

REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

PERIOD FROM INCEPTION (NOVEMBER 12, 2012)
THROUGH JUNE 10, 2014



AUDIT No.: OAG 23/13-9999

March 11, 2015

Date

P.O. BOX 245
MAJURO, MH 96960
REPUBLIC OF THE MARSHALL ISLANDS

REPUBLIC OF THE MARSHALL ISLANDS

44th PACIFIC ISLANDS FORUM FUNDS

Period from Inception (November 12, 2012) through June 10, 2014

TABLE OF CONTENTS

	Page No.
I. INDEPENDENT AUDITOR’S REPORTS	1
II. BASIC FINANCIAL STATEMENT	
Statement of Cash Receipts and Disbursements	3
Notes to Financial Statement	4
III. INDEPENDENT AUDITOR’S REPORT ON INTERNAL ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on conducting the Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i>	6
Schedule of Findings and Responses	8
Unresolved Prior Year Findings	33



REPUBLIC OF THE MARSHALL ISLANDS

Office of the Auditor-General

P.O. Box 245 ~ Majuro ~ Marshall Islands ~ 96960

Phone No. (692) 625-3390 ~ Fax No. (692) 625-5135 ~ Email Address: patrjun@ntamar.net

INDEPENDENT AUDITORS' REPORT

Minister of Foreign Affairs
Minister of Finance
Republic of the Marshall Islands

Report on the Financial Statements

We were engaged to audit the accompanying statement of cash receipts and disbursements of the Republic of the Marshall Islands (RepMar) 44th Pacific Islands Forum Fund (the "Forum Account") for the period from Inception (November 12, 2012) through June 10, 2014. This financial statement is the responsibility of the Forum Account's Taskforce Management Team.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Because of inadequacies in the Forum Account accounting records, we are unable to form an opinion regarding the completeness of revenues and the propriety of expenditures recorded in the accompanying statement of cash receipts and disbursements stated at \$2,100,818, and \$2,103,263, respectively.

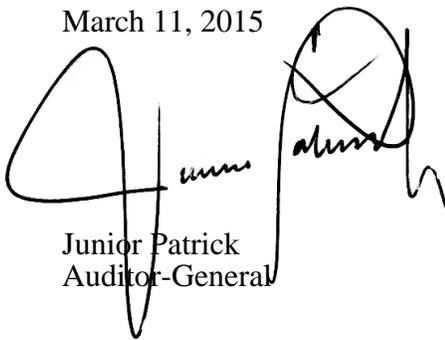
Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the accompanying statement of cash receipts and disbursements.

Emphasis of Matter- Reporting Entity

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the Forum Account and is not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America.

March 11, 2015



Junior Patrick
Auditor-General

REPUBLIC OF THE MARSHALL ISLANDS
44th PACIFIC ISLANDS FORUM

Statements of Cash Receipts and Disbursements
Inception to Close (November 12, 2012 through June 10, 2014)

Receipts:

Contributions:		
ROC Taiwan		\$ 407,530
RMI Government		324,997
Government of Australian		207,700
People's Republic of China		200,000
Government of Japan		179,175
Government of New Zealand		164,015
Government of India		162,833
Government of Russia		125,000
Government Turkey		100,000
Government of Kazakstan		99,786
Local businesses		65,400
Government of Dubai		59,940
Other		4,442
Total cash receipts		<u>2,100,818</u>

Operating expenses:

Contractual services		502,139
Vehicle		363,410
Equipment		246,163
Food		129,998
Repairs & maintenance		126,354
Per diem		120,228
Rental hotel/housing		97,077
Supplies		73,765
Fuel		72,296
Clean up and set up activities		70,606
Travel		55,397
Handicrafts		28,068
Capital improvements		26,831
Uniforms/materials		25,227
Entertainment		22,367
Insurance expense		13,585
Special contract workers		12,440
Auto rental expense		11,797
Vehicle repair & maintenance		5,611
Boat charter		1,850
Communications		1,215
Transfer out		1,016
Miscellaneous		95,823
Total disbursements		<u>2,103,263</u>
Net change in cash		<u>\$ (2,445)</u>

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Notes to Financial Statements
Period from Inception (November 12, 2012) through June 10, 2014

Nature of Operations and Summary of Significant Accounting Policies

The Republic of the Marshall Islands (RepMar) 44th Pacific Island Forum Fund (the Forum Account), was created by the RepMar Cabinet through C.M. 168 (2012). The objectives of the Forum Account were solely for the purpose of expediting the procurement of goods and services in preparation for the impending 44th Pacific Islands Forum and related meetings.

In November 2012, Cabinet approved and authorized the establishment of a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with C.M. 168 (2012). Accordingly, the accompanying financial statement relates solely to those accounting records maintained by the Forum Account and do not incorporate any accounts related to the Forum Account's operations that may be accounted for by RepMar's Treasury or any of RepMar's other branches, departmental units or component units.

The Forum Account is managed by a Taskforce and Management Team consisting of the Minister of Foreign Affairs, Management Team (Chief Secretary, MOFA Secretary, Finance Secretary, and Chief of Staff), Overall Coordinator, and Workstream Coordinators, and is governed by the President, MOFA Minister, Minister in Assistance, and Finance Minister.

Basis of Accounting

The Forum Account prepares its financial statement on the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying statement of cash receipts and disbursements is not intended to present the Forum Account's financial position and results of operations, in conformity with U.S. generally accepted accounting principles.

