

REPUBLIC OF THE MARSHALL ISLANDS

OFFICE OF THE AUDITOR-GENERAL



Review of the RMI Embassy in Taipei, Taiwan
Fiscal Years 2007 to 2010 (as of March 31st, 2010)

Audit No: 16/09-1672

March 13, 2013



REPUBLIC OF THE MARSHALL ISLANDS

Office of the Auditor-General

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March 13, 2013

Honorable Phillip Muller
Minister of Foreign Affairs
Majuro, Republic of the Marshall Islands
96960

Executive Summary

Dear Minister:

Enclosed herein is our report entitled “Review of the RMI Embassy in Taipei, Taiwan”.

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. The review is the second undertaken by the Office of the Auditor-General on the Embassy’s operation and covered fiscal years 2007, 2008, 2009 and first half of FY2010 or up to March 31st, 2010.

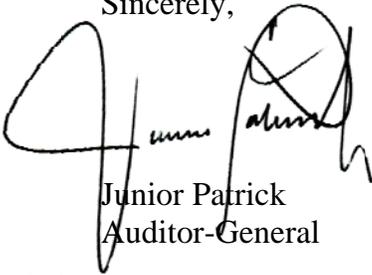
During our review, we found that financial activities of the Embassy did not comply with relevant RMI laws and policies in many instances. It appeared that RMI laws and policies were overridden for convenience and flexibility of operation. These non-compliance issues are reported as audit findings and discussed in greater detail throughout our report. We also noted that certain Guidelines and Procedures were instituted to improve the operation of the Embassy Imprest Fund accounts; however, these procedures have not been implemented effectively and followed. Generally, there is a lack of oversight over the activities of the Embassy and enforcement of RMI policies.

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 report requesting their responses in writing. We appreciated the prompt responses from the Secretary of Foreign Affairs and the Ambassador, which we have included as Appendix I and Appendix II, respectively.

The most important outcome of any audit or review is the correction of past deficiencies and an improvement in the internal controls. 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 V to be taken by your Ministry.

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,



Junior Patrick
Auditor-General

03/13/2013

Cc: President
Minister of Finance
Secretary of Finance
Secretary of Foreign Affairs
Ambassador, Taiwan Embassy
Attorney-General

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Background

The Republic of the Marshall Islands (RMI) Embassy in the Republic of China, Taiwan (the Embassy) was established in 1999 pursuant to Cabinet Minute 025(99). 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 responsibility;
2. Seeking bilateral, multilateral and international assistance to support national development goals of the Republic;
3. Transmitting official communications between the Government of the RMI and Government of other countries and international organizations;
4. Promoting and protecting the interest of Marshallese citizens residing in the host country and jurisdictional 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. More specifically, the mode of operation of the Embassy is guided by the Financial Management Act, Procurement Code, Income Tax Act, Travel Policy and 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 insure that the operational activities of the Embassy are 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 month for purposes of replenishing the Imprest Fund to its original amount. The monthly reports shall be supported by itemized receipts and invoices for each expense item and submitted with a voucher as prescribed by the Secretary of Finance, together with the check register, cancelled checks, bank statements/reconciliation, and such other required documents to the Ministry of Foreign Affairs then to the Secretary of Finance for review and approval. Once expenses have been reviewed and approved for the month, the expended amount is processed and Imprest Fund 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. The table below indicates the budget allocations for the operational expenses of the Embassy during the period from FY2007 through FY2010.

Operational Budget for Taiwan Embassy

Account No.	Account Name	FY2007	FY2008	FY2009	FY2010
1010	Salaries & Wages (Exp)	\$35,100	\$35,100	\$35,100	\$39,000
1011	Salaries & Wages (Marsh)	49,500	49,500	30,000	30,000
1115	Pers Benefits – (Marsh)	5,198	5,198	3,150	3,150
1116	Employee Ins	1,550	1,550	1,500	1,500
1510	Professional Services	2,500	2,500	0	0
1515	Audit expense	1,148	1,148	1,116	1,116
1520	Contractual Ser	0	0	0	0
2020	Travel	3,000	3,000	1,000	1,000
2021	International Travel	5,000	5,000	5,000	5,000
2110	COLA	12,500	12,500	20,000	20,000
2115	Lease & Rental Housing	30,000	30,000	56,000	56,000
2205	Rentals	13,125	13,125	10,000	4,500
2210	Land Lease	0	0	0	0
2215	Utilities	4,640	4,640	4,000	4,000
2305	Communication	6,000	6,000	3,000	3,632
2315	Insurance	500	500	726	726
2320	Printing & Reproduction	1,000	1,000	1,000	1,000
2325	Repairs	1,338	1,338	1,000	1,000
2401	Freight	1,825	1,825	1,500	1,500
2405	Office/Computer supplies	2,000	2,000	1,500	1,500
2410	POL (Fuel)	1,200	1,200	2,000	1,000
2450	Other supplies/materials	1,860	1,860	3,500	3,000
2605	Representation	5,000	5,000	3,000	2,500
2615	Allowances	3,000	3,000	2,032	5,000
2750	Other charges/expenses	0	0	0	0
3132	Office equip./computer	3,000	3,000	0	0
3133	Furniture/Fixture	1,500	1,500	0	0
4510	Transfer Out	0	0	0	27,000
Totals		\$191,484	\$191,484	\$186,124	\$213,124

(Source: Appropriation Act FY2007, FY2008, FY2009 & FY2010 and Budget Reports from the Ministry of Finance)

OBJECTIVE, SCOPE & METHODOLOGY:

Objective & Scope

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 2007, 2008, 2009, 2010 (October 1, 2006 through March 31, 2010). The review was conducted pursuant to Article VIII, Section 15(1) of the RMI Constitution, which states in part:

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“The Auditor-General shall audit the public funds and accounts of the Marshall Islands including those of all Department or Offices of the legislative, executive and judicial branches 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 Inspections*, issued by the U.S President’s Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency and included tests of accounting records and procedures as we considered necessary in the circumstances.

Methodology:

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 traced 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:

This review is the second undertaken by the Office of the Auditor-General on the Embassy’s operation. The first review covered the period from fiscal years 2000-2002 (as of March 31, 2002). Listed in Appendix VI are status of prior audit findings and implementation of our recommendations.

Conclusion:

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. While we noted an overall improvement in the Embassy operations when compared to the first review, however, there are certain weaknesses in the system that should be addressed, details of which are listed as follow:

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Weaknesses:

Finding No. 1 – Embassy Expenditures Exceeded Budget Authorization

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 budget by \$18,274, \$18,435, and 24,500 for fiscal year 2007, 2008 and 2009, respectively. In addition, we also noted expenses incurred under certain line items that were not budgeted at all. The table below indicates the expenses that exceeded budget authorization.

