

REPUBLIC OF THE MARSHALL ISLANDS  
Office of the Auditor-General



[SEVENTY FIRST (71ST) 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  
AUGUST 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](mailto:patrjun@gmail.com) Web: [www.rmioag.com](http://www.rmioag.com)

August 26, 2019

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

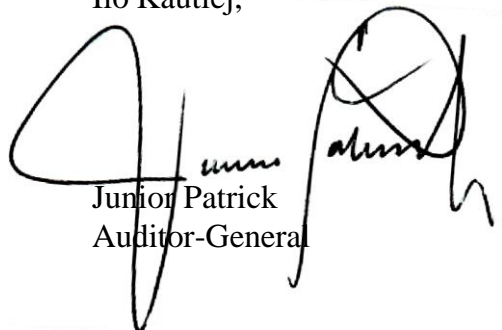
Dear Speaker Kedi:

I am pleased to submit herewith Thirty Six (36) copies of our Seventy First (71<sup>st</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, 2019 thru July 31, 2019, 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](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 71<sup>st</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)

**SEVENTY FIRST (71<sup>ST</sup>) SEMI-ANNUAL REPORT OF THE FUNCTIONS  
AND ACTIVITIES OF THE OFFICE OF THE AUDITOR-GENERAL  
JANUARY 1, 2019 THRU JUNE 30, 2019**

**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 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 Seventy First (71<sup>st</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.

## **ORGANIZATIONAL STATUS**

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As of the reporting period OAG has 19 officers: 6 performance auditors; 5 financial auditors, 5 investigators, and 3 support staff. During this reporting period, we hired a new Audit Manager for the performance audit division, 2 investigative auditors and an IT/Communication Officer, in accordance with our revised organizational structure. The following positions remain vacant as of this reporting period.

1. *Audit Manager*, Financial/Compliance Auditing
2. *Investigative Auditor*, Investigation

The Exhibit I describes the updated organizational structure of the Office.

## **AUDIT ACTIVITIES**

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

- Financial Audit of Likiep Local Government (FY2013 thru FY2016)
- Financial Audit of Maloelap Local Government (FY2013 thru FY2016)
- Review of RMI Embassy in Washington D.C. (FY2014 thru FY2016)
- Review of RMI Mission to the United Nations, NY (FY2014 thru FY2016)
- Review of RMI Consulate-General Office in Arkansas (FY2014 thru FY2016)

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

- Air Marshall Islands, Inc. FY2018
- College of the Marshall Islands FY2018
- National Environmental Protection Authority FY2018
- Health Care Revenue Fund FY2018
- Health Fund FY2018
- Kwajalein Atoll Joint Utilities Resources, Inc. FY2018
- Majuro Atoll Waste Company FY2018
- Majuro Resort, Inc. FY2018
- Majuro Water & Sewer Company, Inc. FY2018
- Marshalls Energy Company, Inc. FY2018
- Marshall Islands Judiciary Fund FY2018
- Marshall Islands Marine Resources Authority FY2018
- Marshall Islands National Telecommunication Authority FY2018
- Marshall Islands Scholarship, Grant and Loan Board FY2018
- Marshall Islands Shipping Corporation FY2018
- Office of Commerce and Investment FY2018
- Marshall Islands Ports Authority FY2018
- Tobolar Copra Processing Plant FY2018

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#### SINGLE AUDIT OF THE REPUBLIC OF THE MARSHALL ISLANDS FY2018

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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>, 2018 (FY2018) was completed on June 28, 2019. This audit was transmitted under a separate cover to the Nitijela on July 31, 2019. By completing the Single Audits before the June 30 deadline, RepMar satisfied the audit reporting deadline imposed on all recipients of US federal monies.

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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 thirteen (13) new allegations related to embezzlement/misappropriation, bribery, and abuse of public office. Few allegations are being looked at while others were added to the growing listing of pending investigations. These allegations will be looked into as soon as staffs are available.

Our investigations into all allegations continue and results to 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 proceeding would be appropriate. In addition, we will also refer matters requiring administrative proceedings to the appropriate authorities in accordance with the revised Audit Act.

