

June 17, 2020

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, 2019 (on which we have issued our report dated June 17, 2020), 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 17, 2020, 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.

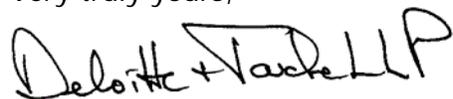
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2019 that we wish to bring to your attention:

1. Unsigned Lease Agreements

Three leases were unsigned by all involved parties. We recommend management maintain copies of signed leases to minimize opportunities for disputes.

2. Aging of Receivables

The receivable aging schedule contains negative balances. The accounting system does not match collections with original bills, thereby distorting the aging schedule. We recommend management implement a procedure to review and modify the aging schedule to properly reflect aged receivables.

3. Fish Markets Financial Reporting

MIMRA operates fish markets that earn revenue from fish sales. As of September 30, 2019, cash in bank of \$92,191 was unrecorded pertaining to these fish markets. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management formalize its procedures in requiring that fish market transactions be accurately identified and recorded.

4. Sale of Assets to Employees and Related Parties

During the year ended September 30, 2019, a MIMRA vehicle was sold for \$1,000 to a related party. Competitive bidding did not occur to support the fair value of the selling price. We recommend management establish internal control policies and procedures over the sale of assets to employees and related parties.

5. Long Outstanding Checks

During the year ended September 30, 2019, a \$251 adjustment (JV# 291) to miscellaneous revenue for a long outstanding check was recorded. We recommend management establish internal control policies and procedures over timely disposition and reversal of long outstanding checks.

6. Liabilities

As of September 30, 2019, the following observations were noted that understated MIMRA's liabilities.

1. \$25,825 of customer receivables with credit balances were cleared and recorded in miscellaneous revenues (JV#s 19-022, 276 and 278)
2. \$22,644 of long outstanding payables were reversed and recorded in miscellaneous revenues (JV# 19-299)
3. \$1,667 of long outstanding payables to observers were reversed and recorded in miscellaneous revenues (JV # 19-300)

As these amounts were not considered material to the financial statements, no audit adjustments were proposed. We recommend management increase efforts to resolve long outstanding payables, match receivables with collections, and record liabilities for over collections.

SECTION I - DEFICIENCIES, CONTINUED

7. Observer Revenues and Expenses

At September 30, 2019, we noted unrecorded observer revenues and expenses of \$21,533 and \$35,284, respectively, for observer trips that occurred close to year end. As these amounts were not considered material to the financial statements, no audit adjustments were proposed. We recommend management establish internal control policies and procedures over the recording of observer revenues and expenses for observer trips arriving after cutoff but occurring within the fiscal year.

8. Timely Recording of Expenses

During the year ended September 30, 2019, the following expenses were not recorded:

1. Donation of \$66,000
2. Equipment rental of \$38,250
3. Lease of \$10,400
4. Travel of \$2,823

Audit adjustments were proposed to correct these matters. We recommend management establish internal control policies and procedures over the accuracy and timely recording of expenses.

9. Payroll and Other Benefits

During the year ended September 30, 2019, we noted the following exceptions:

1. A \$346 payroll item (check #66708) was not evidenced by an approved timesheet supporting the charged hours
2. The reversal of an employee advance (JV # 19-284) resulted in a \$56 overstatement of salaries due to an erroneous calculation
3. A \$1,500 employee benefit representing a cell phone purchase (check #70860) for a Board member was not supported by adequate documentation to evidence compliance with the procurement process, and was not evidenced by approval of the Board of Directors (BOD) supporting this benefit.

We recommend time charges be supported by approved timesheets and that internal control policies and procedures be improved over the review of salary calculations. Furthermore, we recommend incentives and other benefits, other than normal salary, be supported by a BOD resolution and be documented in the minutes of such meetings.

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. MIMRA Observers Program

Individual observers employed by the MIMRA Observers Program are not supported by formal contracts. Currently, MIMRA does not withhold income tax from these observers but withholds applicable MISSA taxes. We recommend management formalize terms and conditions of individuals employed by the MIMRA Observers Program.

SECTION II - OTHER MATTERS, CONTINUED

2. Local Noncompliance

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by Repmar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.
- (d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.

Consultancy services of \$61,752 was not supported by adequate documentation to evidence compliance with the procurement process set forth above. We recommend management establish internal control policies and procedures requiring compliance with RepMar's Procurement Code.

3. Retirement Savings Plan

Taxes are not currently withheld on MIMRA's matching of employee contributions to the retirement plan. We recommend management require that applicable taxes be withheld on employer matching of retirement plan contributions and be remitted to taxing authorities.

4. Board Sitting Fees

During the year ended September 30, 2019, MIMRA paid sitting fees of \$12,200 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MIMRA. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

5. Purchase of Assets

In October 2019, MIMRA purchased certain assets for \$500,000 from Aquaculture Technologies of the Marshall Islands. The purchase price was based on a valuation through the assistance of RepMar's Ministry of Public Works, Infrastructure and Utilities (PWIU); however, we determined that PWIU has limited capacity and skills to perform asset valuations. We recommend MIMRA require asset valuations be performed by qualified individuals or entities with necessary skills and credentials to do such specialized work.

SECTION III - DEFINITIONS

The definition of a deficiency 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.