Contributions

The Forum Account operations were funded by contributions received from Forum member countries and affiliates, and contributions from local businesses. For the period from inception (November 12, 2012) through June 10, 2014, total contributions amounted to \$2,100,818.

The Government of Spain contributed a total of \$26,821 for the Forum activities, however, these funds were not received and recorded in the financial statements of the Forum Account, rather, they were recorded in the financial statements of the RMI Government for the fiscal year ended September 30, 2013.

Contingency

As of June 10, 2014, the Forum Account had unpaid invoices totaling \$93,238 to various vendors.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Notes to Financial Statements
Period from Inception (November 12, 2012) through June 10, 2014

Subsequent Event

In September 2013, the Government of Papua New Guinea, while here for the Forum meetings, pledged a total of \$1 million towards drought relief and Forum organizing needs. On September 8, 2014, the funds were received by the Government of the Marshall Islands totaling \$1,207,500 of which \$200,000 was for Forum organizing needs.



REPUBLIC OF THE MARSHALL ISLANDS

Office of the Auditor-General

P.O. Box 245 ~ Majuro ~ Marshall Islands ~ 96960

Phone No. (692) 625-3390 ~ Fax No. (692) 625-5135 ~ Email Address: patrijun@ntamar.net

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON CONDUCTING THE AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Minister of Foreign Affairs
Minister of Finance
Republic of the Marshall Islands

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Pacific Island Forum Fund (the Forum Account), which comprises the statement of cash receipts and disbursements for the period from inception (November 12, 2012) through June 10, 2014, and the related notes to the financial statement, and have issued our report thereon dated March 11, 2015. Our report included a disclaimer of opinion for the inadequacies in the Forum Account accounting records over the completeness of revenues and the propriety of expenditures.

Internal Control over Financial Reporting

In planning the audit of the financial statement, we considered the Forum Account's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Forum Account's internal control. Accordingly, we do not express an opinion on the effectiveness of the Forum Account's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses, or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in the internal control that we consider to be material weaknesses or significant deficiencies.

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 a 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* assurance is deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 1 through 14 to be material weaknesses.

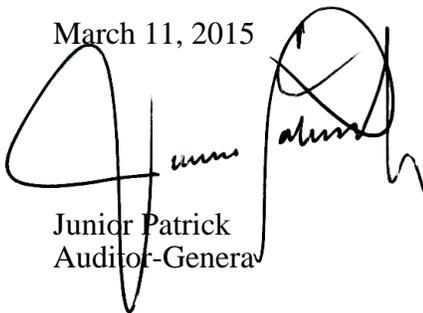
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Forum Account's financial statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses as items 2 and 14 through 17.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an engagement to audit conducted in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 11, 2015



Junior Patrick
Auditor-General

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses
 Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.1

Budget

Criteria: A budget is an itemized summary of likely income and expenses for a given period. It is an invaluable tool to help prioritize spending and manage resources. Planning and monitoring a budget will help identify wasteful expenditures, adapt quickly as financial situation changes, and achieve financial goals.

Condition: Our examination of the expenditures of the Forum Account indicated the following:

- Payment for hotel accommodation appeared excessive as reflected in the table below:

No. of Rooms	Description	Rate Per Price Quote Dated 5/20/2013	Current Rate Inquired as of 8/7/2014	No. of Days Occupied	Total Charged to Forum	Total Current Rate	Excess
3	Bungalows Suites	750	225	5	11,250	3,375	7,875
1	Lanai Suite	750	104	5	3,750	520	3,230
8	Standard Bungalows	350	135	5	14,000	5,400	8,600
3	Lanai Rooms	275	110	5	4,125	1,650	2,475
1	Economy Room	175	79	5	875	395	480
1	Boknake	500	200	6	3,000	1,200	1,800
		\$ 2,800	\$ 853	\$ 31	\$ 37,000	\$12,540	\$24,460

Total tax

8% \$ 2,960
\$ 39,960

(Note: Current Rate is based on the day we called the company to inquire of their rate if we were to rent on 8/7/2014)

Based on our examination of check no. 124 for \$20,000 on May 17, 2013, we noted that this was a 50% prepayment for the cost of accommodations with a certain hotel amounting to \$39,960. The remaining balance of \$19,960 was included in check no. 518 of \$30,553.56 on November 11, 2013. When comparing the daily rate charged to the Forum of \$750 to the government housing monthly rate of \$750, it appears that charges to the Forum Account were inflated.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 1, continued

