

REPUBLIC OF THE MARSHALL ISLANDS
Office of the Auditor-General



**SEVENTY-SECOND (72ND) SEMI-ANNUAL
REPORT OF THE FUNCTIONS AND
ACTIVITIES OF THE OFFICE OF THE
AUDITOR-GENERAL**

SUBMITTED TO THE NITIJELA DURING ITS 41ST CONSTITUTIONAL REGULAR SESSIONS
JANUARY 2020 [Part I]



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

February 21, 2020

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

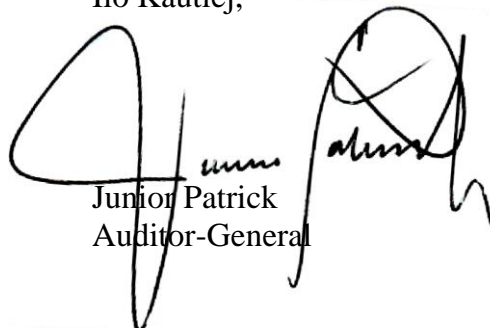
Dear Speaker Kedi:

I am pleased to submit herewith Thirty Six (36) copies of our Seventy-Second (72nd) 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, 2019 thru December 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.

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 72nd 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 Web: www.rmioag.com

**SEVENTY-SECOND (72ND) SEMI-ANNUAL REPORT OF THE
FUNCTIONS AND ACTIVITIES OF THE OFFICE OF THE AUDITOR-
GENERAL
JULY 1, 2019 THRU DECEMBER 31, 2019**

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 Seventy-Second (72nd) semi-annual reports.

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

During the reporting period, we were able to recruit an additional Fraud investigator in accordance with the revised Organizational Structure. Our effort to secure a replacement for the audit manager position in our financial auditing division has been unsuccessful and the position remains vacant since the former audit manager left more than two years ago. In addition, our Chief of Investigations is currently pursuing a Master of Cyber Security program at the Edith Cowan University in Perth, Western Australia, under an Australian Awards Scholarship. This is a two-year program that commenced in January 2020 and continues and ends in December 31, 2021.

As of the reporting period, OAG has 19 officers: 6 performance auditors; 5 financial auditors, 5 investigators, and 3 support staff.

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

AUDIT ACTIVITIES

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

- Audit of Passport Program
- Financial Audit of Mejit Local Government (FY2013 thru FY2016)

Other audits completed during this reporting period are listed below. These audits were completed under contractual arrangement with Deloitte and Touche LLP of Guam (see Attachments III thru XV).

- Kunit Bobrae Coalition, Inc. (FY2016 and FY2017)
- Enewetak/Ujelang Local Government (FY2004 thru FY2013)
- Office of Commerce, Investment and Tourism (FY2019)

SINGLE AUDIT OF THE REPUBLIC OF THE MARSHALL ISLANDS FY2019

The Single Audit of the Government of the Republic of the Marshall Islands (RepMar) for the year ended September 30, 2019 has commenced by the CPA firm of Deloitte and Touche LLP of Guam. RepMar's accounting books were closed on November 30, 2019 and the Ministry of Finance provided the unaudited trial balance for the period. Fieldwork for the RepMar Single Audit commenced on December 9, 2019 and is currently in progress.

INVESTIGATION ACTIVITIES

We continue our reviews into all allegations reported to the Office including those we come across in our audit engagements. During this reporting period, we recorded a total of six (6) new allegations related to embezzlement, misconduct and abuse of public office. Two of the allegations were against two local governments which will be looked at as we audit these governments. Four (4) allegations were added to our pending investigations.

Legal proceedings were commenced for four (4) investigations completed and referred earlier.

