

PALAU VISITORS AUTHORITY

INDEPENDENT AUDITORS' REPORTS 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  
Palau Visitors Authority:

We have audited the financial statements of the Palau Visitors Authority (PVA) as of and for the year ended September 30, 2002, and have issued our report thereon dated May 22, 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 PVA'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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PVA'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 PVA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 10) 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. We consider all the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated May 22, 2003.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche*

May 22, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Palau Visitors Authority:

Compliance

We have audited the compliance of the Palau Visitors Authority (PVA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2002. PVA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 10). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of PVA's management. Our responsibility is to express an opinion on PVA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PVA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PVA's compliance with those requirements.

In our opinion, PVA complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2002.

Internal Control Over Compliance

The management of PVA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PVA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of PVA as of and for the year ended September 30, 2002, and have issued our report thereon dated May 22, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of PVA. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche*

May 22, 2003

PALAU VISITORS AUTHORITY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Total Authorization</u>	<u>Funds Expended</u>
U.S. Department of the Interior (CFDA No. 15.875):		
Passed through the Republic of Palau National Government:		
Agreement between the Government of the United States and the Government of the Republic of Palau for the Implementation of Section 211(A) of the Compact of Free Association	\$ <u>1,000,000</u>	\$ <u>1,000,000</u>

PALAU VISITORS AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to the one major federal award program were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the one major federal award program expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. PVA's one major program was as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
U.S. Department of the Interior	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. PVA did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2002-1	Revenue/Receipts	7
2002-2	Receivables	8
2002-3	Inventory	9
2002-4	Payables/Accrued Liabilities	10

**Section III - Federal Award Findings**

No federal award findings or questioned costs were reported.

PALAU VISITORS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

**Section II - Financial Statement Findings**

Revenue/Receipts

Finding No. 2002-1

Criteria: Donations or pledges should be recorded as revenue.

Condition: Donations and pledges for the tourist guidebook amounting to \$40,375 were recorded against promotional materials expense. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the misstatement of revenue and expenses.

Recommendation: We recommend that donation and pledge revenues be recorded.

Auditee Response and Corrective Action Plan: Management has noted the finding and will record revenue accordingly as recommended by auditor.

PALAU VISITORS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Receivables

Finding No. 2002-2

Criteria: PVA is responsible for recording receivables and determining an appropriate allowance for doubtful receivables.

Condition: Our testing of accounts receivable determined \$10,000 receivable from the Republic of Palau that was unrecorded, and \$25,287 of potentially uncollectible receivables that were not included in an allowance for doubtful accounts. These conditions were corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of determination of reimbursable disbursements and the lack of policies and procedures to establish an allowance for doubtful accounts.

Effect: The effect of the above condition is the misstatement of receivables.

Recommendation: We recommend that PVA records receivables for reimbursable disbursements and adopt policies and procedures which require management to estimate an adequate allowance for doubtful accounts receivable.

Prior Year Status: Not determining an appropriate allowance for doubtful accounts was reported as a finding in the audits of PVA for fiscal years 2000 and 2001.

Auditee Response and Corrective Action Plan: Policy action has been made by the PVA Board in FY 03 and for upcoming audit it will be reflected.

PALAU VISITORS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Inventory

Finding No. 2002-3

Criteria: Inventory on hand should be valued at cost.

Condition: The value of the inventory on hand at September 30, 2002 was overstated by \$46,980. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the misstatement of inventory.

Recommendation: We recommend that inventory be valued at cost.

Auditee Response and Corrective Action Plan: Corrective action is being taken as recommended.

PALAU VISITORS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Payables and Accrued Liabilities

Finding No. 2002-4

Criteria: Accrued expenses should be recorded as liabilities are incurred.

Condition: Our testing of the account "payroll payable - leave" noted it was overstated by \$23,180. This error was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is calculation errors and noncompliance with the PVA personnel manual.

Effect: The effect of the above condition is the misstatement of accrued expenses.

Recommendation: We recommend that accrued expense balances be reconciled on a monthly basis.

Prior Year Status: Calculation errors of accrued annual leave were reported as a finding in the audit of PVA for fiscal year 2001.

Auditee Response and Corrective Action Plan: Corrective action to reconcile accrued expenses on a monthly basis will be taken as recommended.

PALAU VISITORS AUTHORITY

Unresolved Prior Year Comments  
Year Ended September 30, 2002

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Questioned Costs section of this report (pages 6 through 10).