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July 29, 2015

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, 2014 (on which we have issued our report dated July 29, 2015), 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, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 29, 2015, 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,

Deloitte & Touche LLP

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving MIMRA's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1. <u>Revenues</u>

   a) Invoice # T2007671 was the last invoice used as of September 30, 2014. However, Invoice #s T2007671a, T2007672b, and T2007673c were issued on December 31, 2013.
   b) A settlement agreement between MIMRA and another entity for fishing violation fines of $125,000 could not be provided.

   We recommend that management implement controls over sequential numbering of invoices to document that all customer billings are recorded. Also, management should maintain all contracts and agreements to minimize opportunities for future disputes.

2. <u>Unsigned/Missing Lease Agreements</u>

   Lease agreements for five counter parties were either unsigned, were not renewed or were missing.

   We recommend that management maintain copies of signed lease contracts to minimize opportunities for disputes.

3) <u>Receivables</u>

   Vessel Day Scheme (VDS) revenues collected by the Parties to the Nauru Agreement (PNA) Office on behalf of MIMRA were understated by $184,251, which pertains to a 7.5% administrative fee levied by the PNA Office. An audit adjustment was proposed to record VDS revenues and related receivable due from PNA Office. In addition, no formal agreement between MIMRA and the PNA Office was available to support the 7.5% administrative fee.

   We recommend that management implement controls over the recording of VDS revenues, including administrative fees. Furthermore, we recommend MIMRA formalize the 7.5% administrative fee levied by the PNA Office through a memorandum of understanding.

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. <u>MIMRA Observers Program</u>

   Individual observers employed under the MIMRA Observers Program do not have formal contracts with MIMRA detailing terms and conditions of employment, including compensation and the responsibility for withholding of taxes. Currently, MIMRA is withholding 3% payroll tax and 21% social security tax. In addition, filing of income taxes withheld was made only until the 3rd quarter of FY14 and none so far thereafter.

   We recommend that MIMRA formalize terms and conditions of individuals employed under the MIMRA Observers Program through signed contracts.

SECTION II — OTHER MATTERS, CONTINUED

2. Advances

   During the year ended September 30, 2014, MIMRA advanced $100,000 to the Office of Commerce and Investment (OCI), of which $50,000 remained unreimbursed at year end. In addition, MIMRA advanced $100,000 to Tobolar Copra Processing Authority in 2013, of which $75,000 remained unreimbursed at year end. The nature of these advances do not appear to meet the criteria for payments made from the MIMRA Fund as outlined in Section 124 of the Marshall Islands Marine Resources Act of 1997.

   We recommend that management require that payments out of the MIMRA Fund meet the criteria outlined in Section 124 of the Marshall Islands Marine Resources Act of 1997.

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.