Our investigations into all allegations continue and the 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 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

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

- The Chief of Investigations attained his Certified Fraud Examiner (CFE) credentials from the Association of Certified Fraud Examiners (ACFE). Chief Investigator joins the Deputy Chief Investigator who became a CFE in June 2019. CFE credentials are accredited by the ACFE, the world's largest anti-fraud organization and premier of

anti-fraud training and education. To become a CFE, one must pass an exam on the four major disciplines that comprise the fraud examination body of knowledge: Fraud Prevention & Deterrence, Financial Transactions & Fraud Scheme, Investigation and Law. CFEs have the ability to examine data and records to detect and trace fraudulent transactions; interview suspects to obtain information and confessions; write investigation reports; advise clients as to their findings; testify at trial; understand the law as it relates to fraud and fraud investigations; and identify the underlying factors that motivate individuals to commit fraud. The Investigators' trainings were funded by OAG budget.



MR. JASTON ANJAIN, CHIEF INVESTIGATOR (R) AND MRS. VIVIAN N. KOROIVULAONO (L), DEPUTY CHIEF INVESTIGATOR

- From November 19-24, 2019 the Auditor-General and two senior members of the management team attended a Workshop on Advocacy Strategy for SAI Independence in Pohnpei, Federated States of Micronesia. The Workshop was sponsored by IDI and co-sponsored by the Office of the Public Auditor of the Federated States of Micronesia (FSM) with support also from the Pohnpei State Public Auditor Office, FSM. The purpose of the workshop was to provide an advocacy strategy framework for SAIs in their continuous efforts to improve their independence structure to bring the SAIs into line with recommended settings for SAIs (Mexico Declaration on SAI Independence)



AUDITOR-GENERAL AND TWO SENIOR MEMBERS OF THE MANAGEMENT TEAM AT THE WORKSHOP ON ADVOCACY STRATEGY FOR SAI INDEPENDENCE IN POHNPEI, FSM, NOVEMBER 2019

- In August 2019 two financial auditors participated in a 2-week on-the-job training (*Lakewood Experience*) with the Office of the Inspector General (OIG), U.S. Department of the Interior (DOI). The training was held in Lakewood, Colorado, and is designed to address capacity building needs of auditors from the islands which 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.



TWO FINANCIAL AUDITORS WITH OTHER PARTICIPANTS FROM APIPA JURISDICTIONS DURING THE LAKEWOOD EXPERIENCE PROGRAM IN LAKEWOOD, COLORADO, USA - AUGUST 2019

- From August 12-16, 2019, the Auditor-General and Audit Manager attended the 22nd Annual Congress of the Pacific Association of Supreme Audit Institutions (PASAI). PASAI is the official association of supreme audit institutions (SAIs) in the Pacific region. PASAI is one of the seven regional working groups belonging to the International Organization of Supreme Audit Institutions (INTOSAI). PASAI promotes transparent, accountable, effective, and efficient use of public sector resources in the Pacific. It contributes to that goal by helping its member SAIs improve the quality of public sector auditing in the Pacific to recognized high standards. In addition to the regular business meeting items, the Congress dedicated a workshop day on the SAIs needs. Participating SAIs took the opportunity to register their capacity building needs which will guide PASAI's training program in the years ahead.



AUDITOR-GENERAL AND AUDIT MANAGER (PERFORMANCE AUDITING) DURING 22TH PASAI CONGRESS IN NATADOLA, FIJI - AUGUST 2019

- From August 26-30, 2019, the Assistant Auditor-General and six (6) audit staff attended the 30th Annual Conference and Workshop of the Association of Pacific Islands Public Auditors (APIPA) in the U.S. Territory of Guam. The primary purpose of the annual APIPA Conference is to provide an avenue for trainings for our auditors to maintain the training hours (continuing professional education or CPEs) required by auditors and audit organizations that are performing audits and attestations engagement that are guided by the *Government Auditing Standards*. The instructors and materials for APIPA Conference were provided by Graduate School USA under a contract with the U.S. Department of the Interior's Office of Insular Affairs. The auditors' travels to this workshop were funded by the Office training budget.



