

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED UPON THE ENGAGEMENT TO AUDIT IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Marshall Islands Marine Resources Authority:

We were engaged to audit the financial statements of the Marshall Islands Marine Resources Authority (MIMRA) as of and for the year ended September 30, 2000. Our report dated December 19, 2001 stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that receivables, accounts payable, payable to affiliates, other liabilities and accruals, revenues and expenses were fairly stated.

Compliance

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, require that an audit be planned and performed to obtain reasonable assurance about whether MIMRA's financial statements are free of material misstatement. We performed tests of MIMRA's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not our objective and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings (pages 3 through 11) as items 2000-7 through 2000-9.

Internal Control Over Financial Reporting

In planning the audit, we considered MIMRA's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MIMRA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2000-1 through 2000-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above in items 2000-1 through 2000-6 to be material weaknesses. We also other matters involving the internal control over financial reporting, which we have reported to management of MIMRA in a separate letter dated December 19, 2001.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

December 19, 2001

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings
Year Ended September 30, 2000

Revenue/Receipts

Finding No. 2000-1

Criteria: Sales invoices should be prenumbered and issued in numeric order to ensure sequential integrity and completeness of revenue recognition. In addition, sales invoices and the sales subledger should be reviewed by management to ensure proper billing and recording of revenues.

Condition: Based on our testing of customer files and inquiry of management, we noted the following exceptions:

- . Sales invoices were not prenumbered.
- . Certain sales invoices were not numbered.
- . Certain sales invoices were not sequentially numbered.
- . Substantially all sales invoices were not signed or initialed, evidencing proper preparation, recording, and review of the sale.
- . Certain invoices prepared by the operations department were not forwarded to the accounting department, preventing timely recording of sales.

Cause: The cause of the above condition is the lack of established policies and procedures over the preparation and review of sales invoices.

Effect: The effect of the above condition is the possibility of misstatement of revenues.

Recommendation: We recommend that management establish policies and procedures over the preparation and review of sales invoices.

Prior Year Status: Lack of established policies and procedures over the preparation and review of sales invoices was reported as a finding in the audit of MIMRA for fiscal period 1999.

Auditee Response and Corrective Action Plan: All invoices are now processed in the Accounting Department utilizing Quickbooks accounting software. The system provides automatic numbering system in numerical sequence. The customized invoice requires signature of preparer and approval by the Finance Officer and the Director. Invoicing is now being done promptly by the Accounting Department as soon as the Vessel Services and Fees Checklist is received from the Operations Department.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Purchases/Disbursements

Finding No. 2000-2

Criteria: Expenses should be supported by authorized documentation.

Condition: Of forty expenses tested, totaling \$179,271, supporting documentation for twenty-six items (check #s 1026, 1027, 1036, 1038, 1040, 1042, 1050, 1062, 1124, 1129, 1190, 1326, 1403, 1417, 1600, 1725, 1821, 1822, 1823, 1932, 1959, 2043, 2044, 2163, 2241 and 2244, totaling \$97,374) were not made available. In addition, supporting documentation for six items (check #s 1035, 1244, 1477, 1629, 2022 and 2042, totaling \$8,971) pertaining to a receivable balance were not made available.

Cause: The cause of the above condition is that MIMRA did not require or maintain appropriate supporting documentation for disbursements.

Effect: The effect of the above condition is the possibility that expenses were of an invalid nature.

Recommendation: We recommend that MIMRA retain invoices and contracts to support expenses incurred.

Prior Year Status: Lack of supporting documentation for expenses incurred was reported as a finding in the audit of MIMRA for fiscal period 1999.

Auditee Response and Corrective Action Plan: The filing system has improved whereby supporting documents are being filed with the related payment vouchers. Furthermore, the payment vouchers are being filed in numerical sequence by month.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Purchases/Disbursements

Finding No. 2000-3

Criteria: Operations should be insured by adequate general liability insurance in the event of accidents.

Condition: As of September 30, 2000, MIMRA does not have an insurance policy with respect to general liability insurance.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of substantial losses in the event of accidents.

