

REPUBLIC OF THE MARSHALL ISLANDS

Office of the Auditor-General



[SEVENTIETH (70TH) SEMI-ANNUAL REPORT OF THE FUNCTIONS AND ACTIVITIES OF THE OFFICE OF THE AUDITOR-GENERAL]

SUBMITTED TO THE NITIJELA DURING ITS 40TH CONSTITUTIONAL REGULAR SESSIONS
JANUARY 2019



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 Web: www.rmioag.com

January 28, 2019

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

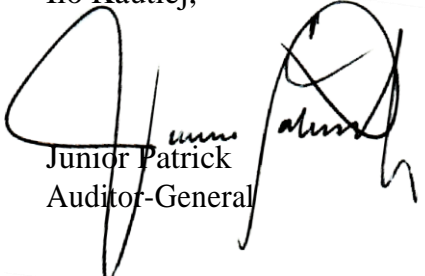
Dear Speaker Kedi:

I am pleased to submit herewith Thirty Six (36) copies of our Seventieth (70th) 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 July 1, 2018 thru December 31, 2018, and included 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 Public via the Office website at 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 70th Semi-Annual Report of the Functions and Activities of the Office of the Auditor-General

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OFFICE OF THE AUDITOR-GENERAL

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**SEVENTIETH (70TH) SEMI-ANNUAL REPORT OF THE FUNCTIONS AND
ACTIVITIES OF THE OFFICE OF THE AUDITOR-GENERAL
JULY 1, 2018 THRU DECEMBER 31, 2018**

INTRODUCTION

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 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 Seventieth (70th) 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.

ORGANIZATION STATUS

As of the reporting period, Office of the Auditor-General (OAG) has 15 officers: 5 performance auditors, 5 financial auditors, 3 investigators and 2 support staff. 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

Previous efforts to recruit and retain a qualified workforce were confronted by a high staff turnover rate as staff continues to leave OAG for other employment opportunities with better pay. When a staff leaves those skills are lost (as well as the investment we made in the staff in helping him/her acquiring those skills) and as a result the OAG is really not developing its capacity. In our previous report, we indicated that a new organizational structure was being considered to address these staffing needs. We have completed a new Organizational Structure and sent to the Public Service Commission for review and approval. In summary, the new Organizational Structure aims to achieve the following:

1. Recruit Additional Fraud Investigators (additional bodies) in response to the growing number of allegations of fraudulent activities recorded across governmental institutions, local government and Missions aboard.
2. Higher Salary Compensation in order to be able to recruit and retain qualified staff. The new compensation package is based on revised duties and responsibilities for

each position and ensures staffs are compensated in accordance with responsibilities. The field of auditing and investigation are specialized ones and always require proper training and experience before staff become proficient at it. The new Organizational Structure will enable OAG to recruit and retain talent for the long term benefits and also encourage high performance/productivity.

3. Revised duties and responsibilities for each position and set desire education and essential skills requirements for each position;
4. Creation of Position of IT/Communication Officer as we try to convert all our audit process and working papers into electronic to make audit process more efficient. The IT/Communication Officer will also be tasked to maintain Office website which is currently being maintained by a third party under contractual arrangement with OAG and will serve as also OAG's communication officer;

We anticipate filling the existing vacancies and additional positions under the new Organizational Structure as soon as it is approved by the Public Service Commission. Exhibits I and II describe the current and proposed organizational chart of the OAG, respectively.

AUDIT ACTIVITIES

We completed the following audits during this reporting period (See Attachments I thru VII). Exhibit III provides a status of other audit engagements that were commenced during this reporting period.

- Majuro Atoll Local Government FY2009;
- Majuro Atoll Local Government FY2010;
- Majuro Atoll Local Government FY2011;
- Majuro Atoll Local Government FY2012;
- Majuro Atoll Local Government FY2013;
- Majuro Atoll Local Government FY2014; and
- National Environmental Protection Authority Fund FY2017.

The following audits were completed under contractual arrangement with Deloitte and Touche LLP of Guam (see Attachments VIII thru XV).

