

RMI PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2004

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
RMI Ports Authority:

We have audited the financial statements of the RMI Ports Authority (RMIPA) as of and for the year ended September 30, 2004, and have issued our report thereon dated February 28, 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 the Authority'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 a matter involving the internal control over financial reporting and its operation that we consider to be reportable condition. 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 the Authority'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 as items 2004-1 and 2004-2. We also noted other matters involving the internal control over financial reporting, which we have reported to management of RMIPA in a separate letter dated February 28, 2005.

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. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RMIPA'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Deloitte + Touche LLP

February 28, 2005

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Schedule of Findings
Year Ended September 30, 2004

Revenues

Finding No. 2004-1

Criteria: Rental arrangements with airport tenants should be evidenced by valid lease agreements.

Condition: During the year September 30, 2004, the Airport Division did not have a valid lease agreement with two airport tenants.

Cause: The cause of the above condition is that valid lease agreements for these tenants could not be located.

Effect: The effect of the above condition is that RMIPA has no legally binding written agreements in cases where disputes with tenants arise.

Recommendation: We recommend that management obtain lease agreements with all airport tenants.

Auditee Response and Corrective Action Plan:

Management agrees with the auditors' recommendation and will ensure that all airport tenants have a valid lease on file.

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Schedule of Findings
Year Ended September 30, 2004

Accounts Payable

Finding No. 2004-2

Criteria: As a separate component unit of the Republic of the Marshall Islands (RepMar), RMIPA is responsible for paying the utility bills of its airport facilities.

Condition: As of September 30, 2004, RMIPA recorded a payable to RepMar for prior year payment of utility bills in the amount of \$78,957. No formal agreement has been made with RepMar to establish the validity of this liability.

Cause: The cause of the above condition is that no formal agreement exists.

Effect: The effect of the above condition is the possible overstatement of liabilities.

Recommendation: We recommend that management determine the propriety of its liability to RepMar.

Auditee Response and Corrective Action Plan:

RMIPA will be submitting a Cabinet Paper concerning the matter as advised by the Minister of Finance. The purpose of the Cabinet Paper is to request the Cabinet's approval in forgiving the aforementioned liability to RepMar.