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June 10, 2005

CONFIDENTIAL

Honorable Minister Brenson S. Wase
Ministry of Finance
Republic of the Marshall Islands
Majuro, Marshall Islands 96960

Dear Minister Wase:

In planning and performing our audit of the financial statements of the Republic of the Marshall Islands (RepMar) for the year ended September 30, 2004, on which we have issued our report dated June 10, 2005, 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) Purchases/Disbursements

Of one hundred and fifty-two expenditures selected for tests of internal control, the approved purchase requisitions and related purchase orders were not made available for the following expenditures:

<u>Vendor #</u>	<u>Check #</u>	<u>Amount</u>
600042	6166	\$ 1,000
600042	6177	\$ 2,000
600042	6352	\$ 20,423
600042	6397	\$ 1,437
600042	6516	\$ 1,389
600042	5964	\$ 21,840
600042	5969	\$ 1,000
600042	6180	\$ 19,740

Furthermore, the following purchase requisitions were not approved by the Minister and/or Secretary or his designate for the following expenditures:

<u>Purchase Order #</u>	<u>Vendor #</u>	<u>Check #</u>	<u>Amount</u>
K0617401	600042	6079	\$ 17,556
P0453201	500118	11686	\$ 20,000
P0660201	500118	18167	\$ 19,289
P0366501	503034	11895	\$ 24,200
P0453401	500086	12564	\$ 4,125
P0421701	500027	11565	\$ 6,515
P0464701	400028	18266	\$ 4,268
P0374201	3106	12633	\$ 4,798
P0621901	503034	12110	\$ 7,095

(1) Purchases/Disbursements, Continued

We recommend that the Ministry of Finance ensure that all expenditures are supported by an authorized purchase requisition and purchase order. Furthermore, we recommend that the Ministry of Finance ensure that all purchases are approved by the Secretary, or his designate, and the Minister of the respective department.

(2) Purchases/Disbursements

We noted the following expenditures that were not supported by vendor invoices or other appropriate supporting documentation:

<u>Purchase Order #</u>	<u>Vendor #</u>	<u>Voucher #</u>	<u>Amount</u>
T0084401	420819	15025	\$ 10,000
P0595001	500000	13919	\$ 1,460
Loan # 1694		WA # 44	\$ 287,490
P0442301	400902	04816	\$ 2,690

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

(3) Withholding Tax Returns

Of twenty-five business withholding tax returns tested, we noted one return (Taxpayer # 00562-04) where an additional assessment was made for the period ended April 18, 2004 in the amount of \$166; however, no payment of this amount was remitted by the taxpayer. We recommend that the Division of Revenue and Taxation establish policies and procedures to ensure that collection of additional assessments occurs in a timely manner.

(4) Gross Revenue Tax (GRT) Returns

Of twenty-five businesses tested, we noted an assessment was made for penalties and interest on the following tax returns for which no payment has been remitted by the taxpayer:

<u>Customer #</u>	<u>Quarter Ended</u>	<u>Date Paid</u>	<u>Cash Receipt #</u>	<u>Assessed Penalties</u>
10882-04	March 2004	07/27/04	200149	\$ 252.57
11236-04	March 2004	08/03/04	201030	\$ 142.89
03150-04	September 2004	11/12/04	209697	\$ 145.62
10714-04	September 2004	11/10/04	209426	\$ 173.63
04879-04	March 2004	07/23/04	199981	\$ 9.35

We recommend that the Division of Revenue and Taxation establish policies and procedures to ensure that collection of penalty and interest assessments occurs in a timely manner.

(5) Gross Revenue Tax (GRT) Returns

Of twenty-five businesses tested, we noted GRT returns were filed by Taxpayer # 10021-04 for all four quarters of fiscal year 2004; however, no payments were remitted by the taxpayer. For Taxpayer # 11341-04, we noted GRT returns were not filed for all four quarters of fiscal year 2004. We recommend that the Division of Revenue and Taxation establish policies and procedures to ensure that GRT returns are filed by all taxpayers on a quarterly basis and in a timely manner, and that the returns are accompanied by appropriately calculated gross revenue taxes.