- Kwajalein Atoll Local Government FY2012;
- Kwajalein Atoll Local Government FY2013;
- Kwajalein Atoll Local Government FY2014;
- Kwajalein Atoll Local Government FY2015;
- Kwajalein Atoll Local Government FY2016;
- Marshall Islands Development Bank FY2018;
- Marshall Islands Postal Service Authority FY2018; and

- Marshall Islands Social Security Administration FY2018.

SINGLE AUDIT OF THE REPUBLIC OF THE MARSHALL ISLANDS FY2018

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 30th, 2018 (FY2018) has been commenced by the CPA firm of Deloitte and Touche LLP of Guam under contractual arrangement. The deadline for this audit is nine (9) months after fiscal year end or June 2019.

We congratulate the following reporting entities of RepMar for completing their financial statements audits for FY2018 in a timely manner: Marshall Islands Development Bank, Marshall Islands Postal Service Authority and Marshall Islands Social Security Administration. These audits are ready to be included in the Single Audit of RepMar for FY2018.

INVESTIGATION ACTIVITIES

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 four (4) new allegations related to embezzlement of public funds and use of public office for private gains. Few allegations have been looked at while others were added to the growing list of investigations which are pending availability of staff.

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.

TRAINING AND CAPACITY BUILDING

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

- During the period from August 6-10, 2018, the audit staff attended the 29th Annual Workshop and Conference of the Association of Pacific Islands Public Auditors (APIPA) in Koror, Palau. The primary objective of the Annual APIPA Workshop and Conference is to provide a training avenue for our auditors from Insular Areas to maintain the training hours (continuing professional education or CPEs) required by auditors performing audits that are guided by *Government Auditing Standards*. The 2018

Conference was hosted by the Office of the Public Auditor of Palau with funding for Instructors and Course Materials provided by the Graduate School USA.



APIPA CONFERENCE IN KOROR, PALAU, AUGUST 2018

- From October 8-12, 2018, the entire staffs participated in a week long (in-house) training on *Writing and Communicating Audit Results and Contract/Procurement Auditing*. The training was delivered by Mr. Drummond Kahn, a former auditor at the U.S. Government Accountability Office. Training was sponsored by the Graduate School USA. By completing the week-long training staff earned forty (40) hours of continuing professional education hours.
- From November 23-December 6, 2018, the Assistant Auditor-General and an Audit Supervisor attended a workshop entitled *Strategy, Performance Measurement, and Reporting Meeting (SPMR)* in Rarotonga, Cook Islands. During this meeting, the auditors presented Office of the Auditor-General's proposed Strategic Plan which was product of an earlier meeting held in Tonga in April 23rd – 27th, 2018. Participants also learned how to develop an operational plan and link it to the Strategic Plan. The SPMR workshop was sponsored by the Pacific Association of Supreme Audit Institution (PASAI) with the support of INTOSAI Development Initiative (IDI). Specifically, travel and accommodation for participants were funded by PASAI/IDI while meals and incidental expenses were funded by the OAG budget.
- In December 2018, the Chief of Investigations and Deputy Chief of Investigations registered for a fraud exam preparation course that aims to prepare students for the Certified Fraud Examiner (CFE) Exam. As part of the exam preparation, the

Investigators will attend a course towards the end of January 2019 in Austin, Texas, USA. The Investigators will then sit the CFE exam sometimes in 2019 (exact date of CFE Exam yet to be determined). The Investigators' participation in the CFE exam is funded by OAG's training budget.

- In December 2018 also, the Chief of Investigations took an online course on *Host Intrusion Methodology and Investigation*. This course deals with computer security and investigation and is part of our efforts to develop in-house capabilities in the area of computer/cyber crime. Additionally, the Chief of Investigations is pursuing a Postgraduate Diploma in Forensic Accounting and Fraud Investigation at University of the South Pacific, Marshall Islands campus which is expected to be completed in mid 2019. The Chief Investigator's participation in both courses are funded by OAG's training budget

OTHER MATTERS

AMENDMENT TO AUDIT ACT

In October 2018 during its 39th regular session, the Nitijela passed an Amendment to the *Auditor-General's (Duties, Powers and Functions) Act of 1986* which enables the Auditor-General to refer matters requiring administrative remedies directly to the respective government agency to institute administrative disciplinary proceedings when determination of fault or wrongdoing is by the agency's employees. In the previous Act, the Auditor-General was required to report only 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. Based on referrals by the Auditor-General and facts gathered, Attorney-General would initiate civil and criminal proceedings as appropriate. However, in many instances, the allegations were not pursued administratively (that is, lesser offense such as unethical behavior, breach of public service regulations, values and conduct, found during the investigation were often ignored).

