

December 31, 2020

Ms. Maybelline A. Bing
Secretary of Finance, Banking and Postal Services
Republic of the Marshall Islands

Dear Secretary Bing:

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, 2019 (on which we have issued our report dated December 31, 2020), and which report includes emphasis-of-matter paragraphs concerning collectability of federal grants receivable, social security obligations, the impact of COVID-19, and the correction of an error, 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to His Excellency David Kabua, also dated December 31, 2020 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.

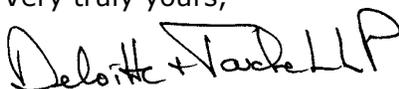
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



SECTION I – DEFICIENCIES

We identified the following deficiencies involving RepMar’s internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

Closed Bank Accounts

At September 30, 2019, the Ministry of Finance, Banking and Postal Services (MOFBPS) recorded cash of \$22,268 for Asian Development Bank Loan # 1791 Imprest Account (GL A/c # 800405-12062). The associated bank account was confirmed closed during a prior audit; however, final disposition of the account balance is unknown. Furthermore, MOFBPS recorded cash of \$12,000 for a TCD account (GL A/c # 950000-15070), which was closed on September 26, 2019. 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 2018.

Ministry of Education, Sports and Training Maintenance Account

The Ministry of Education, Sports and Training continues to maintain and use a checking account that is not recorded by RepMar. Fiscal year 2019 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 2018.

Payroll Bank Account

The September 2019 reconciliation of RepMar’s payroll bank account included bank errors totaling \$11,550 and dating back four years. We recommend MOFBPS timely investigate and resolve these errors.

Miscellaneous Receivables

At September 30, 2019, MOFBPS recorded the following receivables that were not supported by underlying subsidiary ledgers:

<u>G/L A/c #</u>	<u>G/L Balance</u>
100100-24100	\$ 679,993
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 2018.

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 2018.

SECTION I – DEFICIENCIES, CONTINUED

Capital Assets

Condition # 1: The following exceptions were noted:

- One asset (Hitachi loader ZW120-G 270283) was relocated to Kwajalein Atoll; however, transfer documentation and an image of the asset at its new location was not available;
- One asset (surveillance boat/MOH) was repaired during the year but was not returned to RepMar due to unpaid and unsubstantiated storage fees claimed by the landowner. No agreement or contract for storage fees was available for examination; and
- Construction of one item (MOH Pre-Fabricated Warehouse, contract # C12048) was scheduled to be completed by March 2, 2018; however, work has yet to commence to date. As of September 30, 2019, MOFBPS recorded progress payments of \$502,602 (78% completion) representing work-in-progress on the \$647,338 contract price. An audit adjustment was proposed to record an asset impairment loss and to correct the overstatement error. This matter was discussed in our previous letters to management in the audits of fiscal years 2017 and 2018.

We recommend MOFBPS establish policies and procedures requiring documentation of capital asset location, condition and maintenance, identification tag #, and possible asset impairment.

Condition # 2: No determination occurred as to whether an impairment loss is required for the following inoperable equipment, which is recorded in the capital asset register:

<u>Funding Source</u>	<u>Asset Description</u>	<u>Department</u>	<u>Net Book Value</u>
Japan Grant	Hitachi Excavator 270288	Public Works	\$ 63,403

We recommend MOFBPS establish policies and procedures requiring regular assessment of possible asset impairment. This matter was discussed in previous letters to management in the audits of fiscal years 2017 and 2018.

Payroll Expenditures

Tests of payroll expenditures resulted in the following exceptions:

- An approved timesheet for employee # 216293 for pay period ended July 20, 2019 indicated 72 regular hours and 8 sick leave hours for a total gross pay of \$962 per payroll register. However, per DILOG 135-P expenditure report, the employee’s gross pay was \$6,152. We were informed that the difference of \$5,190 is attributed to Constitutional Convention work performed by the employee; however, such was not supported by an approved timesheet.
- Approved timesheets for employee #s 037719, 200448, 202084, and 236328 for the pay period ended January 5, 2019 erroneously indicated 32 holiday hours; however, the correct 16 holiday hours were paid.
- An approved timesheet for employee # 099266 for the pay period ended September 28, 2019 erroneously indicated 16 holiday hours; however, the correct 8 holiday hours were paid.

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 2018.

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, 2019 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 the enabling legislation. This matter was discussed in previous letters to management in the audits of fiscal years 2003 through 2018.

Verification of Daily Deposits

Section 4.7 of MOFBPS' Standard Operating Procedures manual requires the Accounting Department to verify deposits against cash receipts on a daily basis; however, such is not being performed. This matter was discussed in previous letters to management in the audits of fiscal years 2015 through 2018.

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 2018.

Journal Vouchers

Numerous journal entries recorded throughout the year, while approved, were incorrect. These erroneous entries were ultimately corrected by management during reconciliations in the year end preparation for the audit. We recommend MOFBPS require that all journal vouchers be supported and be independently and reviewed and approved by knowledgeable personnel prior to posting. This matter was discussed in previous letters to management in the audits of fiscal years 2016 through 2018.

Fuel Purchases

A vendor invoice differed from the underlying purchase order for APV # 658026 for a \$3,772 fuel purchase. The purchase order (PO) was solely for gasoline; however, the PO was liquidated for the purchase of both gasoline and diesel as per the underlying vendor invoice. We recommend that MOFBPS ensure that purchases are in accordance with the underlying PO.

RMI Procurement Code

Check # 177781 for APV # 655499 for airfare totaling \$38,596 was not procured in accordance with the RMI Procurement Code. Although only one airline was available, there are several ways to procure airfare including different levels of airfare class or quotations from the airline website, branch office, or travel agency to determine whether the most economical rate was obtained. Additionally, supporting procurement documentation for a \$1,578 Honolulu Consulate expenditure (APV # 647838) 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 2018.

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 2018.

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 prone to errors.

We recommend MOFBPS evaluate the efficiency and need for this payroll processing method.

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 2018.

Access Control of End-User

The Payroll Director is configured to be a super user in the Unix environment because he is also a backup staff of the IT department. The user is able to make unauthorized modifications to the data and system configurations, which could affect the consistency and integrity of the information system operation. We recommend a review of the activities logs of super users, including the Payroll Director, occur to monitor EDP environment activities. This matter was discussed in previous letters to management in the audits of fiscal years 2009 through 2018.

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 2018.

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 2018.

Public School System (PSS) Education Fund

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

- Beginning fund balance of \$227,011 was not recorded.
- Beginning balances for account #s 13011 and 2001 were incorrect.
- Lapsed FY2019 appropriation was accrued as of September 30, 2019.

Additionally, voided check # 15486, was not cancelled in the accounting system.

Audit adjustments were proposed to correct the above errors.

Documented rationale supporting the vendor selection for check # 16630 was not available for examination.

We recommend that management effectively review and approve financial records of the PSS Education Fund. We further recommend that procurement documentation be retained on file.

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.