



January 8, 2003

CONFIDENTIAL

Captain Joseph Tiobech
Director
Marshall Islands Ports Authority

Dear Captain Tiobech:

In planning and performing our audit of the financial statements of the Marshall Islands Ports Authority (MIPA) as of and for the year ended September 30, 2002, on which we have issued our report dated January 8, 2003, we developed the following recommendations concerning certain matters related to MIPA's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Revenues

Of fifteen revenue items tested, supporting documents for three items (invoice #s 45530, 46003 and 46017, totaling \$7,067, \$16,596 and \$11,607, respectively) were not made available. We recommend that source documentation support all recorded revenues.

Auditee Response: The supporting documents must have been misfiled. To correct the situation, two separate files will be maintained: one with the customer/shipping agent file and the other one with the general details of vessels file supporting the invoice.

(2) Fixed Assets

Fixed assets have not been periodically inventoried or reconciled to the fixed asset subledger. We recommend that all fixed assets be periodically inventoried. Furthermore, we recommend that prenumbered fixed asset identification tags be attached to fixed assets in order to identify MIPA's fixed assets and to facilitate the maintenance of the fixed asset register. This matter was discussed in our previous letter dated November 7, 2001.

Auditee Response: A physical inventory of fixed assets is being planned and during the process, assets will be tagged with property numbers.

(3) Notes Receivable

At September 30, 2002, MIPA recorded notes receivable of \$100,000 due on September 30, 1998 from Tobolar Copra Processing Plant, Inc. that were in arrears, including interest receivable of \$46,397. An accumulated amount of \$136,397 has been recorded as an allowance for doubtful accounts against these balances. We recommend that MIPA increase their efforts in the collection of these outstanding notes receivable, including forwarding this matter to the attorney for collection. This matter was discussed in our previous letters dated November 7, 2001, October 27, 2000 and March 25, 2000.

Auditee Response: We will consider forwarding this matter to the Office of the Attorney General for collection.

(4) Related Party Transactions

The financial statements disclose that MIPA has transactions with RepMar-owned and affiliated entities. The current accounting system can not easily quantify the dollar amount of transactions with related parties. We recommend that a system be developed to quantify related party transactions for disclosure in the notes to financial statements. This matter was discussed in our previous letters dated November 7, 2001, October 27, 2000, March 25, 2000 and September 1, 1999.

Auditee Response: Separate accounts will be established to reclassify related parties accounts from the trade accounts to due from/to affiliates accounts.

(5) Board Meetings

Section 3.7(1) of the Marshall Islands Ports Authority Act of 1999 (Public Law 1999-88) requires the Board of Directors to meet at least once every two months. The Board of Directors did not conduct any meetings from May 8, 2002 through September 4, 2002. We recommend that MIPA's Board of Directors meets at least once every two months in accordance with Public Law 1999-88. This matter was discussed in our previous letters dated November 7, 2001, October 27, 2000 and March 25, 2000.

Auditee Response: Meetings were called but due to no quorum, meetings on those dates were not held.

(6) Marshall Islands Port Authority Act of 1999

Section 7-4 of Public Law 1999-88 requires that all assets and liabilities of the Marshall Islands Port Authority become the assets and liabilities of MIPA, effective March 23, 1999. At September 30, 2002, the bank accounts and notes receivable from Tobolar Copra Processing Plant, Inc. were still in the name of Marshall Islands Port Authority. We recommend that MIPA change the name of the bank accounts and notes receivable to reflect Marshall Islands Ports Authority in accordance with Public Law 1999-88. This matter was discussed in our previous letters dated November 7, 2001, October 27, 2000 and March 25, 2000.

Captain Joseph Tiobech
January 8, 2003
Page Three

(7) Meram, Inc.

On November 22, 2001, MIPA advanced \$173,555 to Meram, Inc. (a corporation solely owned by the RepMar government) for boat operations. The November 20, 2001 minutes of the MIPA Board of Directors indicated that this advance was fully guaranteed by the RepMar Ministry of Transportation and Communication. No agreement exists with the Ministry of Transportation and Communication documenting terms and conditions of the advance. We recommend that MIPA obtain a written agreement with the Ministry of Transportation and Communication documenting terms and conditions of the advance.

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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.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte & Touche