Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

May 13, 2022

Mr. Patrick Langrine
Secretary of Finance, Banking and Postal Services
Republic of the Marshall Islands

Dear Secretary Langrine:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2020 (on which we have issued our report dated May 13, 2022), and which report includes emphasis-of-matter paragraphs concerning collectability of federal grants receivable, social security obligations, and the impact of COVID-19, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered RepMar's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to RepMar's internal control over financial reporting and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to His Excellency David Kabua, also dated May 13, 2022 on our consideration of RepMar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Honorable Members of the Nitijela, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of RepMar for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving RepMar's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

Closed Bank Accounts

At September 30, 2020, the Ministry of Finance, Banking and Postal Services (MOFBPS) recorded the following cash-in-bank accounts for which the associated bank accounts were confirmed closed during prior audits:

GL A/c #	GL A/c Name	GL Balance
800405-12062	IMPREST ACCT L1791	$ 22,268
950000-15070	FHB TCD-CORP CREDIT CARD	$ 12,000

Final disposition of the account balances is unknown. We recommend MOFBPS investigate such, including verification of whether the account balances were deposited to RepMar's General Fund bank account. This matter was discussed in previous letters to management in the audits of fiscal years 2008 through 2019.

Outstanding Checks

The following exceptions were noted:

- Check # 183709 dated October 21, 2019 amounting to $300 was outstanding as of September 30, 2020 and remains so to date, over two years later. The Financial Management Act 1990, Section 150, requires that unpresented checks be voided after a period of 12 months at which time they are credited to a liability account where they remain for up to 3 years, after which time they revert to the General Fund.

- For taxes withheld from payments to vendors, MOFBPS's practice is to issue checks payable to the Secretary of Finance for such taxes and then receipt such at the Treasury Division. This practice is prone to errors and results in additional administrative and reconciliation tasks. Several such checks dated April 24 through September 30, 2020, aggregating $203,948, were on hand at year-end but were not included in the unreleased check listing. These checks were not deposited until after fiscal year-end.

We recommend that reconciling items be timely investigated and resolved. Furthermore, we recommend that taxes withheld be recorded via general journal entries and that MOFBPS consider modifying its existing practice.

Wire Payments

For payments to vendors that are processed online, MOFBPS's practice is to simultaneously issue a check to the vendor in the same amount. That check is then deposited to the general fund bank account. This practice is prone to errors and results in additional administrative and reconciliation tasks. The September 2020 general bank account reconciliation included $493,147, representing undeposited checks related to wire payments, several of which were processed in February and August 2020. We recommend MOFPBS consider changing its existing practice and instead record wire payments via duly authorized general journal entries.

SECTION I – DEFICIENCIES, CONTINUED

Ministry of Education, Sports and Training Maintenance Account

The Ministry of Education, Sports and Training continues to maintain and use a checking account, which maintains a monthly average balance under $20,000, that is not recorded by RepMar. Fiscal year 2020 bank statements and account reconciliations for such were not reviewed by MOFBPS. We recommend MOFBPS record and review reconciliations of all bank accounts of RepMar's ministries and agencies that are not authorized by enabling legislation to have separate financial reporting. This matter was discussed in previous letters to management for the audits of fiscal years 2010 through 2019.

Payroll Bank Account

The September 2020 reconciliation of RepMar's payroll bank account included bank errors totaling $11,550 that date back five years. We recommend MOFBPS timely investigate and resolve these errors. This matter was discussed in a previous letter to management for the audit of fiscal year 2019.

Miscellaneous Receivables

At September 30, 2020, MOFBPS recorded the following receivables that were not supported by underlying subsidiary ledgers:

G/L A/c #	G/L Balance
100100-24100	$ 686,749
950000-24100	$ (1,566)

No audit adjustments were proposed as these receivables were partially offset by a corresponding allowance for uncollectible accounts and the net balance is not considered material to the financial statements by management. We recommend MOFBPS reconcile these receivables and determine their ultimate collectability. This matter was discussed in previous letters to management for the audits of fiscal years 2007 through 2019.

Capital Assets

Condition # 1: At September 30, 2020, MOFBPS recorded the following capital assets which were owned by other entities:

- Outer island water catchment project (package 1 & 2) – aggregate cost $1,799,820
- Landing craft – in progress cost $817,000

Audit adjustments were proposed to correct RepMar's capital assets register for the above errors.

Condition # 2: The following exceptions were noted during physical inspection procedures:

- One asset (surveillance boat/MOH) was repaired in a prior year but has yet to be returned to RepMar due to unpaid storage fees claimed by the landowner. No agreement or contract for storage fees was available for examination; and
- One capital asset (school bus, net book value $27,896) did not have an identification number to facilitate examination.