ASSISTANT AUDITOR-GENERAL WITH PUBLIC AUDITORS FROM APIPA JURISDICTIONS DURING OPENING 30TH ANNUAL CONFERENCE IN GUAM - AUGUST 2019

- From October 21-25, 2019, the Financial Auditors and Investigators attended an in-house training on financial and investigative audits. The focus of this training was financial audits and investigations and was directed to the specific mandate of the OAG. The training was delivered by Mr. Martin Ruben who has extensive experience in the area of public sector auditing and was arranged by the Graduate School USA.



AUDITOR-GENERAL, CHAIRMAN OF THE PUBLIC SERVICE COMMISSION, MR. MARTIN RUBEN (SEATED IN MIDDLE WITH MARSHALLESE NECKTIE) AND AUDITORS AND INVESTIGATORS AT THE CONCLUSION OF THE WEEK-LONG WORKSHOP, PSC TRAINING ROOM, MAJURO - OCTOBER 2019

OTHER MATTERS

LAW REFORMS

We continue our efforts to improve the legal framework to provide an appropriate independence structure for the OAG and to bring office into line with the internationally-recognized structure for audit institutions (Lima and Mexico Declaration on SAI independence)¹. More importantly, the recommended legal framework will ensure that OAG is able to carry out its mandate objectively and protected against possible influence from outside. During the period, we received assistance from PASAI in these efforts. Specifically, PASAI sent its legal adviser, Mr. Robert Buchanan, who was able to come up with several amendments to the current Audit Act for consideration.



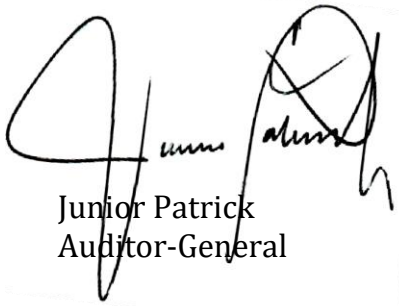
MR. ROBERT BUCHANAN (2ND FROMRIGHT) WITH OAG'S SENIOR MANAGEMENT TEAM, OAG, MAJURO

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.

¹ Independence is one of the fundamental precepts of a successful SAI. This was first recorded in the *Lima Declaration of Guidelines on Auditing Precepts*, which was adopted in 1977 by the global body of SAIs, known as the International Organization of Supreme Audit Institutions or INTOSAI. A more recent INTOSAI declaration, the *Mexico Declaration on the Independence of Supreme Audit Institutions* (2007, known as the *Mexico Declaration*), sets out eight guiding principles of independence.

