Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 4, 2015

The Board of Directors
Kosrae Port Authority

Dear Members of the Board:

We have performed an audit of the financial statements of Kosrae Port Authority (KPA or the Authority) as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 4, 2015.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of KPA is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 2, 2014. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on whether the statement of net position of KPA as of September 30, 2014 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and perform specified procedures on the required supplementary information for the year ended September 30, 2014.

- To report on the KPA's internal control over financial reporting and on their compliances with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2014 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of their responsibilities.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, CONTINUED

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to KPA's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of KPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KPA's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in KPA's 2014 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2014, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As a result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on KPA's financial reporting process. Such proposed adjustments, listed as Attachment I, have been recorded in the accounting records and are reflected in the 2014 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

KPA's significant accounting policies are set forth in Note 2 to KPA's 2014 financial statements. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by KPA:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

The implementation of these statements did not have a material effect on KPA's financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as KPA's 2014 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in KPA's 2014 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to KPA's 2014 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2014.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of KPA's management and staff and had unrestricted access to KPA's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of KPA's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations KPA is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 4, 2015, on KPA's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have identified, and included in the attached Attachment III, deficiencies related to the Authority's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention.

The definition of a deficiency is also set forth in Attachment III.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment IV and should be read in conjunction with this report.

* * * * * * * * *

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

We wish to thank the staff and management of KPA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

ATTACHMENT I

Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE Allowance for uncollectible accounts		
1302	Allowance for Bad Debts	-	12,944.17
5043	Bad Debts	12,944.17	-
		12,944.17	12,944.17
	Reserve allowance for uncollectible accounts for old accounts receivable		
	2 AJE Subsidies from FSMNG		
5005	Fuel	1,889.73	-
5012	Utilities	164.02	-
5033	Repairs and Maintenance	1,922.50	-
5009	Supplies	7,614.20	-
5002	Communications	244.58	-
5038	Freight	70.00	-
5044	Miscellaneous	4,032.85	-
4010	Subsidies from FSMNG	-	15,937.88
		15,937.88	15,937.88
	Subsidies from FSMNG		
	3 AJE Collection of AR		
1301	Accounts Receivable	-	4,745.48
5041	Miscellaneous	4,745.48	-
		4,745.48	4,745.48
	Invalid accounts receivable which were already collected.		

We have reviewed the audit adjustments summarized above and agreed that they should be recorded in the general ledger as of September 30, 2014. These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.

William Tosie, General Manager

Delia Sigrah, Administrative Clerk

Ursula Abalos, Financial Advisor of Kosrae State Government

KOSRAE PORT AUTHORITY
P.O. BOX 960
Tofol, Kosrae FM 96944
Tel: (691) 370-2154
E-mail: kpa@mail.fm

June 4, 2015

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of Kosrae Port Authority (the Authority or "KPA"), a component unit of Kosrae State Government, as of September 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of the Authority's net position, and the related statements of revenues, expenses and changes in net position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

b. The design, implementation, and maintenance of internal control:

- Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- To prevent and detect fraud

c. Establishing and maintaining effective internal control over financial reporting.

d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting

principles generally accepted in the United States of America. In addition:

a. Net position components (net investment in capital assets, restricted and unrestricted) are properly classified and approved.

b. Deposits and investment securities are properly classified in the category of custodial credit risk.

c. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.

d. Required supplementary information is measured and presented within prescribed guidelines.

e. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating and non-operating revenues and expenses.

f. Capital assets are properly capitalized, reported and depreciated.

g. Applicable laws and regulations are followed in adopting, approving, and amending budgets.

2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Authority has provided you:

a. Financial records and related.

b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

c. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

October 9, 2014
November 12, 2014
November 31, 2014
January 28, 2015
February 18, 2015
March 12, 2015
March 27, 2015
May 19, 2015

There are no meetings other than those that have occurred from May 19, 2015 through the date of this letter.

4. There have been no:

a. Action taken by the Authority's management that contravenes the provisions of federal and Federated States of Micronesia (FSM) laws and regulations or of contracts and grants applicable to the Authority and for all funds administered by the Authority.

b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We have no knowledge of any fraud or suspected fraud affecting the Authority involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.

7. There are no unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*. Additionally, we did not utilize services of attorneys during the year ended September 30, 2014 to the date of this letter.

8. The Authority has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Authority and do not believe that the financial statements are materially misstated as a result of fraud.

9. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, matters less than $7,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

10. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

11. The Authority has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

12. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Authority is contingently liable.

13. Regarding related parties:

    a. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

    c. KPA received $3,322,632 of fixed assets and $35,000 of subsidies from Kosrae State Government during the year ended September 30, 2013 and such constitute related party transactions. These fixed assets and subsidies are disclosed in Note 6 to the financial statements.

14. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

    We are not aware of any estimates at September 30, 2014 that may change and that the effect of the change would be material to the financial statements.

15. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements;

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact; and

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

16. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments.*

17. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The Authority has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.

19. We have disclosed to you that no change in the Authority's internal control over financial reporting has occurred during the Authority's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Authority's internal control over financial reporting.

20. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

21. No department or agency of Kosrae State has reported a material instance of noncompliance to us.

22. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*

c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

23. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Authority.

24. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

25. The Authority has advised you all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.

26. The Authority has obligated, expended, received, and used public funds of the Authority in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal or local law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal or local law.

27. Money or similar assets handled by the Authority on the local governments have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.

28. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.

29. During fiscal year 2014, KPA implemented the following pronouncements

- GASB Statement No. 66, Technical Corrections - 2012, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

- GASB Statement No. 67, Financial Reporting for Pension Plans, which revises existing guidance for the financial reports of most pension plans.

- GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

The implementation of these statements did not have a material effect on KPA's 2014 financial statements.

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, which addresses an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

30. The Authority does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. The Authority has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

31. No events have occurred after September 30, 2014, but before June 4, 2015, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

William Tosie, General Manager

Delia Sigrah, Administrative Clerk

SECTION I – DEFICIENCIES

We identified the following deficiencies involving KPA's internal control over financial reporting for the year ended September 30, 2014 that we wish to bring to your attention at this time:

1. Lack of Controls over Departure Fees

Comment:

There were significant discrepancies between passenger manifests and the number of receipts collected. Departure fees are an area of fraud risk as fees are collected in cash. Collectors could pocket the money and report the passenger as not having boarded or is exempted. There are no controls designed or implemented to check receipts against passenger manifests for completeness, to recount the cash collected, to agree to receipts collected, and to agree the cash collected to the amount deposited in the bank.

Recommendation:

We recommend that:

- the number of passengers per the airline manifest be matched with the number of receipts collected, and discrepancies be documented (e.g. explanation of the number of passengers who did not board the plane or were exempt);
- the number of receipts be matched to cash collected;
- cash collected be matched to the deposit slip;
- the sequential number of receipts be verified;
- the collector and the general manager or the individual checking the collector's work sign as preparer and reviewer.

2. Schedule of Accounts Receivable

Comment:

The accounts receivable schedule did not agree with the general ledger (GL). The Authority does not maintain updated customer files and is not able to provide the breakdown of customer receivables at year end. The Authority does not regularly reconcile its receivables with customers or perform timely follow-up on billings. Further, controls are not in place to analyze collectability of accounts receivable and to verify that the allowance is sufficiently reserved.

Recommendation:

We recommend that the Authority update and maintain customer files and perform regular reconciliation of customer receivables. Further, the Authority should perform periodic analysis of the allowance for uncollectible accounts.

3. Record Keeping

Comment:

There are several missing invoices, travel claims and boarding passes, and purchase requisitions. This Comment: could result in inaccurate or incomplete accounting records, or delays in completing work.

SECTION I – DEFICIENCIES, CONTINUED

3. Record Keeping, Continued

Recommendation:

We recommend that the Authority maintain all cash receipts, invoices and transaction files in an orderly manner.

4. Monthly Bank Reconciliation

Comment:

Monthly bank reconciliations are not in file.

Recommendation:

We recommend that the Authority timely perform bank reconciliations.

5. Board Meeting Minutes

Comment:

The Authority does not always create minutes of board meetings. This Comment: could result in incomplete meeting records including important decisions made by the Board.

Recommendation:

We recommend that the Authority maintain meeting minutes.

6. Daily Collection Summary

Comment:

The Authority does not always utilize a daily cash collection summary.

Recommendation:

We recommend that the Authority utilize a daily cash collection summary.

7. Due to Primary Government

Comment:

The Authority has an amount outstanding since 2008 due the primary government.

Recommendation:

We recommend that the Authority attempt to devise a plan to reduce the amount owed, by formally requesting for a write-off of the amount due, or setting aside funds to pay off the amount.

SECTION I – DEFICIENCIES, CONTINUED

8. Monitoring of Expenses of Subsidies

Comment:

Expenses from subsidies which KPA received from governments are not timely monitored. Several invoices were not in file.

Recommendation:

We recommend that the Authority timely monitor expenses and track remaining balances.

9. Withholding Tax

Comment:

Several tax returns were not submitted to the tax authorities by the due date.

Recommendation:

We recommend that management timely remit taxes.

SECTION II – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

ATTACHMENT III

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

KPA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in Comment:s, or that the degree of compliance with the policies or procedures may deteriorate.