

March 9, 2023

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, 2021 (on which we have issued our report dated March 9, 2023), and which report includes an adverse opinion due to the omission of certain component units and 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, 2021, that we wish to bring to your attention.

We have also issued a separate report to His Excellency David Kabua, also dated March 9, 2023 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 and significant deficiencies 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.

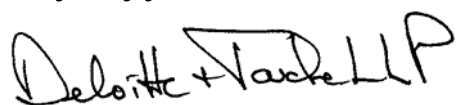
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2021, that we wish to bring to your attention:

Closed Bank Accounts

As of September 30, 2021, the Ministry of Finance, Banking and Postal Services (MOFBPS) recorded the following cash accounts that were confirmed as having been closed in prior audits:

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

Additionally, final disposition of the Asian Development Bank Loan # 1791 account is unknown.

We recommend MOFBPS investigate and verify whether the account balances were deposited to RepMar's General Fund bank account. This matter was discussed in previous letters to management for the audits of fiscal years 2008 through 2020.

Undeposited Wire Payment Checks

The September 2021 General Account bank reconciliation included \$324,009 of undeposited checks related to wire transfer payments. We recommend management timely deposit checks relating to wire transfer payments. We further recommend MOFBPS consider changing its existing practice and record wire payments via appropriately authorized general journal entries. This matter was discussed in a previous letter to management for the audit of fiscal year 2020.

Outstanding Checks

As of September 30, 2021, the General Account bank reconciliation included \$7,155,835 of outstanding checks, which included one item (check# 217801 dated 9/20/2021 for \$885,457) that was not timely redeposited to the bank until 3/11/2022 upon the processing of a corresponding wire transfer payment. An audit adjustment was proposed to recognize a liability and revert the amount to cash. We recommend management timely deposit checks relating to wire transfer payments. We further recommend that bank reconciling items be timely investigated and resolved.

Bank Errors

The September 2021 General Account bank reconciliation included bank errors totaling \$20,758 dating to 2019 that remain unresolved. We recommend MOFBPS timely investigate and resolve errors through reimbursement from the bank. This matter was discussed in previous letters to management for the audits of fiscal years 2019 and 2020.

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 2021 bank statements and account reconciliations were not provided to MOFBPS for review. We recommend MOFBPS record and review reconciliations of all RepMar ministry and agency bank accounts 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 2020.

SECTION I - DEFICIENCIES, CONTINUED

General Fund - Payroll Expenditures

For seven payroll items tested, the following exceptions were noted:

- A timesheet for employee # 19195 for PPE 11/21/2020 was not made available;
- 12 hours of overtime for employee # 204488 for PPE 1/16/2021 was calculated using an incorrect pay rate resulting in a \$17 underpayment;
- 108 hours of overtime for employee # 89437 for PPE 6/05/2021 was calculated using an incorrect pay rate resulting in a \$104 underpayment;
- Ebeye differential for employee # 208478 for PPE 6/19/2021 was calculated at 30% instead of the 15% established rate.

We recommend MOFBPS establish internal control 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 2020.

General Fund Accrual

As of September 30, 2021, RepMar's General Fund recorded a \$791,463 accrual for excess vacation leave that was legally determined to be a liability in December 2021. Such did not represent a valid liability as of September 30, 2021. As management deemed that this misstatement was not considered material to the financial statements, no audit adjustment was proposed. We recommend that MOFBPS verify that accruals represent valid liabilities.

Miscellaneous Receivables

As of September 30, 2021, MOFBPS recorded the following receivables not supported by underlying subsidiary ledgers:

<u>GL A/c #</u>	<u>GL A/c Name</u>	<u>G/L Balance</u>
100100-24100	A/R - REIMBURS TRAVEL	\$ 688,040
950000-24100	A/R - REIMBURS TRAVEL	\$ (1,566)

No audit adjustments were proposed as these receivables were partially offset by a corresponding allowance for uncollectible accounts and management deemed that the net remaining balance was not considered material to the financial statements. 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 2020.

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, 2021. 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. This matter was discussed in a previous letter to management for the audit of fiscal year 2020.

SECTION I - DEFICIENCIES, CONTINUED

Capital Assets

Condition # 1: As of September 30, 2021, MOFBPS capitalized ordinary repairs and maintenance costs for the Honolulu Consulate building and the ECC gym amounting to \$203,426 and \$1,751,869, respectively. Such represent repairs delayed over the years and are not deemed to have significantly extended the lives of the assets. Audit adjustments were proposed to expense these costs.

