

*Management Letter*

**Marshall Islands Marine Resources Authority**  
(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2023*



January 3, 2025

Management and the Board of Directors  
Marshall Islands Marine Resources Authority

In planning and performing our audit of the financial statements of the business-type activities of Marshall Islands Marine Resources Authority (MIMRA) as of and for the year ended September 30, 2023, 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 its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MIMRA's internal control. Accordingly, we do not express an opinion on the effectiveness of MIMRA's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

### **Trade Receivables**

**Condition:** During the review of accounts receivable, it was noted that a significant portion of receivables have been outstanding for an extended period. This situation may indicate weaknesses in the collection process, or the credit evaluation procedures applied to customers. Long-outstanding receivables can adversely impact MIMRA's cash flow and increase the risk of bad debt write-offs. Of six accounts receivable items tested, two items totaling \$302,500 and \$567,500 have been outstanding for twelve years. These receivables have been fully provided for through a corresponding allowance for doubtful accounts.

**Recommendation:** We recommend management review credit policies, strengthen collection processes, and establish a clear policy for writing off non-collectible receivables to reflect the true financial position.

## **Disbursement Approval Limits**

Condition: Check disbursements greater than \$10,000 requires approval from MIMRA's Chairman of the Board or his designee. During the year ended September 30, 2023, we noted the payment request and check payment for membership dues (check #85858) was not approved by MIMRA's Chairman of the Board or his designee.

Recommendation: We recommend management implement internal control policies and procedures introducing approval limits for check payments whereby MIMRA's Chairman of the Board or his designee are required to sign checks based on the disbursement approval limits.

## **Investment in Joint Ventures**

Condition: During our review of MIMRA's financial records, we noted that the 50% equity investment in Pacific Island Tuna Provisions (PITP) has not been accounted for using the equity method, as required by U.S. GAAP. This has resulted in the omission of MIMRA's share of the joint venture's losses in the financial statements of approximately \$276,000. Further, an understatement of MIMRA's investment in Marshall Islands Fishing Company (MIFCO) of \$267,000 was noted. Failure to account for these joint ventures using the equity method may result in financial statements that are not in compliance with U.S. GAAP, which could lead to a material misstatement and impact the users' understanding of MIMRA's financial position and performance. As these amounts were not considered material to the financial statements, no adjustments were proposed.

Recommendation: We recommend that management adjust the accounting treatment for the PITP and MIFCO investments to align with the equity method.

## **Journal Entry Modifications**

Condition: During our review of journal entries, we identified instances where the same journal entry number was associated with multiple entry dates. Inconsistent journal entry numbers and dates may compromise the accuracy and reliability of financial records. Maintaining a clear audit trail becomes challenging when unique identifiers (journal entry numbers) are reused or applied inconsistently. Such practices may increase the risk of unauthorized or erroneous entries going undetected.

Recommendation: We recommend management strengthen financial controls by ensuring that journal entry numbers are unique and cannot be reused across multiple transactions or dates.

### **MIMRA's Observers Program**

Condition: Individuals employed by MIMRA under the Observers Program are not supported by formal, written employment contracts. Employment relationships appear to be based on verbal agreements or informal arrangements. The absence of formal employment contracts may lead to ambiguity regarding roles, responsibilities, terms of employment, and legal obligations for both the employer and employee. Furthermore, MIMRA does not withhold income taxes from payments made to these observers; however, applicable social security and health taxes are withheld.

Recommendation: We recommend management develop standardized employment contracts that clearly define terms such as job roles, responsibilities, compensation, benefits, working hours, confidentiality, and termination clauses. Furthermore, we recommend management consult with the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on payments made to individuals employed by the MIMRA Observers Program.

### **RMI Procurement Code**

Condition: Section 128 of the RMI Procurement Code requires that 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. A contractor was initially awarded a \$2.3 million addendum to a contract to construct the MIMRA Annex Building Extension as approved by the Board in October 2020. In September 2022, a revised cost proposal for \$2.9 million was submitted by the contractor to MIMRA. Board approval for the modifications and additional cost was not evident.

Recommendation: We recommend management require adequate documentation be maintained to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor/vendor selection and document the basis of a sole source provider.

### **Retirement Savings Plan**

Condition: During the year ended September 30, 2023, MIMRA made employer contributions, totaling \$97,595, to employee retirement savings plans. Taxes are not currently withheld and paid on the employer contributions.

Recommendation: 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 employer contributions to employee retirement savings plans.

## Board Sitting Fees

Condition: During the year ended September 30, 2023, MIMRA paid sitting fees of \$7,000 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.

Recommendation: 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.

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This communication is intended solely for the information and use of management, the Board of Directors of MIMRA, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MIMRA for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Very truly yours,

*Ernst + Young LLP*