## **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:

- From January 28 thru 31, 2019, the Chief Investigator and Deputy Chief Investigator attended the Certified Fraud Examiner (CFE) exam preparation course at the Association of Certified Fraud Examiner (ACFE)'s headquarters in Austin, Texas. This course prepared participants to take the CFE examination. As of the reporting period, the Deputy Chief Investigator has passed the 4-parts CFE Exam and has officially received her credentials and designation as a CFE. The Chief Investigator is still undergoing the examination process and expected to be certified also later in the year. The Investigators' travels to attend the preparation course were provided under the Office's capacity building budget.
- During the period from April 8 thru 12, 2019, the Assistant Auditor-General and an Audit Supervisor participated in the *Monitoring and Reporting Workshop* held in Nadi, Fiji. The workshop was the last activity of the capacity development program on *Strategy, Performance Measurement and Reporting* (SPMR), which objective is to strategically manage SAIs to achieve higher performance. During the workshop, participants reviewed their strategic and operational plans developed during the 1<sup>st</sup> and 2<sup>nd</sup> phases of the training program. The workshop also provided participants with in-depth course on monitoring, reporting and strategic decision-making linked to the strategic and operational plans. The SPMR workshop was sponsored by the Pacific Association of Supreme Audit Institutions (PASAI) with the support of the INTOSAI Development Initiatives (IDI).
- During the period from April 18 thru 19, 2019, the audit staff attended a training on '*Quick Response Auditing*' in the area of performance auditing. The purpose of the training was to introduce various audit techniques and methodologies to perform audit that are narrow in scope and objective. The training was conducted in-house and sponsored by the Graduate School USA.
- Beginning August 19<sup>th</sup>, 2019 and continue for two week, two financial auditors travelled to participate in an on-the-job training (*Lakewood Experience*) with the Office

of the Inspector General (OIG), U.S. Department of the Interior (DOI). The training is held in Lakewood, Colorado, and is designed to address capacity building needs of auditors from the islands and included formal classroom sessions, coaching, and working on case studies. This capacity building program is a partnership agreement between DOI-OIG and the Association of Pacific Islands Public Auditors or APIPA. Auditors' participation was funded by the Office training budget.

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## **OTHER MATTERS**

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### **AUDITING LOCAL GOVERNMENT**

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We continue to find lack of proper accounting and maintenance of accounting records in several small local governments we have audited. We found that the smaller local governments do not follow the accounting system that was established by the Ministry of Culture and Internal Affairs (MOCIA) – despite it being a Government policy. As a result, it is difficult to determine the accuracy of revenues collected and reported, expenses paid and reported, no records of what these governments own (assets) or owe (liabilities), among other accounting problems we found. Based on the condition of these accounting records, we have resorted to conducting audit focusing on Cash Receipts and Cash Disbursements only as opposed to an audit of full set of financial statements.

Accordingly, we reiterate our recommendation in our performance audit report of July 14, 2016 that the Government should consider streamlining and consolidating the finance operation of the local governments with the Ministry of Finance. As we note in our report, the Local Government Division within the MOCIA implements many finance related activities of local government ineffectively, such as lack of proper maintenance of local government documentation, lack of capacity to fulfill its oversight role on financial affairs of local government, lack of enforcement of financial reports from local governments, and loss of local government data.

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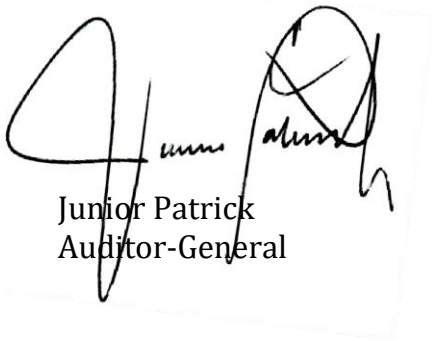
### **PUBLICATION OF AUDIT REPORTS**

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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).

