



April 2, 2004

CONFIDENTIAL

Honorable Minister Brenson S. Wase  
Ministry of Finance  
Republic of the Marshall Islands  
Majuro, Marshall Islands 96960

Dear Minister Wase:

In planning and performing our audit of the financial statements of the Republic of the Marshall Islands (RepMar) for the year ended September 30, 2003, on which we have issued our report dated April 2, 2004, which report was qualified due to our inability to determine the propriety of receivables from federal agencies, the incomplete presentation of capital assets, and the omission of the Health Care Revenue Fund, the Ministry of Education Headstart Program, and the Marshall Islands Scholarship, Grant and Loan Board from the Governmental Fund Type - Special Revenue Fund, the Kwajalein Atoll Development Authority from the Governmental Fund Type - Capital Projects Fund, and Air Marshall Islands, Inc., the Kwajalein Atoll Joint Utilities Resources, Inc., the Marshall Islands Development Bank and the Marshall Islands Drydock, Inc. from the Component Units - Proprietary Funds, we developed the following recommendations concerning certain matters related to RepMar's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Local Noncompliance

Of seven non-payroll expenditures of the Maritime Surveillance and Enforcement Fund (Fund 305), we noted one item (check # 6491 for \$5,619) where the Minister of Justice did not approve the purchase requisition. Established procedures require the Minister of the respective department to approve purchases that exceed \$5,000. We recommend that the Minister of the respective department approve all purchase requisitions for items that exceed \$5,000.

(2) Petty Cash Expenditures

Of seven non-payroll expenditures of the Maritime Surveillance and Enforcement Fund (Fund 305), we noted one item (check # 2101 for \$3,677) relating to reimbursement of the Sea Patrol Office's petty cash fund. This reimbursement request included replenishment for the purchase of a laptop computer in the amount of \$1,850. We recommend that the use of petty cash funds be limited to the purchase of small items for the day-to-day usage of the office and not for the procurement of office equipment and other significant one-time items.

(3) Travel Advances

At September 30, 2003, RepMar recorded travel advances to employees, which did not reconcile to the supporting subsidiary ledgers, a summary of which is as follows:

<u>Fund #</u>	<u>Balance per General Ledger</u>	<u>Balance per Subledger</u>	<u>Variance</u>
100	\$ 128,380	\$ 78,305	\$ 50,075
200	\$ -	\$ 3,490	\$ (3,490)
320	\$ 1,988	\$ (308)	\$ 2,296
340	\$ -	\$ 1,001	\$ (1,001)
350	\$ 104,773	\$ 28,889	\$ 75,886
360	\$ 561	\$ (1,237)	\$ 1,798
370	\$ 2,697	\$ (2,950)	\$ 5,647

Audit adjustments were proposed to adjust the subledgers for Funds 100 and 350 within the General Fund. As the remaining variances for Funds 200, 320, 340, 360 and 370 were not considered material to the financial statements, no audit adjustments were proposed. We recommend that recorded travel advances be reconciled to the subledgers on a periodic basis and in a timely manner.

(4) Accounts Receivable

Several receivable accounts recorded in the General Fund have been inactive for the past several years, specifically, A/c #s 20000-100, 20200-100, 21000-100, 22600-100, 27500-100 and 28500-100 for \$28,439, \$50,170, \$7,906, \$141,999, \$18,956 and \$136,552, respectively. Due to uncertainty of collection, these amounts have been included within the allowance for uncollectible accounts. We recommend that RepMar pursue collection of these accounts or determine whether such should be written off.

(5) Escheat Property

In accordance with Public Law 1999-89, property which escheats to RMI shall be deposited into an "Abandoned Business Interests" account, maintained under Unclaimed Business Property Fund (fiduciary fund). RepMar is required to publish within one year of receipt of such property, the existence of such to allow owners opportunity to claim their property. During fiscal year 2003, RepMar received \$93,737 of escheated bank accounts; however, RepMar has yet to publish the existence of such. We recommend that RepMar publish the existence of escheated property in accordance with the enabling legislation.

(6) Liquidation of Travel Advances

The Ministry of Finance currently does not require the traveler to submit boarding passes after completion of authorized travel to indicate that a traveler actually traveled. We recommend that the Secretary of Finance require that boarding passes be included with the traveler's submission for liquidation of travel advance upon completion of travel.

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(7) Cash

As of September 30, 2003, RepMar recorded a cash balance of \$1,645, representing a bank account (A/c # 800502) with the Bank of Marshall Islands. No bank reconciliation was made available for the entire fiscal year. The bank balance as of September 30, 2003 was \$618, with the variance between cash balance and bank balance of \$1,027 being bank charges due to inactivity in the account. We recommend that the Ministry of Finance close this account in order to minimize further bank charges. This matter was discussed in our previous letters dated May 18, 2001, May 27, 2002 and April 23, 2003.

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We have previously communicated certain matters noted during our audit of the financial statements of RepMar for the year ended September 30, 2003, which we considered to be reportable conditions, in our report to His Excellency Kessai Note dated April 2, 2004.

This report is intended solely for the information and use of management and others within the Ministry of Finance and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

