

MARSHALL ISLANDS AIRPORTS 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 AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Marshall Islands Airports Authority:

We have audited the financial statements of the Marshall Islands Airports Authority (MIAA) as of and for the year ended September 30, 2000, and have issued our report thereon dated December 29, 2000. 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.

Compliance

As part of obtaining reasonable assurance about whether MIAA'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 financial statement 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 6) as item 2000-4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIAA'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 MIAA'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 2000-3.

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, of the reportable conditions described above, we consider item 2000-2 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MIAA in a separate letter dated December 29, 2000.

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 29, 2000

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Schedule of Findings
Year Ended September 30, 2000

Revenue

Finding No. 2000-1

Criteria: Rental arrangements with airport tenants should be evidenced by valid lease agreements.

Condition: During the year ended September 30, 2000, MIAA did not have valid lease agreements with airport tenants.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that MIAA has no legally binding written agreements in cases where disputes with tenants arise.

Recommendation: We recommend that management obtain lease agreements with all airport tenants.

Auditee Response and Corrective Action Plan: Management agrees and will require that all airport tenants sign a lease agreement.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Property, Plant and Equipment

Finding No. 2000-2

Criteria: Property, plant and equipment should be insured against damage or loss.

Condition: MIAA does not maintain insurance coverage on its property, plant and equipment with the exception of motor vehicles.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that MIAA is self-insured.

Recommendation: We recommend that management obtain insurance coverage of property, plant and equipment against damage or loss.

Auditee Response and Corrective Action Plan: Management agrees and plans to obtain insurance coverage for its property, plant and equipment.

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Schedule of Findings, Continued
Year Ended September 30, 2000

External Financial Reporting

Finding No. 2000-3

Criteria: Board minutes are a primary means by which regulatory agencies and independent auditors can evaluate the administration of MIAA's operations.

Condition: Of five Board of Director meetings held from July 1, 1999 through September 30, 2000, for which minutes were kept, two minutes were not documented as being approved by the Board and evidenced by the Chairman of the Board.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the lack of approval of the minutes of meetings of the Board of Directors.

Recommendation: We recommend that management ensure that all minutes of meetings of the Board of Directors are formally approved and signed by the Chairman of the Board.

Auditee Response and Corrective Action Plan: Management will ensure that all Board minutes are signed by the Chairman of the Board at the end of each meeting.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-4

Criteria: Section 5 of the Republic of Marshall Islands (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, MIAA owed RepMar \$14,606 in income tax withholdings for employee wages. This amount is represented by income tax withheld from employee wages for the entire fiscal year.

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 comply with the Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: Management has taken corrective action by arranging a payment schedule with the Ministry of Finance, Division of Customs, Revenue and Taxation to pay off the income tax withholdings owed to RepMar. Additionally, for current income tax withholding, MIAA has filed and paid each months' returns within the deadlines set by the Customs office and is up to date with aforementioned filings.

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Unresolved Prior Year Comments
Year Ended September 30, 2000

There have been no prior year audits of MIAA.