(6) Gross Revenue Tax (GRT) Returns

Of twenty-five businesses tested, we noted the GRT return filed by Taxpayer # 00053-04 for the quarter ended September 2004 and paid on Cash Receipt # 208499 in the amount of \$129,779 was not available for examination. We recommend that the Division of Revenue and Taxation establish policies and procedures to ensure that GRT returns are maintained within the taxpayer's file.

(7) Import Taxes

Of twenty-five Customs Declaration (CE) Forms tested, we noted that the associated supporting vendor invoices for goods being imported and import taxes of \$8,458 paid on CR # 149244 were not made available. We recommend that the Division of Customs ensure that supporting invoices relating to goods being imported be maintained and filed with the CE Forms.

(8) Cash Receipts

Of twenty-five cash receipts tested, we noted the following exceptions:

- a) For CR #s 147580, 149062 and 191555 in the amount of \$294, \$50 and \$50, respectively, the deposit dates indicated that the cash receipts were not deposited to the bank in a timely manner. Specifically, the cash receipt dates were October 31, December 30 and April 14, respectively, whereas the deposit dates were November 4, January 5 and April 19, respectively.
- b) CR # 191555 in the amount of \$50 was included in the balance transmitted to the Treasury Department of \$47,275; however, the transmittal amount did not agree with the bank deposit amount of \$47,226.

Furthermore, we noted certain cash receipts issued at the Ebeye Finance Office (CR #s 18119 - 18125, dated September 23 and 18126 - 18139, dated September 27) for combined totals of \$762 and \$23,697, respectively, which were not deposited in the bank until September 30. We recommend that the Ministry of Finance ensure that cash receipts are deposited intact to the bank in a timely manner.

(9) Payroll Expenditures

Of one hundred and thirty nine payroll expenditures tested, we noted the following exceptions:

- a) For employee #s 2817, 2910, 3274, 11922, 15228, 16656, 23020, 25607, 26066, 47853, 62489, 69507, 76727, 85712, 86086, 86507, 89303, 89463, 89494, 89507, 89591, 95469, 95483, 200559, 202859 and 205777, authorized payroll allotment forms maintained in the employee personnel files were not complete. We recommend that the Payroll Department ensure all employee allotments are supported by allotment authorization forms.

(9) Payroll Expenditures, Continued

- b) For employee # 41521, the pay rate of \$14.90 for the payroll period ended September 4, 2004, was not supported by a Personnel Action Form (PAF). We recommend that the Payroll Department ensure all pay rates are supported by an authorized PAF.
- c) For payroll period ended June 11, 2004, the Washington Embassy incurred salaries and wages costs totaling \$9,354. We sub-selected one employee from this pay period with a gross salary of \$1,731; however, no PAF was made available to support the employee's hourly rate nor was a timesheet made available to support hours worked. We recommend that the Payroll Department ensure all pay rates are supported by an authorized PAF and hours worked are supported by approved timesheets.
- d) For payroll period ended January 9, 2004, the United Nations Embassy incurred salaries and wages costs totaling \$8,041. We sub-selected one employee from this pay period with a gross salary of \$981 and agreed hours worked to a supporting timesheet; however, no PAF was made available to support the employee's hourly rate. We recommend that the Payroll Department ensure all pay rates are supported by an authorized PAF.
- e) For payroll period ended November 29, 2003, we noted that out of 106 employees within the Department of Public Safety, 88 received Night Differential payments even though some of the employees do not work night shifts. We recommend that night differential payments only be made to employees who work night shifts.
- f) For employee #s 20490, 25229, 40203 and 215146, the actual pay rates were not in accordance with established pay rates per authorized PAFs. Specifically, the actual hourly rate for these employees was \$12.03, \$6.59, \$10.79 and \$3.27, respectively, whereas the authorized hourly rate per the PAF was \$12.26, \$6.87, \$9.21 and \$2.71, respectively. We recommend that the Payroll Department ensure all pay rates are in accordance with authorized PAFs.

