

Management Letter

Republic of the Marshall Islands

Year ended September 30, 2022



June 4, 2025

Management and Those Charged with Governance

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, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Cash

Closed Bank Accounts:

Comment: As of September 30, 2022, the Ministry of Finance, Banking and Postal Services (MOFBPS) recorded the following cash accounts that have previously been confirmed closed:

GL Account #	GL Account Name	GL Balance
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.

Recommendation: We recommend management of MOFBPS investigate and verify whether the account balances were deposited to RepMar's General Fund bank account.

Cash, continued

Wire Payments Undeposited Checks:

Comment: The September 2022 General Account bank reconciliation included undeposited checks totaling \$532,496 related to wire transfer payments.

Recommendation: We recommend timely deposit of checks relating to wire transfer payments. We further recommend management of MOFBPS consider changing its existing practice and record wire payments via appropriately authorized general journal entries.

Bank Errors:

Comment: The September 2022 General Account bank reconciliation included bank errors totaling \$20,343 dating to 2019 that remain unresolved.

Recommendation: We recommend management of MOFBPS timely investigate and resolve bank errors.

Verification of Deposits:

Comment: Section 4.7 of MOFBPS's Standard Operating Procedures (SOP) manual requires the Accounting Department to verify deposits daily against cash receipts; however, such is not being performed.

Recommendation: We recommend management of MOFBPS update its SOP manual and consider a more practicable verification policy, including daily online verification of account balances.

Due from Treasury Fund - Infrastructure Maintenance Fund and Disaster Assistance Emergency Fund

Comment: As of September 30, 2022, the interfund receivable balances recorded by the Infrastructure Maintenance Fund and the Disaster Assistance Emergency Fund do not reconcile with the corresponding cash-in-bank (CIB) balances per the general ledger.

Fund #	Fund Name	CIB balance per GL	Due from Treasury Fund	Variance
510110	Infrastructure Maintenance	\$ 2,843,456	\$ 1,785,771	\$ 886,583
510120	Disaster Assistance Emergency	\$ 4,612,597	\$ 4,678,329	\$ (65,732)

The variances potentially represent pending transfers to/from RepMar's general bank account and do not represent misstatements of CIB or interfund balances.

Recommendation: We recommend management of MOFBPS regularly monitor bank account balances and timely effect necessary transfers to/from the general bank account.

Capital Assets

Comment 1: Projects that do not meet the capitalization threshold are included as construction-in-progress and subsequently capitalized.

Comment 2: As of September 30, 2022, MOFBPS capitalized ordinary repairs and maintenance costs for the MIHS gym (MWIU-21-002) amounting to \$130,000. Such represents repairs delayed over the years and is not deemed to have significantly extended the life of the asset.

Comment 3: Phase 2 Gugeegue Project (IDMP -177 & 178) costs amounting to \$751,479 were completed in FY2020 but were not transferred from CWIP and depreciated until FY2022.

Recommendation: We recommend management of MOFBPS observe established policies and procedures regarding capitalization threshold, capitalizable costs, and timely recording and capitalization of capital assets.

Revenue

General Fund:

Comment 1: Cash receipt # 9052387 for \$3,185 was issued on 5/10/2022, which is 46 days after taxpayer directly deposited payment on 3/25/2022 to RepMar's General Account.

Comment 2: Relevant supporting documentation were not available for examination for the following receipts/JV:

#	GL Account #	G/L Account Name	Receipt/JV #	Amount
1	100100-06015	Business Gross Rev Tax	778245	\$ 99,159
2	100100-06015	Business Gross Rev Tax	795104	\$ 56,432
3	100100-06020	Non-Resid't Bus Gross Inc	793023	\$ 120,837
4	100100-06030	Import Tax	755992	\$ 15,215
5	100100-06030	Import Tax	760139	\$ 3,045
6	100100-06030	Import Tax	783413	\$ 6,451
7	100100-06030	Import Tax	792136	\$ 1,598
8	100100-06032	Import Tax-CMI	790389	\$ 3,564
9	100100-06010	Expat Income Tax	9051122	\$ 57,842
10	100100-06010	Expat Income Tax	G22-16W	\$ 12,929
11	100100-06030	Import Tax	9050831	\$ 6,805
12	100100-06030	Import Tax	9054078	\$ 7,500

Recommendation: We recommend management of MOFBPS observe established policies and procedures requiring timely receipting and recording of direct deposit payments. Furthermore, transactions should be adequately supported, and documents should be safeguarded.

