

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001

**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, 2001. Our report dated March 19, 2002 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 15) as items 2001-10 through 2001-12.

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 2001-1 through 2001-9.

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 2001-1 through 2001-9 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MIMRA in a separate letter dated March 19, 2002.

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

March 19, 2002

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Schedule of Findings
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-1

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 audits of MIMRA for fiscal period 1999 and fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Management has implemented policies and procedures over the preparation and review of sales invoices. All invoices are now processed and recorded in the Accounting Department utilizing the Quickbooks accounting software. The system provides for an automatic invoice numbering system in numeric sequence. Furthermore, we will ensure that all invoices are initialed by the Finance Officer and approved by the Director or Deputy Director prior to issuance.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-2

Criteria: Cash received should be independently verified on a daily basis against issued cash receipts prior to deposit to the bank.

Condition: At September 30, 2001, MIMRA recorded undeposited collections, totaling \$20,992, representing cash received not yet deposited. This amount includes cash received but not deposited during the year ended September 30, 2001 of \$20,815 for which the following cash receipts were issued:

<u>Cash</u> <u>Receipt #</u>	<u>Date</u>	<u>Amount</u>	<u>Cash</u> <u>Receipt #</u>	<u>Date</u>	<u>Amount</u>
R785	10/20/00	\$ 100	R889	03/12/01	\$ 10
R786	10/24/00	\$ 50	R890	03/12/01	\$ 20
R858	01/19/01	\$ 50	R905	04/10/01	\$ 2,500
R864	02/02/01	\$ 20	R982	07/13/01	\$ 18,000
R871	02/12/01	\$ 45	R1010	08/16/01	\$ 10
R879	02/19/01	\$ 10			

Cause: The cause of the above condition is the lack of established policies and procedures over the collection and deposit of cash receipts.

Effect: The effect of the above condition is the possibility of misappropriation of cash receipts.

Recommendation: We recommend that management establish policies and procedures over cash receipts requiring the independent verification of cash against supporting cash receipts and validated deposit slips on a daily basis.

Auditee Response and Corrective Action Plan: We agree with the finding. Management has implemented policies and procedures over cash receipts requiring the preparation and review of a daily cash receipts report for the monitoring of cash received for deposit.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Purchases/Disbursements

Finding No. 2001-3

Criteria: Expenses should be supported by authorized documentation.

Condition: Of forty-six expenses tested, totaling \$147,895, supporting documentation for twenty-two items (check #s 1004, 1088, 1089, 1487, 1488, 1618, 1630, 1656, 1657, 1899, 1905, 1906, 1973, 1981, 2152, 2236, 2276, 2284, 2409, 2476, 2480 and 2507, totaling \$28,224) 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 not valid.

Recommendation: We recommend that management ensure that invoices and contracts be retained to support expenses incurred.

Prior Year Status: Lack of supporting documentation for expenses incurred was reported as a finding in the audits of MIMRA for fiscal period 1999 and fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. The staff within the Accounting Department has subsequently implemented a more rigorous filing system to ensure that all related documents such as invoices and contracts are retained and filed in numeric sequence.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Purchases/Disbursements

Finding No. 2001-4

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

Condition: As of September 30, 2001, 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 audits of MIMRA for fiscal period 1999 and fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Quotations have subsequently been solicited for the purpose of obtaining general liability insurance.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Payroll

Finding No. 2001-5

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 seventy-nine payroll disbursements tested, the following exceptions were noted:

- . The payroll register for the pay period ended October 6, 2001 was not made available.
- . Employee contracts for eleven disbursements (check #s 1050, 1311, 1677, 2031, 2232, 2430, 2439, 2489, 2527, 2539 and 2543) were not made available to support the employee's wage rate.
- . Gross pay for thirteen disbursements (check #s 1206, 1211, 1313, 1423, 1516, 1584, 1774, 1843, 1856, 1931, 2020, 2530 and 2533) 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 nine disbursements (check #s 1651, 1781, 1952, 2019, 2028, 2031, 2143, 2184 and 2432) were not made available to support hours worked.
- . One disbursement (check # 2553) indicated that RepMar income tax was under-withheld from the employee's gross pay.
- . Employee allotment authorizations for fifty-nine disbursements (check #s 1050, 1104, 1106, 1206, 1311, 1509, 1516, 1519, 1557, 1578, 1584, 1591, 1593, 1637, 1651, 1676, 1677, 1774, 1780, 1800, 1832, 1843, 1856, 1920, 1921, 1931, 1934, 2019, 2020, 2031, 2066, 2067, 2111, 2120, 2122, 2129, 2137, 2143, 2182, 2184, 2207, 2216, 2232, 2313, 2314, 2430, 2431, 2434, 2439, 2440, 2443, 2489, 2490, 2496, 2527, 2533, 2539, 2543 and 2550) 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 establish policies and procedures to ensure that accurate payroll information is processed and maintained.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2001

Finding No. 2001-5, Continued

Prior Year Status: Lack of established policies and procedures over the recording of payroll, the withholding of income taxes and the maintenance of payroll related documents was reported as a finding in the audit of MIMRA for fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Management will ensure that related payroll records, including payroll registers, timecards and employee contracts, are filed separately in a secure place. Employee contracts will be maintained by the Corporate Administration Service Department and will be reviewed on a periodic basis to ensure that the 95% requirement is followed. Furthermore, we will ensure that all allotment authorizations are updated on a more regular basis and copies are maintained in the employee's personnel file. With respect to the under-withholding of RepMar income tax, this has been corrected.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Cash

Finding No. 2001-6

Criteria: Bank accounts should be reconciled on a monthly basis and in a timely manner.

