

REPUBLIC OF THE MARSHALL ISLANDS  
**OFFICE OF THE AUDITOR-GENERAL**



**Sixty Ninth (69th) Semi-Annual Report of the  
Functions and Activities of the Office of the  
Auditor-General**

**January 1, 2018 thru July31, 2018**

**VOLUME I**

SUBMITTED TO THE NITIJELA DURING ITS 39TH CONSTITUTIONAL REGULAR SESSION  
AUGUST 2018



REPUBLIC OF THE MARSHALL ISLANDS  
OFFICE OF THE AUDITOR-GENERAL

P.O. Box 245

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August 24, 2018

The Honorable Kenneth A. Kedi  
Speaker  
Nitijela of the Marshall Islands  
Majuro, MH 96960

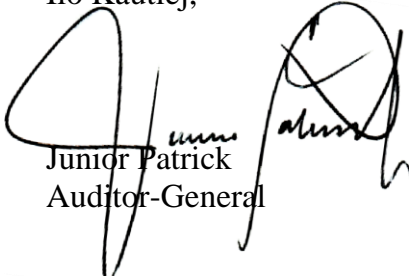
Dear Speaker Kedi:

I am pleased to submit herewith Thirty Six (36) copies of our Sixty-Ninth (69<sup>th</sup>) Semi-Annual Report of the Functions and Activities of the Office of the Auditor-General in accordance with Article VIII, Section 15(4) of the Constitution of the Republic of the Marshall Islands and Section 903(1) of the Auditor-General Act of 1986. This report covers activities of the Office during the period from January 1, 2018 thru July 31, 2018, and includes all reports issued as of the printing date of this report.

The electronic copies of each report completed and included in this Semi-Annual will also be available to Honorable Members of the Nitijela, Stakeholders, and the General Pubic via the Office website at [www.rmioag.com](http://www.rmioag.com).

Should you or any Member (s) of the Nitijela have question concerning this submission, please do not hesitate to contact this Office.

Ilo Kautiej,

  
Junior Patrick  
Auditor-General

Enclosures: Thirty Six (36) copies of 69<sup>th</sup> Semi-Annual Report of the Functions and Activities of the Office of the Auditor-General

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REPUBLIC OF THE MARSHALL ISLANDS  
**OFFICE OF THE AUDITOR-GENERAL**

P.O. Box 245  
Majuro, Republic of the Marshall Islands 96960  
Email Address: [patrjun@gmail.com](mailto:patrjun@gmail.com) Web: [www.rmioag.com](http://www.rmioag.com)

**SIXTY NINTH (69<sup>TH</sup>) SEMI-ANNUAL REPORT OF THE FUNCTIONS AND  
ACTIVITIES OF THE OFFICE OF THE AUDITOR-GENERAL  
JANUARY 1, 2018 THRU JULY 31, 2018**

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**INTRODUCTION**

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The Auditor-General, under the Constitution of the Republic of the Marshall Islands, Article VIII, Section 15, is charged with the responsibility to audit *“Public funds and accounts of the Republic of the Marshall Islands including those of all Departments or offices of the legislative, executive and judicial branches of government and of any other public corporation or statutory authority constituted under the law of the Republic unless, in relation to any such public corporation or other statutory authority, provision is made by Act for audit by any other person”*.

In addition to these constitutional responsibilities, the following legislations imposed other duties and responsibilities upon the Auditor-General:

1. Public Law 1986-25 (The Auditor-General’s Act of 1986) – *“The Auditor-General shall from time to time make such other audits of the government agencies, activities, contracts, or grants as are possible within the budget provided for him and as he deems to be in the public interest and consistent with this Act”*. This Act also imposes a responsibility upon the Office of the Auditor-General to *“prevent and detect fraud, abuse, and waste in the collection and expenditure of all public funds”*. In accordance with Section 6 (1) of the Act the *“Auditor-General may retain the services of independent certified public accountants, qualified management consultants, or other professional persons, as he deems necessary to assist him in carrying out his duties”*.
2. Public Law 1981-2 (Local Governments Act of 1980), designates the Auditor-General as auditor for local governments’ fund and accounts.

