

July 19, 2011

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, 2010 (on which we have issued our report dated August 10, 2010), 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 19, 2011, 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.

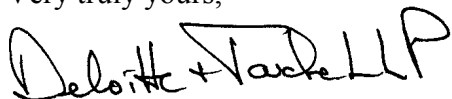
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2010 that we wish to bring to your attention:

### (1) Fixed Assets

The Company's fixed asset schedule does not reconcile to the general ledger. We recommend that periodic reconciliation occur.

### (2) Fishing License Receipt and Grant Notice Filing

Receipt tests revealed that remittance advices from customers for license fees collected and grant notices are not maintained on file. We recommend that copies of remittance advices from customers and grantors be obtained and filed to support recorded receipts. In addition, agreements or grant advices shall be maintained to support grant terms and conditions to document compliance and to support the basis of revenue recognition.

### (3) Segregation of Duties

Due to the size of the entity, it appears that certain incompatible functions are assigned the same department or individuals. Cash receipts are handled by accounting staff responsible for recording accounts receivable and/or by the deputy chief of finance, who also records receipts. This lack of segregation of duties may allow irregularities to go undetected. We recommend that management take reasonable steps to limit access to cash and responsibility for maintaining the accountability for such asset is assigned to personnel not responsible for other cash functions. This matter was discussed in our previous audit letters.

### (4) Closing of Books and Opening Fund Balance Reconciliation

The preliminary opening fund balance was not reconciled to prior year audited accounts. Prior year adjustments were not recorded which further resulted in misstatements of preliminary balance sheet accounts. We recommend that appropriate financial closing and reconciliation procedures, including recordation of proposed audit adjustments, be implemented.

## 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, 2010, MIMRA has not established a 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 2009.

(2) Receivable from Affiliates

At September 30, 2010, 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. MIMRA has not been reimbursed for this advance and \$423,288 has been recorded in the allowance for doubtful accounts. We recommend that management consider applying the \$423,288 to future transfers to RepMar. This matter was discussed in our previous letters for the audits of fiscal years 2002 through 2009.

(3) Capitalization Policy

MIMRA 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 2009.

(4) Lease Agreement

Lease agreements for land on Likiep Atoll, Ailinglaplap Atoll and Jabonbok Weto, and Aur Atoll expired on September 20, 2005, August 13, 2008 and May 1, 2010, respectively. MIMRA continues to utilize and pay rent based on addendums to the agreements which remain unsigned. We recommend that management take reasonable steps requiring that duly signed and approved lease agreements by contracting parties be obtained. This matter was discussed in our previous letter for the audit of fiscal years 2006 through 2009.

(5) RMI Withholding Tax

MIMRA incurred penalties for late filing of taxes withheld for the period ending May 2010. We recommend that timely remittance of taxes withheld to regulatory authorities occur.

(6) Minutes of Board Meetings

During the audit, minutes of meeting number 01/10 could not be provided. We recommend proper filing of significant documents to provide reliable information for Company's transactions and management decisions.

**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.