Budget

- Payment for 100 cubic yard of gravel purchased to spread around ICC and Capital Building for beautification per Check no. 293 totaling \$7,400 also appeared excessive. Based on our examination, we did not note any signature on the “Requested by” line, which is supposed to be signed by the Budget Committee Chairperson. We noted signatures in the approved line by Minister in Assistance to the President and another one from Minister of Foreign Affairs. We inquired with one representative from the Majuro Atoll Laura Community whose name was on the invoice asking how the gravel was purchased. He informed us that they came in bags of rice. Based on this information, it appears that the invoice provided for payment was invalid as it had the same information that were obtained from a price quote from a certain local vendor selling gravel which quoted 100 CY of gravel for a total unit price of \$74 which came out to a total of \$7,400. This same information was noted in the invoice from the Majuro Atoll Laura Community. We inquired with the local vendor regarding their price quote and was informed that 100 cubic yard of gravel is equal to 8 truckloads which appears to be too excessive as one truckload would be just enough for the surrounding areas as indicated above. Additionally, when purchasing gravel from the local community, they usually sell \$1 per rice bag. \$500 for gravel would have been enough.
- Check no. 192 is for payment of sofa and drapes for the VIP Lounge at the airport. Based on our examination of the billing, we noted a charge for \$5,479.87 for drapes for 6 windows. This appears to be excessive as one set of drape costs about \$913 each.
- We examined check no. 141 for \$24,000 paid on June 19, 2013, check no 216 for \$20,000, paid on August 9, 2013 and check no. 518 for \$5,185.20 paid on November 22, 2013 noting total payments of \$49,185.20 for a one day retreat at Eneko. Based on our examination, it appears that the RMI government helped shoulder the cost of upgrading the island for use by the Forum. As the island belonged to one of the major companies on island and is in business in the hospitality industry, we expect that they should have make preparations on their own expense and RMI would only pay the cost of using the island for one day.
- At the close of the account on June 10, 2014, the Forum account had unpaid invoices totaling \$93,238 with only \$1,016 remaining cash balance.

Cause: The cause of the above condition is lack of an approved budget for all activities of the Forum.

Effect: The effect of the above condition is that the Forum paid for \$24,460 more than the normal price for accommodations. Additionally, due to lack of budget and planning, the Forum spent for costs that should have been shouldered by the service provider. Furthermore, the Forum Account owed \$93,238 even after the account was closed and these debts would have to be paid out of RepMar’s General Fund, which would be considered unauthorized and create additional burden to the already stressed out General Fund.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 1, continued

Budget

Recommendation: We recommend that the Government of RMI include a budget for all events that they plan to organize in order to manage resources effectively and prioritize spending.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. Controlling and verifying an established account outside the Ministry of Finance FMIS made it impossible without a submitted line-item budget spending.

Ministry of Foreign Affairs: While we agree that Budgets should be formulated at the start of any event/activity and that Budgets serve as invaluable tools to manage resources, we believe the conditions did not occur solely as a direct result of lack of approved budget.

Further we believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions regarding Budget formulation and approval prior to start of an event.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.2

Fixed Assets/Fixed Asset Register

Criteria: Fixed assets purchased with Forum funds should be recorded in a fixed assets register that contains the full description of the assets, their location, and the individual responsible for their custody. Identification tags should also be assigned for easier identification.

Section 11 of the Constitution of the Republic of the Marshall Islands states “that any instrument made by the Cabinet shall have effect, and any other decision of the Cabinet shall be duly authenticated, when that instrument or the record of that decision has been signed by the President, whether or not he was present at the meeting of the Cabinet at which the instrument or other decision was made, and by the Clerk of the Cabinet”. Accordingly, the distribution of fixed assets of the Forum should be done in accordance with proper procedures through a Cabinet Minute.

Section 5.1 of the grant agreement with the Government of Australia states that “the GoRMI will maintain a sound administrative and financial management system capable of verifying statements of acquittal. In addition, the GoRMI will keep proper detailed accounts and records and assets registers with adequate Activity management records providing clear audit trails in relation to expenditure of the GoA financial contributions”.

Condition: The Forum account purchased \$661,586.54 worth of fixed assets such as vehicles, computer & office equipment, equipment, tools, catering equipment, security equipment, and sound system equipment; however, these were not recorded in a fixed asset register. The Chief of Procurement and Supply tried to perform an inventory of these assets several months after the Forum; however, he could not locate many of these assets.

Vehicles purchased with Forum funds totaling \$362,485 were distributed to some government ministries and respective members of the community without an approved cabinet minute. The distribution list was signed by the Clerk of Cabinet on September 12, 2013. The distribution list indicated that three (3) vehicles were given to the Executive Branch, one (1) to the Legislative Branch, one (1) to the Judiciary Branch, three (3) to the Council of Iroij, one (1) to Majuro Mayor, one (1) to Nitijela Chaplain, one (1) White Van given to MOE (Special Education Program), one (1) to Protocol (Ebeye), One (1) to Laura School, and one (1) to Public Health Immunization Outreach Program.

Cause: The cause of the above condition is lack of management examination and monitoring of the accounting functions to require that proper records are kept and maintained to monitor and safeguard assets purchased with Forum funds.

Additionally, the distribution of the Forum vehicles was not carried out in accordance with proper procedures of the Cabinet through a signed Cabinet Minute.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 2, continued

Fixed Assets/Fixed Asset Register

Effect: The effect of the above condition is that other than vehicles, there are no records, as to the whereabouts of these fixed assets after the 44th PIF meeting is over and done with.

Additionally, the decision on distribution of the vehicles purchased with Forum funds was not authenticated and documented in accordance with procedures required by the Constitution.

Recommendation: We recommend that the fixed assets of the 44th Pacific Islands Forum be investigated, identified, and recorded in a fixed assets register that includes the description of the item, value, location and the person assigned to have custody of the asset. These assets should also be assigned government property tags for identification purposes. Additionally, we also recommend that for future events such as the 44th Pacific Islands Forum, that the RMI Government require that government properties be recorded in a fixed asset register.

Furthermore, major decision of the Cabinet should be documented as to its approval through a cabinet minute signed by the President and the Clerk of Cabinet.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. Since the RMI Procurement Office played no role in the procurement and registering of assets bought by the Forum account, the Ministry of Finance's mandate to perform an inventory of the Forum's fixed assets as basis for recording the Forum assets in the financial statement was not carried out.