Table indicating expenses exceeded budget authorization

Fiscal Year	Account	Adjusted Budget	Expended	Budget Deficit
2007	International Travel	\$14,524	\$27,940	(\$13,416)
	POL (Fuel)	\$1,200	\$1,774	(\$574)
	Representation	\$5,000	\$9,200	(\$4,200)
	Other Charges	\$0	\$84	(\$84)
				<u>(\$18,274)</u>
2008	Leased& Rental Housing	\$30,014	\$35,472	(\$5,458)
	Land Lease	\$0	\$3,750	(\$3,750)
	Printing & Reproduction	\$162	\$1,325	(\$1,163)
	POL (Fuel)	\$1,200	\$2,356	(\$1,156)
	Representation	\$3,950	\$5,345	(\$1,395)
	Other Charges	\$0	\$394	(\$394)
	Office Equipment	\$2,250	\$5,292	(\$3,042)
	Furniture & Fixtures	\$0	\$2,077	(\$2077)
				<u>(\$18,435)</u>
2009	International Travel	\$5,000	\$6,650	(\$1,650)
	Rentals	\$6,100	\$12,752	(\$6,652)
	Communication	\$3,000	\$8,604	(\$5,604)
	Allowances	\$2,842	\$9,351	(\$6,509)
	Other Charges	\$0	\$426	(\$426)
	Other Equip & Computer	\$0	\$3,546	(\$3,546)
	Furniture & Fixtures	\$0	\$113	(\$113)
				<u>(\$24,500)</u>

Embassy budget after transfer (or reprogramming) and actual expenses

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.

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Recommendation:

We recommend that the Embassy:

1. Only incurs expenditures within appropriated amounts. Unexpected or emergency purchases are to process only in accordance with procedures prescribed by law.
2. Maintains a control or monitoring tool (e.g. spreadsheet) indicating Embassy allocations by line item. Each time a purchase is made the budget control must reflect a decrease in the authorization. This is important to avoid the risk of incurring expenses in excess of appropriated amount.
3. Obtains on a regular basis the financial reports 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 corrections, 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 the payment. Unbudgeted expense item are to be processed only in accordance to procedures prescribed by law.
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.

Finding No. 2 – Lack of documentations to support budget transfers and reprogramming

RMI policy allows for reprogramming of funds or shifting funds to use for different 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 regular budget development 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 the

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Budget Office within the Ministry of Finance to execute the requested changes in the master budget.

Our review of the budget reports of the Taiwan Embassy disclosed that a number of budget adjustments were made throughout the financial periods under review, however, not all copies of the approved authorizations for transfer were available for review as listed below:

<u>Year</u>	<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
1. 2007	Lease and Rental Housing	International Travels	\$5,000
2. 2008	Representation	Unknown	\$1,050
3. 2008	Allowances	Unknown	\$1,202
4. 2009	Lease and Rental Housing	Unknown	\$8,000
5. 2009	Rentals	Unknown	\$3,900

Item 1 represents a budget transfer of \$5,000 from Leased and Rental Housing to International Travels to supplement cost of International Travels. Items 2,3,4 & 5 represent budget transfers out of Representation, Allowances, Leased and Rental Housing, and Rentals to accounts that could not be determined as we could not find documentation to show the purpose of the transfers. In addition, we noted other budget transfers that were executed at end those fiscal years to evidently cover line items that exceeded budget allocations.

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

Recommendation:

We recommend that:

1. In the future, the Ministry of Foreign Affairs and Finance 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.
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.

Finding No. 3- Misclassification of Embassy Expenditures

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. Our review of the records of expenditures of the Embassy maintained by the Ministry of Finance disclosed that certain payments were incorrectly recorded and reported:

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- In fiscal year 2008, one payment in the amount of \$3,750 (Check No. 81526) related to cost of living allowance (COLA) was incorrectly recorded as land lease expense. Furthermore, this payment relates to expense of the RMI Japan Embassy but was charged to the Taiwan Embassy fund; and
- In fiscal year 2009, one payment in the amount of \$113 (Check No. 9000539) related to bank charges for wire fees was incorrectly charged to furniture and fixtures.

In discussing the above matters with the officials at the Ministry of Foreign Affairs & Finance they indicated that the misclassification of expenditures was overlooked during the review process and recording of the transactions into the system. Consequently, the government financial statements during those respective years reported incorrect expenditures amounts.

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 scrutinizes 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.

Finding No. 4 – Fixed Assets Records of the Embassy not updated and maintained periodically

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 Asset 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.

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During our review a listing of the fixed assets purchased for the Embassy and the Residence was provided. The list was updated at the time of our fieldwork. We noted that the assets on the list were not tagged with government identification numbers to indicate government ownership. Additionally, a donated vehicle with a license plate no. 236 was not included on the list.

The lack of control over fixed assets creates the potential for loss of government properties to occur and not detected and corrected in a timely manner.

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. And all assets recorded must be tagged 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.

Finding No. 5 - Bank Account Issues

The followings are issues we noted with respect to banking activities of the Embassy:

Embassy maintains multiple bank accounts for its Operation:

We noted that the Taiwan Embassy maintains three bank accounts for its operations, two (2) savings and one (1) checking account. We also noted that the established Imprest Fund Guidelines require that one bank account is to be maintained for each Embassy or Mission. When inquiring as to why three (3) accounts were established, no one official of the Embassy or Foreign Affairs was able provide rational behind establishment of three bank accounts.

Having multiple bank accounts creates a greater risk for theft, requires more monitoring to be done and more reconciliation involved because the Embassy has to reconcile each bank account to the Embassy books each month. More accounts also mean more the Embassy has pay for bank custodial and maintenance fees. And there is a greater likelihood of a mistake when the Embassy has to deal with multiple bank accounts. Additionally, most banks assess a service charge if an account balance falls below a specified amount.

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

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 developed by the Secretary of Finance requires that each Embassy must maintain at least two signatories for each bank for internal control purposes.

Our review disclosed that the two savings accounts do not require two signatures for withdrawal of funds; either the Ambassador or the Administrative Assistant can withdraw funds from both savings accounts.

Cancelled Checks not returned to the Embassy:

It was noted that although monthly bank reconciliation were performed during the periods under review, management was unable to provide us with all the bank cancelled (paid) checks because the custodial bank used by the Embassy does not routinely return them with the monthly bank statements. Therefore, we were unable to determine whether payees actually acknowledge receipt of their payments by an endorsed paid check.

Recommendation:

We recommend that:

1. Multiple bank accounts: The Embassy maintains only one banking account (checking account) for its Imprest Fund in accordance with Imprest Fund Guidelines. The checking account shall be used for both depository and disbursement purposes, and would simplify record-keeping and monitoring of the embassy and thus reduces the risk for errors and fraud. Also, putting all funds in one bank account increases that probability that Embassy will meet minimum balance requirement, and therefore avoid bank service charges.
2. Two-signatory policy: The Embassy should require at least two signatures for withdrawing funds from the two Embassy savings accounts. This issue will be resolved when Embassy closes its savings accounts and maintains only the checking account for depository and disbursement purposes as recommended in (1) above.
3. Cancelled Checks not returned to Embassy: That the Embassy should work out a solution with the custodial bank to obtain at the minimum copies of all cancelled checks issued to enable Embassy to verify all check endorsement. Alternatively, the Embassy may consider changing its custodial bank.

