

Management Letter

Republic of the Marshall Islands

Year ended September 30, 2023



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Management and Those Charged with Governance
Republic of the Marshall Islands

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, 2023, 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 Account

Comment: As of September 30, 2023, the Ministry of Finance, Banking and Postal Services (MOFBPS) recorded the following cash account that has previously been confirmed closed:

| GL Account # | GL Account Name | GL Balance |
|--------------|--------------------------|------------|
| 10101-815070 | FHB TCD-CORP Credit Card | \$ 12,000 |

Recommendation: Management of MOFBPS should investigate and verify whether the closed account balance was deposited to RepMar’s General Fund bank account.

Cash, continued

Insufficient Details for Outstanding Checks in Bank Reconciliations

Comment: The September 2023 reconciliation for cash-in-bank general ledger account 813018 included outstanding checks that did not include key information such as check numbers, issue dates, and payee names. The absence of this information reduces the reliability and traceability of the reconciliations, making it difficult to verify the accuracy of outstanding checks and increases the risk of errors or misstatements in the financial records.

Recommendation: MOFBPS management should enhance the bank reconciliation process by requiring that all outstanding checks be properly documented with complete information, including check numbers, issue dates, and payee names. Management should establish a standard procedure for preparing reconciliations that require this information be recorded consistently, reviewed, and authorized. Implementing these controls will improve the accuracy and completeness of bank reconciliations, strengthen internal controls over cash, and reduce the risk of errors or misstatements in the financial statements.

Deposits In Transit

Comment: The September 2023 General Account bank reconciliation included deposits in transit totaling \$328,614 of which \$227,640 pertains to prior fiscal year 2022.

Recommendation: Reconciliations of bank accounts should be routinely prepared and prompt resolution of reconciling items should be taken.

Disaster Assistance Emergency Fund and Infrastructure Maintenance Fund

Transfer of Grant Funds

Comment: Fiscal year 2023 Disaster Assistance Emergency Fund (DAEF) and Infrastructure Maintenance Fund (IMF) grants of \$532,260 and \$266,920, respectively, received by RepMar in September 2023 have not been transferred to the respective DAEF and IMF bank accounts as of September 30, 2023.

Recommendation: MOFBPS management should monitor and timely transfer DAEF and IMF grant funds to the respective bank accounts.

**Disaster Assistance Emergency Fund and Infrastructure Maintenance Fund,
continued**

Interfund Balances

Comment: As of September 30, 2023, the interfund receivable balances recorded by the DAEF and the IMF do not reconcile with the corresponding cash-in-bank (CIB) balances per the general ledger:

| <u>Fund #</u> | <u>Fund Name</u> | <u>CIB balance per GL</u> | <u>Interfund Receivable</u> | <u>Variance</u> |
|---------------|-------------------------------|-------------------------------|---------------------------------|-----------------|
| 10410 | Infrastructure Maintenance | \$ 3,376,434 | \$ 2,445,612 | \$ 930,822 |
| 10411 | Disaster Assistance Emergency | \$ 4,880,672 | \$ 5,070,827 | \$ (190,155) |

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

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

Capital Assets

Comment 1: Accumulated depreciation for Building and Software was understated by \$167,124 and \$263,143, respectively, which represents one (1) full year depreciation not recognized in fiscal year 2023.

Comment 2: Fiscal year 2023 additions to construction-in-progress related to the Ebeye Public School Phase 3 Project amounting to \$2,958,328 includes \$2,229,270 of expenditures incurred during fiscal year 2022. No audit adjustment was proposed as this amount was not considered material to the financial statements.

Comment 3: Projects that do not meet the capitalization threshold for buildings and infrastructures (amount equal to/or exceeds \$100,000) were included as construction-in-progress for subsequent capitalization.

Recommendation: MOFBPS management should observe established internal control policies and procedures requiring periodic update and reconciliation of the capital asset register to facilitate accurate financial reporting. Furthermore, we recommend MOFBPS management capitalize buildings and infrastructures in accordance with established capitalization thresholds.