Ministry of Foreign Affairs: As with finding #1, we believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include recognition of fixed of assets, maintaining fixed asset registry, and proper disposal of fixed assets.

Auditor's Response: We believe that adequate internal control measures with respect to accounting for fixed assets are in place, if they had been followed, the issue would have been avoided. We consider that it is the responsibility of the management to actively pursue our recommendation to ensure fixed assets purchased with Forum Fund are properly investigated, recorded and accounted for in accordance with RMI policy.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No. 3

Missing Supporting Documents

Criteria: A proper system of internal control requires that expenditure be supported by proper documentation.

Condition: Of one hundred expenditures selected for testing, supporting documents were not made available for scrutiny of the following payments:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>
268	\$179,200	Re-issue ck#242
291	4,820	50% pmt
358	4,000	Transfer out
473	3,348	Wut/handicrafts
504	5,922	9/25 stmt car rental
507	3,900	Catering
515	3,190	Handicrafts
584	6,666	Additional ck#295
593	6,908	Office supplies
593	3,715	Computer and office equipment
596	20,274	Services rendered/44th Forum
596	2,962	Waste services
596	<u>3,600</u>	Waste services
Total	\$ <u>248,505</u>	

Cause: The cause of the above condition is that established internal control procedures were ignored during this time that everyone was rushing to prepare for the meetings.

Effect: The effect of the above condition is that expenditures were unsupported and we are unable to determine their propriety.

Recommendation: We recommend that supporting documents are filed and maintained for audit purposes and to comply with donor requirements.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. All of MOF's supporting files are properly filed and maintained. Multiple filing locations of PIF documents made it difficult for MOF to properly file the supporting documents.

Ministry of Foreign Affairs: As with above findings, we believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for identifying, collecting, filing/maintaining, and retention policy of supporting documents.

**REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND**

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No. 3, continued

Missing Supporting Documents

Auditor's Response: We consider that it is the responsibility of the management to actively pursue our recommendation to ensure that supporting documentations and receipt for each expense is maintained on file.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No. 4

Bank Account Reconciliation

Criteria: Preparation of bank reconciliation helps in the identification of errors in the accounting records of the entity or the bank. As cash is the most vulnerable asset of an entity, monthly reconciliation provides the necessary control mechanism to help protect the valuable resources through uncovering irregularities such as unauthorized bank withdrawals.

Condition: During our examination, we noted that bank reconciliations were not performed on a regular basis. Additionally, bank reconciliation performed as of the closure of the account on June 10, 2014 indicated a total of \$29,356 as outstanding checks and \$5,800 as outstanding deposit dating back to April 29, 2013. Based on our examination, some of the checks were voided and some checks never cleared the bank as of the closure of the account. Audit adjustments were proposed to reverse these items back to cash. Additionally, there was no management examination of the bank reconciliation process by the Assistant Secretary Accounting-Admin or the Secretary of Finance.

Cause: The cause of the above condition is the lack of management oversight over the accounting functions to require that bank reconciliations be performed on a monthly basis and that management examination is also provided to require that the reconciliations are accurate.

Effect: The effect of the above condition is that errors or irregularities may have occurred and not be detected in a timely manner.

Recommendation: We recommend that management monitor the reconciliation of bank statements to require that errors and irregularities be detected in a timely manner so that they can be resolved timely. Additionally, we recommend that the bank reconciliations be examined by the Asst. Secretary Accounting-Admin and the Secretary of Finance.

Auditee's Response:

Ministry of Finance: We agree with the finding. It is the objective of the Accounting Department to finish each monthly bank-reconciliation. The Accounting Department strives to ensure all monthly bank reconciliations are examined by proper authority and be completed at the end of the following month.

Ministry of Foreign Affairs: As with above findings, we believe the underlying cause of condition in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for preparing and reviewing bank reconciliations.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.5

Meeting Minutes

Criteria: Minutes of meetings of the PIF Taskforce committee should be documented and maintained on file as documentation for decisions made and agreed by the committee.

Condition: Minutes of meetings of the Taskforce Committee were requested to the Ministry of Foreign Affairs; however, such were not provided for our examination.

Cause: The cause of the above condition is the lack of oversight by the Taskforce Committee to ensure minutes of meetings were documented and maintained for reference and for audit purposes.

Effect: The effect of the above condition is the lack of records of the important decisions that were approved by the governing body of the Forum account.

Recommendation: We recommend that minutes of meetings of the PIF Taskforce Committee be documented and maintained on file for future reference and for audit purposes.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation.

Ministry of Foreign Affairs: As with above findings, we believe the underlying cause of condition in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for minute taking. Just as importantly, guidelines should also address ad hoc committee structure; line Ministry and staff placed within the ad hoc committee structure, ensuring experienced staff with proven track record are placed appropriately.

Auditor's Response: Taking minutes is an essential part of every meeting. We consider that it is the responsibility of management to actively pursue and implement our recommendation.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No. 6

Unsupported Revenue

Criteria: Recorded revenues should be supported by proper documentation such as, solicitation letters, contribution letters from donors, followed by acknowledgement letter from the RMI Government.

