



May 27, 2002

CONFIDENTIAL

Honorable Minister Michael Konelios
Ministry of Finance
Republic of the Marshall Islands
Majuro, Marshall Islands 96960

Dear Minister Konelios:

In planning and performing our audit of the general purpose financial statements of the Republic of the Marshall Islands (RepMar) for the year ended September 30, 2001, on which we have issued our report dated May 27, 2002, which report was qualified due to: 1) our inability to obtain minutes of Board of Directors' meetings for Air Marshall Islands, Inc.; 2) our inability to determine the propriety of fixed assets and fund equity of the General Fixed Assets Account Group; 3) our inability to determine the propriety of deferred revenue of the Governmental Fund Type - Special Revenue Fund; 4) our inability to determine the propriety of accounts payable of the Governmental Fund Type - Capital Projects Fund; 5) our inability to determine the propriety of inventories of the Component Units - Proprietary Funds; 6) our inability to determine the propriety of revenues and expenses of the Kwajalein Atoll Joint Utilities Resources, Inc. and receivables, accounts payable, other liabilities and accruals, and revenues and expenses of the Marshall Islands Marine Resources Authority, Component Units - Proprietary Funds; and 7) the omission of the Ministry of Education Headstart Program from the Governmental Fund Type - Special Revenue Fund, the Four Atoll Medical Fund and the Marshall Islands Scholarship, Grant and Loan Board from the Fiduciary Fund Type - Expendable Trust Fund, the National Environmental Protection Authority from the Component Unit - Governmental Fund, the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc. and the Marshall Islands Drydock, Inc. from the Component Units - Proprietary Funds, and the College of the Marshall Islands from the University and College Fund Type - Higher Education Fund, 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) Payroll

Of ninety-four payroll disbursements from the Ministry of Finance tested, we noted four disbursements (check #s 635065, 653097, 654358 and 660946) that were not supported by timesheets certified by the respective Department supervisors. We recommend that the Payroll Department within the Ministry of Finance ensure that all employee timesheets are certified by Department supervisors to indicate review of hours worked.

(2) Payroll

Of ninety-four payroll disbursements from the Ministry of Finance tested, we noted one disbursement (check # 646682 for \$215) for which social security was under-withheld by \$17. We recommend that the Payroll Department within the Ministry of Finance ensure that all statutory withholdings are in accordance with the enabling legislation.

(3) Payroll

Of ninety-four employees tested, we noted: (i) two employee personnel files (Employee #s 5487 and 9120) that included Personnel Action Forms (PAFs) that did not support the employees' authorized pay rate; (ii) two employee personnel files (Employee #s 4389 and 9175) that included original PAFs with unauthorized manual alterations; and (iii) one employee personnel file (Employee # 7446) that included an original PAF that was not authorized by the Minister of Health and Environment. We recommend that the Ministry of Finance ensure that employee personnel files be updated to include authorized PAFs approved by a majority of the members of the Public Service Commission. This matter was reported as a finding in our Single Audit of RepMar for fiscal year 2000.

(4) Disbursements

Of twenty-five nonpayroll disbursements from the Ebeye office of the Ministry of Finance tested, supporting purchase orders for three disbursements (check #s 4091, 4140 and 12146 for \$158, \$814 and \$1,500, respectively) were not made available. Furthermore, check #s 4140 and 12146 were not evidenced by appropriate supporting documentation. We recommend that the Ministry of Finance retain documentation to support all disbursements made. This matter was discussed in our previous letter dated May 18, 2001.

(5) Cash

As of September 30, 2001, the Treasury Division within the Ministry of Finance maintained checks on hand, totaling \$132,131, which included checks for \$17,910 that were issued before September 30, 2000. We recommend that the Ministry of Finance establish policies and procedures requiring that checks not collected from the Treasury Division be mailed to the vendors in a timely manner.

(6) Cash

As of September 30, 2001, the General account bank reconciliation (G/L A/c # 10000-950) included a reconciling item relating to a double posting error by the bank of check # 165409 (dated June 17, 1997), totaling \$52,728. The Ministry of Finance has not been reimbursed by the bank for this error. We recommend that the Ministry of Finance, through the Office of the Attorney General, follow up with the bank concerning reimbursement of the double posting. In addition, the bank reconciliation included a reconciling item relating to a double payment (check # 197372 for \$27,421) to a vendor. Although the Ministry of Finance has subsequently been reimbursed by the vendor for this double payment, we recommend that the Ministry of Finance establish policies and procedures requiring the monitoring of vendor payments to ensure that vendor invoices are not paid twice. This matter was discussed in our previous letters dated May 9, 2000 and May 18, 2001 and was reported as a finding in our Single Audit of RepMar for fiscal year 1998.

(7) Cash

As of September 30, 2001, the Republic of the Marshall Islands Investment Development Fund (Fund 327) 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, 2001 was \$1,080, with the variance between cash balance and bank balance of \$565 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 letter dated May 18, 2001.

(8) Cash

As of September 30, 2001, RepMar maintained a bank account, totaling \$130,640, with the Sumitomo Bank, Ltd. There has been no activity in this account since fiscal year 1997. Furthermore, the account is currently earning interest at the rate of 0.5% per annum. We recommend that the Ministry of Finance withdraw these funds and deposit them in a higher yielding account in order to maximize earnings potential. This matter was discussed in our previous letter dated May 18, 2001.