Revenue, continued

Grants Assistance Fund:

Comment: For the following non-US grant receipts, donor deposits/wire payments were not timely recorded by MOFBPS, due generally to delayed communication received from the project teams:

#	Fund #	Grant/Project#	Cost Center	Deposit Date	Posted Date	Amount
1	700200	P171631	BK6234	9/22/2021	7/15/2022	\$ 328,999
2	700200	P161382	BK6226	11/10/2021	12/31/2021	\$ 485,506
3	700360	FP147	NM6223	3/14/2022	9/30/2022	\$ 1,300,594
4	700200	P161382	BK6226	5/11/2022	6/30/2022	\$ 1,249,441
5	700200	P163131	BJ6230	5/19/2022	6/30/2022	\$ 819,535
6	700360	DOC-41114165	NM1129	6/30/2022	8/31/2022	\$ 500,000

Recommendation: We recommend management of MOFBPS establish policies and procedures requiring periodic and timely recording and reconciliation of project activities.

Other Governmental Funds:

Comment: Supporting documentation was not available for examination for the following receipt:

GL Account #	GL Account Name	Receipt #	Amount
200334-06318	Recycling Fees	211214	\$ 4,590

Recommendation: We recommend management of MOFBPS observe established policies and procedures to safeguard documents.

Payroll Expenditures

General Fund:

Comment 1: Per PPE 11/20/2021 timesheet for employee # 62402, hours were approved by Assistant Secretary of Customs / Treasury / Revenue and Taxation; however, Human Resource Personnel revised the hours claimed to 58.82 regular hours and 8 holiday hours not worked as pay period includes President's Day holiday. Per payroll register, hours paid were 72 regular and 8 hours holiday not worked.

Comment 2: Based on recalculation of PPE 7/30/2022 hours for employee # 229101, we noted variance between timesheet leave hours (8 hours) versus the associated Payroll Edit Register leave hours (6.8 hours).

Payroll Expenditures, continued

General Fund, continued:

Comment 3: Based on examination of Personnel Action Form for employee # 094521 for PPE 10/08/2022, employee is entitled to 15% Night Differential and 20% Standby Differential; however, per associated payroll edit register, employee instead was paid 10% Ebeye Night Differential and 20% Ebeye differential.

Comment 4: For employee # 200879 for PPE 6/04/2022, Org charged 2610 "RESERVE 2610-15 ELEM SCH" per the Payroll Edit Register differed from Org 2911 "MOE REFORM" authorized by the employee's personnel action form.

Recommendation: We recommend management of MOFBPS establish internal control policies and procedures to facilitate the veracity of timesheets, payroll processing, and the overall approval process.

Grants Assistance Fund:

Comment: Employee # 089437 was paid the previous hourly rate instead of the higher current effective rate for PPE 5/07/2022. The current rate was effective 10/22/2020.

Recommendation: We recommend management of MOFBPS establish internal control policies and procedures to facilitate payment of the correct hourly rate.

Nonpayroll Expenditures

General Fund:

Comment: Exceptions were noted for the following general fund nonpayroll expenditures:

Item #	GL Account #	Doc/check #	Voucher #	Date	Amount
1	100100-02020	T0287801	784398	6/06/2022	\$ 508
2	100100-03135	P8779501	764564	12/28/2021	\$ 53,595
3	100100-02750	G22-514W	n/a	9/30/2022	\$ 2,067
4	100100-03134	C1515301	768830 770007 772914 775104 778562 784888 786173	1/20/2022 2/02/2022 2/25/2022 3/22/2022 4/14/2022 6/13/2022 6/28/2022	\$ 455,007
5	100100-02205	240212	11216 11217 11205 11211	9/30/2022	\$ 396,168
6	100100-02215	234843	792015	8/22/2022	\$ 15,255

Nonpayroll Expenditures, continued

General Fund, continued:

Comment, continued:

7	100100-03134	008134	unavailable	9/30/2022	\$ 24,180
8	100100-01520	222420	760614	12/13/2021	\$ 6,612
9	100100-03128	227612	773299	9/30/2022	\$ 500,000
		227615	773297		
		227613	773295		
		227614	773298		

For item #s 1 through 3, the relevant supporting documents were not available for examination.

