

PALAU VISITORS AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003

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
Palau Visitors Authority:

We have audited the financial statements of the Palau Visitors Authority (PVA) as of and for the year ended September 30, 2003, and have issued our report thereon dated May 27, 2005. 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 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 (pages 6 through 9) as items 2003-1 through 2003-3.

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 27, 2005.

Compliance and Other Matters

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*.

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 LLC

May 27, 2005

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Schedule of Findings
Year Ended September 30, 2003

Cash

Finding No. 2003-1

Criteria: Cash in bank balances should be reconciled to the general ledger on a monthly basis.

Condition: The Bank of Hawaii operating account bank reconciliation included deposits in transit of \$9,704, which had been deposited to the bank before September 30, 2003. Additionally, the outstanding check list included \$20,655 in checks that were either void or had cleared the bank. After corrections of the bank reconciliation, the account did not reconcile to the general ledger by \$2,730. This amount was not considered material to the financial statements.

Cause: The cause of the above condition is improper bank reconciliation procedures.

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

Recommendation: We recommend that PVA reconcile its cash accounts on a monthly basis.

Auditee Response and Corrective Action Plan: Corrective action is taken to reconcile cash accounts on a monthly basis; the variance of \$2,730 which the audit points out as not reconciling to the general ledger, is being looked into by the accounting consultant.

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Schedule of Findings, Continued
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-2

Criteria: Donations or pledges should be recorded as revenue.

Condition: Donations and pledges for the tourist guidebook amounting to \$16,450 were recorded against promotional materials expense. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the incorrect recording of receipts.

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

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

Prior Year Status: Misstatement of donation and pledge revenues was reported as a finding in the audit of PVA for fiscal year 2002.

Auditee Response and Corrective Action Plan: Corrective action is taken to record donations or pledges as revenue.

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Schedule of Findings, Continued
Year Ended September 30, 2003

Revenue/Receipts

Finding No. 2003-3

Criteria: Amounts appropriated to PVA under Republic of Palau Public Law (RPPL) 6-26 lapsed at year end.

Condition: PVA reported surplus funds of \$47,067 at September 30, 2003, which were not remitted to ROP as lapsed funding.

Cause: The cause of the above condition is that PVA has not determined proper disposition of these funds with ROP.

Effect: The effect of the above condition is a potential violation of RPPL 6-26.

Recommendation: We recommend that PVA remit surplus funds to ROP in accordance with RPPL.

Auditee Response and Corrective Action Plan: Commitments on subject funds were made prior to September 30, 2003. Staff from the Office of the Public Auditor came to PVA Office to verify purchase orders and PO numbers made against these committed funds, therefore, there should be no surplus funds.

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Unresolved Prior Year Comments
Year Ended September 30, 2003

The status of unresolved prior year findings is discussed within the Schedule of Findings section of this report (pages 6 through 9).