Finding No. 6 - Education Allowances Exceeded Approved Amount

The contract agreement between the Ambassador and the Government of the Republic of the Marshall Islands indicates an education allowance for the Ambassador's dependents for four (4) dependents at the rate of \$6,000 per dependent, to contribute towards the cost of education and other related expenses. At the time of the review, the Ambassador has one dependent. During fiscal year 2009, school tuitions and other related expenses for this dependent were incurred in the amount of \$9,351, which exceeded the approved amount by \$3,351. In addition, we were unable to find any authorization instrument and documentation that support amount in excess of the budget limit. Our review further indicated that all amount expended out of the Imprest Fund charged as educational allowance were subsequently reimbursed by the Ministry of Finance without being questioned.

The result of the above condition is that government funds are being used in a manner inconsistent with contract agreement. Furthermore, unauthorized expenses were incurred for education allowances.

Recommendation:

We recommend that:

1. In the future, the Embassy should ensure expenses related to school tuitions are incurred based on authorized amount per contract agreement.
2. The Ministry of Foreign Affairs and 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.

Finding No. 7 – Funds advance from Embassy Imprest Fund not reimbursed

Imprest Fund Guidelines and Procedures for the overseas Missions states cash advance or loan from the Embassy funds against an employee's salary is prohibited. On June 24, 2008, an advance payment in the amount of \$1,000 was made to a former Foreign Service Officer (FSO) who was temporarily managing the Taipei Embassy during the transition period when Ambassador was recalled and new Ambassador was being appointed. Our review indicated that the loan amount was to be reimbursed when the FSO receives his stipends from the Ministry of Foreign Affairs. We also noted an email communication from a former Administrative Officer of the Ministry of Foreign Affairs to the FSO indicating that the Secretary of Foreign Affairs had approved advance payment of up to \$1,500 from the imprest fund to be paid to the FSO.

On July 16, 2008 a letter was signed by both the FSO and the former Administrative Officer certifying that the amount advanced to the FSO has been returned and deposited back into the imprest fund bank account. However, our review of transactions under the Embassy's

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Imprest Fund during the period from June 2008 to March 2010 revealed no such deposit. We also traced the payment to the cash receipts reports maintained by the Ministry of Finance for the month of July and August 2008 and concluded that the said amount was not remitted to the Ministry for credit to the Embassy's account. Furthermore, the advanced amount of \$1000 was included in the replenishment request of the Embassy and was included in the reimbursement check paid by the Ministry of Finance in amount of \$14,266.03 that was deposited into the Imprest Fund bank account on August 14, 2008.

The effect of the above condition resulted in the government reimbursing for unrelated Embassy expenditures that should have otherwise been reimbursed by the FSO.

Recommendation:

We recommend that:

1. The Embassy and the Ministry of Foreign Affairs must strictly comply with the established Guidelines and Procedures that restricts cash advances from Imprest Fund against future salaries or stipend.
2. The Ministry of Foreign Affairs should require the responsible individual to pay back the full amount in questioned, 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.

Finding No. 8 - Representation expenses not justified and documented properly

It is the policy of the RMI that funds appropriated by the Nitijela for official representation be administered in accordance with RMI policies. The RMI policy stipulates that records of expenditures for entertainment or representation must contain receipts of actual expenditures and a brief written report giving the names, titles and affiliations of persons entertained.

During our review of expenditures incurred for representation, we noted two (2) items that appeared to be questionable and inconsistent with RMI policy:

- (1) Check No. 90593 dated April 25, 2007 for NT\$500 (US\$58) was issued to COSCO for annual membership fee for the former Ambassador.
- (2) Check No. 90679 dated July 16, 2007 for NT\$104,940 (US\$3,204.27) was issued to a local vendor for ten (10) pieces 18K gold RMI Black Pearls, nine (9) pieces 18K 18" gold chains and one (1) piece 18K 20" gold chain. According to a staff at the Ministry of Foreign Affairs these jewelries were for gifts.

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Our review of check voucher and accompanied supporting documentations disclosed that no written report was provided to justify the purpose and nature of the expenditures. Accordingly, we were unable to determine that they were consistent with RMI policies.

Furthermore, the appropriateness of the above transactions was not being questioned by either the Ministry of Foreign Affairs and Ministry of Finance. The lack of monitoring and scrutiny of Embassy replenishment requests has resulted in government funds expended in a manner that is inconsistent with the RMI policy regarding representation expenses.

Recommendation:

We recommend that:

1. The Embassy should strictly comply with the established procedures and guidelines relating to representation expenses.
2. The Ministry of Finance and Foreign Affairs:
 - a. Take immediate steps to closely monitor all transactions that are charged to representation and provide adequate oversight to ensure they are in line with established policies and guidelines.
 - b. Carefully review reimbursement reports for appropriateness of all representation expenses prior to process of reimbursement check to ensure that all unsupported, questionable and non-Embassy related expenditures are not reimbursed.
 - c. Develop supplementary guidelines or template forms for the Embassy to use to document history of payment charged as representation. At the minimum the form should include name, title or affiliation of person entertained and brief description of nature of the event.

Finding No. 9 – Lack of system in place to monitor communication expenses

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 Residence. No logs were maintained to identify and separate official business from personal telephone calls. Instead, all monthly telephone billings of the Embassy and Residence are paid based on an Invoice which contains only the total billing for the month. In the absence of the detail billings, we were unable to determine which calls were personal and which were official-related.

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The lack of internal control over communication expense may result in unauthorized and abused of Embassy telephone lines and result in government paying for telephone calls that are personal in nature.

Recommendation:

We recommend that:

1. The Embassy maintains a telephone logsheet to clearly identify all outgoing calls from the Residence and Embassy telephone lines. At the minimum, the logsheet should indicate who, 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 Residence.
3. The Ministry of Finance should carefully review reimbursement reports for appropriateness of all communication expenses before replenishing the Imprest Fund to ensure that all unsupported, questionable and non-Embassy related expenditures are not reimbursed.

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Response from the Ministry of Foreign Affairs

APPENDIX I



REPUBLIC OF THE MARSHALL ISLANDS
MINISTRY OF FOREIGN AFFAIRS
P.O. BOX 1349
MAJURO, MARSHALL ISLANDS 96960

17 January 2013

To : Mr. Junior Patrick
Auditor- General

Fr : Ministry of Foreign Affairs

Re : MOFA's comments to the draft audit report of Taiwan Embassy



Dear Auditor General Patrick,

With reference to your memo of 2 January 2013 regarding your office's draft audit report of the RMI Taiwan Embassy, the Ministry wishes to submit the Ministry's comments to the recommendations in the draft audit report.