Revenue

General Fund

Comment 1: Relevant supporting documentation were not available for examination for the following revenue transactions:

| <u>#</u> | <u>Fund #</u> | <u>G/L</u> <u>Account</u> | <u>Voucher #</u> | <u>Amount</u> |
|----------|---------------|------------------------------|---------------------|---------------|
| 1 | 10101 | 806035 | 22/00003108 JOURNAL | \$ 75,749 |
| 2 | 10101 | 806035 | 22/00003259 RV | \$ 34,992 |
| 3 | 10101 | 806005 | 22/00002722 JOURNAL | \$ 28,084 |
| 4 | 10101 | 806030 | 22/00031973 RV | \$ 13,769 |
| 5 | 10101 | 806015 | 22/00011003 PV | \$ 12,724 |
| 6 | 10101 | 806035 | 22/00028618 RV | \$ 10,080 |
| 7 | 10101 | 806035 | 22/00034390 RV | \$ 7,226 |

Comment 2: There are no established policies and procedures requiring regular monitoring of delinquent taxpayers and timely assessment and collection of penalties.

Recommendation: MOFBPS management should observe established internal control policies and procedures requiring transactions to be adequately supported and documents be safeguarded. Furthermore, we recommend MOFBPS management establish internal control policies and procedures requiring regular monitoring of delinquent taxpayers and timely assessment and collection of penalties.

Payroll

Grants Assistance Fund Expenditures

Comment: Employee # 04235258 did not receive any salary from October 3, 2022, the employee's Public Service Commission (PSC) Personnel Action Form effective date, through pay-period ended January 28, 2023 when the employee was paid 680 regular hours.

Recommendation: MOFBPS management should ensure that employee hours are timely paid and reported in the appropriate pay period.

Payroll, continued

Annual Leave

Comment 1: The following inconsistencies with the Public Service Regulations (PSR) were noted:

- MOFBPS rolls over employee annual leave hours each year based on leave hours available at the end of payroll period # 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.

Comment 2: The accrued annual leave subsidiary ledger (SL) provided by management, which was system-generated from the Bisan FMIS, does not provide sufficient detail to identify the additions and reductions for the period. In addition, the SL balance of \$4,181,986 does not agree with the general ledger (GL) balance of \$4,714,583, and no reconciliation was provided for the difference. Due to these system limitations, we were unable to fully test the accuracy of the accrued annual leave balance in the GL, which is not deemed material to the government-wide financial statements.

Recommendation: MOFBPS management should comply with PSC regulations, including documented pre-approval of leave. Furthermore, we recommend that MOFBPS management generate a more adequate and detailed accrued annual leave report from the system, presenting additions and reductions, and which reconciles with the GL. This will support accurate financial reporting and facilitate effective audit procedures.

Processing Outside Payroll Module

Comment: MOFBPS processes certain payroll expenditures outside of the Bisan FMIS 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: MOFBPS management should evaluate the efficiency and need for this payroll processing method.

Payroll, continued

Segregation of Duties

Comment: Under Article 7, Section 9 of the Constitution of the Republic of the Marshall Islands, (PSC is the employing authority for the Public Service and shall have the general oversight and control of its organization and management and shall be responsible for reviewing the efficiency and economy of all Departments and offices of the government. Currently, MOFBPS's Payroll Department performs the overall management of government employee database information within the accounting system, which includes, but is not limited to addition of new employees, updating and modifying of employee pay information such as hourly pay rate, deductions, and other payroll-related information. There may be an inappropriate segregation of duties since MOFBPS's Payroll Department also processes the payroll calculation.

Recommendation: MOFBPS management should consider integrating PSC in overseeing the employee database information within the accounting system to mitigate the risk of inadequate segregation of duties and to strengthen internal control over financial reporting.

Nonpayroll Expenditures

Grants Assistance Fund

Comment 1: Supporting documentation for the following nonpayroll expenditures was not available for inspection:

| # | Fund # | G/L Account Number | G/L Account Name | Voucher # | Date | Amount |
|---|--------|--------------------|------------------------------|------------------------|----------|-----------|
| 1 | 10307 | 801520 | Contractual Services | 22/00001589 JOURNAL | 3/1/2023 | \$225,000 |
| 2 | 10305 | 802405 | Office and Computer Supplies | 22/00002513 JOURNAL | 2/1/2023 | \$3,119 |