Accordingly, we believe that by enabling the Auditor-General to refer matters directly to a relevant government agency for administrative disciplines or remedies, it would provide a quick and cost-effective means to address behavioral deficiencies and wrongdoing across government institutions.

CONTRACT FOR SINGLE AUDIT FOR FY2018, FY2019 & 2020

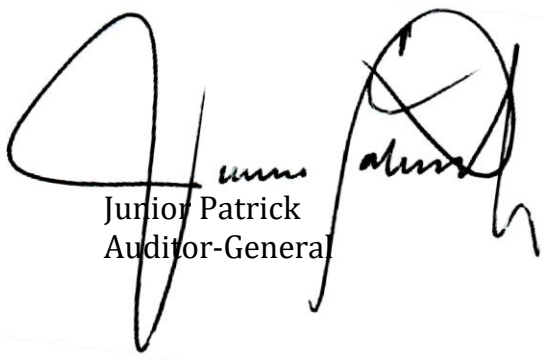
In May 2018, we went out for bidding and soliciting proposals from qualified CPA firms to perform the Single Audit of RepMar and its reporting entities (component units) for the financial year endings September 30, 2018, 2019 and 2020. The solicitation of audit services was done through use of request for proposal or RFP. Twenty-Five (25) CPA firms were invited to submit proposals for this audit service. At the proposal submission deadline, five (5) CPA firms provided written response to our RFP: 4 declined to submit proposals for varying reasons and 1 submitted a proposal for our review and consideration. The only proposal submitted was from Deloitte and Touche LLP of Guam (D&T), the long time contractor for RepMar Single Audit.

The proposal submitted by D&T contained all the information required by our RFP and also confirm that D&T has the ability, capacity, resources and experience to perform audit services indicated in our RFP. In August 2018, the OAG awarded the audit contract to D&T to perform the Single Audit of RepMar and its reporting entities for the fiscal year endings September 30, 2018, 2019 and 2020.

PUBLICATION OF AUDIT REPORTS

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.

