

May 18, 2001

CONFIDENTIAL

Minister Michael Konelios
Ministry of Finance
Republic of the Marshall Islands
Majuro, Marshall Islands 96960

Dear Minister Konelios:

In planning and performing our audit of the general purpose financial statements of the Republic of the Marshall Islands (RepMar) for the year ended September 30, 2000, on which we have issued our report dated May 18, 2001, we developed the following recommendations concerning certain matters related to RepMar's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Payroll

Of one-hundred payroll disbursements from the Ministry of Finance tested, we noted ten personnel files did not include authorizations to support employee allotment deductions. We recommend that the Payroll Department within the Ministry of Finance ensure that all personnel files include authorizations to support employee allotment deductions.

(2) Payroll

Of one-hundred payroll disbursements from the Ministry of Finance tested, we noted two employees that were compensated for hours not included within their respective timesheets. Specifically, employee #s 389 and 6015 were compensated for 80 hours and 88 hours for the payroll periods ended February 11, 2000 and March 24, 2000, respectively, whereas the supporting timesheets indicated that no hours were worked. In addition, four timesheets were not made available for four employees (employee #s 696, 6098, 7989 and 8548) for the payroll period ended December 2, 1999. We recommend that the Payroll Department within the Ministry of Finance ensure that all compensated hours be supported by approved timesheets.

(3) Payroll

Of one-hundred payroll disbursements from the Ministry of Finance tested, we noted nine disbursements (check #s 587727, 589101, 590040, 590387, 591373, 592382, 605870, 619675 and 622474) in which the calculation of gross wages, based on the Personnel Action Form (PAF) within the respective employees' personnel file, did not agree with the actual amount paid. We recommend that the Ministry of Finance ensure that all employee personnel files are complete and include the employee's most current PAF as approved by the members of the Public Service Commission.

(4) Payroll

Of seven Public Safety employees tested, we noted that all seven were compensated for sixty hours of night differential per pay period for the entire fiscal year. These employees included administrative staff who would not normally be afforded night differential. We recommend that the Ministry of Finance ensure that night differential rates are afforded only to employees working night shift.

(5) Disbursements

Of thirty-six nonpayroll disbursements from the Majuro office of the Ministry of Finance and twenty-five nonpayroll disbursements from the Ebeye office of the Ministry of Finance tested, supporting documentation for five disbursements (check #s 3916, 188206, 190130, 191773 and 191985 for \$3,412, \$415, \$2,763, \$282 and \$282) was not made available. We recommend that the Ministry of Finance retain documentation to support all disbursements made.

(6) Disbursements

Of thirty-six nonpayroll disbursements from the Majuro office of the Ministry of Finance tested, check #s 184421, 184751, 184784, 185101, 185230, 185404, 186102, 186366 and 189491 represented voided checks for which the check voucher was not made available. We recommend that the Ministry of Finance retain the original copy of the voided check and ensure that such is appropriately marked void.

(7) Reduction-In-Force (RIF) Payments

During the year ended September 30, 2000, we noted one employee (employee # 8818) was compensated \$10,000 in excess of the lump-sum payments normally accorded to government employees under the RIF program. We recommend that all RIF payments be calculated in accordance with prescribed policies and be based on the employees' service years and pay rate.

(8) Revenue/Receipts

Of twenty-five cash receipts from the Ebeye office of the Ministry of Finance tested, we noted twelve cash receipts (cash receipt #s 10023, 10031, 10043, 10283, 10301, 10302, 10316, 10737, 10865, 10973, 10976 and 74265) that were deposited to the bank more than five days after the issuance of the cash receipt. We recommend that the Ministry of Finance ensure that cash receipts are deposited to the bank in a timely manner. This matter was discussed in our previous letter dated May 9, 2000.

(9) Revenue/Receipts

Of twenty-five cash receipts from the Ebeye office of the Ministry of Finance tested, we noted one cash receipt (cash receipt # 10394) was not made available. We recommend that the Ministry of Finance ensure that all cash receipts are supported by cash receipt vouchers. Furthermore, we recommend that voided cash receipts be retained to evidence that the cash receipt was not issued.

