

MARSHALL ISLANDS AIRPORTS 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 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, 2001, and have issued our report thereon dated November 15, 2001. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of MIAA in a separate letter dated November 15, 2001.

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 (pages 3 through 8) as items 2001-1 through 2001-6.

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, of the reportable conditions described above, we consider items 2001-3 through 2001-6 to be material weaknesses. 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 November 15, 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

November 15, 2001

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Schedule of Findings
Year Ended September 30, 2001

Revenues

Finding No. 2001-1

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

Condition: During the year ended September 30, 2001, MIAA did not have valid lease agreements with two 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.

Prior Year Status: Lack of valid lease agreements with airport tenants was reported as a finding in the audit of MIAA for fiscal year 2000.

Auditee Response and Corrective Action Plan: Management agrees with the auditors' recommendation and will ensure that all airport tenants sign a lease agreement.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Revenues

Finding No. 2001-2

Criteria: Billings for services provided should be reviewed by management and be based on MIAA's prescribed tariff.

Condition: During the year ended September 30, 2001, MIAA incorrectly billed two customers by applying the incorrect aircraft weight in the determination of landing fees. Specifically, MIAA over-billed one customer in the amount of \$19,536 and under-billed another customer in the amount of \$1,097. An audit adjustment was proposed to record the over-billing as deferred revenue. As the under-billing was corrected by MIAA, no audit adjustment was proposed.

Cause: The cause of the above condition is the lack of effective review by management for accuracy of billings for landing fees prior to issuance to the customer.

Effect: The effect of the above condition is the overstatement of landing fees revenue.

Recommendation: We recommend that management ensure that billings for landing fees are reviewed for accuracy prior to issuance to the customer.

Auditee Response and Corrective Action Plan: Management took the initiative to correct the billing errors with the two concerned customers prior to the start of the audit. To prevent further errors in customer billings, management will record MIAA's prescribed tariff in the accounting system it uses so that charges applicable to each of its customers come up automatically as invoices are created.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Property, Plant and Equipment

Finding No. 2001-3

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.

Prior Year Status: Lack of insurance coverage of property, plant and equipment was reported as a finding in the audit of MIAA for fiscal year 2000.

Auditee Response and Corrective Action Plan: Management concurs with the finding and has already obtained certain insurance coverage for its property, plant and equipment effective from the start of fiscal year 2002.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Property, Plant and Equipment

Finding No. 2001-4

Criteria: Contributed capital additions should be recorded in the general ledger.

Condition: During the year ended September 30, 2001, MIAA received grants, totaling \$107,751, for the funding of various capital improvements at the airport terminal. The capital improvements and the related contributed capital were not recorded by MIAA. Accordingly, audit adjustments were proposed to record fixed assets and the related contributed capital grants.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the understatement of fixed asset additions and contributed capital grants.

Recommendation: We recommend that management ensure that all contributed capital additions are recorded by MIAA.

Auditee Response and Corrective Action Plan: Management takes note of this finding and has already implemented measures to ensure that any contributed capital additions are recorded in MIAA's financial statements.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Accounts Payable

Finding No. 2001-5

Criteria: As a separate component unit of the Republic of the Marshall Islands (RepMar), MIAA is responsible for paying the utility bills of its airport facilities.

Condition: During the year ended September 30, 2001, RepMar paid utility bills on behalf of MIAA in the amount of \$78,957. No formal agreement was made available to indicate that Repmar was responsible for the payment of utility bills. Accordingly, an audit adjustment was proposed to record utilities expense and a related liability to RepMar.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the understatement of expenses and related liability accounts.

Recommendation: We recommend that management determine MIAA's liability with RepMar concerning the payment of utility bills of its airport facilities.

Auditee Response and Corrective Action Plan: Management will work out an arrangement with the Secretary of Finance to resolve the issue in question.

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Schedule of Findings, Continued
Year Ended September 30, 2001

Accounts Payable

Finding No. 2001-6

Criteria: A proper system of internal control requires that accounts payable balances be reconciled to the general ledger in a timely manner.

Condition: As of September 30, 2001, the accounts payable general ledger account (A/c # 20000, totaling \$125,128) was not supported by a reconciled subsidiary ledger. This condition was resolved through alternative auditing procedures and audit adjustments, totaling \$39,520, were proposed to increase recorded accounts payable balances.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible misstatement of accounts payable balances.

Recommendation: We recommend that accounts payable be reconciled on a monthly basis to the supporting subsidiary ledger.

Auditee Response and Corrective Action Plan: Management will make it a requirement that accounts payable be reconciled on a monthly basis.

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Unresolved Prior Year Comments
Year Ended September 30, 2001

Unresolved Prior Year Comments

The status of unresolved prior year findings is disclosed within the Schedule of Findings section of this report (pages 3 through 8).