3. Public Law 1993-63 (Ethics in Government Acts of 1993). The Auditor-General is a member of the Government Ethics Board pursuant to provisions of this Act and, therefore, the Auditor-General has a responsibility to enforce the ethical conduct principles stipulated in the Act.

The Auditor-General is required under the Constitution to report, *“at least once annually to the Nitijela at its regular session”*. We have established a policy of preparing semi-annual reports in January and August. This is the Sixty Ninth (69<sup>th</sup>) semi-annual report.

In the interest of maintaining organizational independence, Article VIII Section 15 (5) of the Constitution of the Republic of the Marshall Islands states, *“The Auditor-General shall not receive any direction from the Cabinet or from any other authority or person, but shall act independently”*. All reports submitted herein were performed and completed without known impairments to audit independence.

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## ORGANIZATION STATUS

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As of the reporting period, OAG has 15 officers: 5 performance auditors, 5 financial auditors, 3 investigators and 2 support staff. During this reporting period, we lost our Audit Manager in our performance auditing division who left for other employment with better pay. The following positions remain vacant as of the reporting period:

- Audit Manager, Financial Auditing Division
- Audit Manager, Performance Auditing Division
- Staff Auditor, Financial Auditing Division
- Staff Auditor, Performance Auditing Division

OAG is in the final stage of completing its new organizational structure to address its human resource needs and will forward to the Public Service Commission for approval. OAG has experienced “high staff turnover” in recent years which calls for review of its organizational structure. To fund this new structure, OAG prepared and submitted its FY2019 budget which reflects the followings:

- Additional investigators (bodies) in response to the increasing number of allegations of fraudulent activities recorded across governmental institutions, local governments and Missions abroad. These allegations are uncovered during audits and those that are reported from the general public. Current staffing is outnumbered by the number of investigations recorded requiring in-depth

reviews. It is a challenge when some investigations are complex and there is the issue of time limitation (statute of limitation) to work within.

- Higher salary compensation staff to commensurate with responsibilities. This is important in order recruit and retain qualified staff; and
- Creation of an IT/Communication Officer position as we try to convert all our audit working papers into electronic to make auditing process more efficient.

Exhibits I and II describe the current and proposed organizational structure of the OAG, respectively.

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## AUDIT ACTIVITIES

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Exhibit III provides a status of audits that were commenced and/or completed during this reporting period. The continued departure of staff has affected our audit plan during the period. We completed the following audits and reviews during this reporting period (See Attachments I thru III).

- Review of Imprest Fund management in the RMI Consulate-General Office in Honolulu, HI (FY2014 thru FY2016);
- Review of Imprest Fund Management in the RMI Embassy in Suva, Fiji (FY2014 thru FY2016); and
- Financial Audit of RMI Environmental Protection Authority FY2016.

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## SINGLE AUDIT OF THE REPUBLIC OF THE MARSHALL ISLANDS FY2017

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The Single Audit of the Government of the Republic of the Marshall Islands (RepMar) required by Compact of Free Association, As Amended, and OMB Circular No. A-133 for fiscal year ended September 30<sup>th</sup>, 2017 (FY2017) was completed on June 29, 2018. This audit was transmitted under a separate cover to the Nitijela on August 7, 2018. By completing the Single Audits before the June 30 deadline, RepMar met the audit reporting deadline imposed on all recipients of US federal monies.

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## OTHER AUDITS COMPLETED

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Financial statements and compliance audit of other governmental entities and local governments below were completed under contractual arrangements. These audits are included in this report (See Attachments IV thru XVII).

- National Telecommunication Authority FY2017;
- Marshall Islands Social Security Administration FY2017;

- Air Marshalls, Inc. FY2017;
- Marshall Islands Judiciary Fund FY2017;
- Tobolar Copra Processing Plant FY2017;
- Marshalls Energy Company FY2017;
- Marshall Islands Development Bank FY2017;
- Kwajalein Atoll Joint Utilities Resources, Inc. FY2017;
- Majuro Water & Sewer Company FY2017;
- Marshall Islands Visitors Authority FY2016 – FY2017;
- Majuro Resort Inc. FY2017;
- Majuro Atoll Waste Company FY2017;
- Marshall Islands Ports Authority FY2017;
- Marshall Island Marine Resources Authority FY2017;
- Marshall Islands Scholarship Grant & Loan Board FY2017;
- Health Care Revenue Fund FY2017;
- Marshall Islands Health Fund FY2017;
- Marshall Islands Shipping Corporation FY2017;
- Rongelap Atoll Local Government FY2012 –FY2015; and
- College of the Marshall Islands FY2017;