(10) Revenue/Receipts

Of twenty-five cash receipts for import tax from the Ministry of Finance tested, we noted two cash receipts (cash receipt #s 108638 and 110205) that were not supported by invoices attached to the respective CE725 import tax forms verifying the calculation of import tax collected. Furthermore, we noted four cash receipts (cash receipt #s 108907, 110205, 111608 and 115637) that were not supported by a CE725 import tax form signed by both an official of the Division of Revenue and Taxation and the taxpayer, and one cash receipt (cash receipt # 109165) that was not supported by a CE725 import tax form marked by the Customs clearance stamp. We recommend that the Division of Revenue and Taxation within the Ministry of Finance ensure that all import tax collected be supported by vendor invoices attached to the CE725 import tax forms. Furthermore, we recommend that all CE725 import tax forms be signed by both an official of the Division of Revenue and Taxation and the taxpayer, and are marked by the Customs clearance stamp.

(11) Cash

As of September 30, 2000, the General account bank reconciliation included a reconciling item relating to a double posting error by the bank of check # 165409 (dated June 17, 1997), totaling \$52,728. The Ministry of Finance has not been reimbursed by the bank for this error. We recommend that the Ministry of Finance, through the Office of the Attorney General, follow up with the bank concerning reimbursement of the double posting. This matter was discussed in our previous letter dated May 9, 2000 and was reported as a finding in our Single Audit of RepMar for fiscal year 1998.

(12) Cash

As of September 30, 2000, the Republic of the Marshall Islands Investment Development Fund (Fund 327) recorded a cash balance of \$1,645, representing a bank account (A/c # 800502) with the Bank of Marshall Islands. No bank reconciliation was made available for the entire fiscal year. The bank balance as of September 30, 2000 was \$1,305, with the variance between cash balance and bank balance of \$340 being bank charges due to inactivity in the account. We recommend that the Ministry of Finance close this account in order to minimize further bank charges.

(13) Cash

Bank statements were not made available for the months of October 1999, January 2000 to May 2000, and August 2000 for the Smith Barney (A/c # 189-79501-17) money market account. Accordingly, we were unable to verify recorded interest income of \$25,854. We recommend that the Ministry of Finance ensure that bank statements be retained to support transactions recorded in the account.

(14) Cash

As of September 30, 2000, RepMar maintained a bank account, totaling \$129,684, with the Sumitomo Bank, Ltd. There has been no activity in this account since fiscal year 1997. Furthermore, the account is currently earning interest at the rate of 0.5% per annum. We recommend that the Ministry of Finance withdraw these funds and deposit them in a higher yielding account in order to maximize earnings potential.

(15) Receivables

As of September 30, 2000, the General Fund recorded a receivable from the College of the Marshall Islands, totaling \$123,628, representing payments by RepMar for College employees during fiscal years 1995 and 1996. The Ministry of Finance has not been reimbursed for these payments. We recommend that the Ministry of Finance follow up with the College concerning reimbursement of this receivable, including the possibility of deducting this amount from future appropriations made by the Nitijela. This matter was discussed in our previous letter dated May 9, 2000.

(16) Receivables

As of September 30, 2000, the General Fund recorded a receivable from the Section 177 Health Plan, totaling \$93,715, representing payments made by RepMar on behalf of the Section 177 Health Plan not yet reimbursed. This receivable balance included an amount of \$50,622, which related to an unreconciled difference brought forward from prior years, for which no explanation was made available by the Ministry of Finance. We recommend that the Ministry of Finance investigate the nature of this unreconciled balance in a timely manner.

(17) Stale Checks

Other liabilities and accruals of the General Fund include stale dated checks (A/c # 50800-100, totaling \$115,547), of which one check (check # 174994, totaling \$65,000) has been outstanding since October 1998. We recommend that the Ministry of Finance follow-up on outstanding checks to determine whether such are still valid.

(18) Import Taxes

Section 208(1) of the Import Tax Act, 1989, states that a person who imports goods into the Republic for the purpose of re-export is entitled to a refund of import duty paid on goods for re-export after the Chief of Customs has been satisfied that: a) the goods have been declared for entry; b) the goods for re-export are identical to the goods originally declared; c) the goods were re-exported to a buyer outside of the Republic; and d) the import duty due on the goods at the time of import has been paid. During the year ended September 30, 2000, we noted that the only authorized re-exporting business in the Republic did not pay import duties on goods imported subsequent to April 2000. Additionally, this business sells goods to the general public within the Republic. We recommend that the Division of Revenue and Taxation assess import duties on all goods entering the Republic for re-export in accordance with the Import Tax Act, 1989.

* * * * *

Minister Michael Konelios
May 18, 2001
Page Five

We have previously communicated certain matters noted during our audit of the general purpose financial statements of RepMar for the year ended September 30, 2000, which we considered to be reportable conditions, in our report to His Excellency Kessai Note dated May 18, 2001.

This report is intended solely for the information and use of management and others within the Ministry of Finance and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte & Touche