(10) Credit Card Expenditures

We reviewed all expenditures incurred on the Bank of Hawaii (BOH) Credit Card for the year ended September 30, 2004 and noted the following exceptions:

- a) For check payment (check # 12522) made on March 26, 2004 for \$22,390, appropriate supporting documentation was not made available.
- b) For check payment (check # 18253) made on October 28, 2004 for \$4,394, a portion of the payment related to room charges for two government employees of \$445 and \$1,358. However, these government employees were previously advanced per diem on TA #s T01085 and T01088, which should have been used to pay for the room charges.

We recommend that the Ministry of Finance ensure that all payments pertaining to charges on the BOH Credit Card are evidenced by appropriate supporting documentation such as vendor invoices. Furthermore, we recommend that the Ministry of Finance obtain reimbursement from these government employees who were paid per diem that covered hotel accommodations.

(11) Travel Expenditures

Section 5.3 of RepMar's Travel Rules and Regulations states that a Minister or a member of the Nitijela can take their spouse on one trip per year at the Government's expense. During the year ended September 30, 2004, the travel expenditures for the Minister of Foreign Affairs included four trips (TA #s T0006001, T0081701, T0109601 and T0131601 to Honolulu, Taiwan, Palau, and New York, respectively) where RepMar paid for the accompanying spouse of the Minister. We recommend that RepMar comply with established policies and procedures regarding accompanying spouses of Ministers or members of the Nitijela.

(12) Per Diems

Of \$50,750 in per diem expenditures charged to Cost Center #s F33242 and F43242 during the year ended September 30, 2004, we noted the following per diem claimed that appeared to be incorrectly calculated:

<u>TA #</u>	<u>TA Amount</u>	<u>Days Claimed</u>	<u>Days Entitled</u>	<u>Per Diem Rate</u>	<u>Overpaid</u>
T0059601	\$ 3,724	15 ³ / ₄	14	\$ 150	\$ 262
T0082301	\$ 5,230	12 ³ / ₄	10 ¹ / ₂	\$ 150	\$ 338
T0082101	\$ 5,152	12 ¹ / ₂	10 ¹ / ₂	\$ 150	\$ 300
T0094201	\$ 4,404	17	16 ¹ / ₂	\$ 150	\$ 75
T0094301	\$ 3,708	18	16 ¹ / ₂	\$ 150	\$ 225
T0093601	\$ 4,404	17 ³ / ₄	16 ¹ / ₂	\$ 150	\$ 188

We recommend that the Ministry of Finance ensure per diem claims are correctly calculated and based on actual days traveled.

(13) Collectibility of Receivables

At September 30, 2004, RepMar recorded the following receivables in the General Fund for which an allowance for uncollectibles has been established due to the unlikelihood of collection:

<u>G/L Account</u>	<u>Account Name</u>	<u>Amount</u>
20200	A/R - Returned Checks	\$ 25,701
22005	A/R - General	\$ 33,419
22020	A/R - EFNEP	\$ 18,956
24020	A/R - Other	\$ 7,906
24040	A/R - Republic of Nauru	\$ 141,999
24080	A/R - Unicover	\$ 388,420
24090	A/R - 177 Health Plan	\$ 87,374
24100	A/R - Reimbursable Travel	\$ 149,286

We recommend that the Ministry of Finance pursue collection of these accounts or determine whether such should be written off. This matter was discussed in our previous letter dated April 2, 2004.

(14) Unclaimed Property

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 the 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, 2004, 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 enabling legislation. This matter was discussed in our previous letter dated April 2, 2004.

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We have previously communicated certain matters noted during our audit of the financial statements of RepMar for the year ended September 30, 2004, which we considered to be reportable conditions, in our report to His Excellency Kessai Note dated June 10, 2005.

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 LLP