

MARSHALL ISLANDS PORTS 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 Ports Authority:

We have audited the financial statements of the Marshall Islands Ports Authority (MIPA) as of and for the year ended September 30, 2001, and have issued our report thereon dated November 7, 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 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying Schedule of Findings (page 3) as item 2001-1.

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 believe that the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MIPA in a separate letter dated November 7, 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 7, 2001

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Schedule of Findings
Year Ended September 30, 2001

Receivables

Finding No. 2001-1

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

Condition: As of September 30, 2001, the aged trade receivables subsidiary ledger indicated that customer accounts with balances greater than sixty days represented approximately sixty-two 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 \$142,982 in fiscal year 2001.

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.

Prior Year Status: The lack of monitoring of overdue accounts by management and forwarding to the attorney for collection was reported as a finding in the audit of MIPA for fiscal year 2000.

Auditee Response and Corrective Action Plan: We agree with the finding. MIPA's customers, particularly shipping agents, have been advised to maintain their receivable accounts current (ie. to pay their accounts within thirty days). Otherwise, delinquent accounts will be forwarded to the Office of the Attorney General for collection.

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Unresolved Prior Year Comments
Year Ended September 30, 2001

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