

June 15, 2007

## CONFIDENTIAL

Mr. Jefferson Barton  
Secretary, Ministry of Finance  
Republic of the Marshall Islands  
P.O. Box D  
Majuro, MH 96960

Dear Mr. Barton:

In planning and performing our audit 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) for the year ended September 30, 2006, which collectively comprise RepMar's basic financial statements (on which we have issued our report dated June 15, 2007 and which report was qualified due to the omission of financial statements for the Kwajalein Atoll Joint Utilities Resources, Inc. and the inability of Air Marshall Islands, Inc. to produce audited financial statements), we developed the following recommendations concerning certain matters related to its internal control. Our recommendations are summarized below.

### 1. Embassy Imprest Accounts

As of September 30, 2006, bank reconciliations for the Honolulu Consulate Office and the Washington Embassy imprest accounts (G/L A/c #s 12070 and 12035) included reconciling items of \$1,967 and \$11,441, respectively, representing amounts due from embassy staff. Certain of these amounts have been outstanding for over a year. We recommend that the Ministry of Finance ensure that amounts due from staff are collected in a timely manner.

### 2. Embassy Imprest Accounts

As of September 30, 2006, RepMar recorded cash balances in the Taipei Embassy and UN Mission imprest accounts (G/L A/c #s 12025 and 12030) of \$40,000 and \$50,000, respectively. Bank reconciliations for these accounts for the month of September 2006 were not made available. We recommend that the Ministry of Finance ensure that all bank accounts are reconciled on a regular basis and that all disbursements are properly supported and recorded.

### 3. Cash Balances

As of September 30, 2006, RepMar recorded cash balances in the ADB Capital Project Fund of \$9,428 and \$61,596 representing bank account #s 950345 and 950346, respectively, with the Bank of Marshall Islands. Bank reconciliations for these accounts for the entire fiscal year were not made available. The bank balances as of September 30, 2006 were \$-0- and \$22,268, respectively, with the variances between book and bank balances representing unrecorded and unsupported withdrawals from the accounts. We recommend that the Ministry of Finance ensure that all bank accounts are reconciled on a regular basis and that all disbursements are properly supported and recorded.

Mr. Jefferson Barton  
Secretary, Ministry of Finance  
Republic of the Marshall Islands  
June 15, 2007

Page 2

#### 4. Accounts Receivable

As of September 30, 2006, RepMar recorded the following receivables in the General Fund, all of which are included within the allowance for uncollectible accounts due to the unlikelihood of collection:

<u>G/L Account</u>	<u>Account Name</u>	<u>Amount</u>
20200	A/R – Returned Checks	\$ 5,695
22005	A/R – General	\$ 33,419
22020	A/R – EFNEP	\$ 18,956
24012	A/R – Kwajalein Landowners	\$ 2,367
24020	A/R – Other	\$ 12,053
24027	A/R – Employee Pay Advance	\$ 1,298
24060	A/R – Miscellaneous	\$ 13,875
24080	A/R – Uncover	\$ 318,420
24090	A/R – 177 Health Plan	\$ 84,295
24100	A/R – Reimbursable Travel	\$ 183,964

Additionally, the supporting subsidiary ledger for A/c # 24100 was not made available.

We recommend that the Ministry of Finance pursue collection of these accounts or determine whether such should be written off. Furthermore, we recommend that reconciled subsidiary ledgers be maintained for all receivable accounts.

#### 5. Unclaimed Property (Abandoned Business)

On November 28, 2002, the Secretary of Finance received \$93,737 from the Bank of Hawaii representing unclaimed customer accounts when the bank closed its branch. In accordance with Public Law No. 1999-89, any unclaimed property, which escheats to RepMar under the provisions of law, shall be deposited into an Abandoned Business Interests account within the Unclaimed Business Property Fund. The Secretary of Finance is required to publish the existence of such property within one year after receipt. As of September 30, 2006, the Secretary of Finance has not published the existence of such property in the local newspaper. We recommend that the Ministry of Finance publish the existence of escheated property in accordance with the requirements of the enabling legislation.

#### 6. Clearing Account

As of September 30, 2006, RepMar recorded \$47,479 in a clearing account (G/L A/c # 80010) in the Non-Federal/Other Grants Fund representing liabilities for various grants that had been deposited in the General Fund. Certain of the amounts were over six months old. We recommend that the Ministry of Finance ensure that such temporary accounts are reconciled on a monthly basis.