For item # 4, receiving reports or other evidence of receipt for the heavy equipment purchased were not available for examination. We noted that such were capitalized and depreciated per the capital assets register with acquisition date 6/14/2022.

For item # 5, while amount paid agreed with summary of invoices prepared by MOHHS, we were unable to agree to trace the underlying invoices attached to the summary. MOFBPS accounts payable staff were unable to offer an explanation.

For item # 6, amount recorded and paid of \$15,254 differed from the invoice amount of \$17,946. MOFBPS accounts payable staff were unable to offer an explanation.

Item # 7 represents FY2018 expenditure recorded in FY2022.

Item # 8 represents Fiji Embassy contractual services for which underlying contracts were not available for examination to ascertain validity.

Item # 9 represents purchase of the Capitol Building from landowners. The purchase price was not supported by an adequate assessment of the building's value, and the transaction was not supported by a purchase agreement.

Recommendation: We recommend management of MOFBPS establish internal control policies and procedures to safeguard documents to facilitate accurate financial reporting. In addition, management should ensure invoices and purchase orders are properly reviewed prior to posting and approved by knowledgeable personnel prior to posting. Furthermore, we recommend that management require asset valuations be performed by independent and qualified individuals or entities with necessary skills and credentials to perform such specialized work.

Nonpayroll Expenditures, continued

Grants Assistance Fund:

Comment: Exceptions were noted for the following grants assistance fund nonpayroll expenditures:

Item #	GL Account #	Doc/check #	Voucher #	Date	Amount
1	700370-03136	226350	769830	1/31/2022	\$ 148,850
2	700370-02345	G22-410M	n/a	9/30/2022	\$(251,980)
3	410102-03132	G22-279C	n/a	8/31/2022	\$ (46,514)
4	410150-03219	n/a	780379	9/30/2022	\$ (11,377)
5	700200-03135	C1615801	781870	5/11/2022	\$ 31,500

For item # 1, we were not provided with an invoice from vendor.

For item #s 2 and 3, we were not provided with the underlying journal voucher.

Item # 4 represents a cancelled transaction. MOFBPS accounting staff were unable to explain the cancellation.

Item # 5 represents purchase of a vehicle which does not appear to be an allowable cost for the underlying non-US grant.

Recommendation: We recommend management of MOFBPS establish internal control policies and procedures to safeguard documents to facilitate accurate financial reporting. Furthermore, MOFBPS should strengthen monitoring controls so that expenditures are verified for validity and allowability.

Other Governmental Funds:

Comment: Salaries and wages - hazardous aggregating \$84,550 was erroneously recorded under GL account # 200111-02615 "Allowances". Furthermore, income taxes were not withheld from the salaries, in violation of the RMI Income Tax Act of 1989, as amended.

Recommendation: We recommend management of MOFBPS require compliance with the RMI Income Tax Act of 1989, as amended.

Payroll

Annual Leave Hours:

Comment: The following inconsistencies with the Public Service Regulations (PSR) are noted:

- 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 inconsistent 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 required, which is inconsistent with PSR Instruction No. 2010/01, which states that all annual and sick leave hours recorded in time clocks and time sheets without prior approval shall be treated as leave without pay or absence without leave.

Recommendation: We recommend management of MOFBPS comply with Public Service Commission regulations, including documented pre-approval of leave.

Retirement Savings Plan:

Comment: During the year ended September 30, 2022, RepMar made employer contributions totaling \$112,397 to employee retirement savings accounts. Taxes are not currently withheld and paid on the employer contributions.

Recommendation: We recommend management of MOFBPS consult with the Office of the Attorney General concerning the applicability of withholding taxes on employer contributions to employee retirement savings plan. RepMar component units' audit reports also comment on this matter, recommending that an interpretation be obtained from MOFBPS Chief of Revenue and Taxation.

