

MARSHALL ISLANDS VISITORS AUTHORITY

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2005



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS
BASED UPON THE AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Marshall Islands Visitors Authority:

We have audited the financial statements of the Marshall Islands Visitors Authority (MIVA) as of and for the year ended September 30, 2005 and have issued our report thereon dated August 30, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIVA'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 an opinion 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 MIVA'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 7) as items 2005-1 and 2005-2.

A material weakness is a reportable 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 caused by error or fraud 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 consider the reportable condition described above in item 2005-2 to be a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIVA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings (pages 3 through 7) as items 2005-3 and 2005-4.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of MIVA in a separate letter dated August 30, 2006.

This report is intended solely for the information and use of the Board of Directors, management, and the Republic of the Marshall Islands and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which, upon acceptance, is a matter of public record.

August 30, 2006



Jean M. Tonyokwe
Auditor-General

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Schedule of Findings
Year Ended September 30, 2005

Finding No. 2005-1

Criteria: Approved audit adjustments should be recorded in the general ledger.

Condition: MIVA did not record approved audit adjustments for fiscal year 2004. Audit adjustments have been proposed to record these adjustments at September 30, 2005.

Cause: The cause of the above condition is that the auditee did not record these adjustments before commencement of the 2005 audit.

Effect: The effect of the above condition is the possibility of materially misstated interim financial statements.

Recommendation: We recommend that MIVA ensure that approved audit adjustments are recorded in a timely manner.

Auditee Response and Corrective Action Plan:

MIVA will ensure that approved audit adjustments are recorded in a timely manner.

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Schedule of Findings, Continued
Year Ended September 30, 2005

Finding No. 2005-2

Criteria: An accounting system should have in place a chart of accounts that facilitates proper account classification.

Condition: MIVA does not have a chart of accounts. This condition resulted in accounts not being properly classified.

Cause: The cause of the above condition is the lack of a chart of accounts being used.

Effect: The effect of the above condition is the possibility of an understatement or overstatement of financial statement balances.

Recommendation: MIVA should establish and utilize a chart of accounts.

Auditee Response and Corrective Action Plan:

MIVA will establish and utilize a chart of accounts with properly numbered accounts.

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Schedule of Findings, Continued
Year Ended September 30, 2005

Finding No. 2005-3

Criteria: Section 153 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that there shall be assessed a tax of eight percent of the daily room rate on hotel and resort facilities in the Marshall Islands. The tax shall be collected by the owner of the room and be forwarded to RepMar on a monthly basis. Furthermore, the tax collected shall be distributed as follows: RepMar shall receive seven-eighths (7/8) and MIVA shall receive the remaining one-eighth (1/8).

Condition: As of September 30, 2005, MIVA has not received its share of hotel room taxes collected by RepMar. Based on records maintained by RepMar's Ministry of Finance, hotel tax collections amounted to \$45,740 for the year ended September 30, 2005, which amounts to \$5,717 as MIVA's share.

Cause: The cause of the above condition is RepMar's lateness in processing and distributing MIVA's (1/8) share.

Effect: The effect of the above condition is the lack of compliance by RepMar with Section 153 of the Income Tax Act of 1989, as amended, and the possibility of an understatement of revenues and receivables on MIVA's financial statements.

Recommendation: We recommend that MIVA follow-up with RepMar to ensure remittance of MIVA's allocated portion of the hotel and resort facility tax in accordance with Section 153 of the Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan:

MIVA will follow-up with RepMar to ensure remittance of MIVA's allocated portion of the hotel and resort facility tax in accordance with Section 153 of the Income Tax Act of 1989, as amended.

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Schedule of Findings, Continued
Year Ended September 30, 2005

Finding No. 2005-4

U.S. Department of the Interior - CFDA # 15.875

Compact of Free Association, As Amended, Private Sector Development Grant

Criteria: Article VI, Section 1(j)(1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of five (5) expenditures tested, documentation for four (4) expenditures, totaling \$12,700, was inadequate to evidence the competitive nature of the procurement process:

<u>Check #</u>	<u>Description</u>	<u>Amount</u>
2083	Buoy Project	\$ 5,000
2154	Majuro Block Party	\$ 1,500
2182	Buoy Project	\$ 3,100
2246	Buoy Project	\$ 3,100

We noted no supporting documentation that indicated competitive bidding or an indication of the basis of the sole-source procurement rationale, as required by Section 128. As no documentation was maintained indicating the history of procurement, including the rationale for and method of procurement, the vendor selection or rejection, and the basis for the purchase price, questioned costs of \$12,700 are reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards.

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Schedule of Findings, Continued
Year Ended September 30, 2005

Finding No. 2005-4, Continued

Recommendation: We recommend MIVA, as the Sub-Grantee, ensure supporting documentation is adequate to comply with federal procurement requirements as stipulated in the FPA. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the vendor selection or rejection, and the basis for the purchase price.

Auditee Response and Corrective Action Plan:

MIVA, as the Sub-Grantee, will ensure supporting documentation is adequate to comply with federal procurement requirements as stipulated in the Fiscal Procedures Agreement (FPA).

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Unresolved Prior Year Findings
Year Ended September 30, 2005

There are no unresolved findings from prior year audits of MIVA.

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Independent Auditors' Report on
Internal Control and on Compliance
September 30, 2005**

**Responses Required To Clear Audit
From OAG Follow-up System**

In order for this audit to be cleared from the OAG Follow-up system, written confirmation and/or documentation indicating action has been taken, as detailed below, should be submitted no later than June 6th, 2007.

<u>Recommendation</u>	<u>Action to be taken</u>
1.	Provide a trial balance after all audit adjustments have been recorded.
2.	Provide copy of establish chart of accounts.
3.	Provide copy of follow-up letter to assure that action has been taken on this recommendation.
4.	Written assurance that action has been taken on this Recommendation.



April 10, 2007

Attachment I

Mrs. Jean M. Tonyokwe
Auditor General
RMI Office of the Auditor General
Majuro, Marshall Islands

Iokwe Auditor General:

I am providing herein our responses and corrective action plans for the findings in the **MIVA FY2005 Independent Auditor's Report on Internal Control and Compliance.**

Finding No. 2005-1

MIVA will ensure that approved audit adjustments are recorded in a timely manner.

Finding No. 2005-2

MIVA will establish and utilize a chart of accounts with properly numbered accounts.

Finding No. 2005-3

MIVA will follow-up with RepMar to ensure remittance of MIVA's allocated portion of the hotel and resort facility tax in accordance with Section 153 of the Income Tax Act of 1989, as amended.

Finding No. 2005-4

MIVA, as the Sub-Grantee, will ensure supporting documentation is adequate to comply with federal procurement requirements as stipulated in the Fiscal Procedures Agreement (FPA).

Kommool tata,

William H. Weza
Chairman
Board of Directors