Recommendation: We recommend that management consider obtaining general liability insurance.

Prior Year Status: Lack of adequate general liability insurance coverage was reported as a finding in the audit of MIMRA for fiscal period 1999.

Auditee Response and Corrective Action Plan: Quotations from different insurance agencies are being solicited for purposes of this type of insurance coverage.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Payroll

Finding No. 2000-4

Criteria: Employee wage rates should be supported by employment contracts and hours paid supported by timecards. Gross pay should be calculated based on actual hours worked and tax withholdings based on prescribed tax rates. Voluntary employee allotment deductions should be supported by allotment authorizations signed by the employee.

Condition: Of forty-one payroll disbursements tested, the following exceptions were noted:

- Payroll registers for the pay periods ended June 3, 2000 and June 17, 2000 were not made available.
- Employee contracts for five disbursements (check #s 1135, 1147, 1220, 1280 and 1452) were not made available to support the employee's wage rate.
- Gross pay for twenty-three disbursements (check #s 1621, 1676, 1697, 1727, 1756, 1771, 1785, 1833, 1847, 1859, 1911, 1914, 1928, 1967, 1989, 2063, 2084, 2105, 2111, 2114, 2185, 2188 and 2201) were calculated based on the employee's entire salary rather than 95% of the salary as required by the employee's employment contract (remaining 5% to be paid out as a year-end bonus based on performance).
- Timecards for fifteen disbursements (check #s 1294, 1304, 1373, 1452, 1509, 1565, 1576, 1621, 1756, 1859, 1914, 1989, 2063, 2105 and 2201) were not made available to support hours worked.
- Fourteen disbursements (check #s 1135, 1147, 1220, 1280, 1304, 1365, 1452, 1509, 1548, 1576, 1621, 1676, 1756 and 1771) indicated that RepMar income tax was under-withheld from the employee's gross pay.
- Employee allotment authorizations for thirty-three disbursements (check #s 1147, 1220, 1238, 1294, 1304, 1370, 1373, 1436, 1452, 1499, 1509, 1548, 1565, 1578, 1611, 1621, 1676, 1756, 1771, 1785, 1833, 1847, 1859, 1967, 1989, 2063, 2084, 2105, 2111, 2114, 2185, 2188 and 2201) were not made available to support voluntary allotment deductions.

Cause: The cause of the above condition is the lack of established policies and procedures over the recording of payroll, the withholding of income taxes and the maintenance of payroll related documents.

Effect: The effect of the above condition is the possibility that payroll expenses were misstated, allotments may be unauthorized, and MIMRA is in violation of RepMar's withholding tax legislation.

Recommendation: We recommend that management establishes policies and procedures to ensure that accurate payroll information is processed and maintained.

Auditee Response and Corrective Action Plan: Each employee file is being reviewed and updated to reflect the actual and authorized pay rate. Furthermore, payroll file control has been assigned to accounting staff who will ensure that payroll registers are completely filed in chronological order. With respect to the year-end bonus, such will be paid only to those with the corresponding salary holdout. Employee contracts will now be revised to delete the 5% provision holdout for year-end bonus.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Receivable from Affiliates

Finding No. 2000-5

Criteria: Financial arrangements should be supported by authorized loan agreements.

Condition: At September 30, 2000, MIMRA had advanced \$300,000 to the Marshall Islands Social Security Administration (MISSA), which shall be reimbursed by the General Fund of the government of the Republic of the Marshall Islands (RepMar). This transaction was authorized pursuant to RepMar Cabinet Minute C.M. 188(2000). This advance was not supported by a loan agreement that specifies terms and conditions. As of December 19, 2001, MIMRA has not been reimbursed for this advance. Accordingly, the collectibility of this receivable appears doubtful. An adjustment was proposed to record an allowance for doubtful accounts of \$300,000.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the recognition of bad debts of \$300,000.

Recommendation: We recommend that the Board and management of MIMRA execute a loan agreement with RepMar for the advance that includes repayment terms and conditions.