Minimum Check Amount:

Comment: 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/agencies to the Treasury Department for disposition.

Recommendation: We recommend management of MOFBPS consider establishing policies with respect to minimum check amounts and unclaimed payroll checks.

Payroll, continued

Processing Outside Payroll Module:

Comment: 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 reports. The reason for the above-described payroll processing method is not clear and imposes additional administrative tasks that are prone to error.

Recommendation: We recommend management of MOFBPS evaluate the efficiency and need for this payroll processing method.

Encumbrances

Comment: Encumbrances are not timely reviewed and reconciled.

Recommendation: We recommend management of MOFBPS periodically review encumbrance subsidiary ledgers for continuing validity and timely reconcile with the general ledger.

Chart of Accounts

Comment: Chart of accounts in the financial management information system (FMIS) differentiates 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 the FMIS is not routinely updated for grant amendments or new grants.

Recommendation: We recommend management of MOFBPS verify the accuracy of FMIS accounts used.

Unclaimed Property

Comment: 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 GL account # 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.

Recommendation: We recommend management of MOFBPS publish the existence of escheated property in accordance with enabling legislation.

Information Technology

Electronic Data Processing (EDP) Environment Activities:

Comment: Activity 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.

Recommendation: We recommend that review of super user activity logs occur to monitor EDP environment activities.

Enhancement of Network Security:

Comment: There is a lack of control of network activities resulting in a higher risk for data integrity and confidentiality issues; for example, hackers may be able to access the network and modify/view sensitive information.

Recommendation: Network vulnerability testing and/or network penetration testing should be performed at least annually to identify control weaknesses.

IT Policies and Procedures:

Comment: Written information technology policies and procedures have not been adopted with respect to use of information technology and general security, data ownership, and access rights.

Recommendation: We recommend management of MOFBPS consider adopting such policies and procedures.

Ministry of Education, Sports and Training

Maintenance Account:

Comment: The Ministry of Education, Sports and Training continues to maintain and use a checking account with a monthly average balance under \$20,000. This bank account is not recorded within RepMar's accounting system. Fiscal year 2022 bank statements and account reconciliations were not provided to MOFBPS for review.

Recommendation: We recommend management of MOFBPS record and review bank account reconciliations of all RepMar ministries and agencies that are not authorized by enabling legislation to have separate financial reporting.

Ministry of Education, Sports and Training, continued

Public School System (PSS) Education Fund:

Comment 1: The following exceptions were noted with the preliminary trial balance provided for audit:

- Beginning fund balance was overstated by \$234,294.
- Encumbrances (GL account 2002) amounting to \$538,742 were incorrectly reported as of September 30, 2022. Such represented accounts payable.
- Accounts payable (GL account # 2001) was understated by \$773,036.

Audit adjustments were proposed to correct these errors.

Comment 2: For the following nonpayroll expenditures or adjustments, the relevant supporting documents could not be located and provided for examination:

#	GL Acct #	Doc #	Voucher #	Date	Amount
1	2115	18-PR-014764	22AP727155144	7/27/2022	\$ 15,278
2	2345	18-PR-013976	21AP1112173839	11/12/2021	\$ 49,097
3	2345	20APM016	20APM016	10/21/2021	\$ 28,672
4	2415	18-PR-013939-S4	21AP102918130	10/29/2021	\$ 3,317
5	2415	18-PR-014120-S3	22AP1716506	1/7/2022	\$ 6,111
6	2415	18-PR-014354-S8	22AP45151652	4/5/2022	\$ 2,270
7	2415	18-PR-014809-S8	22AP8594057	8/5/2022	\$ 3,686
8	2450	PO-011157	22AP6159216	6/15/2022	\$ 15,945
9	2325	22JV24	22JV24A	9/8/2022	\$ (11,391)
10	2450	CK234548	22-12	8/1/2022	\$ (56,433)

Recommendation: We recommend management of PSS establish internal control policies and procedures to safeguard documents. We further recommend that management of PSS consider providing additional training to accounting personnel to facilitate accurate and complete financial reporting.

Republic of the Marshall Islands
Management Letter

This communication is intended solely for the information and use of management of the Republic of the Marshall Islands, others within the organization, 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 would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young