

MARSHALL ISLANDS AIRPORTS 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 Airports Authority:

We have audited the financial statements of the Marshall Islands Airports Authority (MIAA) as of and for the year ended September 30, 2002, and have issued our report thereon dated February 7, 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.

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 one immaterial instance of noncompliance, which we have reported to management of MIAA in a separate letter dated February 7, 2003.

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 6) as items 2002-1 through 2002-4.

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 2002-3 and 2002-4 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 February 7, 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

February 7, 2003

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Schedule of Findings
Year Ended September 30, 2002

Revenues

Finding No. 2002-1

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

Condition: During the year ended September 30, 2002, MIAA did not have a valid lease agreement with one airport tenant. Additionally, rental agreements expired with seven airport tenants as of September 30, 2002, one as of October 24, 2002 and one as of September 30, 2001. No renewal agreements were available for review.

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 audits of MIAA for fiscal years 2000 and 2001.

Auditee Response and Corrective Action Plan: Management agrees with the auditors' recommendation and will ensure that all airport tenants sign a lease agreement. However, it should be noted that the seven rental agreements that expired as of September 30, 2002 were not renewed because the leased premises in question are scheduled for major renovations in FY 2003

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Schedule of Findings, Continued
Year Ended September 30, 2002

Property, Plant and Equipment

Finding No. 2002-2

Criteria: Capital grants should be recorded in the general ledger.

Condition: During the year ended September 30, 2002, MIAA received equipment with a value of \$7,211 from the U.S. Federal Aviation Administration. The unrecorded equipment was recorded through a proposed audit adjustment.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the understatement of fixed asset additions and nonoperating revenue.

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

Prior Year Status: Lack of recording capital grants was reported as a finding in the audit of MIAA for fiscal year 2001.

Auditee Response and Corrective Action Plan: Management takes note of this finding and ensures that all capital grant additions are properly recorded in its financial statements.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Accounts Payable

Finding No. 2002-3

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: As of September 30, 2002, MIAA has recorded a payable to RepMar for prior year payment of utility bills in the amount of \$78,957. No formal agreement has been made with RepMar to establish the validity of this liability.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible overstatement of liabilities.

Recommendation: We recommend that MIAA determine the propriety of its liability to RepMar.

Prior Year Status: Payment of utility bills by RepMar was reported as a finding in the audit of MIAA for fiscal year 2001.

Auditee Response and Corrective Action Plan: MIAA plans to work with the Secretary of Finance to resolve the issue in question.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Property, Plant and Equipment

Finding No. 2002-4

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

Condition: MIAA does not maintain insurance coverage on its airport runway facilities with a net book value of \$4,233,333.

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 consider obtaining insurance coverage of its airport runway facilities against damage or loss.

Prior Year Status: Lack of insurance coverage of property, plant and equipment was reported as a finding in the audits of MIAA for fiscal years 2000 and 2001.

Auditee Response and Corrective Action Plan: MIAA has obtained insurance coverage for its vehicles, equipment and airport facilities with a local insurance company. The airport runway is more difficult to insure as none of the local insurance providers offer coverage for such asset. Management, however, agrees to look into the matter further.

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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 6).