

**RMI PORTS AUTHORITY**

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

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

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**YEAR ENDED SEPTEMBER 30, 2011**

**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  
RMI Ports Authority:

We have audited the financial statements of the RMI Ports Authority (the Authority) as of and for the year ended September 30, 2011, and have issued our report thereon dated September 20, 2012. 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.

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 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.

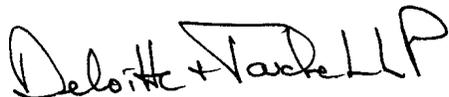
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 September 20, 2012.

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 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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

September 20, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors  
RMI Ports Authority:

## Compliance

We have audited the RMI Ports Authority's (the Authority) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2011. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 and 8). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Airport Improvement Program (CFDA # 20.106) major federal program for the year ended September 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1.

## Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

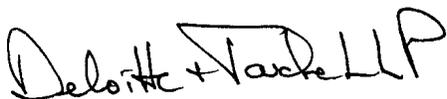
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's response, and accordingly, we express no opinion on the response.

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended September 30, 2011, and have issued our report thereon dated September 20, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



September 20, 2012

# RMI PORTS AUTHORITY

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2011

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2010	Cash Receipts FY11	Expenditures/ Adjustments FY11	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
Funds received in a direct capacity:						
<u>U.S. Department of Transportation:</u>						
<u>CFDA # 20.106</u>						
<u>Airport Improvement Program</u>						
Rehabilitate Runway 7/25 -Phase II	Project #3-68-0001-06	\$ 13,000,000	\$ 119,117	\$ (515,593)	\$ 396,476	\$ -
Construct ARFF Building Phase II and Modify Service Road Design Phase I	Project #3-68-0001-07	16,100,000	496,327	(1,231,939)	807,770	72,158
Conduct Airport Master Plan Study	Project #3-68-0001-08	999,995	112,981	(158,213)	51,065	5,833
Improve Runway Safety Area (Relocate Service Road) - Phase	Project #3-68-0001-09	8,000,000	176,248	(2,272,993)	2,544,796	448,051
		<u>38,099,995</u>	<u>904,673</u>	<u>(4,178,738)</u>	<u>3,800,107</u>	<u>526,042</u>
 <u>U.S. Department of the Interior:</u>						
<u>CFDA # 15.875</u>						
<u>OMIP-RMI-2008-1</u>						
Document Management System Program		<u>174,000</u>	<u>-</u>	<u>(12,446)</u>	<u>12,446</u>	<u>-</u>
 Total Capital Improvement Programs		<u>\$ 38,273,995</u>	<u>\$ 904,673</u>	<u>\$ (4,191,184)</u>	<u>\$ 3,812,553</u>	<u>\$ 526,042</u>

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

## RMI PORTS AUTHORITY

### Schedule of Awards Selected for Audit in Accordance with OMB Circular A-133 Year Ended September 30, 2011

The following list specifies major awards selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Original Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Expenditures</u>
U.S. Department of Transportation	20.106	Airport Improvement Program	\$ <u>3,800,107</u>
Total RMI Ports Authority federal program expenditures			\$ <u>3,812,553</u>
% of total RMI Ports Authority federal program expenditures tested			<u>99.7%</u>

**RMI PORTS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2011

**PART I - SUMMARY OF AUDITORS' RESULTS SECTION**

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Unqualified   |
| Internal control over financial reporting:               |               |
| 2. Material weakness(es) identified?                     | No            |
| 3. Significant deficiency(ies) identified?               | None reported |
| 4. Noncompliance material to financial statements noted? | No            |

*Federal Awards*

Internal control over major programs:

- |   |             |
|---|-------------|
| 5. Material weakness(es) identified?  | No          |
| 6. Significant deficiency(ies) identified?  | Yes         |
| 7. Type of auditors' report issued on compliance for major programs   | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes         |
| 9. Identification of major programs:  |             |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	U.S. Department of Transportation: Airport Improvement Program

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as a low-risk auditee?                                 | No        |

**PART II- FINANCIAL STATEMENT FINDINGS SECTION**

No matters were reportable.

**PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2011-1	Equipment and Real Property Management	\$ -	8

**RMI PORTS AUTHORITY**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-1  
CFDA No.: 20.106  
Agency: U.S. Department of Transportation  
Program Name: Airport Improvement Program  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: 49 CFR 18.32(d), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that procedures for managing equipment, whether acquired in whole or in part with grant funds, shall include the following requirements:

- a. Adequate maintenance procedures must be developed to keep the property in good condition.

Condition: The Authority does not have established policies over property maintenance and has not effectively implemented an entity-wide maintenance plan.

Cause: The cause of the above condition is the lack of adherence with established policies and procedures governing equipment maintenance requirements.

Effect: The effect of the above condition is noncompliance with federal equipment management requirements. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2011 of unnecessary expenses that occurred due to this condition.

Recommendation: We recommend that staff design and implement property maintenance policies and procedures in accordance with applicable requirements.

Prior Year Status: Noncompliance with federal equipment management requirements was reported as a finding in the Single Audit of the Authority for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan: The RMIPA agrees with the auditors' finding and will work on developing a property maintenance policy and procedures manual.

**RMI PORTS AUTHORITY**

Unresolved Prior Year Findings  
Year Ended September 30, 2011

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 and 8).