

July 16, 2010

Mr. Jack Chong Gum
Executive Director
RMI Ports Authority

Dear Mr. Chong Gum:

In planning and performing our audit of the financial statements of the RMI Ports Authority (the Authority) as of and for the year ended September 30, 2009 (on which we have issued our report dated July 16, 2010), 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, we considered the Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Authority's internal control over financial reporting and other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 16, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

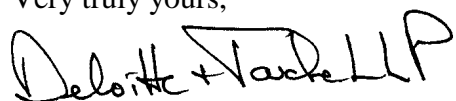
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

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

Very truly yours,



SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Authority's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

(1) Departure Fees

Of ten departure fees tested, eight sales reports dated 12/10/08, 1/12/09, 2/14/09, 3/13/09, 4/20/09, 5/6/09, 6/6/09 and 7/11/09 were not performed daily. Further, daily deposits were not performed with an average delay of 1 to 3 days.

We recommend that management ensure that receipts are issued for all departure fee collections. We also recommend timely preparation and reconciliation of daily sales reports and timely deposit of collections. This matter was discussed in our previous letters for the audits for fiscal years 2007 and 2008.

(2) Leases

During the year ended September 30, 2009, the Authority did not execute lease agreements with thirteen airport tenants. These leases expired during fiscal year 2008 and the renewed agreements could not be provided. Further, two additional lease agreements could not be located.

We recommend that management execute signed agreements with all tenants and maintain documentation to support terms and agreement between obligating parties. This matter was discussed in our previous letters for the audits for fiscal years 2007 and 2008.

(3) Invoice Support & Receipts Filing

Tests of operating revenues revealed two invoices (nos. 58561 and 58895) with insufficient supporting documentation validating the amount charged. Further, one expense (check # 4485) was not supported by a vendor receipt. We recommend that receipts and invoices be maintained and be filed to adequately support transactions.

(4) Journal Entries

We noted erroneous entries, entry omission or wrong customer/vendor accounts being charged/credited which indicate inadequate review of journal entries and transactions. Further, we noted that some journal voucher entries do not reflect the appropriate transaction description or reference.

We recommend that management ensure that all journal vouchers are adequately supported, documented, reviewed and approved prior to posting. This matter was discussed in our previous audits for fiscal years 2007 and 2008.

(5) Airport Program Billings

Billings received after year-end revealed expenses of \$1,089,443 that were not accrued, which resulted in the proposal of an audit adjustment. We recommend that management ensure correct cut-off of transactions. Subsequent billings should be reviewed for recognition of amounts in the correct accounting period. Year-end accruals should be evaluated for adequacy and reasonableness.

(6) Accounts Receivable

Based on confirmation replies received, one customer indicated an overstatement of \$7,487. No reconciliation was provided to resolve the discrepancy. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend that management ensure that sales are correctly billed and recorded. Appropriate customers reconciliation should occur to facilitate timely resolution of discrepancies and disputed balances.

(7) Doubtful Accounts

Of 25 customer accounts tested, three had ceased operations and a full allowance was provided due to high probability of non-collection. We recommend that management evaluate long outstanding customer balances and assess the adequacy of the allowance for doubtful accounts. Management should consider account write-offs if the probability of collection is remote. Appropriate documentation should be maintained to support the basis of the provision and attendant write-offs.

(8) Fixed Asset Capitalization Policy

Fixed assets were capitalized that are below the \$500 capitalization threshold. We recommend that management review fixed asset transactions and comply with its capitalization policy.

(9) CWIP Transfer to Fixed Assets

During the year ended September 30, 2009, construction work-in-progress reports were not evaluated for appropriate transfer to fixed assets. Total transfers of \$9,310,776 were adjusted through the audit process based on certifications of completed and substantially completed projects.

We recommend project monitoring and evaluation occur to timely identify completed projects.

SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Accounts Receivable with Credit Balances

Accounts receivable as of September 30, 2009 include the following credit balances:

<u>Age Category</u>	<u>Total AR Credit Balance</u>
1-30 days	\$ 407
31-60 days	366
Over 90 days	<u>9,330</u>
Total	\$ <u>10,103</u>

We recommend that management ensure that the credits are timely reviewed and adjusted. This matter was discussed in our previous letters for the audits for fiscal years 2007 and 2008.

(2) Advances to Suppliers

As of September 30, 2009, prior year supplier advances of \$160,345 remain outstanding. Additionally, these prior year advances include \$159,240 paid for the purchase of equipment from a vendor that is in receivership. An allowance has been provided for this advance payment since management believes that the refund or receipt of the item is unlikely.

We recommend that management implement procedures to ensure that services or goods related to advance payments are actually received. Further, we recommend that management ensure that long-outstanding advances are reviewed and adjusted in a timely manner. This matter was discussed in our previous letters for the audits for fiscal years 2007 and 2008.

(3) Employee Advances

As of September 30, 2009, employee advances of \$10,530 have been outstanding for over a month and have not been liquidated.

We recommend that management review long outstanding advances and that necessary adjustments occur timely.

(4) Receivable from a Related Party

During the year ended September 30, 2009, the Airport Division billed an affiliated airline for terminal space. The affiliate has disputed the billing based on a RepMar Cabinet Minute, which authorized the transfer of the cargo hangar to the affiliate.

We recommend that management determine the propriety of this receivable. This matter was discussed in our previous letters for the audits for fiscal years 2005 through 2008.

(5) Inventory

Tests of inventory did not provide evidence that a physical inventory count was conducted at September 30, 2009. We recommend that management ensure that physical inventory counts are conducted on a regular basis. We further recommend that inventory count procedures are documented. This matter was discussed in our previous letters for the audits for fiscal years 2007 and 2008.

(6) Payable to a Related Party

Since September 30, 2006, the Authority recorded a payable to RepMar of \$134,725. No formal agreement has been executed with RepMar to establish the validity of this liability.

We recommend that management determine the propriety of this liability. This matter was discussed in our previous letters for the audits for fiscal years 2006 through 2008.

(7) Meram, Inc.

On November 22, 2001, Seaport Division advanced \$173,555 to Meram, Inc. for boat operations. The November 20, 2001 minutes of former MIPA Board of Directors indicated that this advance was fully guaranteed by the RepMar Ministry of Transportation and Communication. No agreement exists with the Ministry of Transportation and Communication documenting terms and conditions of the advance. As of September 30, 2009, these amounts have not been repaid and a full allowance has been recorded against these balances.

We recommend that management continue collection efforts and coordinate with the Attorney General concerning this advance. Additionally, we recommend that RMIPA obtain a written agreement with the Ministry of Transportation and Communication documenting terms and conditions of the advance. This matter was discussed in our previous letters for the audits for fiscal years 2005 through 2008.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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.

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

The Authority'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 conditions, or that the degree of compliance with the policies or procedures may deteriorate.