenses paid by the Embassy**

- The Embassy agrees to the finding and recommendations set forth by the OAG in regards to Personal Living Expenses paid by the Embassy and assure that all personal living expenses of the Embassy's employees are being paid personally by the employees excluding housing rentals and payments of utilities (electricity and water) which are being paid by the Embassy as per the Ambassador and DCM's contracts/agreements with the MOFA, MoF and Public Service Commission (PSC).

**Finding No.9 – Personal travels paid by the Embassy**

- The Embassy duly noted this finding and its recommendations and further recommends that OAG, MOFA and MoF continue to pursue investigation in regards to this.

**Finding No.10 – School Allowances**

- The Embassy duly noted the OAG's finding in regards to School Allowances and further recommends for MoF to implement the quarterly allotment Scheme for the dependents school allowances to ensure that there is available school funding for each dependents through a fiscal year.

**Finding No.11 – Housing Rental exceeded the Authorized Amount**

- The Embassy noted this finding however, is in total disagreement with the practice of "the government policy on housing allowance as stipulate under [CM 024(89) of USD \$750" as said rate is not applicable in Japan. For instance, housing rental fees for the Embassy and the DCM's apartment exceeds USD \$2000 plus, hence, the government policy of housing allowance of \$750 should not be applied to the Embassy.

**Office of the Auditor-General  
Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)**

**Finding No.12 – Lack of System in place to monitor communication expenses**

- The Embassy agrees to the recommendations set forth by the OAG in regards lack of system in place to monitor communication expenses and wishes to assure both AOG and the MoF that with the Assistance of Marshall Islands Telecommunication Authority (MINTA), the Embassy and almost all RMI Missions are using IP phones with Majuro local numbers that enable the Missions to make local calls to the RMI with less or/no costs.

**Finding No.13 – Misclassification of Embassy Expenditures**

- The Embassy fully noted the above-named finding and recommendations of the OAG and assure that it will coordinates accordingly with MOFA to systematically review the expenditures from the Embassy for proper account classification prior to submission of financial reports to MoF and further coordinate with both MOFA and MoF to reconcile financial reports on a monthly basis.

**Finding No.14 – Fixed Assets not accounted for properly**

- The Embassy agrees to maintain a proper record/listing of all fixed assets that belong to the government under the custody of the Embassy, whether donated or purchased with fund appropriated to the Embassy to ensure that assets are marked to indicate the government's ownership and further agrees to maintain a Fixed Assets register as per the IF operational Guidelines developed by MoF.

Office of the Auditor-General  
Inspection of the RMI Embassy in Tokyo, Japan  
Fiscal Years 2006 to 2010 (as of March 31, 2010)

Appendix B: Ministry of Foreign Affairs responses to Recommendation

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REPUBLIC OF THE MARSHALL ISLANDS  
MINISTRY OF FOREIGN AFFAIRS  
PO BOX 1349  
MAJURO, MARSHALL ISLANDS 96960

May 23, 2014



Junior Patrick  
Auditor-General  
Office of the Auditor General  
Majuro Marshall Islands 96960

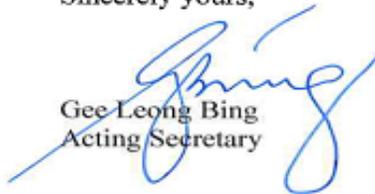
**Re: Draft Review Report of RMI Embassy in Tokyo Japan**

Dear Mr. Patrick,

In respond to your letter of May 02, 2014, the Ministry wishes to forward its response to the draft review report of the RMI Embassy in Tokyo Japan for fiscal years 2006 to 2010.

Please find attachments, our written response to the finding and recommendations and should you have any questions, please don't hesitate to contact our office at the numbers below.

Sincerely yours,

  
Gee Leong Bing  
Acting Secretary

**Finding No.1 Response- Lack of Reconciliation of Embassy's Accounts**

The Ministry agrees with this finding and the recommendation, and therefore would pursue means to attain this. One way the Ministry can achieve this is through the Imprest Fund training that it expects to undergo this year. Areas covered in this training will include Bank Reconciliation and Imprest Fund reconciliation, which is currently lacking at most of the RMI Embassies or Consulate Offices overseas. Subsequent to the training, the Ministry will work with Finance to complete the Imprest Fund Procedures and Operational Guidelines (SOPs).