Page 3

#### 7. Import Taxes

Of sixty-two Customs Declaration (CE) Forms tested, the associated supporting vendor invoice for goods imported on CE Form # 60453 was not made available. Additionally, the wrong import duties rate was assessed for goods imported on CE Form # 62452. We recommend that the Division of Customs ensure that supporting vendor invoices for imported goods are maintained and filed with the related CE Forms and that the correct import duties are applied.

#### 8. Income Taxes

Of eighty-eight income tax returns tested, an employee listing was not made available for a return filed by taxpayer # 10402-04 for the period ended July 8, 2006. Additionally, taxpayer # 10321-04 did not file nor pay income taxes for its employees for the period ended October 31, 2005. We recommend that the Division of Revenue and Taxation ensure that all withholding income tax returns filed by taxpayers are supported by employee listings and that all taxpayers file and pay employee income taxes in a timely manner.

#### 9. Payroll Expenditures

Of one-hundred twenty-four payroll expenditures of the General Fund and other non-major governmental funds tested, we noted the following exceptions:

- a) For employee # 58579 for the payroll period ended February 18, 2006, the compensated hours did not agree with the supporting timesheet. Specifically, the timesheet indicated 8 sick leave hours which were paid as regular hours.
- b) For employee #s 38510, 62511, and 47638 for the payroll periods ended March 4, 2006 and April 12, 2006, the supporting timesheets did not indicate 8 holiday hours during each of the bi-weekly periods.

We recommend that the Payroll Department ensure that all compensated hours are supported by accurate and approved timesheets.

#### 10. Non-Payroll Expenditures

For the year ended September 30, 2006, we examined all payments made on the First Hawaiian Bank (FHB) Credit Card and noted the following exceptions:

- a) For three check payments (check #s 28151, 29008, and 30704) made on October 21, 2005, November 21, 2005, and January 20, 2006 for \$875, \$2,968, and \$4,920, respectively, the supporting invoices indicated that such pertained to fiscal year 2005; however, the amounts were recorded as fiscal year 2006 expenditures.
- b) For one check payment (check # 29122) made on November 23, 2005 for \$10,000, the supporting invoices were not made available.

We recommend that the Ministry of Finance ensure that all expenditures charged to the FHB Credit Card are recorded in the proper period and are evidenced by supporting documentation such as approved purchase requisitions, purchase orders, and TAs, when appropriate, and vendor invoices.

Mr. Jefferson Barton  
Secretary, Ministry of Finance  
Republic of the Marshall Islands  
June 15, 2007

Page 4

11. Non-Payroll Expenditures

Of one-hundred thirty-three non-payroll expenditures of the General Fund and other non-major governmental funds tested, we noted the following exceptions:

- a) For two expenditures (check #s 7565 and 13605) in the amounts of \$50,000 and \$4,414, respectively, the vendor invoices or other appropriate supporting documentation were not made available.
- b) For one expenditure (check # 27686) in the amount of \$5,000, no authoritative document was made available to support reimbursement to the Majuro Atoll Local Government for land lease payments.
- c) For one expenditure (JV # G07-011J) in the amount of \$50,000, such was charged to Org # 1226 International Subscriptions/Membership Fees instead of Org # 1249 – Past Due USP Membership Fees.
- d) For one expenditure (JV # G07-147E) in the amount of \$47,197, no journal voucher was made available to support the expenditure.
- e) For eight expenditures (check #s 28092, 28107, 31613, 28370, 28541, 28627, 31275 and 32337), the supporting invoices indicated that certain of the amounts pertained to fiscal year 2005; however, such were recorded as fiscal year 2006 expenditures.
- f) For one expenditure (wire payment # 9000228), the supporting contract was executed but not encumbered in fiscal year 2005.

We recommend that the Ministry of Finance ensure that all expenditures are supported by appropriate documentation such as vendor invoices and are properly recorded.

\* \* \* \* \*

We have communicated certain matters noted during our audit of the basic financial statements of RepMar for the year ended September 30, 2006, which we considered to be reportable conditions, in our report dated June 15, 2007.

This report is intended for the information and use of management of RepMar and others within the organization.

Very truly yours,