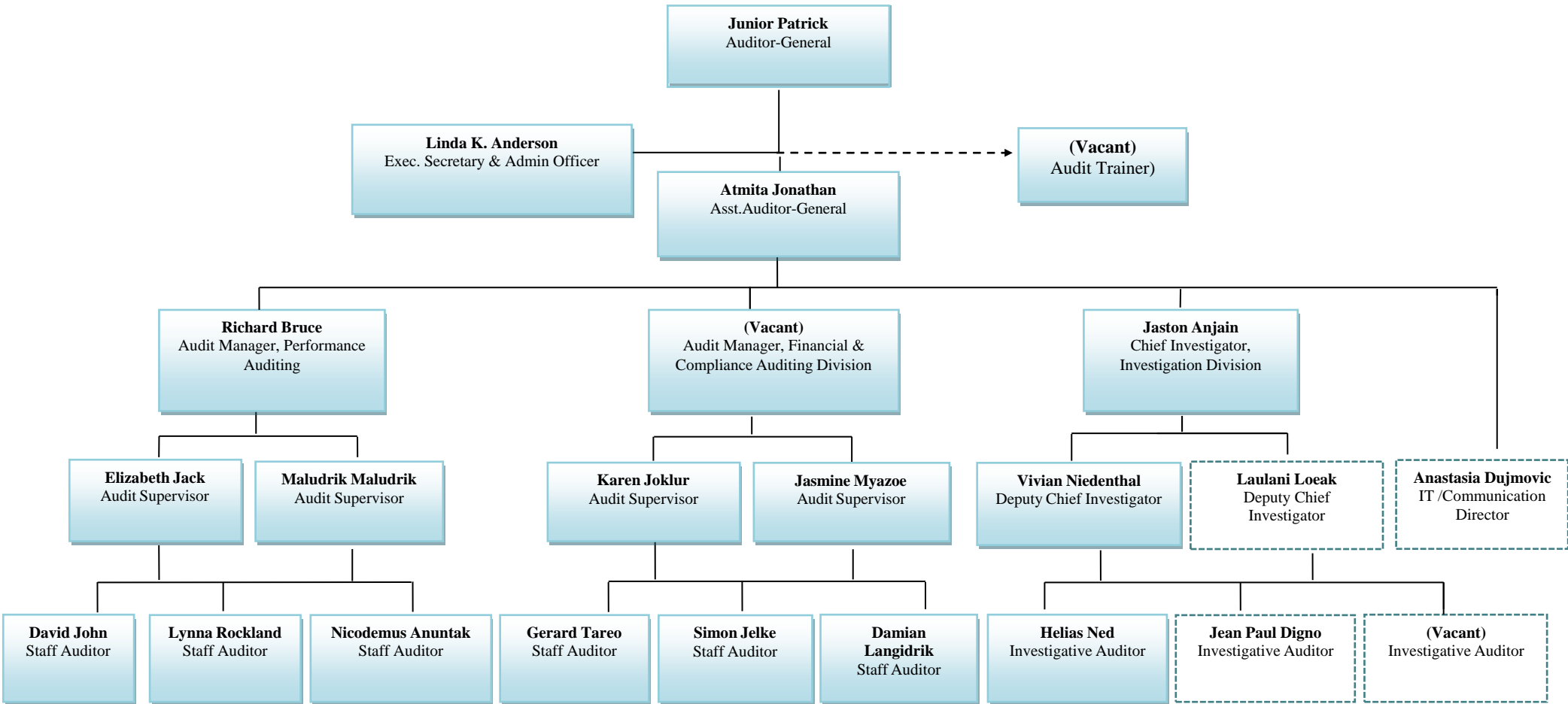
Respectfully,



Junior Patrick  
Auditor-General

August 2019

## EXHIBIT I: UPDATED ORGANIZATIONAL CHART





**EXHIBIT II: AUDIT ACTIVITIES (JANUARY 1, 2019 THRU JUNE 30, 2019)**

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<b><u>AUDITEE</u></b>	<b><u>TYPE OF AUDIT</u></b>	<b><u>REMARKS</u></b>
1. Likiep Atoll Local Government	Financial/Compliance [FY2013 thru FY2016]	Report completed and included in this semi-annual report
2. Maloelap Atoll Local Government	Financial/Compliance [FY2013 thru FY2016]	Report completed and included in this semi-annual report
3. RMI Embassy in Washington D.C.	Inspection [FY2014 thru FY2016]	Report completed and included in this semi-annual report
4. RMI Mission to the United Nation New York, USA	Inspection [FY2014 thru FY2016]	Report completed and included in this semi-annual report
5. RMI Consulate General Office Arkansas, USA	Inspection [FY2014 thru FY2016]	Report completed and included in this semi-annual report
6. Audit of Passport Program	Performance	Audit fieldworks – additional audit procedures performed due to poor records keeping and unreliability of information
7. Mejit Local Government	Financial/Compliance [FY2013 thru FY2016]	Audit in final stage of completion
8. Wotho Local Government	Financial/Compliance [FY2013 thru FY2016]	Put on Hold – pending outcome of a special review
9. Customs Division	Performance	Audit in Planning phase
10. Immigration Division	Performance	Audit in Planning phase
11. Other Smaller Local Governments	Financial/Compliance	Audit of other local governments in different stages

## **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](http://www.rmioag.com)**