

MARSHALL ISLANDS PORTS 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 Ports Authority:

We have audited the financial statements of the Marshall Islands Ports Authority (MIPA) as of and for the year ended September 30, 2000, and have issued our report thereon dated October 27, 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 MIPA'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 5) as item 2000-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIPA'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 MIPA'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 and 2000-2.

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 2000-1 and 2000-2 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of MIPA in a separate letter dated October 27, 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

October 27, 2000

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Schedule of Findings
Year Ended September 30, 2000

Receivables

Finding No. 2000-1

Criteria: The aged trade receivables subsidiary ledger should be monitored and used in credit control.

Condition: As of September 30, 2000, the aged trade receivables subsidiary ledger indicated that customer accounts with balances greater than sixty days represented approximately seventy-seven percent of the total balance.

Cause: The cause of the above condition is the lack of adequate policies and procedures requiring past due customers to be followed-up in a timely manner and be forwarded to the attorney for collection, and the lack of review and monitoring of overdue accounts by management.

Effect: The effect of the above condition is that the allowance for doubtful accounts increased by \$150,646 in fiscal year 2000.

Recommendation: We recommend that MIPA establish policies and procedures to ensure the review and monitoring of overdue accounts. Furthermore, we recommend that overdue accounts be forwarded to the attorney for collection on a timely basis.

Auditee Response and Corrective Action Plan: Overdue accounts are being monitored and collection efforts intensified to reduce the balance of receivables to a manageable level. The assignment of an Accounting Clerk to do collection work under the close supervision of the Finance Officer should correct the problem. Management does not believe the need for an attorney for collection is required at this time.

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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: MIPA 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 MIPA is self-insured.

Recommendation: We recommend that MIPA obtain insurance coverage to insure property, plant and equipment against damage or loss.

Prior Year Status: Lack of insurance coverage for property, plant and equipment was reported as a finding in the audits of MIPA for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: Insurance coverage for all MIPA owned vehicles is in place and coverage for buildings and contents is being considered. Quotations have been received from two major insurance agencies.

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Schedule of Findings, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-3

Criteria: Public Law 1999-88 states that RepMar shall transfer to MIPA all funds of the Seaports Trust Fund.

Condition: As of September 30, 2000, MIPA is still owed \$89,221, being the balance remaining in the Seaport Trust Fund.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that MIPA has not received all assets held by RepMar from the Seaport Trust Fund.

Recommendation: We recommend that MIPA pursue this matter with the Ministry of Transportation and Communications.

Prior Year Status: Lack of receipt of all assets from the Seaport Trust Fund was reported as a finding in the audits of MIPA for fiscal years 1997 through 1999.

Auditee Response and Corrective Action Plan: The balance of \$89,221 from the Seaport Trust Fund has been referred to both the Minister of Transportation and Communications and the Minister of Finance. The matter is still pending.

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Schedule of Findings, Continued
Year Ended September 30, 2000

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 5).