Condition # 3: Authorized disposal forms were not provided for the following assets funded by Japan grants:

- Hitachi loader ZW250 # 270286 – cost $212,247
- Hitachi excavator # 270283 – cost $211,347

SECTION I – DEFICIENCIES, CONTINUED

Capital Assets, Continued

Condition # 4: No determination occurred as to whether an impairment loss is required for the following inoperable equipment, which is recorded in the capital assets register:

Funding Source	Asset Description	Department	Net Book Value
Japan Grant	Hitachi Excavator 270288	Public Works	$63,403

We recommend MOFBPS observe established policies and procedures requiring documentation of capital asset location, condition and maintenance, identification tag #, and regular assessment of possible asset impairment. This matter was discussed in previous letters to management in the audits of fiscal years 2017 and 2019.

Encumbrances

Encumbrances are not timely reviewed and reconciled. We recommend MOFBPS periodically review encumbrance subsidiary ledgers for continuing validity and timely reconcile to the general ledger. This matter was discussed in previous letters to management for the audits of fiscal years 2016 through 2019.

Republic of China (ROC) Contribution Check

The final $2,000,000 fiscal year 2020 ROC contribution check was received in December 2020 but was deposited eight months later in August 2021. We recommend that all receipts be timely deposited.

World Bank Grants

Reconciliation of World Bank-funded project activities for fiscal year 2020 and related adjusting entries were provided on January 24, 2022, nearly sixteen months after fiscal year 2020 ended. We recommend that grant activities be timely reconciled and recorded to facilitate accurate financial reporting.

Payroll Expenditures

Tests of payroll expenditures resulted in the following exceptions:

- An approved timesheet for employee # 202094 for the pay period ended March 28, 2020 indicated 80 regular hours for a total gross pay of $502 per the payroll register. However, per the DILOG 135-P expenditure report, the employee's gross pay was $932. We were informed that the difference of $430 is attributed to National Election work performed by the employee; however, such was not supported by an approved timesheet.

- Approved timesheets for employee #s 88708 and 235835 for the pay period ended November 23, 2019 erroneously indicated 16 holiday hours. Payroll Department staff discovered the error and paid the correct 8 holiday hours; however, veracity of timesheets is not their responsibility as such lies with the line ministries and offices. Ineffective review of timesheets increases the risk of misstatement of payroll expenditures.

We recommend MOFBPS establish policies and procedures to facilitate the veracity of timesheets, payroll processing and the overall approval process. This matter was discussed in previous letters to management in the audits of fiscal years 2013 through 2019.

SECTION I – DEFICIENCIES, CONTINUED

Timely Financial Reporting

MOFBPS does not have internal control policies and procedures requiring periodic and timely performance of general ledger account reconciliations, including independent and effective review, and prompt resolution of reconciling items, to facilitate accurate financial reporting. Multiple general ledger accounts were not fully reconciled as of September 30, 2020. As the accounts or errors noted were not considered material to the financial statements, management elected to include errors with unadjusted misstatements as of year-end. We recommend that MOFBPS establish internal control policies and procedures requiring periodic and timely performance of general ledger account reconciliations, including independent and effective review, and prompt resolution of reconciling items.

SECTION II – OTHER MATTERS

We also identified, and have included below, other matters involving RepMar's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

Unclaimed Property

On November 28, 2002, the Secretary of Finance, Banking and Postal Services received $93,737, representing unclaimed customer accounts, from a bank. This amount is recorded as a liability within G/L Acct # 300430-50080. In accordance with Marshall Islands Revised Code, Title 30 Chapter 5, Disposition of Unclaimed Business Interests, any unclaimed property, which escheats to RepMar under provisions of the law, shall be deposited into an Abandoned Business Interests account within the Unclaimed Business Property Fund. The Secretary of Finance, Banking and Postal Services is required to publish the existence of such property within one year after receipt; however, such has yet to be published. We recommend MOFBPS publish the existence of escheated property in accordance with enabling legislation. This matter was discussed in previous letters to management in the audits of fiscal years 2003 through 2019.

Verification of Daily Deposits

Section 4.7 of MOFBPS' Standard Operating Procedures (SOP) manual requires the Accounting Department to verify deposits against cash receipts on a daily basis; however, such is not being performed. We recommend MOFBPS update its SOP manual and consider a more practicable verification policy, including daily online verification of account balances. This matter was discussed in previous letters to management in the audits of fiscal years 2015 through 2019.