Recommendations to Finding No. 1 – Embassy Expenditures Exceeded Budget Authorization:

AGREE

Recommendations to Finding No. 2 – Lack of documentations to support budget transfers and reprogramming: AGREE

Recommendations to Finding No. 3 – Misclassification of Embassy Expenditures: AGREE

Recommendations to Finding No. 4 – Fixed Assets Records of the Embassy not updated and maintained periodically: AGREE

Recommendations to Finding No. 5 - Bank Account Issues: AGREE

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Phone: (692) 625-2699 Fax: (692) 625-4979 RMI Website: <http://www.rmiembassyus.org/>

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Recommendations to Finding No. 6 - Education Allowances Exceeded Approved Amount: AGREE

Recommendations to Findings No. 7 – Funds advance from Embassy Imprest Fund not reimbursed: AGREE. On Rec. 2 specifically, the Ministry will look into this.

Recommendations to Finding No. 8 – Representation expenses not justified and documented properly: AGREE

Recommendations to Finding No. 9 – Lack of system in place to monitor communication expenses: AGREE. There have already been discussions on the need to establish and written policy and procedure that governs the use of the telephones both at the Embassy and the residences. This, along with a housing policy, is currently being drafted up for Cabinet’s endorsement.

In relation to MOFA’s comments to the recommendations, the Ministry would also like to submit the following comments:

- 1) Request the Auditor General’s Office to be timely and regular in their audit of the RMI overseas missions. Ideally, the overseas missions should be audited before a new Ambassador is posted and prior to his/her departure. If the head of mission remains in his/her post for over 4 years, then regular scheduled audits should be done. It is hard to respond to findings derived from when there was a different Secretary, head of mission, chief of administration, etc.

- 2) Imprest Fund Guidelines – This document needs to be revisited as it is still too general. The Ministry will be working with the Ministry of Finance to finalize this within the year.
This Guideline is crucial to the operation of the imprest fund account and the overseas missions strictly adhering to established policies and guidelines. The Ministry plans to submit this to Cabinet for endorsement.

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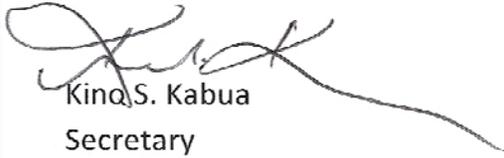
- 3) Imprest Fund Workshop – The Ministry realizes the need to train the overseas missions' staff that handle the imprest fund on a daily basis and write up the reports for the head of Mission to sign. We have submitted a proposal to the Government of Korea to secure funds to bring in one rep from each RMI overseas mission to participate in this workshop. The workshop will involve the Ministry of Finance mainly, and we will consult further with the Auditor General's Office to perhaps add in a session for them if necessary.
- 4) Request that the other RMI overseas missions be audited as soon as possible and that a proposed schedule be submitted to MOFA.
- 5) Request that quarterly allotment be made to the overseas missions to ensure there is enough operational cash and funding for the rest of the year. Currently, this practice is no longer being observed, cash are replenished based on the monthly reports and in some cases less than a month if the funds are near depletion.
- 6) There is also a need to revisit the amount each mission or consulate general carries within its bank accounts. The ongoing disallowance of expenses from each report keeps decreasing the cash availability for each office.

In closing, the Ministry wishes to thank the Office of the Auditor General for this draft audit report and the opportunity to comment to it. It is the Ministry's fervent desire and goal to put in place procedures and guidelines that are currently lacking and/or need to be perhaps be resurfaced to the attention of the heads of missions, including MOFA home office, with respect to safeguarding the assets of the GRMI and to ensure that expenditures are properly authorized and in accordance with relevant policies and regulations, and equally important, to ensure the imprest funds are properly maintained.

Please do not hesitate to contact the Ministry should you need additional information or clarification.

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Sincerely,



King S. Kabua
Secretary

cc: Mr. Alfred Alfred, Jr. Secretary of Finance
Ambassador Phillip Kabua, RMI Embassy, Taipei
MOFA file

Response from the Embassy

APPENDIX II



EMBASSY OF THE REPUBLIC OF THE MARSHALL ISLANDS
4F, No. 9-1, Lane 62, Tianmu W. Rd.,
Shilin Dist., Taipei 11156, Taiwan R.O.C.

COMMENTS ON AUDIT FINDINGS AND RECOMMENDATIONS FOR RMI TAIWAN EMBASSY

First, our sincere thanks for sending the findings and recommendations of the audits made at the RMI Taiwan Embassy for review, comments and compliance.

We appreciate the hard work and dedication put in the audit by the team. We are grateful for pointing out the weaknesses in the financial operation of the Mission and suggesting ways to improve operation. I am sure many people will agree that it would be a lot better if more frequent audit reviews were carried out to present a more up to date situation on the Embassies financing and on the RMI finances as well.

The following is not intended as an apologia to exonerate the present head of mission and the staff of the Embassy for discrepancies and shortfalls incurred at an earlier period and disclosed in the auditor's report. The Ambassador is responsible for all present and past oversights arising from the Embassy's management. The Embassy accepts the recommendations in the report but wishes to revise some findings and put certain items in their proper perspectives.

Some of our comments with regards to findings for Fy-2007 and Fy-2008 may be limited in scope as some of us were not here to know how and for what the funding was expended. The Administrative Assistant came on board on June 18, 2012 after a turn over involving two former employees who decided to resign for personal reasons.

Generally, we have reviewed the findings and recommendations in the report. We find the findings acceptable with a few exceptions that needed to be clarified. Answers to some findings are left blank because we could not come up with an answer. We will comply

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with most of the recommendations to make sure certain items and issues that have not been addressed such as the ones below are brought to be in conformity with RMI policies and laws and what the report suggests and recommend.

- Embassy vehicle No. 236 sedan - donated to the Mission in 2002, documents provided to RMI MOFA
- Three banking accounts
- Embassy vehicles Use – Need New Policy
- Embassy telephones, cellphones etc. - New Policy
- List of fixed assets – New ID Policy

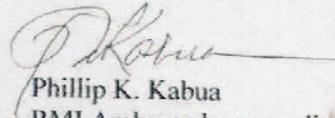
Note Well:

When I first arrived at the Taiwan Embassy to assume my new assignment as RMI Ambassador I found some of the items listed above like the Three bank Accounts, No ID for fixed assets, and so on, as they are today. We will affect a change now.

On a last note, we would like to make some observations if it is alright. First, we have no qualms with regards to the audit review and most of the findings and recommendations. With regards to the Conclusion on pages 3-4 of the second draft report, I go along with the observation that the Lack of management supervision and oversight on the general operation of the Mission, and more so, over the daily conduct of business and other activities of the Embassy leaves much room for improvement. We are aware of this and are trying to change this and to follow the laws and policies. However, the observation that expediency and pragmatism have come into play at the expense of these same laws and guidelines the Embassy is charged with is a contradiction in terms. We would a better replacement for that.

