

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED UPON THE AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited the financial statements of the Marshall Islands Marine Resources Authority (MIMRA) as of and for the year ended September 30, 2003 and have issued our report thereon dated November 14, 2003. We conducted our 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.

Compliance

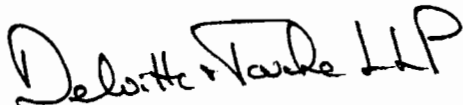
As part of obtaining reasonable assurance about whether MIMRA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIMRA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MIMRA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 9) as items 2003-1 through 2003-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above isw a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MIMRA in a separate letter dated November 14, 2003.

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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 14, 2003

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-1

Criteria: The "Vessel Services & Fees Checklist" (the Checklist) serves as the basis for service revenue recognition. The Checklist should be pre-numbered and filed in numerical sequence.

Condition: The Checklist, prepared by MIMRA's operation department and forwarded to accounting department, is not pre-numbered.

Cause: The cause of the above condition is the lack of policies and procedures requiring pre-numbered Checklists.

Effect: The effect of the above condition is the possibility of unrecorded revenue.

Recommendation: We recommend that MIMRA establish policies and procedures requiring pre-numbered Checklists that are filed in numerical sequence.

Auditee Response and Corrective Action Plan: As of the date the auditor found out about the problem, the operation department has been instructed by the Director to correct the problem. Accounting makes it a point to prepare invoice on a checklist with complete data only to ensure that all checklist that is submitted to Accounting has been monitored and pre-numbered as required.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2003

Receipts/Disbursements

Finding No. 2003-2

Criteria: Revenues should be recorded when earned. Expenses should be recorded at the time liabilities are incurred.

Condition: MIMRA recorded revenues of \$110,000 relating to penalties charged to a fishing company by the Jaluit Atoll Local Government. Although MIMRA acted as a collection agency for the local government, the penalties are actually revenues of the local government. An audit adjustment was proposed to record the \$110,000 as a payable to the local government.

In addition, MIMRA recorded revenues and expenses related to observer fees collected of \$80,585. As the observers are not employees of MIMRA these amount should have been recorded as payable to observers. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the overstatement of revenues and expenses.

Recommendation: We recommend that management ensure that revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Auditee Response and Corrective Action Plan: As of fiscal year 2004, corrections will be applied if the same incident occurs. There are instances of revenues and expenses recorded on a cash basis, however MIMRA is on the accrual basis of accounting.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2003

Purchases/Disbursements

Finding No. 2003-3

Criteria: Improvements and equipment should be insured.

Condition: MIMRA's fire/lightning/typhoon/flood insurance over its improvements and equipment amounted \$300,000. The net book value of these assets in excess of applicable insurance coverage as of September 30, 2003 is \$181,309.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of losses in the event of catastrophe.

Recommendation: We recommend that management consider obtaining additional insurance.

Auditee Response and Corrective Action Plan: During our first coverage we only had \$300,000 in net assets, thus the coverage amount. By fiscal year 2004, we will increase the coverage to cover net assets.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2003

Payroll

Finding No. 2003-4

Criteria: Hours paid should be supported by timecards. Voluntary employee allotment deductions should be supported by allotment authorizations signed by the employee.

Condition: Of twenty-five payroll disbursements tested, the following exceptions were noted:

- Gross pay for one disbursement (check # 8062) was calculated based on the employee's entire salary rather than 95% of the salary as required by the employee's employment contract (remaining 5% to be paid out as a year-end bonus based on performance).
- Three disbursements (check #s 6572, 6729 and 8301) were for vacation/sick leave; however, there was no leave form to support authorization.
- Certain employee allotment authorizations for five disbursements (check #s 6329, 6572, 7665, 7818 and 8301) were not made available to support voluntary allotment deductions.
- An enrollment form for group life insurance for one disbursement (check #7141) was not made available to support the deduction.
- Gross pay for one disbursement (check # 7955) was calculated based on 80 hours, while actual hours worked per the timecard was 77.50.

