

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002

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

Board of Directors
Marshall Islands Marine Resources Authority:

We have audited the financial statements of the Marshall Islands Marine Resources Authority (MIMRA) as of and for the year ended September 30, 2002 and have issued our report thereon dated May 28, 2003. We conducted our audit 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. Our report dated May 28, 2003, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the statements of earnings and retained earnings and cash flows due to our inability to determine the propriety of balance sheet accounts as of September 30, 2001.

Compliance

As part of obtaining reasonable assurance about whether MIMRA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of balance sheet amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings (pages 3 through 12) as item 2002-9.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIMRA's internal control over financial reporting in order to determine our 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 2002-1 through 2002-8.

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 2002-1 through 2002-8 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 May 28, 2003.

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

May 28, 2003

MARSHALL ISLANDS MARINE RESOURCES AUTHORITY

Schedule of Findings
Year Ended September 30, 2002

Revenue/Receipts

Finding No. 2002-1

Criteria: Collections should be deposited in a timely manner.

Condition: At September 30, 2002, MIMRA recorded undeposited collections, totaling \$20,815, representing cash received not yet deposited. This amount relates to the following cash receipts:

<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 MIMRA 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.

Prior Year Status: Untimely deposits of collections was reported as a finding in the audit of MIMRA for fiscal year 2001.

Auditee Response and Corrective Action Plan: Monitoring of cash collection is already in place during FY 2002 through preparation of daily cash report. In regards to the above finding, besides taken up as receivables, the Director and Chief Accountant agreed to forward the same to a collection agency or an attorney to facilitate faster collection process.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Purchases/Disbursements

Finding No. 2002-2

Criteria: Expenses recorded should be for expenses incurred.

Condition: At September 30, 2002, \$13,792 of advances to the Ebeye Fish Market were recorded as expenses rather than as a receivable. The advances pertain to payments made by MIMRA on behalf of the Ebeye Fish Market from April 19, 2002 through July 3, 2002, for the cost of dry-docking a vessel belonging to the Ebeye Fish Market. A proposed audit adjustment corrected the misposting. As of May 28, 2003, this amount has not been reimbursed to MIMRA.

Cause: The cause of the above condition is the lack of policies and procedures requiring the recording of receivables for advances made by MIMRA.

Effect: The effect of the above condition is an overstatement of expenses and an understatement of receivables.

Recommendation: We recommend that management ensure that advances from MIMRA are recorded as receivables instead of as an expense and that follow-up procedures are implemented to ensure timely collection of advances.

Auditee Response and Corrective Action Plan: As of fiscal year 2003, correction to findings were already applied. Disbursements to Ebeye Fish Market were taken up as receivable instead of expenses. Also an agreement between the Ebeye Fish Market and MIMRA is to deposit from Ebeye a certain sum of money on a bi-weekly basis as payment of the advances.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Purchases/Disbursements

Finding No. 2002-3

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

Condition: As of September 30, 2002, 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 years 1999 through 2001.

Auditee Response and Corrective Action Plan: We have been thinking that general liability is the same with the insurance for building and contents and auto insurance thus, we only acquire those kind of insurance. As findings shows that it's a different one, quotations were solicited for the above type of insurance coverage and to acquire one to be effective this fiscal year 2003.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Purchases/Disbursements

Finding No. 2002-4

Criteria: Disbursements should be for valid expenses. Appropriate control should be in place to ensure that invoices are not paid twice.

Condition: As of September 30, 2002, MIMRA has recorded receivables as a result of observer's fees paid twice and for checks (check #s 3228 and 3239) with invalid endorsement of payee. In addition, allotment payments were made to various vendors for which no deduction was made from the employee's gross pay. The following checks represent disbursements for which previous payment for observer's fee had been issued:

<u>Check #</u>	<u>Date</u>	<u>Amount</u>
3058	11/15/01	\$ 250
3235	12/14/01	260
3261	12/14/01	290
3472	01/11/02	275
3473	01/11/02	275
3513	01/17/02	<u>285</u>
	Total	\$ <u>1,635</u>

Cause: The cause of the above condition is lack of policies and procedures to review disbursements to ensure that invoices relate to valid expenses.

Effect: The effect of the above condition is that payments are made for invalid expenses.

Recommendation: We recommend that management establish policies and procedures over the preparation and review of check disbursements. In addition, we recommend that management pursue collection of the related receivables.

Auditee Response and Corrective Action Plan: The above was only found out this fiscal year though it was incurred in fiscal year 2001. As of to date, system control in place is that cutting of check is prepared by the assigned employee and review is done by the Chief Accountant including review and checking of documents. Printing of check will be done only after the review and checking is finished.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Payroll

Finding No. 2002-5

Criteria: Hours paid should be supported by timecards. Voluntary employee allotment deductions should be supported by allotment authorizations signed by the employee.

Condition: Of sixteen payroll disbursements tested, the following exceptions were noted:

- The payroll summaries for the pay periods ended November 20, 2001, December 29, 2001 and March 23, 2002 did not bear the initials of either the Chief Accountant or the Executive Director to indicate payroll review. In addition, the payroll summaries for the pay periods ended November 20, 2001, May 18, 2002, May 31, 2002, June 30, 2002 and August 24, 2002 did not bear the signature of the preparer.
- Gross pay for one disbursement (check # 3691) was 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). We were informed by the Chief Accountant that the salary of this employee is not subject to the 5% deduction.
- Timecards for one disbursement (check # 3691) were not made available to support hours worked.
- One disbursement (check # 4933) was paid for sixteen hours of vacation leave, however, there was no leave form to support leave hours taken. One disbursement (check # 4769) was paid for eight hours of sick leave. However, the sick leave hours were not deducted from the employee's available sick leave hours.
- Two disbursements (check #s 4933 and 5327) have manual hours entered without the initials of the supervisor evidencing agreement of hours manually entered.
- Certain employee allotment authorizations for nine disbursements (check #s 3125, 3449, 3691, 4209, 4667, 4769, 4933, 5327 and 5613) 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 and the maintenance of payroll related documents.