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### **INVESTIGATION ACTIVITIES**

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We continue our reviews into all allegations that are reported to the Office including those that we come across in our audit engagements. During this reporting period we recorded a total of ten (10) new allegations related to embezzlement, abuse of public office, check forgery. Few of the allegations are being looked into while others were added to the growing listing of pending investigations. These will be looked into as soon as staffs are available.

Our investigations into all allegations continue and results will be referred directly to the Attorney-General when we have grounds to believe that criminal laws have been violated and other instances where civil recovery proceedings would be appropriate.

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### **TRAINING AND CAPACITY BUILDING**

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We maintain training programs to increase staff proficiency. During this reporting period, we participated in the following capacity building programs:

- During the period from January 29 –February 1, 2018, the Chief Investigator and a Staff Auditor attended an Information Systems Audit training in Nadi, Fiji. The training was



organized by Ken Knowledge International and it focused on the Information Systems Audit and IT governance.



CHIEF INVESTIGATOR AND STAFF AUDITOR WITH PACIFIC AUDITORS DURING THE INFORMATION SYSTEMS AUDIT TRAINING, NADI, FIJI

- From February 12-16, 2018 the Assistant Auditor-General led a team of auditors from the Association of Pacific Islands Public Auditors (APIPA) to conduct the *external quality control review* or peer review of the Office of the Public Auditor (OPA) of the Commonwealth of Northern Mariana Island. These peer reviews are required by *Government Auditing Standards* at least once every three year for all audit organization that use and follow these professional standards. An audit supervisor also participated in the peer review as an Observer to learn the process as well as other auditing practices being instituted at OPA.



ASST. AUDITOR-GENERAL AND AUDIT SUPERVISOR AND PEER REVIEW TEAM WITH CNMI PUBLIC AUDITOR (CENTER) DURING THE PEER REVIEW OF CNMI-OPA, CNMI

- From February 24 to March 4, 2018 the Chief Investigator attended a workshop with the Pacific Integrity Network in Brisbane, Australia, which was delivered by the Office of the Commonwealth Ombudsman. The purpose of the workshop was to develop and deliver a succession plan for ongoing regional network of integrity agencies in the Pacific beyond June 2018. Funding for this workshop was provided by the Commonwealth Ombudsman under partnership agreement with 7 Pacific nation institutions.



CHIEF INVESTIGATOR WITH INVESTIGATORS FROM PACIFIC INTEGRITY INSTITUTIONS, BRISBANE, AUSTRALIA

- From April 23-27, 2018, the Assistant Auditor-General and an Audit Supervisor participated in the *Strategy, Performance Management, and Reporting* (SPMR) workshop in Nuku'alofa, Kingdom of Tonga. During this meeting, auditors presented the preliminary assessment results on Guam Office of Public Accountability which was carried out earlier under arrangements with the Pacific Association of Supreme Audit Institutions (PASAI). Auditors' participation during this workshop was sponsored by PASAI.



ASST. AUDITOR-GENERAL AND AUDIT SUPERVISOR DURING THE SPMR WORKSHOP IN NUKU'ALOFA, TONGA

- From May 2 - 4, 2018, the Deputy Chief Investigator attended another capacity building training with the Pacific Integrity Network in Brisbane, Australia, sponsored by the Office of the Commonwealth Ombudsman. During the training, investigators were also tasked to develop and present a proposal to integrity institutions' leaders regarding the future of the program, which was later held in Auckland, New Zealand in May 2018. In the Auckland meeting, Auditor-General was unable to attend and was represented also by the Deputy Chief Investigator.