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of payroll and the maintenance of payroll related documents.

Effect: The effect of the above condition is the possibility that payroll expenses were misstated and that allotments may be unauthorized.

Recommendation: We recommend that management establish policies and procedures to ensure that accurate payroll information is processed and maintained.

Prior Year Status: Lack of established policies and procedures over the recording of payroll and the maintenance of payroll related documents was reported as a finding in the audits of MIMRA for fiscal years 2000 through 2002.

Auditee Response and Corrective Action Plan:

- The above check # 8062 was paid at gross based on working hours in FY2003, and adjustment have not been effected but in FY2004 an adjustment will be made to the hourly rate to conform with the employment contract.
- The finding regarding check #s 6572, 6729 and 8301 for unsupported vacation/sick leave has been corrected. Forms were submitted but were lost and not filed.
- Voluntary allotment forms are always required before deductions are made. These are old allotment forms that were not filed in the employees' file.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2003

Finding No. 2003-4, Continued

Auditee Response and Corrective Action Plan, Continued:

- The group life insurance enrollment form is also an old one. The form is required before allotment deductions are made, and was also not filed.
- A review was performed for all payrolls for the payroll period involving check # 7955 and an adjustment from upcoming payroll will be made to correct the overpayment. The accountant was attending training when the payroll was prepared.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2003

Receivables

Finding No. 2003-5

Criteria: The aged accounts receivable subsidiary ledger should be monitored and used in credit control.

Condition: At September 30, 2003, the aged accounts receivable subsidiary ledger, excluding the receivable from RepMar of \$423,288 and undeposited collections of \$20,922, indicated that customer accounts with balances greater than ninety days represented approximately sixty-six percent of the total balance.

Cause: The cause of the above condition is the lack of established policies and procedures requiring past due customers to be followed-up in a timely manner.

Effect: The effect of the above condition is an increase in the allowance for doubtful accounts.

Recommendation: We recommend that management establish policies and procedures to ensure the review and monitoring of overdue accounts. Furthermore, we recommend that overdue accounts be forwarded to an attorney for collection.

Prior Year Status: Lack of established policies and procedures requiring past due customers to be followed-up in a timely manner was reported as a finding in the audits of MIMRA for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: Monitoring and reconciliation were made on the accounts receivable, the problem is submission of liquidation for travel advance is very slow, but deduction on those unliquidated advances are made. A listing of over-aged accounts will be submitted to the Board of Directors for their decision to write-off the receivable.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2003

Payables

Finding No. 2003-6

Criteria: Payroll-related liability accounts should be reconciled on a monthly basis and in a timely manner.

Condition: At September 30, 2003, MIMRA recorded the following unreconciled payroll-related liability accounts:

<u>G/L</u> <u>Account #</u>	<u>Account Name</u>	<u>General</u> <u>Ledger</u> <u>Balance</u>	<u>Payable</u> <u>Balance</u>	<u>Variance</u>
2116	Accrued Payroll	\$ 34,180	\$ 41,023	\$ (6,843)
2117	Accrued Vacation Leave	<u>51,694</u>	<u>40,177</u>	<u>11,517</u>
		<u>\$ 85,874</u>	<u>\$ 81,200</u>	<u>\$ 4,674</u>

The above condition was resolved through alternative auditing procedures and proposed passed adjustments.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the reconciliation of payroll-related liability accounts.

Effect: The effect of the above condition is the overstatement of payroll-related liability balances.

Recommendation: We recommend that management establish policies and procedures requiring the monthly reconciliation of payroll-related liability accounts.

Prior Year Status: Lack of established policies and procedures requiring the reconciliation of payroll-related liability accounts was reported as a finding in the audits of MIMRA for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: For Fiscal Year 2004, we would like to do the reconciliation of the payroll related liability on a monthly basis, which will be performed by the person concerned.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Unresolved Prior Year Comments
Year Ended September 30, 2003

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 9).