Effect: The effect of the above condition is the possibility that payroll expenses were misstated and that allotments may be unauthorized.

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

Prior Year Status: Lack of established policies and procedures over the recording of payroll and the maintenance of payroll related documents was reported as a finding in the audits of MIMRA for fiscal years 2000 and 2001.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Finding No. 2002-5, Continued

Auditee Response and Corrective Action Plan:

1. These are the payroll registers during the time when the former Chief Accountant did not come to work anymore and the Executive Director is attending a conference. But as of this fiscal year, every payroll register are initialed and reviewed by the above. In addition, the Chief Accountant ensures that the person who prepared the payroll register will initial such.
2. The 5% which should be deducted from the employee's salary was not effected because bonuses of some out-island employees is based on the fish base sales and performance. Correction will be made to their employment contract so that the 5% which were not deducted from the gross can be reflected.
3. As of FY 2003, the above finding was rectified by requiring outer-islands employees to submit their timesheet to MIMRA on a timely manner.
4. As of FY 2003, all employees are required to fill out vacation/sick leave application for approval by either the Department/Division Head, CSD Division Head and/or the Director.
5. For the fiscal year 2003, manual hours entered in the timecard is to be initialed only by the Dept. Head/Supervisor, the Chief Accountant and/or either the Director or the Deputy Director.
6. Those allotments that were noted as findings by the Auditor were previous years allotments of which allotment forms cannot be located anymore. We will be requiring all employees to sign an allotment form before deduction from their payroll is made.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Receivables

Finding No. 2002-6

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

Condition: At September 30, 2002, the aged accounts receivable subsidiary ledger, excluding the receivable from RepMar of \$423,288 and undeposited collections of \$20,922, indicated that customer accounts with balances greater than ninety days represented approximately fifty-one 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 an increase in the allowance for doubtful accounts.

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.

Prior Year Status: Lack of established policies and procedures requiring past due customers to be followed-up in a timely manner was reported as a finding in the audit of MIMRA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We will be doing customer balances confirmation and as soon as everything will be on hand, we will be forwarding the same to an attorney for collection purposes.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Fixed Assets

Finding No. 2002-7

Criteria: Internal control should include procedures for monitoring, controlling and safeguarding assets from loss or unauthorized use.

Condition: Of fourteen fixed asset additions tested, one asset (computer purchased on April 15, 2002 for \$1,049) was transferred to the Ebeye office. However, no supporting document was made available to confirm the transfer and to evidence authorization of the transfer. Of three assets tested for physical existence, one asset (Compact computer purchased on September 16, 1999 for \$1,200) could not be located. Based on discussions with the Chief Accountant, a physical inventory of fixed assets has not recently been performed.

Cause: The cause of the above condition is the lack of policies and procedures for controlling, monitoring and safeguarding fixed assets.

Effect: The effect of the above condition is the possibility of misappropriation of fixed assets.

Recommendation: We recommend that MIMRA develop and maintain a system for monitoring, controlling and safeguarding fixed assets, including periodic physical inventory and reconciliation of the fixed assets register. We also recommend that transfers of assets to off-island locations be supported by documents evidencing authorization and approval of the transfer.

Auditee Response and Corrective Action Plan: We will be issuing a memorandum regarding the documentation of fixed asset transfer to ensure fixed asset location. Physical inventory of asset will be done on a bi-annual basis to properly account various company's fixed asset.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Payables

Finding No. 2002-8

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

Condition: At September 30, 2002, MIMRA recorded the following unreconciled payroll-related liability accounts:

<u>G/L</u> <u>Account #</u>	<u>Account Name</u>	<u>General</u> <u>Ledger</u> <u>Balance</u>	<u>Payable</u> <u>Balance</u>	<u>Variance</u>
2116	Accrued Payroll	\$ 3,613	\$ 13,369	\$ (9,756)
2117	Accrued Vacation Leave	<u>56,245</u>	<u>34,094</u>	<u>22,151</u>
		<u>\$ 59,858</u>	<u>\$ 47,463</u>	<u>\$ 12,395</u>

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

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.

Prior Year Status: Lack of established policies and procedures requiring the reconciliation of payroll-related liability accounts was reported as a finding in the audit of MIMRA for fiscal year 2001.

Auditee Response and Corrective Action Plan: Reconciliation of payroll related liability has been done by the concerned accounting staff not on a monthly basis though but reconciliation has been going on.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-9

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, 2002, MIMRA owed RepMar \$92,689 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the period February 17, 2000 through November 11, 2001, including applicable interest and penalty charges.

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 audits of MIMRA for fiscal years 2000 and 2001.

Auditee Response and Corrective Action Plan: Payment of withholding tax has been updated, that is, withholding tax for the previous months were immediately paid on or before the due date. Payment of back taxes were made since October 2002 after reconciling said account. As of to date, payment made is already for the period March 9 - April 8, 2001 (payment on back taxes is from the newest to the oldest).

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Unresolved Prior Year Comments
Year Ended September 30, 2002

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 12).