

May 14, 2008

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, 2007, on which we have issued our report dated May 14, 2008, 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, 2007, MIMRA does not have an established limit for sick leave accruals. Although the payroll system limits the accrual to 1,000 hours, the personnel manual indicates that sick leave hours may be accrued indefinitely. We recommend that MIMRA establish a maximum limit for which sick leave hours can be accrued. This matter was discussed in our previous letters for the audits of fiscal years 2000 through 2006.

(2) Segregation of Duties and Cash Reconciliation

Due to the small size of the entity, it appears that certain incompatible functions are assigned to the same department or individuals. Cash receipts are handled by the accounting staff responsible for recording of accounts receivable and/or by the deputy chief of finance, who also records the receipts. Further, we noted that bank reconciliations are not subjected to independent review.

We recommend that management ensure that access to cash and responsibility for maintaining the accountability for such asset be assigned to personnel not responsible for accounting of cash. We also recommend that bank reconciliations be subject to independent review.

(3) Receivable from Affiliates

At September 30, 2007, MIMRA has a prior year 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 for the audits of fiscal years 2002 through 2006.

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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 for the audits of fiscal years 2004 through 2006.

(5) Lease Agreement

The lease agreement for land leased on Likiep Atoll and Maleolap Atoll expired on September 20, 2005 and June 20, 2006, respectively. However, the agreements have not been renewed and 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. This matter was discussed in our previous letter for the audit of fiscal year 2006.

(6) Payroll Master File Maintenance

Updates to payroll master files are performed by a single person without management oversight or review. We recommend that management establish policies and procedures governing changes in payroll master files and ensure that updates are documented and are approved by management.

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We have also communicated a certain matter noted during our audit of the financial statements of MIMRA for the year ended September 30, 2007, which we considered to be a significant deficiency in our report dated May 14, 2008.

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,