Once again thank you the report. I assure you we will do better the next time around.

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Phillip K. Kabua
RMI Ambassador accredited to ROC, Taiwan

January 11, 2013

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Finding No. 1 – Embassy Expenditures Exceeded Budget Authorization

Comments:

In the future, Embassy will maintain a monitoring tool indicating Embassy allocations by line item and follow the recommendations.

Finding No. 2 – Lack of documentations to support budget transfers and Reprogramming

Comments:

I tried to check the files and old email; I cannot find the necessary documentary evidence to support budget transfers and reprogramming. In the future, Embassy will keep the documents to support budget transfers and reprogramming.

Finding No. 3- Misclassification of Embassy Expenditures

In fiscal year 2007 one payment in the amount of \$366 (Check No. 90671) related to utilities was incorrectly recorded as travel expense;

Comments:

By double checking the old records, according to (Check No. 90671) is the payment made to Taiwan Power Co. for electricity billing (Utilities) for Embassy and Residence for July, 2007. The total amount is NTS11,916= US\$361.31. I can't find any payment in the amount of \$366 related to Check No. 90671. In addition, checking the DETAILED EXPENDITURE REPORT, MONTH OF: JULY 2007, and I think Embassy placed the right amount in the correct category – utilities, not recorded as travel expense.

In fiscal year 2008, one payment in the amount of \$3,750 (Check No. 81526) related to cost of living allowance (COLA) was incorrectly recorded as land lease expense.

Furthermore, this payment relates to expense of the RMI Japan Embassy but was charged to the Taiwan Embassy fund; and

Comments:

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Embassy cannot find any check No. 81526 issued during the fiscal year 2008.

In fiscal year 2009, one payment in the amount of \$113 (Check No. 9000539) related to bank charges for wire fees was incorrectly charged to furniture and fixtures.

Comments:

Embassy cannot find any check No. 9000539 issued during the fiscal year 2009.

Finding No. 4 – Fixed Assets Records of the Embassy not updated and maintained Periodically

Comments:

Currently: Embassy has kept a fixed assets inventory list for reference.

By checking the old files, the Vehicle #236 was donated to the Embassy on June 20, 2003 (or sometime in June 2003). I will keep this information on the assets list.

Finding No. 5 - Bank Account Issues

Embassy maintains multiple bank accounts for its Operation:

Comments:

One of the Saving Accounts No. 009-025552-821 in US dollars, the purpose of this account is for RMI Government to wire the monthly reimbursement and each month Embassy will transfer the money from US dollars into the NT dollars checking account No. 009-025552-334, so that Embassy can issue the checks for billing payments. Currently, the other saving accounts No. 009-025552-388 is not used. However, the custodial bank use by the Embassy has a policy to charge the monthly service charge from this NT Savings accounts first until the account has not enough money and then start to deduct the monthly service charge from US Saving accounts.

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

Comments:

In the future, Embassy will follow the recommendations.

Cancelled Checks not returned to the Embassy:

Comments:

Currently, no cancelled checks occur and the voided checks all keep at Embassy for reference. For the paid checks, the custodial bank use by the Embassy has policy to keep all the checks issued and will not return them to Embassy.

Finding No. 6 - Education Allowances Exceeded Approved Amount

Comments:

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

Finding No. 7 – Funds advance from Embassy Imprest Fund not reimbursed

Comments:

By checking Embassy files, the money *US\$1000=NT\$30,330* (Check) was issued from the Embassy on June 24, 2008 and checking monthly statement from HSBC, the money was taken out from the Embassy account on June 25, 2008.

June, 2008 Embassy Imprest Fund Report, Embassy total claims US\$14266.03 reimbursement (includes the US\$1000 dollars advancement to FSO)

By Aug 6, 2008, Embassy received the money in the amount of US\$14266.03-US\$6.49 (Funds wired) =US\$ 14259.54 from RMI Government.

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Finding No. 8 - Representation expenses not justified and documented properly

(1) Check No. 90593 dated April 25, 2007 for NT\$500 (US\$58) was issued to COSCO for annual membership fee for the former Ambassador.

Comments:

Check No. 90593 dated April 25, 2007 for NT\$1904 (US\$58) was issued to COSTCO for annual membership fee for the former Ambassador and Embassy Staff. There is a receipt attached with the April 2007 Imprest fund report.

(2) Check No. 90679 dated July 16, 2007 for NT\$104,940 (US\$3,204.27) was issued to a local vendor for ten (10) pieces 18K gold RMI Black Pearls, nine (9) pieces 18K 18" gold chains and one (1) piece 18K 20" gold chain. According to a staff at the Ministry of Foreign Affairs these jewelries were for gifts.

Comments:

By checking the July 2007 Imprest fund report, these jewelries were for the Office of the President while President's visit to Taiwan. There is a purchase order and invoice attached with the report.

Finding No. 9 - Lack of system in place to monitor communication expenses

Comments:

Currently, Embassy only attached the invoice which contains only the total billing for the month. Embassy usually keeps the detail billings for long distance call for reference.

Auditors' Response To Comments By The Ministry Of Foreign Affairs

APPENDIX III

Auditors' response to comments regarding the need perform timely and regular audits and reviews of RMI Mission overseas: We acknowledge the comments by both the Ministry of Foreign Affairs and the Embassy regarding the need for more timely conduct of audits and reviews on Embassies operations. It is goal of the Office of the Auditor-General (OAG) to perform timely and regular audit of RMI Embassies and Missions abroad. However, due to current limited existing staffing level, the OAG has not been able to effectively schedule and conduct audits of our Embassies and Consulates. That coupled with the on-going extended review of fraud scheme within the central government procurement process, has forced the OAG to postpone some audits that were already underway in order to focus on the fraud investigation including the review of the Taiwan Embassy which was underway at that time.

The restructuring and recruitment of additional personnel and capacity required for the effective functioning of the OAG is currently underway. With anticipated increases in the overall personnel level, we would be in a much better position to conduct more frequent audits and reviews of our Embassies and Consulates in the not-too-distant future.

Auditors' response to comments regarding the existing Imprest Fund Guidelines: Comments on Page 2 suggest that the existing Imprest Fund Guidelines would need to be revisited. We are also of the view that while the existing Imprest Fund Guidelines provide a basis for reporting of monthly operational activities, it also needs to be supported by specific policies and regulations. For instance, a policy would clearly indicate what may be charged to representation or communication expenses.

Auditors' response to proposed Imprest Fund Administration Workshop: We support the initiative by MOFA to secure training funds to train staffs of the Missions on Imprest Fund operation and administration. We would be available to provide additional trainings for the staffs of the Missions to the extent that would not compromise our independence as also auditors.

Auditors' response to request for Overseas Missions to be audited as soon as possible and that a proposed audit schedule be submitted to MOFA: We acknowledge the need to audit all other RMI overseas missions. A copy of the annual audit plan which is being prepared each year would be provided to the Ministry of Foreign Affairs to indicate audits that have been scheduled (see also 1 above for current staffing challenge).