Respectfully,



Junior Patrick
Auditor-General

January 2019

EXHIBIT I: CURRENT ORGANIZATIONAL CHART

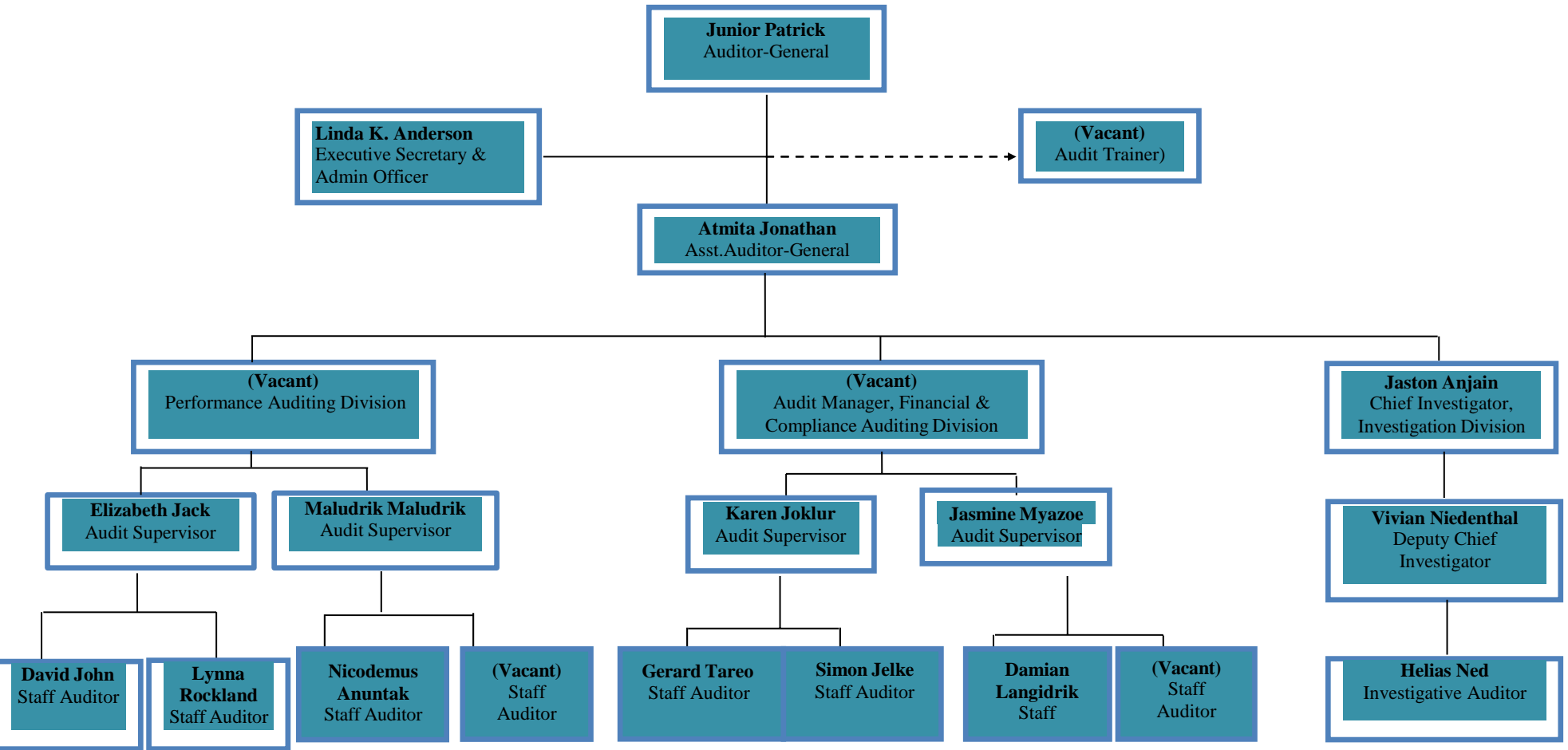
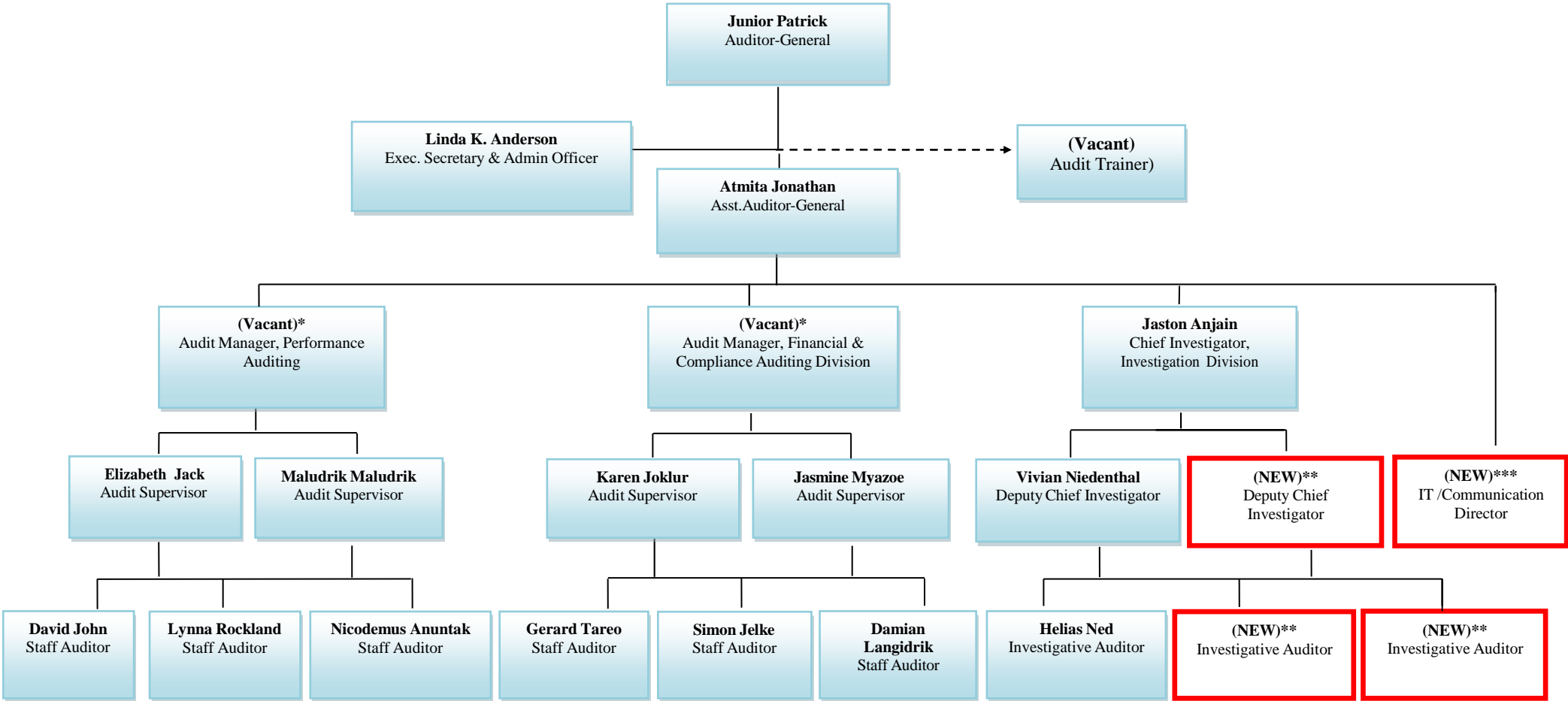