Nonpayroll Expenditures, continued

Grants Assistance Fund, continued

Comment 2: We noted the following non-capitalizable nonpayroll expenditures recorded under the Construction-in-Progress (CIP) General Ledger account instead of the appropriate repairs and maintenance accounts:

| # | Fund # | G/L Account Number | G/L Account Name | Voucher # | Date | Amount |
|---|--------|--------------------|--------------------------|---------------------|-----------|-----------|
| 1 | 10305 | 803219 | Construction In Progress | 22/00002227 JOURNAL | 9/4/2023 | \$249,000 |
| 2 | 10406 | 803219 | Construction In Progress | 22/00005968 PV | 5/17/2023 | \$260,858 |
| 3 | 10406 | 803219 | Construction In Progress | 22/00005305 PV | 4/25/2023 | \$245,584 |
| 4 | 10406 | 803219 | Construction In Progress | 22/00006598 PV | 6/2/2023 | \$244,435 |
| 5 | 10406 | 803219 | Construction In Progress | 22/00010769 PV | 8/18/2023 | \$70,848 |
| 6 | 10409 | 803219 | Construction In Progress | 22/00011003 PV | 8/24/2023 | \$226,200 |
| 7 | 10409 | 803219 | Construction In Progress | 22/00004067 JOURNAL | 9/30/2023 | \$107,861 |
| 8 | 10409 | 803219 | Construction In Progress | 22/00003803 JOURNAL | 9/30/2023 | \$53,550 |

Comment 3: The following nonpayroll transactions were recorded in fiscal year 2023, however, the underlying invoices indicate that such were not incurred in fiscal year 2023:

| # | Fund # | G/L Account Number | G/L Account Name | Invoice # | Invoice Date | Amount |
|---|--------|--------------------|---|--------------------------------|--------------|-----------|
| 1 | 10409 | 801520 | Contractual Services | Invoice No. Progress Billing 3 | 7/26/2021 | \$135,239 |
| 2 | 10409 | 801520 | Contractual Services | Invoice Final Billing | 7/25/2024 | \$16,441 |
| 3 | 10409 | 802345 | Subsidies to Public Nonfinancial Corporations | 204114-01 | 10/10/2021 | \$471,663 |

No audit adjustment was proposed as these amounts were not considered material to the financial statements.

Nonpayroll Expenditures, continued

Grants Assistance Fund, continued

Comment 4: The following expenditures associated with the Bisan FMIS accounting software were recorded in fiscal year 2023, however the underlying invoices indicate that such were incurred after fiscal year 2023:

| Item # | Fund # | G/L Account | Invoice # | Invoice Date | Amount |
|--------|--------|-------------|-------------|--------------|-----------|
| 1 | 10307 | 803138 | 24/00000729 | 8/4/2024 | \$91,539 |
| 2 | 10307 | 803138 | 24/00001593 | 5/10/2024 | \$45,770 |
| 3 | 10307 | 803138 | 25/00000001 | 8/5/2025 | \$228,849 |

No audit adjustment was proposed as these amounts were not considered material to the financial statements.

Recommendation: MOFBPS management should establish internal control policies and procedures to safeguard documents to facilitate accurate financial reporting. Furthermore, we recommend MOFBPS management observe established policies and procedures governing the recording of expenditures in the appropriate accounting period to facilitate accurate financial reporting.

Encumbrances

Comment: Encumbrances are not timely reviewed and reconciled.

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

Unclaimed Property

Comment: On November 28, 2002, the Secretary of Finance, Banking and Postal Services received from a bank \$93,737, representing unclaimed customer accounts. This amount is recorded within Fund 20201. 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: MOFBPS management should 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: MOFBPS management should review super user activity logs 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: MOFBPS management should perform network vulnerability and/or network penetration testing 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: MOFBPS management should consider adopting such policies and procedures.

Ministry of Education, Sports and Training (MOEST)

Maintenance Account

Comment: MOEST continues to maintain and use a checking account with a monthly average balance under \$20,000. This bank account is not recorded within the Bisan FMIS. Fiscal year 2023 bank statements and account reconciliations were not provided to MOFBPS management for review.

Recommendation: MOFBPS management should 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 (MOEST), 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 \$234,396.
- Encumbrances (GL account 2002) amounting to \$538,742 were incorrectly reported as of September 30, 2023. Such represented accounts payable.
- Accounts payable (GL account # 2001) was understated by \$773,138.

Audit adjustments were proposed to correct these errors.

Comment 2: The September 2023 bank reconciliation included multiple stale-dated checks totaling \$41,700 pertaining to fiscal years 2016 to 2023.

Recommendation: PSS management should consider providing additional training to accounting personnel to facilitate accurate and complete financial reporting. We further recommend that PSS management establish adequate internal control policies and procedures governing timely review and investigation of long outstanding checks.

Compact Sector Quarterly Financial Reports

Comment: During the audit, we noted certain Compact Sector quarterly financial reports were not submitted within the established reporting timeline.

Recommendation: MOFBPS management should establish internal control policies and procedures governing over the monitoring and submission of Compact Sector quarterly financial reports.

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