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Auditors' response to request that quarterly scheme be made to Overseas Missions: We consider that it is the responsibility of the Ministry of Foreign Affairs and Finance to actively pursue our recommendation to ensure that operational budget of Embassy is divided into quarterly allotment periods. The implementation of the recommendation would ensure there is available funding for operational throughout a fiscal year.

Auditors' Response To Comments By The Embassy

APPENDIX IV

Auditors' response to comments regarding Check No. 90671: Comments on Page 4 suggests that Check No. 90671 in the amount of \$366 was recorded correctly by the Embassy under utilities. Our further review of the matter indicates that Check No. 90671 was mistaken with other checks and inadvertently reported in the draft report. Accordingly, Check No. 90671 has been taken out and is not included in this report.

Auditors' response to comments regarding Check No. 81526: Comments on Page 4 indicate that the Embassy could not find Check No. 81526. Based on our review, Check No. 81526 issued for \$3,750 was issued by the Ministry of Finance for the quarterly cost of living allowance for the RMI Ambassador to Japan, however Ministry of Finance had incorrectly recorded and posted it in the Taiwan Embassy accounts. Additionally, rather than posting it as allowances, it was recorded under the Ministry of Finance books as Land Lease expense. We recommended in our report that the Embassy would need to obtain financial reports from the Ministry of Finance on a monthly basis and reconcile with its own records, to ensure that misclassification and incorrect recordation of Embassy does not occur again, and discrepancies are corrected in a timely manner. A separate recommendation was directed to the Ministry of Finance to address the issue of misposting from further happening.

Auditors' response to comments regarding Check No. 9000539: Comments on Page 5 indicate that the Embassy cannot find any Check No. 9000539 issued during the fiscal year 2009. Based on our review, Check No. 9000539 represents a wire transfer fee amount of \$113 that was included in the Embassy reimbursement claims for January 2009. The Ministry of Finance has mistakenly recorded these wire fees under Fixtures and Fittings item when they should have been recorded as Fees and Charges. We stressed once again in our recommendation that the Embassy would need to obtain financial reports from the Ministry of Finance on a periodic basis and reconcile to its own records to ensure misclassification and incorrect recordation of Embassy expenditures are corrected in a timely manner. A separate recommendation was directed to the Ministry of Finance to address the issue of misposting from further happening.

Auditors' response to comments regarding fixed assets: Comments on page 5 indicate that the Embassy had maintained a list of inventory for reference. During our review, we also noted during the review that the Embassy has kept a fixed asset listing. However, the fixed asset listing was only updated at the time of the fieldwork which goes against the fixed assets policy and guidelines, including the Foreign Policy Manual which was still in effect at that time. Thus, we have amended our report to replace the sentence that was originally read "The list was *prepared* at the time of our fieldwork" and replaced with "The list was *updated* at the time of our fieldwork".

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Auditors' response to comments regarding Multiple bank accounts: Comments on Page 5 suggest that the justification to maintain Savings Account 009-025552-821 is to serve as a depository account for reimbursement check from RMI government in US currency, while Checking Account No. 009-025552-334 is used to issue payments. We are of the view that regardless of whether money is receipt in US or New Taiwan (NT) currency, the fact that it would still need to be converted to NT later defeats the purpose of establishing the depository account to receipt the reimbursement check in US currency, in the first place. In addition, maintaining two separate accounts goes against the Imprest Fund Guidelines and Embassy is paying for two different charges and more reconciliation and monitoring to be performed for two accounts.

Auditors' response to comments regarding funds advanced from Embassy: Comments on Page 6 indicate that the amount of \$1000 advanced to the former Foreign Service Officer (FSO) against future salary was subsequently reimbursed back to the imprest fund. We also noted during the review that the advanced amount was reimbursed by RMI Government on August 14, 2008. However, since the advance was made against future stipend of the FSO, the funds should have been reimbursed by the FSO not RMI Government. It is our view that the amount should not have been included in the reimbursement request of the Embassy and that Ministry of Finance should not have authorized such reimbursement.

Auditors' response to comments regarding representation expenses: Comments on Page 6 indicate that the representation expenses were supported by Purchase Requisition and Invoice. We also noted the accompanying Purchase Requisition and Invoice attached to the transaction. However, this Office is of the view that personal or individual membership at COSCO is not a government obligation.

Also, comments on Page # 6 indicate that second transaction also regarding representation expenses was accompanied by the Purchase Requisition and Invoice. We also noted the purchase requisition and invoice during the review, however, documentation as to who received these items and their official capacities were not available to determine if they were in line with established policies and guidelines. The policy requires all representation to be supported by a brief written report giving names, titles, and affiliations of persons for which representation charges were incurred.

Auditors' response to comments regarding telephone expenses of the Embassy: Comments on Page 7 indicate that the Embassy has been retaining details of the telephone billings and only Invoice that contains the total billings for the months is provided in the reimbursement request. We are of the view that the details of the monthly telephone billings would need to be provided with the monthly expenditure reports submitted to the Ministry of Finance in order for the Ministry to determine the propriety of the charges being billed as well as to ensure detail amounts agreed with summary totals. We also recommended that policies and procedures would need to be developed to govern the use of telephone at the Embassy and Residence.

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Responses Required To Clear Audit From OAG Follow-Up System

APPENDIX V

No	Findings	Action to be taken
1	Embassy Expenditures Exceeded Budget Authorization	Provide written confirmation that action has been taken by the Embassy, Ministry of Foreign Affairs, and Finance to implement our recommendations.
2	Lack of documentations to support budget transfer and reprogramming	Provide written confirmation that action has been taken to implement our recommendation.
3	Misclassification of Embassy Expenditures	Provide written confirmation that action has been taken by the Ministry of Foreign Affairs and Finance to implement our recommendation. Provide copies of reconciliation reports to indicate that reconciliation between Embassy records with the Ministry of Finance records are being performed.
4	Fixed Assets Records of the Embassy not updated and maintained periodically	Provide copy of the updated fixed assets register and written confirmation indicating that action has been taken to tag all properties of the Embassy and the donated vehicle has been recorded to the FAR.
5	<u>Bank Account Issues:</u> 1. Embassy maintains multiple bank accounts for its operation. 2. Embassy does not maintain two-signatory policy for two of its bank accounts; 3. Cancelled checks not returned to the Embassy	1. Provide written confirmation that the savings accounts have been closed. 2. Provide confirmation that two-signatory policy has been implemented. 3. Provide written confirmation that action has been taken to implement our recommendation.
6	Education Allowances Exceeded Approved Amount.	Provide written confirmation that action has been taken by the Ministry of Foreign Affairs and Finance to implement our recommendation.
7	Funds Advanced from Embassy Imprest Fund not reimbursed	1. Provide written confirmation that action has been taken to implement our recommendation. 2. Provide written confirmation from the Attorney-General on the final disposition of the matter.