Payroll Checks

There is no established policy with respect to minimum check amounts and unclaimed payroll checks. Consequently, payroll checks for nominal amounts remain unclaimed each year. Furthermore, payroll checks older than six months are not returned by the ministries/offices to the Treasury Department for proper disposition. We recommend MOFBPS consider establishing policies with respect to minimum check amounts and unclaimed payroll checks. This matter was discussed in previous letters to management in the audits of fiscal years 2014 through 2019.

RMI Procurement Code

Supporting procurement documentation for a locally funded a $118,804 equipment purchase (JV # G20-613N) was not available for examination. We recommend MOFBPS require adherence to the RMI Procurement Code and that procurement documentation be retained on file. This matter was discussed in previous letters to management in the audits of fiscal years 2017 and 2019.

SECTION II – OTHER MATTERS, CONTINUED

Leave Hours

We noted the following inconsistencies with Public Service Regulations (PSR):

- MOFBPS rolls over employee annual leave hours each year based on leave hours available at the end of payroll # 1, which is around mid-December. Such is inconsistent with PSR Part VI, paragraph 56(2) which states that 208 leave hours is the maximum that can be accumulated and rolled over at the end of the leave year, December 31.

- Approved forms for annual leave of 24 hours or less are not being required, which is not consistent with PSR Instruction No. 2010/01, which states that all annual and sick leave hours recorded in time clocks and timesheets without prior approval shall be treated as leave without pay or absence without leave.

We recommend MOFBPS require compliance with Public Service Regulations, including documented pre-approval of leave. This matter was discussed in previous letters to management in the audits of fiscal years 2015 through 2019.

Payroll Processing

MOFBPS processes certain payroll expenditures outside of the DILOG payroll module. These represent additional employee salaries and wages incurred during one-off events or special functions where employees perform work outside of their normal duties. Required payroll withholdings are deducted from such payments; however, such payroll expenditures are not captured in the regular payroll registers.

The reason for the above-described payroll processing method is not clear and imposes additional administrative steps that are prone to error.

We recommend MOFBPS evaluate the efficiency and need for this payroll processing method. This matter was discussed in a previous letter to management in the audit of fiscal year 2019.

4gov Org, Cost Center and Account #s

Org, Cost Center and Account #s established in the 4gov accounting system differentiate revenues and expenditures by funding source, purpose and department. We noted incorrect use of such, resulting in inaccurate reporting of revenues and expenditures. We recommend MOFBPS verify the accuracy of Org, Cost Center and Account #s used. This matter was discussed in previous letters to management in the audits of fiscal years 2014 through 2019.

Review of EDP Environment Activities

Activities logs of super users in the Unix environment are not regularly monitored. Consequently, unauthorized modifications to data and system configurations, which could affect the consistency and integrity of the information system operation, may remain undetected. We recommend a review of the activities logs of super users occur to monitor EDP environment activities. This matter was discussed in previous letters to management in the audits of fiscal years 2009 through 2019.

Enhancement of Network Security

There is a lack of control of network activities resulting in a higher chance of data integrity and confidentiality issues. For example, hackers may be able to access the network and modify/view sensitive information. Therefore, network vulnerability testing and/or network penetration testing should be performed at least annually to identify control weaknesses. This matter was discussed in previous letters to management in the audits of fiscal years 2009 through 2019.

SECTION II – OTHER MATTERS, CONTINUED

IT Policies and Procedures

No information technology policies and procedures have been adopted with respect to use of information technology and general security, data ownership and access rights. We recommend MOFBPS consider adopting such policies and procedures. This matter was discussed in previous letters to management for the audits of fiscal years 2014 through 2019.

Public School System (PSS) Education Fund

The following exceptions were noted with the preliminary trial balance provided for audit:

- Beginning fund balance was overstated by $132,581.
- Beginning balance of cash (account # 13011) was overstated by $14,511.
- Beginning balance of accounts payable (account #s 2001 and 2003) was understated by $177,001.
- A transfer out of $58,855 was not recorded for a lapsed FY2019 appropriation which was returned to MOFBPS in FY2020.

Audit adjustments were proposed to correct the above errors.

- September 2020 bank reconciliation included $22,325 of stale checks, of which $20,475 are unresolved from prior years.

We recommend that management effectively review and approve financial records of the PSS Education Fund. This matter was discussed in a previous letter to management for the audit of fiscal year 2019.

National Training Council (NTC)

RepMar's 2020 financial statements do not include the financial statements of NTC, as required by the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14.

NTC has received the following annual appropriations from RepMar during the past three fiscal years:

Year	Amount
2018	$ 365,212
2019	$ 393,939
2020	$ 385,522

NTC's financial statements are not material to the financial reporting entity as a whole; however, RepMar should establish policies and procedures to facilitate compliance with GASB Statement No. 14, as amended.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

RepMar's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.