

Management Letter

Republic of the Marshall Islands

Year ended September 30, 2024



**Shape the future
with confidence**

September 1, 2026

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, 2024, 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

Observation: As of September 30, 2024, the Ministry of Finance, Banking and Postal Services (MOFBPS) recorded the following cash account, although the bank had previously confirmed that the account was closed:

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

Recommendation: MOFBPS should investigate whether the account balance was transferred to RepMar's General Fund bank account.

Cash, continued

Stale-Dated Checks

Observation: Outstanding checks totaling \$1,144,564 across four bank accounts (GL Account Nos. 10101-813010, 10101-813015, 10101-813018, and 10101-813020) have remained uncleared for several years, with some dating to 2016. These stale-dated checks indicate ineffective monitoring of bank reconciliations and disbursements.

The aging schedule of the outstanding checks is summarized below:

<u>Year</u>	<u>Amount Outstanding</u>
2016	\$ 458
2017	1,625
2018	12,204
2019	5,857
2020	3,258
2021	16,964
2022	33,320
2023	819,825
2024	<u>251,053</u>
Total	\$ <u>1,144,564</u>

An audit reclassification was proposed to correct understated cash and accounts payable balances.

Recommendation: MOFBPS should strengthen controls over stale-dated checks by reviewing outstanding items monthly, following up on checks uncleared for more than 90 days, and voiding and reissuing them when appropriate. All actions should be authorized and documented. MOFBPS should also adopt a formal policy defining responsibilities, timelines, and procedures for long-outstanding disbursements and ensure compliance with applicable requirements for unclaimed or abandoned funds. These measures will improve financial reporting, cash management, and regulatory compliance.

Deposits In Transit

Observation: The September 2024 General Account bank reconciliation reported \$758,179 in deposits in transit, including \$240,887 from prior years.

Recommendation: MOFBPS should reconcile bank accounts promptly and resolve reconciling items without delay.

Cash, continued

Insufficient Details for Outstanding Checks in Bank Reconciliations

Observation: The September 2024 reconciliation for cash-in-bank general ledger account 813020 included outstanding checks totaling \$33,250 with incorrect check numbers and missing payee names. These deficiencies impair the reliability and traceability of reconciling items, hinder verification of outstanding checks, and increase the risk of financial record misstatements.

Recommendation: MOFBPS should strengthen bank reconciliations by requiring complete and consistent documentation of outstanding checks, including check numbers, issue dates, and payee names, as well as appropriate review and approval. These controls will improve reconciliation accuracy and completeness, strengthen cash controls, and reduce the risk of financial statement misstatements.

Payroll

Processing Outside Payroll Module

Observation: MOFBPS processes certain payroll expenditures outside the Bisan FMIS payroll module for one-time events or special assignments performed beyond employees' regular duties. Although required withholdings are deducted, these payments are excluded from regular payroll reports. The rationale for this method is unclear, and the additional manual processing increases administrative burden and the risk of error.

Recommendation: MOFBPS should assess whether this payroll processing method is necessary and efficient.

Unsupported Additional Standby Differential Records

Observation: Gross pay recalculation identified variances related to an additional 10% standby differential. Payroll staff stated that locally hired employees are entitled to this rate; however, the employees' Personnel Action Forms (PAFs) reflected only a 20% Ebeye standby differential, and no memorandum or written authorization supported the additional 10%.

<u>Employee No.</u>	<u>Gross Pay</u>	<u>Audit Recalculation</u>	<u>Difference</u>
04226318	\$ 1,023	\$ 950	\$ 73
04208519	\$ 702	\$ 652	\$ 50

Recommendation: MOFBPS should ensure all differential payments are authorized and supported by approved PAFs or written directives.

Payroll, continued

Personnel Action Forms/Contracts

Observations:

Comment 1: Review of Personnel Action Forms (PAFs) found that employees hired in prior years remained classified as probationary, although Public Service Commission (PSC) Public Instruction 2017/003 limits probation to three to six months. The PAFs reviewed had not been updated in FY2024 and continued to show probationary status.

<u>Employee No.</u>	<u>PAF Effective Date</u>	<u>PAF Status</u>
4231585	8/5/2021	Probationary
4228717	2/24/2021	Probationary
4227340	2/24/2021	Probationary
4209563	4/4/2022	Probationary
4093000	3/11/2016	Probationary
4241998	6/19/2023	Probationary
4233452	11/6/2023	Probationary
4091412	4/17/2023	Probationary
4237993	8/25/2020	Probationary
4238048	10/10/2021	Probationary
4241732	9/6/2022	Probationary

Comment 2: Testing of employee #4091412's \$808 payroll cost for PPE 11/04/2023 found that it was split equally between the Public School System (PSS) and the Climate Change Directorate (CCD) - Majuro, although the employee resigned from PSS in March 2023 and transferred to CCD effective April 17, 2023. The misallocation resulted from untimely updates to the employee's records.

Recommendation: MOFBPS should ensure employee records are updated promptly, maintained systematically, and are readily available for audit and verification. PAFs should be reviewed and revised when probationary periods end, in accordance with PSC Public Instruction 2017/003. Document retention and monitoring procedures should also be strengthened to support accountability and compliance.