Condition: Of the \$2,033,871 recorded, we were unable to ascertain the completeness of the contributions received from the following countries:

- A total of \$400,000 was recorded as contributions from the Government of ROC (Taiwan); however, the contribution letter provided for examination indicated that only \$200,000 was contributed. We inquired with one staff at the Ministry of Foreign Affairs about this issue and he asserted that ROC paid another \$200,000 after RMI requested for more funds. We also noted a total contribution recorded from ROC (Majuro Embassy) of \$7,530; however, no contribution letter was provided for examination that supports this amount.
- We were unable to verify that amounts recorded as contributions from the Government of Kazakhstan totaling \$99,785.70 were complete as solicitation letters were not made available for examination. Additionally, the contribution letter refers to a signed Memorandum of Understanding with the RMI government; however, the signed memorandum of understanding does not specify that the Government of Kazakhstan will contribute to the Forum events and how much.
- Contribution from New Zealand appears to be \$167,014.61; however, amount transferred to the Forum Account and recorded was \$164,014.61, a variance of \$3,000 is noted.
- For contribution received from the Government of Japan, we noted a solicitation letter; however, there was no contribution letter provided for examination from the Ministry of Foreign Affairs or the Ministry of Finance to validate the completeness of this contribution.
- The People's Republic of China (PRC) contributed a total of \$200,000; however, we were unable to verify the completeness of this contribution as there was no contribution letter from the donor.

Cause: The cause of the above condition is the lack of oversight by the Taskforce Committee to ensure that solicitation letters, contribution letters, and acknowledgement letters are maintained on file to support contributions received.

Effect: The effect of the above condition is inability to verify completeness of grants received. Additionally, the financial statements of the Forum account were disclaimed as we were unable to confirm that revenues and expenditures recorded were fairly stated.

Recommendation: We recommend that the Taskforce Committee provide oversight over the retention of supporting documents to ensure that recorded revenues are supported by proper documentation as indicated above.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No. 6, continued

Unsupported Revenue

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. The Cabinet-level decision to not coordinate the receipt of donors revenues for the Pacific Islands Forum (PIF) through the Ministry of Finance but rather through the Ministry of Foreign Affairs resulted in these receipts and transfers to the PIF bank account being poorly documented and independent internal verification by MOF difficult. It is the MOF's firm position not to decentralize such revenue recording functions and this policy will be reiterated in the future with implementing Ministries.

Ministry of Foreign Affairs: We propose that Ministry of Finance further review the processes related to revenue/grant collection to ensure all incoming funds for the government are captured, recorded, and reported. In this regard, laws, policies, guidelines (including that for ad hoc committee) should be developed to ensure proper recognition and completeness of revenue collected.

Auditor's Response: We acknowledge the comment by management. We consider that it is the responsibility of management, in particular, the Ministry of Finance, to actively pursue our recommendation to ensure all incoming revenues to the Government of the Marshall Islands are properly recorded and relevant supporting documentations are maintained on file for verification purposes.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 7

Unpaid Invoices

Criteria: Invoices billed should represent valid transactions undertaken on behalf of the Forum account.

Condition: As of the closure of the Forum account (June 10, 2014), we noted a list of unpaid invoices totaling \$93,238 that are claimed to be related to the activities. Of this amount, the following were noted:

- \$31,284.45 is not supported by invoices.
- Total charges billed by employees of a certain Ministry for working afterhours for preparation of the Forum were \$14,587.21; however, there is no timesheet and no worksheet showing how the total was derived.
- A statement totaling \$8,265 for hosting a dinner by a certain local government was unsupported.

Cause: The cause of the above condition is the lack of management examination to require that bills submitted for payment are valid and properly supported to represent actual transactions incurred by the Forum.

Effect: The effect of the above condition is that the Forum account is being held liable to pay for invoices that may be invalid.

Recommendation: We recommend that the management of the Forum Account examine all the unpaid invoices and require that only valid invoices are paid.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. The lack of Procurement and Supply Office's involvement in the PIF procurement process, one of which is to obtain invoices, led to invoices not being examined.

Ministry of Foreign Affairs: As with above findings, we believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for identifying, collecting, filing/maintaining, and retention policy of supporting documents.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 8

Postings to the General Ledger

Criteria: As the general ledger is the master set of accounts that summarize all the transactions of the Forum Account, postings to the general ledger should be properly supported and any adjustments should be done via approved journal vouchers.

Condition: During our examination, we were provided several trial balances and we noted that the numbers provided as of February 18, 2014 totaled \$338,075 while the numbers provided as the final numbers were to \$257,745, a difference of \$80,330. When we examined the general ledger details, we noted several checks that were recorded in the February 2014 general ledger that were removed from the final general ledger without any approved journal vouchers or journal entries.

Cause: The cause of the above condition is due to lack of management review on a regular basis to ensure that postings to the general ledger are proper and that adjustments are supported by approved journal vouchers.

Effect: The effect of the above condition is the susceptibility to manipulation of the general ledger.

Recommendation: We recommend for management to perform a regular review of the general ledger and to require that adjustments to the general ledger be supported by approved journal vouchers.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. MOF acknowledges the need to exercise better control over adjustments to the general ledger, supported by the approved journal vouchers.

Ministry of Foreign Affairs: As with above findings, we believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include financial provisions that address and include properly approved journal entries/vouchers to avoid manipulation of general journal.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 9

Transfers Out

Criteria: Transfer out usually represent transfer of funds from the general fund to other funds to cover shortfall.

