

May 10, 2007

CONFIDENTIAL

Mr. Glen Joseph
Director
Marshall Islands Marine Resources Authority

Dear Mr. Joseph:

In planning our audit of the financial statements of the Marshall Islands Marine Resources Authority (MIMRA) as of and for the year ended September 30, 2006, on which we have issued our report dated May 10, 2007, we developed the following recommendations concerning certain matters related to MIMRA's internal control. Our principal recommendations are summarized below:

(1) Compensated Absences

As of September 30, 2006, MIMRA does not have an established limit for sick leave accruals. We recommend that MIMRA establish a maximum limit for which sick leave hours can be accrued. This matter was discussed in our previous letters dated July 26, 2006, August 15, 2005, November 14, 2003, May 28, 2003, March 19, 2002 and December 19, 2001.

(2) Receivable from Affiliates

At September 30, 2006, MIMRA recorded an advance of \$423,288 due from the government of the Republic of the Marshall Islands (RepMar). This advance was authorized pursuant to RepMar Cabinet Minute C.M. 188(2000) and is supported by a promissory note which specifies terms and conditions of the advance. The promissory note stated that payment to MIMRA was due on September 20, 2001 and that 16% and 24% interest and penalty, respectively, shall apply if the loan remains unpaid at due date. As of February 7, 2007, MIMRA has not been reimbursed for this advance. Accordingly, \$423,288 has been recorded in the allowance for doubtful accounts. We recommend that MIMRA consider applying the \$423,288 to future transfers with RepMar. This matter was discussed in our previous letters dated July 26, 2006, August 15, 2005, November 14, 2003 and May 28, 2003.

(3) RMI Withholding Taxes

As of September 30, 2006, MIMRA recorded withholding taxes (A/c # 2112, totaling \$47,276) and related penalties and interest (A/c # 2017, totaling \$14,258) that have not been paid for over two years. We recommend that management ensure that withholding taxes owed are paid. This matter was discussed in our previous letters dated July 26, 2006 and August 15, 2005.

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(4) Capitalization Policy

MIMRA currently does not have a formal capitalization policy for improvements and equipment. We recommend that management establish a formal capitalization policy for the recording of capital assets. This matter was discussed in our previous letters dated July 26, 2006 and August 15, 2005.

(5) Lease Agreement

The lease agreement for land leased on Likiep Atoll expired on September 20, 2006 and the agreement has not been renewed. MIMRA continues to utilize and pay rent on the property. We recommend that management ensure that a renewed lease agreement on the property is executed.

(6) Expenditures

Of fifty expenditures tested, the following exceptions were noted:

- Check# 5435 was issued for payment of prior year expenses; however, it was recorded as an expenditure for the current year. We also noted that membership fees paid in advance for the period covering October to December 2006 were recorded as expenditures in the current year. Audit adjustments were proposed to correct these errors.
- Check# 5600 paid for airfares of certain MIMRA management and government officials to attend training. No ticket copies or travel vouchers were provided for review.
- Check# 5500 was issued as payment for supplies from a local vendor; however, the supporting invoice did not have the customer's name printed on it, although MIMRA's purchase order matches the items on the invoice.

We recommend that management ensure that expenditures are recorded in the correct accounting period. Additionally, we recommend that MIMRA follow its travel policies by recording travel advances from travelers and liquidating the advances upon completion of the trip as evidenced by filing travel vouchers and other required documents. Furthermore, we recommend that management ensure that expenditures are supported by complete invoices.

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We have also communicated one matter noted during our audit of the financial statements of MIMRA for the year ended September 30, 2006, which we considered to be a reportable condition in our report dated May 10, 2007.

This report is intended solely for the information and use of the Board of Directors and management 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 engagement. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