DEPUTY INVESTIGATOR WITH INVESTIGATORS FROM PACIFIC INTEGRITY INSTITUTIONS IN BRISBANE, AUSTRALIA

- From June 22-21, 2018, a staff each from OAG's Performance and Financial Auditing Divisions participated in a on-the-job training (*Lakewood Experience*) as part of a partnership/capacity building agreement between Office of the Inspector General of the U.S. DOI and the Association of Pacific Islands Public Auditors or APIPA. The training was conducted at Lakewood, Colorado, and was designed to address the capacity needs of participants in the area of performance auditing and included formal classroom sessions, coaching, and working on case studies. Auditors' participation was funded by OAG training budget.



STAFF AUDITORS WITH AUDITORS FROM INSULAR AREAS DURING THE LAKEWOOD EXPERIENCE TRAINING, LAEKWOOD, COLORADO.

- From June 12 to June 15, 2018, the Chief Investigator attended a Cybersecurity workshop in Nuku'alofa, Kingdom of Tonga with two attorneys from the Office of the Attorney-General. The Cybersecurity workshop was organized by Pacific Islands Law Officers Network (PILON) during its annual meeting which aims to combat cybercrimes in the Pacific. Chief Investigator's participation was recommended by Attorney-General given his extensive experience in the field and funding was provided by PILON.



CHIEF INVESTIGATOR WITH RMI ATTORNEYS AT CYBERSECURITY WORKSHOP, NUKU'ALOFA, KINGDOM OF TONGA

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## OTHER MATTERS

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### AMENDMENT BILL TO AUDIT ACT

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We propose an Amendment Bill to the *Auditor General's (Duties, Powers and Functions) Act of 1986* to enable the Auditor-General to refer matters requiring administrative remedies directly to the respective government agency or institution to institute administrative disciplinary proceedings when determination of fault or wrongdoing is by agency's employees. Currently, the Auditor-General is required under Section 920 and 921 to report to the Attorney-General when during performance of his or her duties the Auditor-General finds grounds to believe that criminal laws have been violated and other circumstances where civil recovery proceedings would be appropriate. Unlike criminal and civil proceedings which could take months (and years) to litigate, administrative disciplines provide a quick and cost-effective means to address behavioral deficiencies and wrongdoings across government institutions.

The amendment will give the Auditor-General the ability to refer matters requiring administrative remedies directly to the relevant agency to institute appropriate administrative disciplines.

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### ASSISTANCE TO NITIJELA STANDING COMMITTEE ON PUBLIC ACCOUNTS

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In July 2018, the Nitijela Standing Committee on Public Accounts (PAC) held a series of public hearings and consultations with national government, governmental entities, local government, and an Embassy to scrutinize their latest audits. OAG provided support to PAC throughout the public hearings and also worked closely with the Committee to identify any recommendations to improve accountability across government institutions.

PAC plays a key role in ensuring there is accountability and transparency in the way public funds are spent.


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### PUBLICATION OF AUDIT REPORTS

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All audits completed during this reporting period will also be made available to the Honorable Members of the Nitijela, other stakeholders, and general public via the official website of the OAG at [www.rmioag.com](http://www.rmioag.com).