Condition: During our examination of the expenditures of the Forum Account, we noted a total of \$159,323 recorded as transfers out. We examined the details noting that these transfers out represent payments made to dance groups, local governments, hotels, women's groups, and canoe building organization. These expenditures do not appear to be properly supported as amounts paid were not based on actual services provided but were based on estimates. An audit adjustment has been proposed to reclass these expenditures to their proper classification.

We also noted a payment to one government official to replenish a credit card in the amount of \$10,000 dated September 25, 2013. This disbursement was authorized by Cabinet Minute C.M. 159 (2013) dated September 25, 2013. This expenditure, we were informed, was related to another Forum meeting outside the country; therefore, does not appear to be related to the Forum activities that were held in Majuro. Additionally, invoices from the usage of this \$10,000 were not available for examination.

Cause: The cause of the above condition is the lack of management review requiring that expenditures be properly supported and recorded. Additionally, there is a lack of management oversight to ensure that that only expenditures related to preparation activities leading up to the 44th Pacific Islands Forum meeting be paid out of the Forum account.

Effect: The effect of the above condition is that the financial statements were materially misstated throughout the period from inception (November 12, 2012) to closure (June 10, 2014) of the account. Additionally, the \$10,000 paid above does not appear to comply with intent of the funds of the Forum account.

Recommendation: We recommend that management perform a periodic examination of the financial statements to require that expenditures be properly supported and recorded. Additionally, we recommend that the government of RMI only allow activities related to the 44th Pacific Islands Forum be paid out of the Forum account.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation.

Ministry of Foreign Affairs: Recommendation noted.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 10

Payments Based on Price Quotations

Criteria: A proper system of internal control requires that expenditure be supported by proper documentation.

Condition: Of one hundred expenditures selected for testing totaling \$1,803,012, the following payments totaling \$712,090 to various vendors were based on estimates and price quotes:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>
108	\$ 50,000	Renovations
109	31,413	Contractual services
114	25,000	Renovation
115	27,995	Forum vehicle
117	156,900	Supply & equipment
134	37,933	50% down payment
135	38,457	60% pmt for Quote#5/23/2013
142	19,229	30% pmt for Quote# 5/23/2013
157	60,000	Renovation
164	46,225	Est#639 Repeater & Antenna
167	12,327	3rd Payment for Ceiling Tiles
197	25,000	Clean-up activities
217	14,504	Reimbursement:Jobwa Dance group, local food catering
225	10,000	50% downpayment for 10 lights and materials
230	30,000	Renovation
266	21,000	Lomor fuel
270	18,376	50% downpayment for MIR reef stage
301	33,381	Final payment contractual services
500	10,000	Immigration office repair
504	5,922	9/25 stmt care rental
518	22,868	Accommodations/Food/Eneko Rental
518	5,185	Accommodations/Food/Eneko Rental
523	5,200	Final pmt/security camera
530	5,175	Airport sign
	<u>\$712,090</u>	

Additionally, check no. 266 for \$21,000 dated 8/19/2014 was for fueling of RMI Lomor to gather food from the outer islands for the Forum. Invoice from MEC was not signed as an indication that fuel was received and we did not note a bunkering slip on file.

Cause: The cause of the above condition is due to the fact that all financial transactions of the Forum Account were processed out of the Ministry of Foreign Affairs and not at the Ministry of Finance where personnel are more familiar with RepMar established internal control procedures.

Effect: The effect of the above condition is that expenditures were unsupported and we are unable to determine their propriety.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.10, continued

Payments Based on Price Quotations

Recommendation: We recommend that RepMar's established internal control procedures are followed when issuing checks so that all expenditures are supported by valid invoices indicating actual cost of goods and services.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. A stringent screening and verifying system is in place, however, the decentralization of the approval process was not carried out by Ministry of Finance.

Ministry of Foreign Affairs: At the time of disbursement, except for advance payment, supporting documents were required. However, over time, actual invoices may have been misplaced. Similar to finding #3 and #7 related to supporting documents, we believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that address proper supporting documents when it comes to advances and include provisions for identifying, collecting, filing/maintaining, and retention policy of supporting documents.

Auditor's Response: We believe that adequate internal control procedures have been instituted at the central government procurement. Thus, we consider that it is the responsibility of the management to ensure these procedures are followed and complied with.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.11

Lack of Monitoring of Disbursements

Criteria: Disbursements should be monitored so that double payments are not made to the same entity.

Condition: During our examination, we noted a total of \$30,000 paid to a local government to help with clean-up activities. On top of this, we also noted unpaid invoices to the same local government for cost of vehicle rental totaling \$1,865, and food and drinks charged at a local gas station totaling \$1,327 for employees that took part during the clean-up.

Cause: The cause of the above condition is the lack of monitoring of the payments to ensure that entities are not double paid.

Effect: The effect of the above condition is the possibility that the Forum may have overpaid the local government for clean-up activities.

Recommendation: We recommend that disbursements be monitored so that entities are not overpaid.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. The set up to have fewer individuals monitoring the PIF disbursement defeated MOF's internal procedures.

Ministry of Foreign Affairs: We believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for identifying, collecting, filing/maintaining, and retention policy of supporting documents.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.12

Evidence of Receipt of Good or Services

Criteria: Proper internal control over cash disbursements require that receiving reports be maintained for goods or services received. An alternative to this is the signature of the buyer on the invoices confirming receipt of the goods.

