

May 2, 2011

Mr. Heran Bellu
Postmaster General
Marshall Islands Postal Service Authority
Post Office
Majuro, Marshall Islands 96960

Dear Mr. Bellu:

In planning and performing our audit of the financial statements of the Marshall Islands Postal Service Authority (the Authority) as of and for the year ended September 30, 2009, on which we have issued our report dated May 2, 2011, 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 the Authority'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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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, other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated May 2, 2011, on our consideration of the Authority'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.

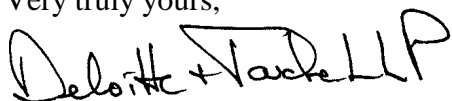
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Authority’s internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

1) Prepaid Insurance

During the year ended September 30, 2009, the Authority paid insurance premiums on various policies in the aggregate amount of \$5,676. Of this amount, \$4,406 related to costs applicable to future accounting periods. Accordingly, we proposed an audit adjustment to reflect this as a prepaid expense. We recommend that the Authority ensure that all expenses recorded represent costs applicable to the corresponding accounting period.

2) Accrued Liabilities

The Authority utilizes the accrual basis of accounting, which requires that expenses be recorded at the time liabilities are incurred. As at September 30, 2009, we noted that fiscal year 2009 expenses for payroll related accruals and lease rental obligations were not recorded. Specifically, payroll expense of \$12,238 for the pay period ending September 26, 2009 was not recorded. Furthermore, accrued annual leave of \$23,814 was not recorded, which included a liability of \$19,991 transferred to the Authority from the Ministry of Finance at the beginning of the fiscal year. Finally, lease rental obligations pertaining to the Ebeye Post Office of \$14,729, which represent lease rental expense for fiscal year 2009, were not recorded. Accordingly, we proposed audit adjustments to record these amounts. We recommend that the Authority record all expenses at the time liabilities are incurred.

3) Established Pay Rates

The Authority has established a pay scale policy wherein employees of the Authority will be remunerated based on predetermined pay rates. During the year ended September 30, 2009, we noted the following employees were being paid based on pay rates other than those formally established through the pay scale policy:

<u>Employee #</u>	<u>Position</u>	<u>Current Hourly Rate</u>
04-059768	Ramp Clerk	\$ 4.14
04-060600	Postmaster	\$ 13.75
04-047126	Postal Window Clerk	\$ 3.85
04-023752	Postal Window Clerk	\$ 3.85
04-202101	Accountant	\$ 10.06
04-009057	Postmaster	\$ 12.98
04-062485	Postmaster	\$ 7.81

It is our understanding that the current hourly rates for the abovementioned employees were based on previously authorized Personnel Action Forms within the Ministry of Finance prior to the transfer of these employees to the Authority. Accordingly, we recommend the Authority update the established pay scale policy to incorporate current hourly rates paid to employees.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

4) Stamp Purchases

During the year ended September 30, 2009, the Authority received \$3,941 of stamps from Unicover World Trade Corporation, which were paid for by the Ministry of Finance. These purchases were not recorded by the Authority. Accordingly, we proposed an audit adjustment to record stamp purchases with a corresponding contribution from RepMar. We recommend that the Authority ensure that all relevant expenses associated with stamp sales are recorded.

5) Procurement

Section 106(2) of the RMI Procurement Code (Act) 1988 requires that the expenditure of all public funds, irrespective of their source, be subjected to procurement requirements embodied within the Act. During the year ended September 30, 2009, procurement requirements promulgated by the Act were not formally adopted by the Authority. We recommend the Authority establish procurement policies and procedures to demonstrate compliance with the RMI Procurement Code.

SECTION II – 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

The Authority'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.