Auditee Response and Corrective Action Plan: Future advances and loans, besides getting approval from the Board, will be covered with a promissory note which will specify terms and conditions.

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Schedule of Findings, Continued
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-6

Criteria: Accounting principles generally accepted in the United States of America require that proprietary funds utilize the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Condition: During the year ended September 30, 2000, MIMRA recorded unidentified cash receipts and deposits as revenues in the general ledger (A/c # 4000, totaling \$12,464) identified during the bank reconciliation process, which was performed after year end. Furthermore, MIMRA recognized expenses when paid rather than when the obligation was incurred. Adjustments were proposed to record expenses and the related payable balances of \$131,059 as of September 30, 2000.

Cause: The cause of the above condition is the lack of policies and procedures to ensure that cash receipts are recorded in a timely manner, that expenses are recorded when incurred, and that bank accounts are reconciled on a monthly basis.

Effect: The effect of the above condition is the misstatement of revenues and expenses.

Recommendation: We recommend that management establish policies and procedures to ensure that cash receipts are recorded in a timely manner, that expenses are recorded when incurred, and that bank accounts are reconciled on a monthly basis.

Prior Year Status: Lack of utilizing the accrual basis of accounting was reported as a finding in the audit of MIMRA for fiscal period 1999.

Auditee Response and Corrective Action Plan: Policies and procedures have been adopted and issued requiring that bank reconciliations be performed on a monthly basis; that expenses be recorded when incurred; and that cash receipts and deposits be recorded daily. The Chief Accountant will be responsible to ensure that these policies and procedures are adhered to and that such are performed in a timely manner.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-7

Criteria: Section 125 of the Marshall Islands Marine Resources Act of 1997 (Public Law 1997-60) requires that all assets, liabilities, rights and obligations of MIMRA established under the MIMRA Act, 1988, shall be transferred to and vest with the Authority created under Public Law 1997-60.

Condition: Pursuant to Public Law 1997-60, the effective date of this legislation is October 2, 1997. For the years ended September 30, 1999 and 1998, operating activities of MIMRA were substantially recorded in a separate fund established within the Republic of the Marshall Islands (RepMar) Treasury. In addition, certain activities were recorded in this fund for the year ended September 30, 2000. As of September 30, 2000, the unobligated fund balance of this separately established fund within RepMar's Treasury was \$685,966. As these transactions pertain to MIMRA, as established under Public Law 1997-60, such should be recorded within MIMRA's financial statements. As of September 30, 2000, these transactions are not reflected within MIMRA's financial statements.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with Public Law 1997-60.

Recommendation: We recommend that MIMRA pursue this matter with RepMar's Ministry of Finance.

Prior Year Status: Lack of compliance with Public Law 1997-60 was reported as a finding in the audit of MIMRA for fiscal period 1999.

Auditee Response and Corrective Action Plan: Details of these transactions will be obtained from the Ministry of Finance and will be recorded in MIMRA's books.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-8

Criteria: Section 5 of the RepMar Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: At September 30, 2000, MIMRA owed RepMar \$27,385 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the period January 30, 2000 through September 9, 2000. As of December 19, 2001, this amount had not been remitted to RepMar's Ministry of Finance.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended.

Recommendation: We recommend that management of MIMRA comply with the Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: Taxes withheld from employee wages are now being remitted regularly in compliance with the law. The amount owed RepMar of \$27,385 on account of unremitted taxes withheld from employee wages from January 30, 2000 through September 9, 2000 will be paid accordingly.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-9

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid, and the contributions due, under Sections 129 and 130, and 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: At September 30, 2000, MIMRA owed MISSA \$39,047 in employer and employee contributions. This amount is represented by the quarterly reports for June 2000 and September 2000, which were not paid until October 16, 2000. Accordingly, MIMRA was delinquent in the payment of the June 2000 and September 2000 quarterly returns.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management of MIMRA comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Auditee Response and Corrective Action Plan: Payment of MISSA contributions is now being done regularly on a quarterly basis as mandated by law.

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Unresolved Prior Year Comments
Year Ended September 30, 2000

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 11).