Condition: We did not note signature of a Forum representative indicating items were received on the following checks:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>
115	\$7,995	Forum vehicle
164	46,225	Est#639 repeater & antenna
504	5,922	9/25 Stmt car rental
518	22,868	Accomodations/Food/Eneko rental
518	5,185	Accomodations/Food/Eneko rental
524	9,442	Partial payment for sound system
530	<u>5,175</u>	Airport sign
	<u>\$102,812</u>	

Cause: The cause of the above condition is due to the fact that all the financial transactions of the Forum Account were processed at the Ministry of Foreign Affairs and there were different individuals receiving the goods and services who are not familiar with proper internal control procedures over the receipt of goods and services.

Effect: The effect of the above condition is that we are unable to determine if goods and services paid for were received.

Recommendation: We recommend that receiving reports or signature of the buyer be evidenced on the invoices to indicate that goods and services paid for have been received.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. One of the main internal control functions of the Procurement Office is to review reports and ensure signature of buyer is authenticated on the invoice when goods or services had been rendered.

Ministry of Foreign Affairs: We believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for proper receipt of goods and services.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.13

Unrecorded Revenue

Criteria: Contributions received specifically for the Forum should be recorded in the financial statements of the Forum account. Additionally, in-kind contributions received should also be accounted for.

Condition: During our examination, we noted a Savings account no. 0205-312351 which was opened on July 24, 2013 for purposes of receiving funds from the government of Spain for Forum activities. As of November 31, 2013, the balance of the account amounted to \$26,820.92. This account was not accounted for by the Forum account as of the closure of the account on June 10, 2014. Per discussion with the Accountant, this account is still open and will be used by the RMI General Fund to pay off outstanding debts of the Forum. Additionally, no solicitation letter, contribution letter and acknowledgement letter were available for examination related to these contributions.

Furthermore, in-kind contributions reported from ADB, World Bank, Hayashi, Harold Park, and France/New Caledonia, were not recorded in the financial statements of the Forum Account as of the closure of the account as of June 10, 2014.

Cause: The cause of the above condition is the lack of supervisory examination and coordination between the Ministry of Foreign Affairs and the Ministry of Finance to require that all revenues received are accounted for. Additionally, there is a lack of established policies and procedures requiring retention of documentation to support contributions received. Furthermore, there is also lack of policies and procedures over the recording of in-kind contributions.

Effect: The effect of the above condition is inability to verify completeness of grants received. Additionally, the financial statements of the Forum account were disclaimed as we were unable to confirm that revenues and expenditures recorded were fairly stated.

Recommendation: We recommend that there be coordination between the Ministry of Foreign Affairs and the Ministry of Finance to require that all revenues received are accounted for. Additionally, RepMar should establish policies and procedures requiring that proper documentation is retained to support recorded grant revenues. Furthermore, we recommend that RMI establish policies and procedures over the recording of in-kind contributions.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation.

Ministry of Foreign Affairs: We concur with recommendations in this finding noting that policies and procedures should also include identification of proper channel to receive incoming donor revenues.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.14

Contract Agreement

Criteria: Contracts should be legally binding and enforceable. RepMar's Government Liability Act 1980, Section 1003 states that:

- (1) All contracts with the Government or any agency of the Government shall be:
 - (a) in writing;
 - (b) in the name of the Government;
 - (c) made pursuant to an appropriation, if the contract entails an expenditure of public money;
 - (d) certified in writing by the Secretary of Finance or his designee that an appropriation has been made for the full amount of the contract liability and that funds are available;
 - (e) approved in writing as to form and execution by the Attorney-General or his designee: and
 - (f) executed by a contracting officer authorized to sign on behalf of the Government.

(2) Contracts which do not comply with Subsection (1) herein are void and unenforceable in law or equity, except that the Government has the right to recover any monies expended under such a contract.

Condition: During our examination, we noted a contract agreement between Majuro Resort, Inc and a third party vendor, on January 23, 2013 to provide project design and interior design and decoration, provide a list of supplies and equipment to be purchased, and renovation of the hotel. The amount of the contract is \$120,000 of which \$73,298 was paid and it was signed only by the former Minister of Foreign Affairs as the "Owner" and by a representative of third party vendor as the "Consultant". No signature of the Attorney General as to form, and no signature was also noted by the Secretary of Finance certifying appropriation and availability of fund.

Cause: The cause of the above condition is non-compliance with provisions of the Government Liability Act 1980.

Effect: The effect of the above condition is that the Forum paid a total of \$73,298 or 61% of the contract that appeared to be invalid.

Recommendation: We recommend that the RMI Government adhere to Government Liability Act 1980. We also recommend that the Cabinet perform examination of all contracts signed by each Minister to require that they comply with provisions of the Government Liability Act 1980 under government contracts.

Auditee's Response:

Ministry of Finance: While we agree with the finding and recommendation, it should also be noted that it is a standard practice at the Ministry of Finance to execute Contract or Memorandum of Agreements and have the executing Ministry, Attorney General, and Secretary of Finance all sign on such document.

**REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND**

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.14, continued

Contract Agreement

Ministry of Foreign Affairs: Recommendation noted.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 15

Non-compliance with RMI Procurement Code

Criteria: Procurement of goods and services should be in accordance with RepMar's Procurement Code, which states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively small and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price of rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Additionally, the grant agreement signed with the Government of Australia (GoA) states that the Government of the Republic of the Marshall Islands (GoRMI) will use its best endeavors to require that any procurement using GoA financial contributions:

- (a) Is undertaken in a manner that achieves value for money.
- (b) Promotes the use of resources in an efficient, effective and ethical manner.
- (c) Is undertaken in accordance with principles of the Australian Commonwealth Procurement Rules.

