

June 10, 2009

Mr. Glen Joseph  
Director  
Marshall Islands Marine Resources Authority

Dear Mr. Joseph:

In planning and performing our audit of the financial statements of the Marshall Islands Marine Resources Authority (MIMRA) as of and for the year ended September 30, 2008 (on which we have issued our report dated June 10, 2009), 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, we considered MIMRA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIMRA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MIMRA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MIMRA's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors and management, also dated June 10, 2009, on our consideration of MIMRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

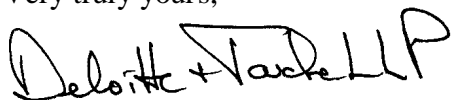
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MIMRA for their cooperation and assistance during the course of this engagement.

Very truly yours,



**SECTION I –DEFICIENCIES**

We identified, and have included below, deficiencies involving MIMRA’s internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

(1) Payroll Expenses

We noted no approval signature of the supervisor for a payment for overtime hours totaling 255.5 hours from January 2008 through July 2008 claimed by an employee on August 22, 2008 and paid through check#26449. Also, the overtime hours were not included in the bi-weekly timesheets for payroll processing for the periods claimed. Therefore, propriety of the claim cannot be determined. In addition, the rate used for the payment was \$7.80 while the rate per hour of employee is only \$5.25. Total amount paid to employee for overtime claim was \$1,992.

Based on the foregoing, we recommend that management establish internal control procedures to ensure that only approved overtime hours are approved and ensure that payment is based on employee rate per contract as per MIMRA’s policy.

(2) Payroll Expenses

Of twenty three (23) employee contracts examined, we noted seven (7) employee contract renewals during fiscal year 2008, were not signed only until a few months after the date of expiration of the old contract. During the time when there were no effective contracts for the employees, they continued to be paid based on the terms of the old contracts. However, we noted no written authorization for such to be allowed. We recommend that management ensure that timely contract renewal occurs and ensure that only employees who have valid or current contracts/personnel actions are actually paid. Further, two (2) signed employee contracts were not on file, one of which had a pay increase during the year.

(3) 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. This matter was discussed in our previous letter for the audit of fiscal year 2007.

(4) 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. This matter was discussed in our previous letter for the audit of fiscal year 2007.

## SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

### (1) Compensated Absences

As of September 30, 2008, 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 management 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 2007.

### (2) 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 management 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 2007.

### (3) 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 2007.

### 4) Lease Agreement

The lease agreement for land leased on Likiep Atoll and Ailinglaplap Atoll expired on September 20, 2005 and August 13, 2008, 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 years 2006 and 2007.

## SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

MIMRA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.