

September 30, 2022

Mr. Francis Carlos Domnick
Chief Executive Officer
Republic of the Marshall Islands
Office of Commerce, Investment and Tourism

Dear Mr. Domnick:

In planning and performing our audit of the financial statements of the Republic of the Marshall Islands Office of Commerce, Investment and Tourism (OCIT) as of and for the year ended September 30, 2021 (on which we have issued our report dated September 30, 2022), and which report includes an emphasis-of-matter paragraph concerning the impact of COVID-19, 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 OCIT'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 OCIT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCIT'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 OCIT's internal control over financial reporting and other matters related to OCIT's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 30, 2022 on our consideration of OCIT'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.

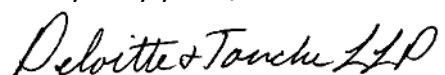
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 OCIT 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 OCIT's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

1. Capital Assets

Recorded capital assets should be supported by an underlying Fixed Asset Register (FAR) reconciled to the general ledger. Furthermore, capital assets are required to be depreciated over their estimated useful lives. As of September 30, 2021, an FAR reconciled to the general ledger was not provided for audit in a timely manner. OCIT does not have established policies and procedures requiring the maintenance and reconciliation of a capital asset register and the determination of a capital asset's estimated useful life. We recommend management establish internal control policies and procedures governing the capitalization, maintenance and depreciation of capital assets and the timely preparation of FAR reports.

2. Lease Agreement

A lease for OCIT's occupation of office space within the Ministry of Natural Resources and Commerce building has not been executed. We recommend management formalize the occupation of the office space by a formal agreement with the Ministry of Natural Resources and Commerce outlining the terms and conditions under which OCIT occupies such space. This matter was discussed in our previous audit for fiscal year 2020.

3. Receivables

Receivables of \$6,556, representing 46% of total trade receivables, were deemed uncollectible as of September 30, 2021 and such were fully provided for and included within the allowance for uncollectible accounts of \$12,556. The uncorrected \$6,000 overstatement of the allowance was not material to the financial statements. We recommend management perform regular assessments of the collectability of accounts receivable. Furthermore, we recommend management establish a written policy governing receivable collections and write-offs.

4. Bank Reconciliations

The September 2021 bank reconciliation included unidentified additive items of \$2,807 that were not timely investigated resulting in a potential overstatement of cash balances. No audit adjustment was proposed as the amount was not considered material to the financial statements. We recommend management establish internal control policies and procedures requiring the timely investigation of unidentified bank reconciliation variances.

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. Enabling Legislation

Section 622 of the OCIT Act stipulates the purpose and nature of OCIT expenses. During the year ended September 30, 2021, we noted the following expenses which do not appear to comply with the OCIT Act:

- a. Christmas party expenses of \$1,477 for the purchase of alcoholic beverages.
- b. Promotional expenses of \$1,809 purchased by OCIT's credit card that were not supported by underlying vendor invoices, receipts, etc.

We recommend management establish internal control policies and procedures requiring OCIT expenses be in compliance with the OCIT Act.

SECTION II - OTHER MATTERS, CONTINUED

2. Board Sitting Fees

During the year ended September 30, 2021, OCIT paid sitting fees of \$7,500 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by OCIT. 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. This matter was discussed in our previous audit for fiscal year 2020.

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

OCIT'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.