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8	Representation expenses not justified and documented properly	<p>Provide written assurance that action has been taken by the Embassy, Ministry of Foreign Affairs, and Finance to strictly comply with the established procedures and guidelines related to representation expenses.</p> <p>Provide supplementary guidelines or template forms for the Embassy to use to document the history of payment charged as representation.</p>
9	Lack of system in place to monitor communication expenses	Provide copy of policies and procedures established governing the use of telephone at the Embassy and the Residence.

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Prior Audit Findings and Status of Implementation of our Recommendations

APPENDIX VI

No	Deficiency Reported	Recommendations	Status of Implementation of Recommendation														
1	<p><u>Cash Disbursement:</u></p> <p>1. Missing and Inadequate Documents: Funds were disbursed without supporting invoices or billings to establish the validity of such disbursements</p> <p>2. Cash payments: Cash were withdrawn from the savings account to settle all disbursements by cash. Although a “Cash Payment Control Log” was instituted in May 2001, it does not conform to proper petty cash system and was not consistently used. In addition, we noted that after the checking account was established in August in 2001, checks were drawn for cash to purchase small items, such as office supplies, taxi fares and for entertainment.</p>	<p>The Ambassador take appropriate and immediate measures to ensure:</p> <p>1. Disbursements are substantiated by original invoices or equivalent.</p> <p>2. Transactions are supported by vouchers indicating the name of the payee and the purpose of the disbursement and translated into English.</p> <p>3. Management must fully comply with the FPR.</p>	<p>IMPLEMENTED</p> <p>Disbursements are supported by vendor invoices and proper billings. In addition, a cash voucher form is being used that indicates the nature of the expenditures in English and requires all supporting documentation, such as invoices, bills, etc. to be attached for review and approval by the Ambassador.</p>														
2	<p>1. Bank Reconciliation not performed for the entire periods under review:</p> <p>2. Management was unable to provide us with all the cancelled checks because the bank never returned them with the monthly bank statements.</p>	<p>1. Bank accounts must be reconciled on a monthly basis to ensure accounts are in balance.</p> <p>2. Management should find a solution to obtain all cancelled checks or consider changing its bank.</p> <p>3. Management must comply with the Foreign Policy Regulations.</p>	<p>IMPLEMENTED -</p> <p>monthly bank reconciliations are being performed, including reconciliation of the imprest fund.</p>														
3	<p><u>Irregular Disbursements related to:</u></p> <table border="0" style="width: 100%;"> <tr> <td style="width: 80%;">a. Higher duties allowance</td> <td style="text-align: right;">\$5,516.84</td> </tr> <tr> <td>b. Cost of living allowance</td> <td style="text-align: right;">8,105.55</td> </tr> <tr> <td>c. Personal credit cards</td> <td style="text-align: right;">983.87</td> </tr> <tr> <td>d. Miscellaneous personal</td> <td style="text-align: right;">6,652.59</td> </tr> <tr> <td>e. Unreported disbursements to Ministry of Finance</td> <td style="text-align: right;">7,636.46</td> </tr> <tr> <td>f. Disallowed expenses</td> <td style="text-align: right;">13,622.39</td> </tr> <tr> <td>g. Payment to bring the imprest fund in balance</td> <td style="text-align: right;">22,162.13</td> </tr> </table>	a. Higher duties allowance	\$5,516.84	b. Cost of living allowance	8,105.55	c. Personal credit cards	983.87	d. Miscellaneous personal	6,652.59	e. Unreported disbursements to Ministry of Finance	7,636.46	f. Disallowed expenses	13,622.39	g. Payment to bring the imprest fund in balance	22,162.13	<p>We recommended that:</p> <p>1. The Ambassador should immediately take necessary steps to require the management and staff of the Embassy to adhere to the Foreign Policy Regulations and the Public Service Regulations, and to prevent any and all advance payments that are not Embassy related expenditures from future recurrence.</p>	<p>NOT IMPLEMENTED –</p> <p>Matter is reported again as Finding No.7.</p>
a. Higher duties allowance	\$5,516.84																
b. Cost of living allowance	8,105.55																
c. Personal credit cards	983.87																
d. Miscellaneous personal	6,652.59																
e. Unreported disbursements to Ministry of Finance	7,636.46																
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g. Payment to bring the imprest fund in balance	22,162.13																

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		<p>2. The Ministry of Finance should systematically review and reconcile the monthly reimbursement reports for appropriateness of all transactions before replenishing the imprest fund to ensure that unsupported, questionable and non-Embassy related expenditures are not reimbursed.</p> <p>3. The Ministry of Foreign Affairs should require the responsible individual to pay back the full amount in questioned, or seek the assistance of the Attorney General's Office.</p>	<p>NOT IMPLEMENTED – Matter is reported again as Finding No.7.</p> <p>The matter was referred to the Attorney General's Office for further investigation and disposition.</p>
4	<p><u>Irregular Cash Collections:</u></p> <p>1. Cash collected related to passport extension fees for \$13,530.00 could not be traced.</p> <p>2. Cash receipts used by the Embassy are not pre-numbered and do not bear the name and address of the Embassy.</p>	<p>We recommended that in the future, all monies received by the Embassy be deposited in the Embassy's bank account intact and in a timely manner; monies collected on behalf of the RMI Government should be issued with a check or wire transfer to the general fund; and cash receipts issued should be pre-numbered with the name and address of the Embassy.</p>	<p>The administration of Passport was subsequently transferred to the Attorney-General. The matter was referred to the Attorney General's Office for further investigation and disposition.</p>
5	<p><u>Checking Account:</u> Embassy did not maintain a checking account for its operation since inception in August 1999 until August 21, 2001.</p>	<p>We recommended that the Embassy should comply with the Foreign Policy Regulations.</p>	<p>IMPLEMENTED – a checking account has been established and Embassy now issues check for its daily operation.</p>
6	<p><u>Fixed Assets:</u></p> <p>1. Furniture, fixtures and appliances worth \$10,044.91 were removed from the former First Secretary's residence and shipped to Majuro without proper approval.</p> <p>2. Fixed assets are not tagged with RMI identification number.</p>	<p>We recommended that:</p> <p>1. Management institutes a system, which will ensure compliance with RMI Public Laws and Regulations.</p> <p>2. The Minister and the Secretary of Foreign Affairs should exercise their authority under the FPR to seek recovery of the missing properties or require the former First Secretary to make monetary payment for the full amount, plus interest, of the fixed assets' worth.</p>	<p>NOT IMPLEMENTED – Matter is reported again as Finding No.4.</p> <p>The matter was referred to the Attorney General's Office for further investigation and disposition.</p>