Condition: At September 30, 2001, the bank reconciliation for the Bank of Marshall Islands deposit account (A/c # 300430) included unrecorded deposits and withdrawals of \$844,457 and \$565,924, respectively. Furthermore, the bank reconciliation for the Bank of Marshall Islands checking account (A/c # 800553) included unrecorded deposits and withdrawals of \$4,765 and \$216, respectively. Adjustments were proposed to record these deposits and withdrawals in the general ledger for the year ended September 30, 2001.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the monthly reconciliation of bank accounts.

Effect: The effect of the above condition is the misstatement of cash balances.

Recommendation: We recommend that management establish policies and procedures requiring the monthly reconciliation of bank accounts in a timely manner.

Auditee Response and Corrective Action Plan: We agree with the finding. Bank reconciliations have subsequently been prepared on a monthly basis.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2001

Receivables

Finding No. 2001-7

Criteria: The aged accounts receivable subsidiary ledger should be monitored and used in credit control.

Condition: At September 30, 2001, the aged accounts receivable subsidiary ledger, excluding the receivable from RepMar of \$300,000, indicated that customer accounts with balances greater than ninety days represented approximately sixty-two percent of the total balance.

Cause: The cause of the above condition is the lack of established policies and procedures requiring past due customers to be followed-up in a timely manner.

Effect: The effect of the above condition is the allowance for doubtful accounts increased by \$17,339 in fiscal year 2001.

Recommendation: We recommend that management establish policies and procedures to ensure the review and monitoring of overdue accounts. Furthermore, we recommend that overdue accounts be forwarded to an attorney for collection.

Auditee Response and Corrective Action Plan: We agree with the finding. Management is now in the process of reviewing all overdue receivable accounts and may consider utilizing the services of the Attorney General for collection.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Payables

Finding No. 2001-8

Criteria: Payroll-related liability accounts should be reconciled on a monthly basis and in a timely manner.

Condition: At September 30, 2001, MIMRA recorded the following unreconciled payroll-related liability accounts:

<u>G/L Account #</u>	<u>Account Name</u>	<u>General Ledger Balance</u>	<u>Payable Balance</u>	<u>Variance</u>
2113	Social Security Tax Payable	\$ 20,626	\$ 12,192	\$ 8,434
2114	Basic Health Tax Payable	14,645	3,413	11,232
2116	Accrued Payroll	34,882	20,110	14,772
2117	Accrued Vacation Leave	<u>46,081</u>	<u>31,940</u>	<u>14,141</u>
		\$ <u>116,234</u>	\$ <u>67,655</u>	\$ <u>48,579</u>

The above condition was resolved through alternative auditing procedures and adjustments were proposed.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the reconciliation of payroll-related liability accounts.

Effect: The effect of the above condition is the overstatement of payroll-related liability balances.

Recommendation: We recommend that management establish policies and procedures requiring the monthly reconciliation of payroll-related liability accounts.

Auditee Response and Corrective Action Plan: We agree with the finding. Management has subsequently established policies and procedures that require the monthly reconciliation of all payroll-related liability accounts.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2001

External Financial Reporting

Finding No. 2001-9

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

Condition: During the year ended September 30, 2001, MIMRA recognized expenses when paid rather than when the obligation was incurred. Audit adjustments were proposed to record expenses and the related payable balances of \$73,136 as of September 30, 2001. Furthermore, our tests of disbursements made subsequent to September 30, 2001, noted two disbursements (check #s 3499 and 3714, totaling \$4,887 and \$16,872, respectively) for which no supporting documentation was made available. Accordingly, we were unable to determine whether these disbursements related to expenses for fiscal year 2001.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that expenses are recorded when incurred.

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

Recommendation: We recommend that management establish policies and procedures to ensure that expenses are recorded when incurred.

Prior Year Status: Lack of utilizing the accrual basis of accounting was reported as a finding in the audits of MIMRA for fiscal period 1999 and fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Management has subsequently established policies and procedures that require the recording of expenses when incurred.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-10

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 years ended September 30, 2001 and 2000. As of September 30, 2001, the unobligated fund balance of this separately established fund within RepMar's Treasury was \$4,877. 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, 2001, 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 management pursue this matter with RepMar's Ministry of Finance.

Prior Year Status: The lack of compliance with Public Law 1997-60 was reported as a finding in the audits of MIMRA for fiscal period 1999 and fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Management will obtain details of all future transactions from RepMar in order to record such in MIMRA's books.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-11

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, 2001, MIMRA owed RepMar \$49,697 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 21, 2001. As of March 19, 2002, 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 MIMRA comply with the Income Tax Act of 1989, as amended.

Prior Year Status: The lack of compliance with the Income Tax Act of 1989, as amended, was reported as a finding in the audit of MIMRA for fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Management will ensure that regular remittances are made to RepMar's Ministry of Finance for income taxes withheld from employee wages in accordance with the enabling legislation. In addition, MIMRA will work with the Ministry of Finance in order to come to an agreement for payment of delinquent taxes.

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-12

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, 2001, MIMRA owed MISSA \$15,605 in employer and employee contributions. This amount is represented by the quarterly report for September 2001, which was not paid until January 10, 2002. Furthermore, the quarterly report for June 2001 was not paid until August 16, 2001. Accordingly, MIMRA was delinquent in the payment of the June 2001 and September 2001 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 MIMRA comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: The lack of compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 was reported as a finding in the audit of MIMRA for fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. Management will ensure that regular remittances are made to MISSA for employer and employee contributions in accordance with the enabling legislation.

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**Unresolved Prior Year Comments
Year Ended September 30, 2001**

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 15).