**Finding No.2 Response – Bank Account Issues**

**2.1 Checks are drawn for Cash**

The RMI Embassy operates on in cash only, which means, any purchases done requires cash payment because vendors in Japan do not accept checks. However, the Ministry agrees with the recommendation that large withdrawals have to reflect the actual amount of invoices and billings. In addition, the Ministry will separate the cash management of petty cash from large cash withdrawal. That is, Petty Cash register will only reflects small purchases, while big withdrawals will be based on the exact amount of billings and invoices, which will prevent the case of excess cash. Moreover, we agree with small purchases will come from the Petty Cash (USD\$500) that needs to be reconciled before each replenishment.

**2.2 Embassy does not maintain two-signatory policy for its bank account and its postal account**

The Ministry agrees with the recommendation that requires two signatory for all checks drawn from the Imprest Fund Checking Account. The Ministry will work with the Embassy to maintain a two signatory policy on Embassy's account for better control.

**2.3 Cancelled Checks not returned to the Embassy**

No Comments

**Finding No. 3- Embassy Operational Expenses Exceeded Budget Authorization**

This might have resulted from the followings:

- Approved transfer requests not properly recorded and posted.
- Funding levels not enough for the Embassy's operation

**Finding No. 4- Lack of documentation to support budget transfers and reprogramming**

The Ministry will ensure its filing systems are properly maintained with both hard copies and electronic copies stored away.

**Finding No. 5 – Monthly Reimbursement Reports not submitted in a timely manner**

The Ministry agrees with this finding and will take the recommendations provided, and will work with Japan's embassy to improve its reporting cycles.

**Finding No. 6- Disbursements per Check Register not reconciled with monthly Replenishment Reports**

The Ministry agrees with the finding and the recommendation, and will ensure that Monthly Imprest fund report coincides with the monthly cash register. Any discrepancies found will be discussed with the Embassy.

**Finding No.7 – Disallowed Expenses**

The Ministry agrees with the findings and will further address the recommendations to move forward.

**Finding No. 8- Personal Living Expenses paid by Embassy**

The Ministry agrees with the finding and the recommendation. The Ministry will further review its foreign diplomatic contracts to give details pertaining to entitlements and such. Furthermore, the Ministry should have adopted policies that spell out what is allowable in the imprest fund.

**Finding No. 9- Personal travels paid by Embassy**

The Ministry agrees with the findings and will further address the recommendations to move forward.

**Finding No.10 –School Allowances**

The Ministry agrees with the finding and the recommendation. However, the Ministry would like to note the followings:

- Review educational costs in Japan (consider funding level relevant to Japan international school).
- Review what are allowable under educational allowance.

**Finding No. 11 – Housing Rental exceeded the Authorized Amount**

The Ministry agrees with the finding and the recommendation. However, the Ministry would like to note the followings:

- Consider the higher residential rental costs (Average USD\$3k/mnth.)
- Review contracts entitlements.

**Finding No. 12 – lack of system in place to monitor communication expenses**

The Ministry agrees with the finding and the recommendation. However, the Ministry would like to note the following:

- Ministry has already established Voice Over Internet Protocol (VOIP) – a fixed local telephone lines to cut communication costs from Japan to RMI and vice versa (625-9983).

**Finding No. 13- Misclassification of Embassy Expenditures**

The Ministry agrees with the finding and the recommendation and will work with Embassy to ensure that correct expense accounts are charged. The upcoming Imprest Fund (2014) training will address this issue.

**Finding No. 14 – Fixed Assets not accounted for properly**

The Ministry agrees with the finding and the recommendation. The Ministry will implement recommended FAR and its requirement.

Appendix C: Auditors' response to the comments from the Embassy

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**Finding No 2: Bank accounts Issues**

Checks drawn to Cash

We acknowledge the comments by the Embassy with respect to the current practice of 'drawing checks for cash' to pay for daily operational costs. In our report we highlighted that there is a risk involved with the current practice of writing checks for cash to pay for the Embassy recurrent operational costs. We consider that it is the responsibility of the Embassy to implement our recommendation to ensure that cash withdrawals are based on actual invoice amount. We also would like to reiterate our recommendation that policies and procedures must be put in place to govern the current practice of drawing checks for cash to pay for operational costs, in the event the such cannot be avoided because vendors require payment by cash, and to consider establishing a petty cash within the Imprest Fund account for smaller purchases.

Embassy does not maintain two-signature policy for its bank account and postal account

We acknowledge the comments from the Embassy on the two-signature policy on all check payments. In our report, we highlighted that two-signature policy is an internal control that will ensure that at least two people must agree that every withdrawal is appropriate for valid official purposes. Therefore, we consider that it is the responsibility of the Embassy to actively pursue our recommendation to ensure that two people must give approval on all checks issue and/or cash withdrawal from the Embassy Imprest Fund account.