Condition: Of \$2,103,262 total expenditures of the Forum account, we tested 100 items totaling \$1,803,012. Based on our examination, payments related to these expenditures did not follow the competitive bidding requirement of the Procurement Code.

Our examination also disclosed that the Ministry of Finance was directed and authorized to execute necessary measures to put the Forum account and related financial tasks to proper closure; however, as of the date of this report, the Forum Account still had unpaid invoices totaling \$93,238.

Cause: The cause of the above condition is that Cabinet approved a temporary exemption of the three price quotations requirement for the PIF related purchases per C.M. 096 (2013) dated June 7, 2013.

Effect: The effect of the above condition is non-compliance with the RMI Procurement Code and the requirement of the grant agreement signed with the Government of Australia. Additionally, obligations of the Forum account in the amount of \$93,238 cannot be paid as the fund is exhausted.

Recommendation: We recommend that the government of the Republic of the Marshall Islands comply with provisions of the RMI Procurement Code. Specifically, we recommend that no exemption be approved exempting the government from small purchase procedures, thus ensuring that the government receives full benefit from all funds expended out of the Forum Account.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding No. 15, continued

Non-compliance with RMI Procurement Code

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation. The Ministry of Finance's Procurement and Supply Division already established a policy allied with the Procurement Code, however, with the decentralization of the PIF procurement system, the Office of the Procurement and Supply did not carry its mandate as stipulated in Section 115 of the Procurement Code.

Ministry of Foreign Affairs: We believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that include provisions for proper procurement of goods and services.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No. 16

Non-compliance

Criteria: Certain Grant agreements require that acquittal reports signed by the Secretary of Finance be provided 60 days after completion of the activities.

Condition: Acquittal reports that we examined for the Government of Australia were not signed.

Cause: The cause of the above condition is the lack of management oversight to ensure that copies of signed acquittal reports are maintained on file as evidence of compliance with grant requirements.

Effect: The effect of the above condition is non-compliance with grant requirements from the Government of Australia.

Recommendation: We recommend that signed copies of acquittal reports be maintained on file for audit scrutiny and for future reference.

Auditee's Response:

Ministry of Finance: We agree with the finding and recommendation.

Ministry of Foreign Affairs: We have unsigned copy of Australia in our files and have not been able to provide the signed copy by deadline.

Auditor's Response: We consider that it is the responsibility of the management to actively pursue our recommendation to ensure that all acquittal reports are maintained on files for verification purposes, and to indicate compliance with all grant requirements.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Schedule of Findings and Responses, Continued
Period from Inception (November 12, 2012) through June 10, 2014

Finding: No.17

Bank Account

Criteria: Article VIII, Section 1(2) of the Constitution of the Republic of the Marshall Islands states “that all revenues received by the Government of the Republic of the Marshall Islands shall be paid into an appropriate public fund or account established by this Constitution or by Act.” Section 3(2) states “that no moneys shall be withdrawn from any other public fund or account unless the issue of those moneys has been authorized by or pursuant to Act.”

Condition: No such Act was passed approving the opening of the Forum Bank account outside of the General Fund. We also noted another bank account, savings account no. 0205-312351 opened on 07/24/2013 for purposes of receiving funds from the Government of Spain for which no Act was passed.

Cause: The cause of the above condition appears to be circumventing the Constitution for convenience of the preparation activities for the Forum meetings.

Effect: The effect of the above condition is the potential breach of the Constitution which is the supreme law of the Republic of the Marshall Islands.

Recommendation: We recommend for management to comply with provisions of the Constitution, which is the Supreme Law of the Republic of the Marshall Islands. Furthermore, in the event a bank account is being established by Act, we recommend that adequate internal control be established over operation of that bank account.

Auditee’s Response:

Ministry of Finance: We agree with the finding and recommendation.

Ministry of Foreign Affairs: We believe the underlying cause of conditions in this finding point to the fact that GRMI does not have standard operating procedures or guidelines for ad hoc committees/task forces formed for specific activities/events (eg. 44th Pacific Islands Forum). Accordingly, we propose that Ministry of Finance develop standard operation procedures/guidelines that addresses opening bank accounts specific to meeting(s) and ensures compliance with provisions in Article VIII, Section 1(2) of the RMI Constitution.

REPUBLIC OF THE MARSHALL ISLANDS
44TH PACIFIC ISLANDS FORUM FUND

Unresolved Prior Year Findings

There are no unresolved audit findings as this audit engagement is the initial year of audit.

Prevent Fraud, Waste and Abuse in the collection and expenditure of all public funds

HOTLINE

Telephone Line (692) 625-1155

*[The Hotline is a telephone line available Monday through Sunday and you can call us anytime of the day.
Calls to this number are anonymous and non-traceable]*

You may also contact us by writing to:

Facsimile (Fax) (692) 625-1156

[Messages to our fax machine are also anonymous and non-traceable]

OR

Office of the Auditor-General

P.O. Box 245

Majuro, MH 96960

[If you do not want to reveal your identity, do not disclose a return address]

OR

Fill out the Complaint Form from our website www.rmioag.com