

April 23, 2003

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 general purpose financial statements of the Republic of the Marshall Islands (RepMar) for the year ended September 30, 2002, on which we have issued our report dated April 23, 2003, which report was qualified due to: 1) our inability to determine the propriety of fixed assets and fund equity of the General Fixed Assets Account Group; 2) our inability to determine the propriety of other expenditures of approximately \$2.2 million recorded in the Governmental Fund Type - General Fund; 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 Kwajalein Atoll Development Authority, a Governmental Fund Type - Capital Projects Fund; 5) our inability to determine the propriety of general receivables and deferred revenue of the University and College Fund Type - Higher Education Fund and their effect on the determination of revenues of the University and College Fund Type - Higher Education Fund; 6) our inability to determine the propriety of revenues and expenses of the Marshall Islands Marine Resources Authority, a Component Unit - Proprietary Fund; and (7) the omission of the Ministry of Education Headstart Program from the Governmental Fund Type - Special Revenue Fund, Air Marshall Islands, Inc., the Marshall Islands Development Bank, the Marshall Islands Alternative Energy Company, Inc. 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) Cash

As of September 30, 2002, 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, 2002 was \$851, with the variance between cash balance and bank balance of \$794 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 and May 27, 2002.

(2) Cash

As of September 30, 2002, the Treasury Division within the Ministry of Finance maintained checks on hand, totaling \$996,443, which included checks that were issued as far back as fiscal year 1999. We recommend that the Ministry of Finance establish policies and procedures requiring that checks not collected from the Treasury Division be mailed to vendors in a timely manner.

(3) Cash

As of September 30, 2002, RepMar maintained a bank account, totaling \$131,143, 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 0.25% 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 27, 2002.

(4) Cash

During our testing of bank reconciliations for the month of September 2002, we noted that: i) the Payroll account bank reconciliation (G/L A/c # 10000-960) indicated an unreconciled variance of \$44,691; ii) the payroll account bank reconciliation (G/L A/c # 10000-960) included deposits in transit of \$124,093 which never materialized; and iii) the General account bank reconciliation (G/L A/c # 10000-976) and payroll account outstanding checklists included stale dated items, totaling \$304,814 and \$64,664, respectively, which represented checks greater than 12 months old. We recommend that the Ministry of Finance ensure that bank accounts reconcile to the general ledger and that all reconciling items be investigated and corrected in a timely manner.

(5) Travel Advances

During our testing of travel advances, we noted two occasions (TA # 85925A for \$2,500 and TA #92012A for \$4,027), where the travelers failed to submit the necessary documentation required to liquidate the travel advances within thirty days after completion of travel as per RepMar travel policies. 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 years 2000 and 2001.

(6) Receivables

As of September 30, 2002, the General Fund recorded a receivable (G/L A/c # 27100-100) from the U.S. National Oceanic and Atmospheric Administration (NOAA), totaling \$316,580, which included amounts outstanding in excess of one year 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.

(7) Receivables

As of September 30, 2002, 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, May 18, 2001 and May 27, 2002.

(8) Receivables

As of September 30, 2002, the General Fund recorded a receivable (G/L A/c # 28100-100) from the Section 177 Health Plan, totaling \$91,744, representing payments made by RepMar on behalf of the Section 177 Health Plan not yet reimbursed. This receivable balance included amounts, which relate 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 and May 27, 2002.

(9) Receivables

As of September 30, 2002, the General Fund recorded a receivable (G/L A/c # 28500-100) for \$106,433 relating to reimbursable travel expenses. Client reconciliation of this account balance included an unidentified variance of \$9,785. Further no material subsequent collection of this amount was noted. We recommend that the Ministry of Finance ensure that all receivable balances are reconciled in a timely manner and that reimbursement of such also be investigated. This matter was discussed in our previous letter dated May 27, 2002.

(10) Receivables

As of September 30, 2002, the General Fund recorded a receivable (G/L A/c # 22600-100) for \$141,999 relating to amounts due from the Republic of Nauru. No material subsequent collection of this amount was noted and the receivable is over a year old. We recommend that the Ministry of Finance investigate collectibility of the balance in a timely manner.

(11) Payroll

Of one hundred payroll disbursements from the Ministry of Finance tested, we noted two disbursements (check # 710754, 670512) where the corresponding employee worked for a particular ministry or department however the related expenditure was mis-posted to a different ministry or department. We recommend that the Payroll Department within the Ministry of Finance ensure that all employee salaries are charged to the proper accounts.

(12) Payroll

Of one hundred payroll disbursements from the Ministry of Finance tested, we noted several disbursements (check's # 666180, 666193, 670280, 704807) where the hours paid to the employee were not supported by the hours worked per the timesheet or were not properly approved. We recommend that the Payroll Department within the Ministry of Finance ensure that hours worked agree to the supporting timesheets and are properly approved prior to processing of the payroll as prescribed by established policies and procedures.

(13) Payroll

Of one hundred payroll disbursements from the Ministry of Finance tested, we noted several disbursements (check's # 668093, 703694, 707353, 700110, 666502, 696730, 670512, 678770, 708019, 667723, 667428, 675648, 706473) where allotment deductions were not supported by properly approved allotment forms. We recommend that the Payroll Department within the Ministry of Finance ensure that all employee deductions are supported by properly approved payroll allotment forms as prescribed by established policies and procedures.

(14) Payroll

During our testing of payroll disbursements at the Ministry of Finance, we noted that the payroll register for department #7291 for the pay period ended 09/07/02 could not be located. We recommend that the Payroll Department within the Ministry of Finance ensure that all payroll related documents are maintained to ensure a proper audit trail.

(15) Payroll

Of one hundred payroll disbursements from the Ministry of Finance tested, we noted one disbursement (check # 669144) where the Personnel Action Form was not approved by the Minister of Finance. We recommend that the Payroll Department within the Ministry of Finance ensure that all employee Personnel Action Forms are properly approved by all parties as prescribed by established policies and procedures.

(16) Payroll

Of one hundred payroll disbursements from the Ministry of Finance tested, we noted one disbursement (check# 690990) where although the employee was paid out of the Ministry of Education (department #2122) the details of the transaction did not appear in the related payroll report for the department (refer also finding #2002-3 in the internal control report). We recommend that the Secretary of Finance contact the software vendor to correct this issue.

(17) Payroll

Of one hundred payroll disbursements from the Ministry of Finance tested, the following payroll disbursements indicated pay rates that did not agree with the respective employee Personnel Action Forms:

<u>Check #</u>	<u>Employee #</u>	<u>Check #</u>	<u>Employee #</u>
664762	4050	683915	7762
671572	0034	664664	5465
693925	2762	690762	7503
669744	4446	667492	1421
679833	4034	664782	5893
708019	1525	688253	0396
678857	8989		

We recommend that the Payroll Department within the Ministry of Finance ensure that pay rates for all employees agree to authorized pay rates per the respective Personnel Actions Forms.

(18) Loans Payable

Loans payable balances should be reconciled on a periodic basis with the creditor. Confirmation received from the Bank of China for an outstanding loan with the entity differed from the amount recorded in the Long term Debt Account Group as payable to the Bank of China by approximately \$100,000. We recommend that the discrepancy be investigated and corrected.

Honorable Minister Brenson S. Wase
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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, 2002, which we considered to be reportable conditions, in our report to His Excellency Kessai Note dated April 24, 2003.

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