**Finding No 11: Housing Rental exceeded the Authorized Amount**

We acknowledge the comments from the Embassy on applicability of government housing allowance in Japan. However, we retain the finding and recommendation because of the following reasons: (1) Government ceiling on housing allowance of \$750 per month pursuant to Cabinet Minute No. C.M. 024 (89) does not exempt Japan. Therefore, it is our view that any exemption to increase housing allowance from the current ceiling must be approved by the Cabinet. (2) We question the appropriateness of charging 100% of housing costs to the Embassy Imprest Fund when a cost of living allowance or COLA was provided, which intention is to supplement costs of living in the host nation.

**Office of the Auditor-General  
 Inspection of the RMI Embassy in Tokyo, Japan  
 Fiscal Years 2006 to 2010 (as of March 31, 2010)**

Appendix D: Responses Required To Clear Audit From OAG Follow-Up System

NO	FINDINGS	ACTION TO BE TAKEN
1	<b>Lack of Reconciliation of Embassy's Accounts</b>	<u>MoFA &amp; Embassy:</u> <ol style="list-style-type: none"> <li>1. Provide copies of latest reconciliations for the Bank account and the Embassy Imprest Fund.</li> <li>2. Provide copies of new policies requiring timely reconciliation of Embassy Imprest and bank account.</li> <li>3. Provide written assurance that training will be provided to Embassy staff responsible for reconciliation of Embassy's account.</li> </ol>
2	<b>Bank Account Issues:</b>  Cash drawn for Cash  Maintenance of Two-signatures policy  Cancelled Checks not returned	<u>MoFA &amp; Embassy:</u> <ol style="list-style-type: none"> <li>1. Provide copies of written policies and procedures establish to govern drawing of checks to cash to pay recurrent operational activities.</li> <li>2. Provide written assurance that two-signature policy has been implemented.</li> <li>3. Provide written confirmation that the Embassy has worked out a solution with the custodial bank to obtain copies of bank cancelled (paid) checks.</li> </ol>
3	<b>Embassy Operational Expenses Exceeded Budget Authorizations</b>	<u>MoFA &amp; Embassy:</u> <ol style="list-style-type: none"> <li>1. Provide written assurances that future expenses will be incurred in accordance within appropriated amounts.</li> <li>2. Provide copy of new monitoring tool (e.g. spreadsheet) to monitor spending and budget authorizations.</li> </ol>

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		<p>3. Provide written assurance that future budget will take into consideration all operational needs of the Embassy.</p> <p><u>MoF:</u></p> <p>4. Provide copies of additional measures to ensure all spending are in accordance with budget requirement and ceilings</p> <p>5. Provide written confirmation that quarterly budget allotment scheme will be implemented to ensure there is budget for the Embassy throughout a fiscal year.</p>
<b>4</b>	<b>Lack of documentation to support budget transfers and reprogramming</b>	<p><u>MoFA &amp; Embassy:</u></p> <p>Provide written assurance our recommendations to address budget issues identified in our report will be implemented.</p>
<b>5</b>	<b>Monthly Reimbursement Reports not submitted in a timely manner</b>	<p><u>MoFA &amp; Embassy:</u></p> <p>Provide written confirmation that additional measures has been put in place to requiring timely submission of monthly expenses report and timely to ensure imprest fund is replenished in a timely manner.</p>
<b>6</b>	<b>Disbursement per Check Register are not reconciled with monthly Replenishment Reports.</b>	<p><u>MoFA &amp; Embassy:</u></p> <p>1. Provide written copies of policies and procedures requiring proper reporting of Embassy expenses.</p> <p>2. Provide written assurance of review of Embassy expenses is being performed to ensure all expenses are official-related and reported for reimbursement.</p> <p><u>MoF:</u></p> <p>3. Provide written copies of action taken to offset the overpayment in salaries of \$673 excess claims in bank charges of \$2,542</p>

