

**MARSHALL ISLANDS POSTAL
SERVICE AUTHORITY**

**(A COMPONENT UNIT OF THE REPUBLIC OF THE
MARSHALL ISLANDS)**

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

YEAR ENDED SEPTEMBER 30, 2012

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Marshall Islands Postal Service Authority:

We have audited the financial statements of the Marshall Islands Postal Service Authority (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated January 17, 2013. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (page 3), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2012-1 to be a material weakness.

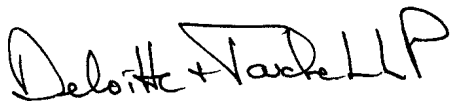
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated January 17, 2013.

The Authority's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

January 17, 2013

**MARSHALL ISLANDS POSTAL
SERVICE AUTHORITY**

Schedule of Findings and Responses
Year Ended September 30, 2012

Finding No. 2012-1

Building Lease Agreement

Criteria: Lease commitments should be supported by valid underlying lease agreements between the Authority and the landlord.

Condition: At September 30, 2012, no updated lease agreement for the Ebeye Post Office appears to be in existence other than that, which expired on July 31, 2011 the monthly lease rental payments of \$1,980 per month or \$23,760 per year. Separate correspondence from the landlord, dated March 26, 2007, appears to indicate that the monthly lease rental payment is \$1,227.48 per month. As of September 30, 2012, the Authority has determined that they are delinquent in the payment of monthly lease rental payments in the total amount of \$98,650, which is summarized as follows:

Lease Rental Period

April 2000 – July 2001	\$ 19,640
August 2001 – July 2006	73,649
August 2006 – September 2008	<u>31,914</u>
	125,203
Less payment made during FY2010 by RepMar	<u>(85,473)</u>
	39,730
FY2009	14,730
FY2010	14,730
FY2011	14,730
FY2012	<u>14,730</u>
	\$ <u>98,650</u>

Accordingly, the Authority has recorded a liability of \$98,650 pertaining to delinquent monthly lease rental payments at the rate of \$1,227.48 per month. In the event that the stipulated monthly lease rental payments per the valid lease agreement are adhered to, the Authority may be liable for an additional \$97,938 in lease rental payments.

Cause: The cause of the above condition is the lack of clarity between the Authority and the landlord as to the agreed monthly lease rental payment.

Effect: The effect of the above condition is the possibility of understatement of liabilities pertaining to lease rental expense.

Prior Year Status: This is a repeat finding from the prior year.

Recommendation: We recommend that the Authority validate the lease agreement for the Ebeye Post Office through the execution of amended lease agreement.

Auditee Response and Corrective Action Plan: There is now a proposed Ebeye Building lease agreement with the Office Of the Attorney General.

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Unresolved Prior Year Findings
Year Ended September 30, 2012

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