Payroll - Segregation of Duties

Observation: Article 7, Section 9 of the Constitution of the Republic of the Marshall Islands designates PSC as the employing authority responsible for overseeing and managing the Public Service and reviewing the efficiency and economy of government departments and offices. However, MOFBPS's Payroll Department manages government employee data in the accounting system - including adding employees and updating pay rates, deductions, and other payroll information - while also processing payroll. These combined responsibilities may result in inadequate segregation of duties.

Payroll, continued

Payroll - Segregation of Duties, continued

Recommendation: MOFBPS should involve PSC in overseeing employee data within the accounting system to improve segregation of duties and strengthen RepMar's internal control over financial reporting.

Annual Leave

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

- MOFBPS carries forward annual leave based on balances available at the end of payroll #1, around mid-December. This practice conflicts with PSR Part VI, paragraph 56(2), which limits accumulated leave carried forward at the end of the leave year, December 31, to 208 hours.
- MOFBPS does not require approved leave forms for annual leave of 24 hours or less. This practice conflicts with PSR Instruction No. 2010/01, which requires annual or sick leave recorded in time clocks or timesheets without prior approval to be treated as leave without pay or absence without leave. Our testing identified the following instances of paid leave without evidence of approved leave forms:

<u>Employee No.</u>	<u>PPE</u>	<u>Hours</u>
4231005	12/31/2023	32
4233452	10/18/2024	8

Recommendation: MOFBPS should comply with PSC regulations by requiring documented approval before leave is taken.

Discrepancy Between Timesheet and Payslip

Observations:

Comment 1: For PPE 02/10/2024, employee #4238139 was paid for 22.4 hours of sick leave, although the approved timesheet recorded 56 hours. The amount paid matched the employee's available sick leave balance of 22.4 hours.

Similarly, for PPE 10/21/2023, employee #4244959 was paid for 2.6 hours of sick leave, although the approved timesheet recorded 36.38 hours. The amount paid matched the employee's available sick leave balance of 2.6 hours.

Comment 2: For PPE 06/29/2024, employee #4214432 was paid for 80 hours, although the approved timesheet supported 96 hours, resulting in an underpayment.

Payroll, continued

Discrepancy Between Timesheet and Payslip, continued

Comment 3: For PPE 12/03/2023, employee #4224442's approved timesheet recorded 64 regular and 16 holiday hours. However, the PSC calendar showed only one eight-hour holiday during the pay period. The correct allocation was 72 regular and 8 holiday hours, consistent with the hours paid; therefore, gross pay was unaffected.

Recommendation: MOFBPS should assess the need for additional training for responsible government personnel to improve documentation, time reporting, and approvals. Review procedures should also ensure that timesheets, approved leave forms, payroll records, leave usage, and available balances are accurate and consistent, and that all paid hours are supported by approved timesheets.

Encumbrances

Observation: Encumbrances are not reviewed and reconciled promptly.

Recommendation: MOFBPS should periodically review encumbrance subsidiary ledgers to confirm their continued validity and reconcile them promptly with the general ledger.

Travel Advances

Untimely Liquidation - General Fund

Observation: All three sampled travel advances were liquidated after MOFBPS's required 15-day deadline. In addition, approximately 59% of General Fund travel advances outstanding as of September 30, 2024, had remained unresolved for more than one year.

Recommendation: MOFBPS should enforce its travel advance liquidation policy and strengthen monitoring of outstanding advances to support timely compliance and accurate financial reporting.

Unclaimed Property

Observation: In November 2002, MOFBPS received \$93,737 from a bank for unclaimed customer accounts and recorded the amount in Fund 20201. Under 30 MIRC 5, *Disposition of Unclaimed Business Interests*, property escheated to RepMar must be deposited into an Abandoned Business Interests account within the Unclaimed Business Property Fund. Although the Secretary must publish notice within one year of receipt, no notice has been issued.

Recommendation: MOFBPS should publish notice of the escheated property as required by law.

Ministry of Education, Sports and Training (MOEST)

Maintenance Account

Observation: MOEST maintains a checking account with an average monthly balance below \$20,000 that is not recorded in Bisan FMIS. MOEST did not submit the fiscal year 2024 bank statements and reconciliations to MOFBPS for review.

Recommendation: MOFBPS should record and review bank reconciliations for all RepMar ministries and agencies that are not legally authorized to report separately.

Public School System (PSS) Education Fund

Observation: The September 2024 bank reconciliation included stale-dated checks totaling \$77,295 from fiscal years 2016 through 2024.

Recommendation: MOFBPF should require PSS to establish policies and procedures to ensure long-outstanding checks are reviewed and investigated promptly.

Federal Financial Reports

ALN 15.875 COFA Financial Reporting Requirements

Observation: Several annual, quarterly, and semiannual financial reports were not submitted by the established deadlines.

Recommendation: MOFBPS should establish policies and procedures to monitor compliance with financial reporting requirements and deadlines.

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