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

- Two assets (Ebeye hospital supply of 100T air-cooler, net book value \$265,840 and tractor truck w/ low bed trailer, net book value \$110,655) could not be physically verified due to the assets' location and lack of documentation or recent photographs of the assets to verify existence.
- One asset (school bus, net book value \$13,947) did not have an identification number to facilitate examination.
- One asset (Mitsubishi pick-up, net book value \$104,027) represents two pick-up trucks, with a per unit cost below RepMar's capitalization threshold, and one bus with a unit cost of \$55,595. The bus could not be physically verified due to the asset's location and lack of documentation or a recent photograph of the asset to verify existence. As management deemed that such was not considered material to the financial statements, no audit adjustment was proposed.
- One asset (woodchipper/freight, net book value \$62,400) represents 10 woodchippers with a per unit price of \$9,900, which is below RepMar's capitalization threshold. As management deemed that such was not considered material to the financial statements, no audit adjustment was proposed.

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

- Hino safety loader truck # 274188 – cost \$163,220
- Hitachi loader ZW250 # 270338 – cost \$212,247

Condition # 4: The following exception noted in the prior audit was unresolved as of September 30, 2021:

- A Ministry of Health and Human Services surveillance boat repaired in a prior year 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.

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 through 2020.

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 2020.

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, 2021, 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 for the audits of fiscal years 2003 through 2020.

Ministry of Justice Special Revenue Fund

A \$38,500 vehicle purchase was charged to the Ministry of Justice Special Revenue Fund; however, such expenditure does not appear to comply with the intent of Section 804 of the enabling legislation. Furthermore, the purchase was not supported by competitive sealed bidding, or other appropriate procurement methodology, as required by Section 128 of the RMI Procurement Code. We recommend management comply with the Ministry of Justice Special Revenue Fund enabling legislation and with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for vendor selection and documentation of the basis of a sole-source purchase.

Verification of Daily Deposits

Section 4.7 of MOFBPS' Standard Operating Procedures (SOP) manual requires the Accounting Department to verify deposits daily against cash receipts; 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 for the audits of fiscal years 2015 through 2020.

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 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 for the audits of fiscal years 2014 through 2020.

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 previous letters to management in the audits of fiscal years 2019 and 2020.

SECTION II - OTHER MATTERS, CONTINUED

General Fund Expenditures

Test of general fund nonpayroll expenditures resulted in the following exceptions:

Supporting procurement documentation was not available for examination for the following:

<u>Item #</u>	<u>Fund</u>	<u>G/L Account</u>	<u>APV #</u>	<u>Amount</u>
1	100100	Contractual Services	732597	\$ 8,410
2	100100	Repatriation & Home Leave	740917	\$ 35,514
3	100100	Rentals	731091	\$ 3,244
4	100100	Food Stuff	745040	\$ 32,226

Item # 1 was recorded twice when replacement check # 214876 was issued due to misplacement of original check # 211127. The original check was not canceled in 4gov and was included as outstanding in the September 2021 bank reconciliation.

Item #2 pertains to various Repatriation Program services that were not specified in the underlying MOA. Four (C14555, C14687, C14787, and C14900) of five subsequent amendments to the original MOA (C14494) authorized additional funding; however, services billed by the vendor were not consistent with the MOAs.

Item # 3 pertains to lodging for forty-three (43) nights; however, no documentation was available to justify charging such expenditure to RepMar.

Item #4 pertains to food catering for prisoners for the month of July 2021.

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 for the audits of fiscal years 2017 through 2020.

RMI Procurement Code

Supporting procurement documentation was not available for the following non-US grant funded expenditures:

	<u>Fund</u>	<u>Account</u>	<u>APV/Contract #</u>	<u>Amount</u>
1	700200	Contractual Services	722267/C13715	\$ 306,695
2	700370	Contractual Services	728987/C14081	\$ 148,800

We recommend MOFBPS require compliance with 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 through 2020.

Grant Agreement

A \$800,000 grant with a non-U.S. donor country was not provided for examination. We recommend that MOFBPS establish internal control policies and procedures to safeguard documents.

SECTION II - OTHER MATTERS, CONTINUED

Annual 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 not consistent 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 for the audits of fiscal years 2015 through 2020.

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 further noted that 4gov is not routinely updated for grant amendments or new grants throughout the year. We recommend MOFBPS verify the accuracy of Org, Cost Center and Account #s used. This matter was discussed in previous letters to management for the audits of fiscal years 2014 through 2020.

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 for the audits of fiscal years 2009 through 2020.

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 for the audits of fiscal years 2009 through 2020.

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 2020.

National Training Council (NTC)

The NTC September 2021 bank reconciliation included check # 904 which has been outstanding for over one year. We recommend that NTC management timely resolve bank reconciling items.

SECTION II - OTHER MATTERS, CONTINUED

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 \$234,294, of which \$118,079 represented encumbrances incorrectly reported as of September 30, 2021.
- Beginning balance of accounts payable (account # 2001) was understated by \$234,294.

Audit adjustments were proposed to correct the above errors.

- The September 2021 bank reconciliation included one hundred twenty-six (126) stale checks totaling \$24,779, of which \$23,993 are unresolved from prior years.

We recommend that management review and approve financial records of the PSS Education Fund. This matter was discussed in previous letters to management for the audits of fiscal years 2019 and 2020.

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.