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7	<p><u>Unauthorized Expenditure of Funds:</u></p> <p>1. Payment for contractual services for \$7,738.95 for which no formal contracts were available.</p> <p>2. Back rent of about \$30,000 representing lease for the Embassy and the Ambassador's residence for fiscal year 2000, which a formal lease agreement was not fully executed.</p> <p>3. Lease payments for FY 2001 & 2002 were based on FY 2000 rental rate however no formal lease agreement was on file.</p>	<p>We recommended that in the future, the Embassy should comply with the Government Liability Act.</p>	IMPLEMENTED
8	<p><u>Reimbursement Reports:</u></p> <p>Not all monthly reimbursement reports were reimbursed. In addition, there was no reconciliation of these reports by the Ministry of Finance and the Embassy staff, which resulted in duplicate and under payments.</p>	<p>We recommended that the responsible staff should reconcile the reimbursement reports with the actual reimbursement received on a monthly basis and notify the Minister of Finance of any discrepancies and ensure corrective actions in a timely manner.</p>	IMPLEMENTED
9	<p><u>Budget:</u></p> <p>1. Expenditures exceeding authorized amounts or were not budgeted at all.</p> <p>2. Lease payment of \$1,030.26 was incorrectly charged to contractual services.</p> <p>3. Personal credit card charges of \$5,516.84 were incorrectly charged as fuel expenses.</p>	<p>We recommended that:</p> <p>1. The Embassy and the Ministry of Finance only authorize expenditures within appropriated amounts.</p> <p>2. Personal expenditures should not be paid out of the Imprest Fund and should not be reimbursed by the Ministry of Finance. Finance should ensure expenditures reported for reimbursement are proper.</p> <p>3. The Embassy should request the Ministry of Finance to provide them with a monthly expense financial report. This report should be reconciled with the Embassy's budgetary control ledger to ensure disbursements are in accordance with the approved budget. Any variances should be reported to the Secretary of Finance for action.</p>	<p>NOT IMPLEMENTED – Matter is reported again as Finding No.1.</p> <p>NOT IMPLEMENTED – Matter is reported again as Finding No.7.</p> <p>NOT IMPLEMENTED – Matter is reported again as Finding No.1.</p>

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10	<p><u>Higher Duty Allowance:</u></p> <p>1. The Public Service Commission (PSC) approved payment of “compensation for higher duties allowance” for the former First Secretary, acting in the capacity as Charge d’ Affairs in Fiji from April to September 14, 1997 and in Taiwan from April 15, 1999 to August 5, 2001 for \$26,103. However on July 9, 1993, PSC issued Public Service Instruction No. 1993/24 cancelling payments for higher duties allowance. On December 14, 2001, the Ministry of Finance issued a check in the amount of \$22,130.33 (net after taxes withheld) to the former First Secretary. Our review further indicated that \$5,516.84 paid to him on July 20, 2001 from the imprest fund as advancement against his higher duties allowance was not deducted. In addition, we were unable to find any evidence that the former First Secretary repaid the above amount to the imprest fund.</p> <p>2. We were unable to obtain from the Ministry of Foreign Affairs or the PSC any written instrument appointing or designating the former First Secretary to the position of Charge d’ Affaires as required under the PSC Instruction.</p>	<p>We recommended that:</p> <p>1. Rules, regulations, policies and instructions issued be strictly followed and enforced at all times.</p> <p>2. The Ministry of Finance and the Ministry of Foreign Affairs should seek repayment for the \$5,516.84 from the former First Secretary. Furthermore, both Ministries should seek the Attorney General’s legal opinion as to the validity of the payment (\$26,103.00) or whether the former First Secretary was entitled to receive higher duties allowance.</p>	<p>IMPLEMENTED</p> <p>NOT IMPLEMENTED - It is our understanding that no legal opinion was provided from the Attorney General’s Office.</p>																																
11	<p><u>Housing Allowance incurred in excess of the approved amount set by Cabinet:</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Months</th> <th style="text-align: right;">.....Payment</th> <th style="text-align: right;">Rate</th> <th style="text-align: right;">Excess</th> </tr> </thead> <tbody> <tr> <td>Nov 1999</td> <td style="text-align: right;">\$1,010.42</td> <td style="text-align: right;">\$750</td> <td style="text-align: right;">\$260.42</td> </tr> <tr> <td>Jan 2000</td> <td style="text-align: right;">1,039.63</td> <td style="text-align: right;">750</td> <td style="text-align: right;">289.63</td> </tr> <tr> <td>Feb 2000</td> <td style="text-align: right;">1,046.61</td> <td style="text-align: right;">750</td> <td style="text-align: right;">296.61</td> </tr> <tr> <td>March 2000</td> <td style="text-align: right;">1,049.18</td> <td style="text-align: right;">750</td> <td style="text-align: right;">299.18</td> </tr> <tr> <td>April 2000</td> <td style="text-align: right;">1,048.15</td> <td style="text-align: right;">750</td> <td style="text-align: right;">298.15</td> </tr> <tr> <td>July 2000</td> <td style="text-align: right;">1,037.61</td> <td style="text-align: right;">750</td> <td style="text-align: right;">287.61</td> </tr> <tr> <td>August 2000</td> <td style="text-align: right;">1,030.26</td> <td style="text-align: right;">750</td> <td style="text-align: right;">280.26</td> </tr> </tbody> </table>	MonthsPayment	Rate	Excess	Nov 1999	\$1,010.42	\$750	\$260.42	Jan 2000	1,039.63	750	289.63	Feb 2000	1,046.61	750	296.61	March 2000	1,049.18	750	299.18	April 2000	1,048.15	750	298.15	July 2000	1,037.61	750	287.61	August 2000	1,030.26	750	280.26	<p>We recommended that the Embassy comply with Cabinet Minute 024(89), or obtain cabinet approval to exempt the Embassy personnel from complying with the established rate for housing.</p>	<p>The Ambassador is residing in the Residence which the monthly rental fees are being paid for by the RMI Government. As such, no housing expenses were incurred during the periods under review. The matter is considered closed.</p>
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12	<p><u>Noncompliance with Procurement Process and Competitive Guidelines:</u></p> <p>1. No purchase requisition forms were utilized.</p> <p>2. No competitive procurement was obtained for purchases in excess of \$5,000. Purchase orders were not used.</p>	<p>We recommended that the Embassy should comply with the Foreign Policy Regulations and the Government Procurement laws and regulations.</p>	<p>PARTIALLY IMPLEMENTED - The Embassy has instituted a purchase order form and all items purchased must issue a purchase order. In addition, the Foreign Policy Regulations has been repealed and it is our understanding that a new policy is being formulated as a substitute to address compliance with RMI Procurement laws.</p>
13	<p><u>Required Signature:</u></p> <p>Our review disclosed that both the savings account and the checking account maintained for the operation of the Embassy require only one signature for cash withdrawals and check issuance.</p>	<p>We recommended that all accounts maintained by the Embassy required at least two authorized signatures.</p>	<p>NOT IMPLEMENTED - Matter is reported again as Finding No. 5.</p>

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