EXHIBIT II: PROPOSED ORGANIZATIONAL CHART



* The auditor resigned and left Office for other employment with much higher pay
 ** Staff Auditors which are vacant will be converted to Fraud Investigative Auditor. A Deputy Investigator is also proposed in response to the increasing demand for fraud investigation services.
 *** 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 (JULY 1, 2018 THRU DECEMBER 31, 2018)

<u>AUDITEE</u>	<u>TYPE OF AUDIT</u>	<u>REMARKS</u>
1. Majuro Atoll Local Government	Financial/Compliance [FY2009]	Report completed and included in this semi-annual
2. Majuro Atoll Local Government	Financial/Compliance [FY2010]	Report completed and included in this semi-annual
3. Majuro Atoll Local Government	Financial/Compliance [FY2011]	Report completed and included in this semi-annual
4. Majuro Atoll Local Government	Financial/Compliance [FY2012]	Report completed and included in this semi-annual
5. Majuro Atoll Local Government	Financial/Compliance [FY2013]	Report completed and included in this semi-annual
6. Majuro Atoll Local Government	Financial/Compliance [FY2014]	Report completed and included in this semi-annual
7. Environmental Protection Authority	Financial/Compliance [FY2017]	Report completed and included in this semi-annual report
8. Other Smaller Local Governments	Financial/Compliance	Audit of other local governments in different stages
9. RMI Passport Program	Performance	Audit fieldworks in progress
10. RMI Embassy in Washington DC	Inspection/Evaluation	Audit fieldwork postponed and will commence in March 2019
11. RMI Mission to the UN	Inspection/Evaluation	Audit fieldwork postponed and will commence in March 2019
12. RMI Consulate in Arkansas, USA	Inspection/Evaluation	Audit fieldwork postponed and will commence in March 2019
13. RMI Customs Program	Performance	Audit postponed and will commence when staff are available

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

HOTLINE

Telephone Line (692) 625-1155

*[The Hotline is a telephone line available Monday through Sunday and you can call us anytime of the day.
Calls to this number are anonymous and non-traceable]*

You may also contact us by writing to:

Facsimile (Fax) (692) 625-1156

[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]

OR

Fill out the Complaint Form from our website www.rmioag.com