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		from future Embassy claims.
<b>7</b>	<b>Disallowed Expenditures</b>	<p><u>MoFA &amp; Embassy:</u></p> <ol style="list-style-type: none"> <li>1. Provide written assurance that additional measures have been instituted to ensure only official-related expenses is paid out of the Embassy Imprest Fund account.</li> <li>2. Provide copy of final determination on the disallowed claims accumulated at \$42,941 and \$2,137 highlighted in our report.</li> </ol>
<b>8</b>	<b>Personal Living Expenses paid by the Embassy</b>	<p><u>MoFA &amp; Embassy:</u></p> <ol style="list-style-type: none"> <li>1. Provide copy of written guidelines and policies that indicates clearly the intention of the Cost of Living Allowance (COLA) and also specify types of living expenses that are covered by the allowance.</li> </ol> <p>MoF:</p> <ol style="list-style-type: none"> <li>2. To provide written confirmation that reimbursements report are being carefully reviewed for appropriateness and eligibility of expenses prior to process of reimbursement check to ensure all questionable and unrelated expenses are not reimbursed.</li> </ol>
<b>9.</b>	<b>Personal travels paid by Embassy</b>	<p><u>MoFA &amp; Embassy:</u></p> <ol style="list-style-type: none"> <li>1. Provide written assurance of complying with established imprest fund guidelines and procedures that restrict from borrowing from the Embassy Imprest Fund account.</li> <li>2. Provide written confirmation that personal travels paid by the government have been</li> </ol>

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		<p>recovered and put back to the Embassy Imprest Fund account.</p> <p><u>MoF:</u></p> <p>3. Provide written confirmation that reimbursements report are being carefully reviewed for appropriateness and eligibility of expenses prior to process of reimbursement check to ensure all questionable and unrelated expenses are not reimbursed.</p>
<p><b>10.</b></p>	<p><b>School Allowances</b></p>	<p><u>MoFA &amp; Embassy:</u></p> <p>1. Provide written assurance that Embassy will ensure school/tuition expenses are incurred based on the authorized amount per contract agreement.</p> <p>2. Provide written confirmation that future contracts for diplomat personnel will clearly indicates entitlements (education allowance, etc) and in a consistent manner.</p> <p><u>MoF:</u></p> <p>3. Provide written assurance that reviews will be carefully performed on all future Embassy reimbursement reports for appropriateness to ensure unsupported, questionable, and non–Embassy related expenditures are not reimbursed by the Government.</p>
<p><b>11.</b></p>	<p><b>Housing Rental exceeded the Authorized Amounts</b></p>	<p><u>MoFA &amp; Embassy:</u></p> <p>1. Provide written copies of exemption by</p>

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		<p>Cabinet on policy housing pursuant to Cabinet Minute 024(89).</p> <p>2. Provide copies of new policies and procedures that indicate clearly the intention of the COLA and new policy that specifically indicates that personal living expenses that are covered by the Cost of Living Allowance or COLA are not to be charged to the Embassy Imprest Fund</p> <p><u>MoF:</u></p> <p>3. Provide written confirmation that Embassy reimbursement request are being reviewed carefully for eligibility of all expenses prior to process of reimbursement check to ensure all questionable and unrelated Embassy expenses are not reimbursed from the Government.</p>
<p><b>12.</b></p>	<p><b>Lack of system in place to monitor communication expenses.</b></p>	<p><u>MoFA &amp; Embassy:</u></p> <p>1. Provide written confirmation that a telephone log-sheet is being maintained at the Embassy to monitor all call from the Embassy and Residences. At the minimum, the log-sheet should indicate who is making the calls, purpose and duration.</p> <p>2. Provide written copies of policies and procedures that govern the use of telephone at the Embassy and the Residence.</p> <p><u>MoF:</u></p> <p>3. Provide written assurance that Embassy reimbursement reports are being reviewed and scrutinized carefully for appropriateness of all communication expenses before replenishing the Embassy</p>

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		<p>Imprest Fund account to ensure all unsupported, questionable, and non-Embassy related telephone expenses are not reimbursed by the Government.</p>
<p><b>13.</b></p>	<p><b>Misclassification of Expenditures.</b></p>	<p><u>MoFA &amp; Embassy:</u></p> <ol style="list-style-type: none"> <li>1. Provide written confirmation that future Embassy expenditures will be carefully reviewed for proper account classification prior to submitting to the Ministry of Finance for reimbursements.</li> <li>2. Provide written assurance that periodic reconciliation of Embassy account is being performed with the Ministry of Finance accounts to ensure discrepancies are corrected in a timely manner.</li> </ol> <p><u>MoF:</u></p> <ol style="list-style-type: none"> <li>3. Provide written assurance that an independent review of transactions inputted into the accounting system is being performed to avoid incorrect posting.</li> </ol>
<p><b>14.</b></p>	<p><b>Fixed Assets not accounted for properly</b></p>	<p><u>MoFA &amp; Embassy:</u></p> <ol style="list-style-type: none"> <li>1. Provide written copies of updated capital assets listing for all fixed assets under the custody of the Embassy and copies of identification numbers that indicate government ownership.</li> <li>2. Provide written confirmation that an independent and physical count of all fixed assets is being performed to ensure</li> </ol>

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		accurate and complete account of all fixed assets.
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