Respectfully,



Junior Patrick
Auditor-General

JANUARY 2020

EXHIBIT I: UPDATED ORGANIZATIONAL CHART

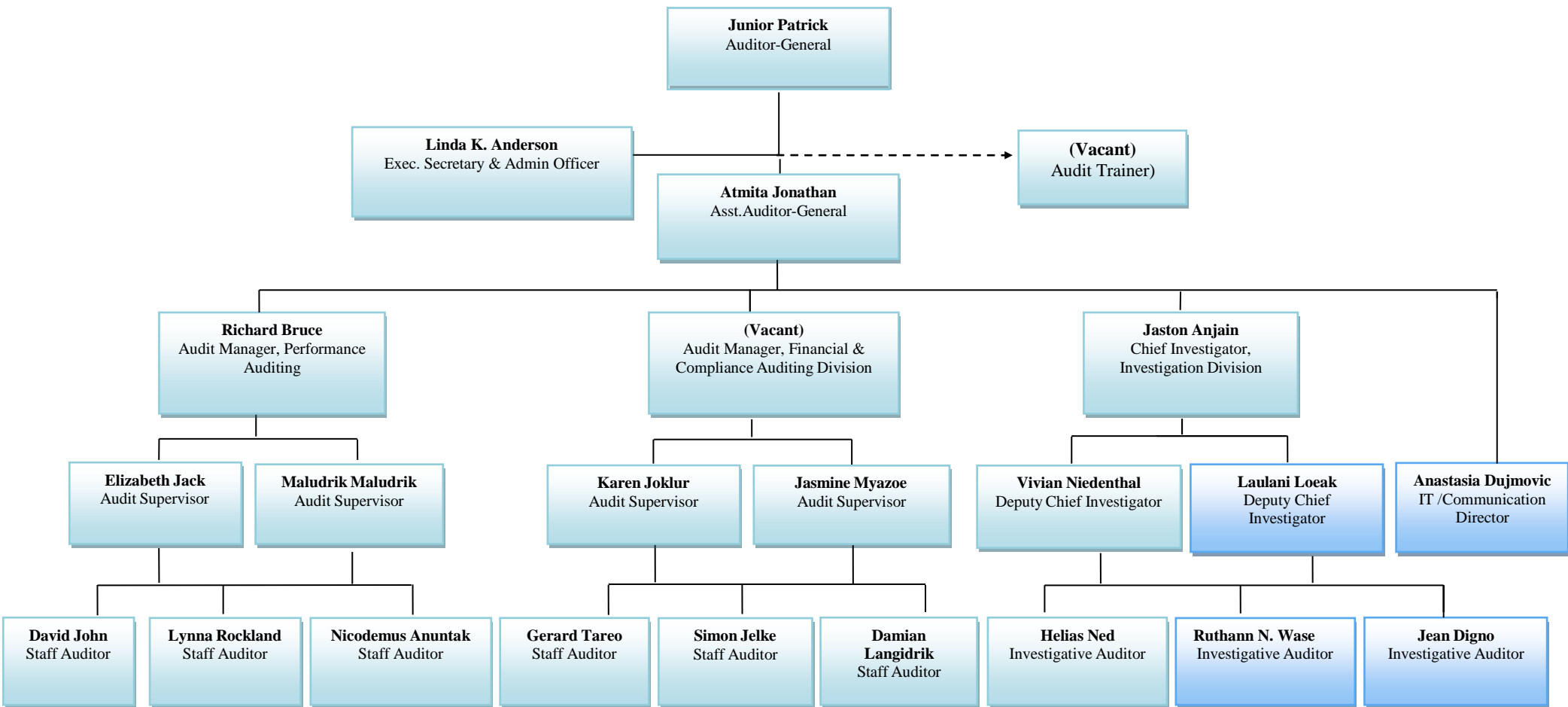


EXHIBIT II: AUDIT ACTIVITIES (JULY 1, 2019 THRU DECEMBER 31, 2019)

<u>AUDITEE</u>	<u>TYPE OF AUDIT</u>	<u>REMARKS</u>
1. Audit of Passport Program	Performance	Report completed and included in this Semi-Annual
2. Mejit Local Government	Financial/Compliance [FY2013 thru FY2016]	Report completed and included in this Semi-Annual
3. Wotho Local Government	Financial/Compliance [FY2013 thru FY2016]	Audit on hold – pending outcome of a special review
4. Namu Atoll Local Government	Financial/Compliance [FY2013 thru FY2016]	Audit fieldwork completed and report being drafted
5. Arno Atoll Local Government	Financial/Compliance [FY2014 thru FY2017]	Audit fieldworks in progress
6. Jabat Local Government	Financial/Compliance [FY2013 thru FY2016]	Audit fieldworks in progress
7. Ailinlaplap Local Government	Financial/Compliance [FY2013 thru FY2016]	Audit fieldworks in progress
8. Other Smaller Local Governments	Financial/Compliance	Audit of other local governments to commence in April 2020
9. Audit of Customs Division	Performance	Audit planning and preliminary survey completed and fieldworks will commence soon
10. Audit of Immigration Division	Performance	Audit put on hold – pending outcome of a special review
11. Audit of RMI Embassy in Taiwan	Internal control/compliance	Audit planning in progress and fieldwork is scheduled to commence in March 2020
12. Audit of RMI Embassy in Japan	Internal control/compliance	Audit planning in progress and fieldwork is scheduled to commence in March 2020

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