(9) Cash

During our testing of bank reconciliations for the month of September 2001, we noted that: (i) the Payroll account bank reconciliation (G/L A/c # 10000-960) indicated an unreconciled variance of \$11,835; (ii) the Ebeye General account bank reconciliation (G/L A/c # 10000-975) included a deposit in transit of \$23,634 that actually represented the double posting of a cash receipt; and (iii) the General account bank reconciliation (G/L A/c # 10000-976) included reconciling items, totaling \$1,482, which represented actual cash shortages on recorded deposits. We recommend that the Ministry of Finance ensure that bank accounts reconcile to the general ledger and that all reconciling items be investigated in a timely manner.

(10) Advances

Of fourteen travel advances tested, we noted one advance (TA # 83807A for \$6,320) was fully advanced without twenty percent (20%) being retained as required by RepMar's travel policies. In addition, we noted that the traveler failed to submit the necessary documentation required to liquidate the travel advance. Furthermore, we noted two advances (TA #s 85859A and 3423 for \$3,170 and \$210, respectively) for which the travelers failed to submit the necessary documentation required to liquidate the travel advance. We recommend that the Ministry of Finance adhere to its travel advance policy and follow up on outstanding travel advances. This matter was reported as a finding in our Single Audit of RepMar for fiscal year 2000.

(11) Receivables

As of September 30, 2001, the General Fund recorded a receivable (G/L A/c # 27100-100) from the U.S. National Oceanic and Atmospheric Administration (NOAA), totaling \$196,593, which included amounts outstanding in excess of one year of \$70,002 that have not yet been reimbursed. We recommend that the Ministry of Finance monitor the NOAA receivable balance on a periodic basis and follow up with NOAA concerning reimbursement of this receivable in a timely manner.

(12) Receivables

As of September 30, 2001, the General Fund recorded a receivable (G/L A/c # 27400-100) from the College of the Marshall Islands, totaling \$123,628, representing payments by RepMar for College employees during fiscal years 1995 and 1996. The Ministry of Finance has not been reimbursed for these payments. We recommend that the Ministry of Finance follow up with the College concerning reimbursement of this receivable, including the possibility of deducting this amount from future appropriations made by the Nitijela. This matter was discussed in our previous letters dated May 9, 2000 and May 18, 2001.

(13) Receivables

As of September 30, 2001, the General Fund recorded a receivable (G/L A/c # 28000-100) from the Trust Company of the Marshall Islands, totaling \$458,463, representing RepMar's share of ship registration fees for the quarters ended June 2001 and September 2001. The amount relating to the quarter ended September 2001, totaling \$253,886, was recorded as revenue within the F/A module of the ADS Profund accounting system in fiscal year 2002. Accordingly, the revenue control account (G/L A/c # 90600-100) did not agree with the revenue balance within the F/A module. No explanation was made available as to the cause of this imbalance. An audit adjustment was proposed to record the revenue in the correct accounting period. We recommend that the Ministry of Finance investigate the cause of this imbalance and ensure that revenues are recorded in the correct accounting period within the F/A module of the ADS Profund accounting system.

(14) Receivables

As of September 30, 2001, the General Fund recorded a receivable (G/L A/c # 28100-100) from the Section 177 Health Plan, totaling \$93,715, representing payments made by RepMar on behalf of the Section 177 Health Plan not yet reimbursed. This receivable balance included an amount of \$50,622, which related to an unreconciled difference brought forward from prior years, for which no explanation was made available by the Ministry of Finance. We recommend that the Ministry of Finance investigate the nature of this unreconciled balance in a timely manner. This matter was discussed in our previous letter dated May 18, 2001.

(15) Receivables

As of September 30, 2001, the General Fund recorded a receivable (G/L A/c # 28500-100) for \$29,888 relating to reimbursable travel expenses. No reconciliation of this account balance was made available. We recommend that the Ministry of Finance ensure that all receivable balances are reconciled on a monthly basis and in a timely manner.

(16) External Financial Reporting

As of September 30, 2001, the interfund balances recorded in the Treasury Fund (Fund 950) within the General Fund did not agree with the corresponding balances recorded in the respective individual funds, resulting in an unreconciled credit variance of \$138,733. As this amount was not considered material to the general purpose financial statements, no audit adjustment was proposed. We recommend that the Ministry of Finance reconcile interfund balances recorded in Fund 950 to the corresponding balances recorded in the respective individual funds within the ADS Profund accounting system on a monthly basis. This matter was reported as a finding in our Single Audit of RepMar for fiscal year 2000.

(17) External Financial Reporting

As of September 30, 2001, the General Fund (Fund 100) trial balance provided for audit was out of balance by \$337,271. Audit adjustments were proposed to reduce the imbalance to \$115,919. The cause of the imbalance is that the revenue control account (G/L A/c # 90600-100) and expense control account (G/L A/c # 90700-100) balances did not agree with the revenue and expenditure balances within the F/A module of the ADS Profund accounting system. No explanation was made available as to the cause of this imbalance. We recommend that the Ministry of Finance investigate the cause of this imbalance and ensure that revenues and expenditures recorded in the revenue and expense control accounts correspond to amounts recorded within the F/A module of the ADS Profund accounting system. This matter was reported as a finding in our Single Audit of RepMar for fiscal year 2000.

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We have previously communicated certain matters noted during our audit of the general purpose financial statements of RepMar for the year ended September 30, 2001, which we considered to be reportable conditions, in our report to His Excellency Kessai Note dated May 27, 2002.

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,

Deloitte & Touche