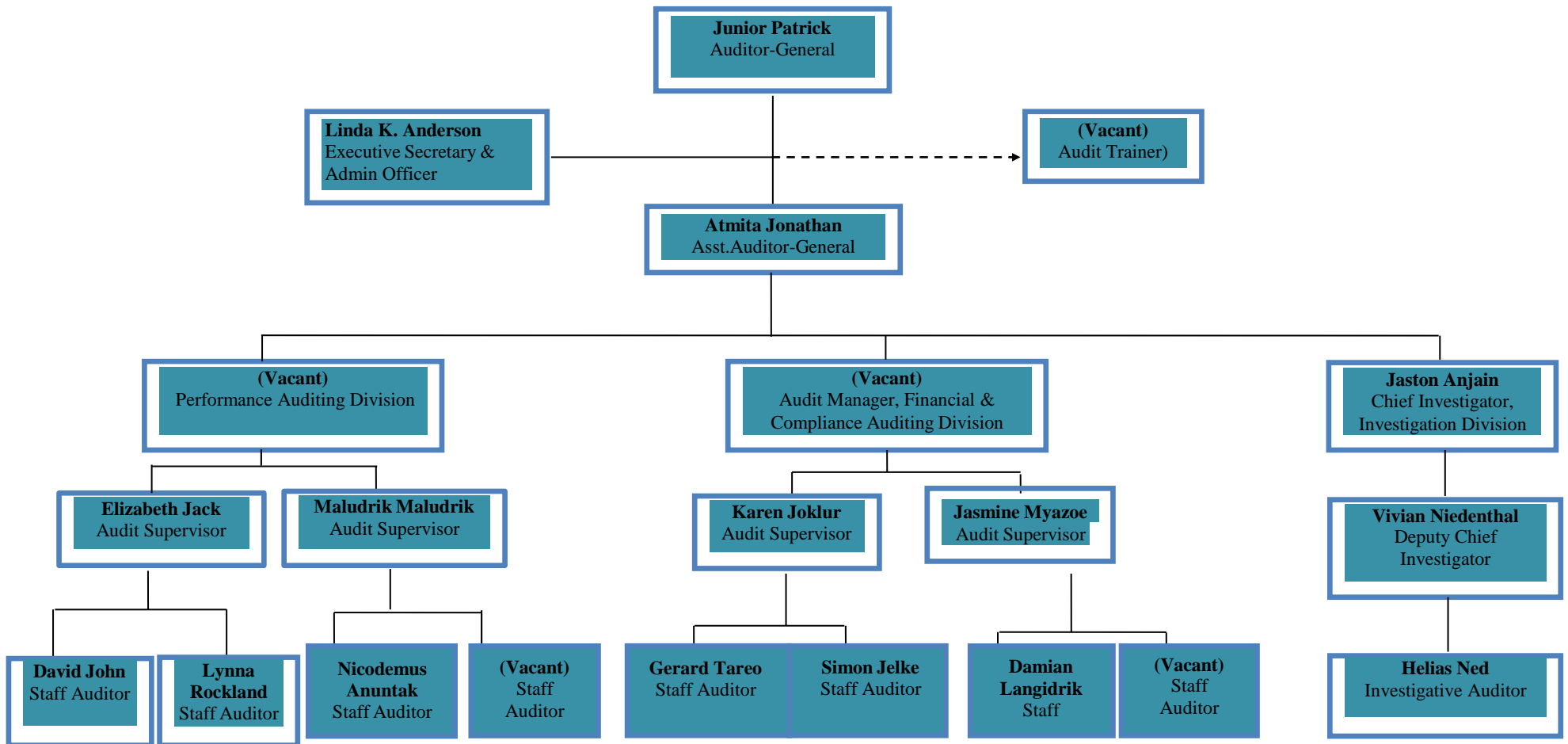
Respectfully,



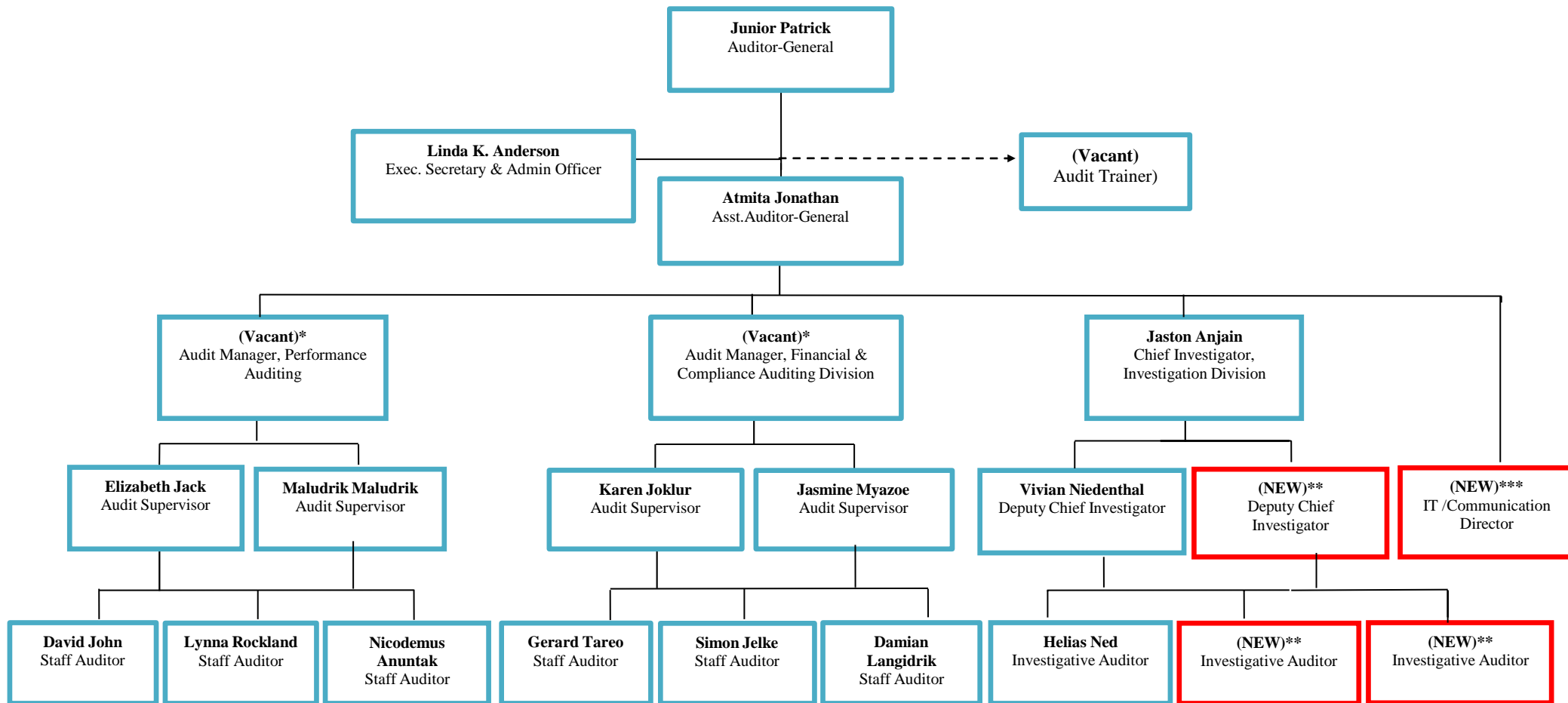
*Junior Patrick*  
Junior Patrick  
Auditor-General

August 2018

**EXHIBIT I: CURRENT ORGANIZATIONAL STRUCTURE**



## EXHIBIT II: PROPOSED ORGANIZATIONAL STRUCTURE



- \* The Audit Managers resigned and left Office for other employment with much higher pay
- \*\* Additional Investigators (more bodies) in response to the increasing # of alleged fraudulent activities in government, governmental entities, and local governments
- \*\*\* Staff Auditor (intended for financial auditing) will be converted to Information Technology/Communication Officer as we try to convert all audit working papers into digital/ electronic format to make the audit process more efficient



**EXHIBIT III: AUDIT ACTIVITIES (JANUARY 1, 2018 THRU JULY 31, 2018)**

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<b><u>AUDITEE</u></b>	<b><u>TYPE OF AUDIT</u></b>	<b><u>REMARKS</u></b>
1. RMI Embassy in Suva, Fiji	Inspection/Evaluation	Report completed and included in this semi-annual report
2. RMI Consulate General Office, HI	Inspection/Evaluation	Report completed and included in this semi-annual report
3. Environmental Protection Authority	Financial/Compliance [FY2016]	Report completed and included in this semi-annual report
4. Environmental Protection Authority	Financial/Compliance [FY2017]	Report in drafting stage
5. Majuro Atoll Local Government	Financial/Compliance [FY2009 thru FY2014]	Report in drafting stage (delayed due to departure of responsible staff)
6. RMI Passport Program	Performance	Work plan completed (review will commence as soon as requested info are provided)
7. RMI Customs Program	Performance	In planning stage (delayed due to staff shortage)
8. Other smaller local government	Financial/Compliance	Audit of 4 local governments in different stages (fieldworks and preliminary survey phases)
9. RMI Embassy in Washington DC	Inspection/Evaluation	Fieldwork to commence in September 2018
10. RMI Mission to the UN	Inspection/Evaluation	Fieldwork to commence in September 2018

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[Messages to our fax machine are also anonymous and non-traceable]

**OR**

Office of the Auditor-General

P.O. Box 245

Majuro, MH 96960

[If you do not want to reveal your identity, do not disclose a return address]

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