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September 20, 2012

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, 2011 (on which we have issued our report dated September 20, 2012), 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, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 20, 2012, 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,

Deloitte & Touche LLP

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Authority's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention:

(1) Inappropriate Cut-off of Invoices Payable

We noted a number of payments made after year-end which related to services received prior to year-end which were not accrued for. Examples include overtime payments for July 25 – Oct 3, 2011 pro-rated, an electricity bill from July 2011, RMI tax accrual for Sept 7, 2011 – Oct 2, 2011 pro-rated, MISSA accrual for July – Sept 18, 2011. This resulted in an understatement of accounts payable and accrued liabilities of $17,775 as of September 30, 2011; however, no audit adjustment was proposed as this understatement was not considered material to the financial statements. We recommend that the process for identifying accrued liability be reviewed in order to require that all goods or services received prior to year end are properly accrued for.

Management Comments:

Noted and agreed.

(2) No Formal Tracking of Percentage of Completion

During our audit, the Comptroller received a confirmation request from the auditor of one of the Authority's vendors. The auditor of the vendor company asked to confirm a higher amount than what was recorded on the Authority's books, which resulted in a long dispute as to the percentage of the project completed. The Authority did not record the vendor's invoice in contractor's payable as the Authority did not believe the project was as far along as the vendor thought. To minimize potential disputes, we recommend that the Authority develop a practice to have a formal project tracking system, signed by both parties confirming the completion of certain milestones, or confirming the percentage completed on critical dates such as year-end. This will enable management to more easily track their % completion for the purposes of accruing costs due.

Management Comments:

Noted and agreed. RMIPA follows what was stipulated in the contract. When RMIPA received the invoice from the contractor, the work was not 50% completed and according to the contract, payment will only be made when the work has reached the50% completion. Payment was only made for the materials received, thus RMIPA booked in Sep 2011 the amount paid for materials in January 2011. The only lacking is the confirmation or certification from RMIPA's engineer and PII.

(3) Lack of Review of Allowance for Doubtful Accounts

During the testing of the design and implementation of controls, we noted that there was a lack of management review of allowance for doubtful accounts methodology, assumptions, and calculation. The Comptroller calculates and records the allowance without an independent check. As a result, the accounts receivable was overstated by $133,026 prior to correction of the financial statements. Given the allowance for doubtful accounts involves significant judgment, we recommend that the practice of checking accounts such as allowance for doubtful accounts be performed by management.

Management Comments:

Noted and agreed.

(4) Invoice Support

No vendor invoice was provided for purchase of furniture and equipment for the ARFF building. We recommend that invoices and other pertinent documents be maintained and retained on file.

Management Comments:

This disbursement happened in Oct 2010. RMIPA is not approving payment without complete documents. The invoice could be misplaced only. RMIPA has formalized by creating a policy on the disbursements. In the policy, it indicates that all vendor payments must have attached all pertinent documents e.g. approved PO, invoices, and receiving report before approval for payment.

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, 2011 included accounts with credit balances totaling $8,443. We recommend that management require that credit balances be reviewed and adjusted in a timely manner. This matter was discussed in our previous letters for the audits for fiscal years 2007 through 2010.

Management Comments:

RMIPA is aware of this since this has been discussed since 2007, but this account is something to look up to and it is not simple to analyze the receivables account especially carried forward from 2007. To give you an update, RMIPA is analyzing all of its customers account including credit balances. You would notice that some were already adjusted and booked in FY 2011. This is ongoing and all remaining credit balances are being analyzed and adjustments for those that have accounted will be adjusted accordingly.

(2) Payable to a Related Party

Since September 30, 2006, the Authority recorded a payable to RepMar of $134,725 relating to electricity. 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 2010.

Management Comments:

RMIPA is recommending this to be waived and it will be discussed through its regular Board Meeting.

(3) AMI Interest Calculation

During the testing of interest income and related receivable, we noted that interest was calculated based on the principal amount outstanding as of September 30, 2011 and not pro-rated based on date of payments on principal balances. This caused an understatement of $10,421 on the AMI loan receivable; however, no audit adjustment was proposed as this understatement was not considered material to the financial statements. We recommend that a more detailed principal and interest schedule be calculated and updated on a timely basis.

Management Comments:

Noted and agreed.

(4) Inconsistent Application of Depreciation Rates

During the testing of depreciation, we noted that some assets such as the pilot boat and roadways did not follow the Authority's depreciation policies nor were consistent with other assets of the same group. This resulted in an understatement of depreciation expense; however, no audit adjustment was proposed as this understatement was not considered material to the financial statements. We recommend that the depreciation rates for newly purchased assets be reviewed by the Executive Director for consistency with Authority policy prior to its entry into the property, plant, and equipment register.

Management Comments:

RMIPA has revised the accounting policy for its property and equipment in FY 2011 so that newly purchased assets will be depreciated in accordance with the revised policy.

(5) Validation of Old Payable Accounts

During our testing of accounts payable, we noted a number of old carried forward balances including items recorded under account 20101 Accounts Payable – Vendors, account 22010 GRT Withheld Payable, and account 22011 Taxes Withheld from Contractors. We recommend that the Authority validate these old outstanding accounts and write-off any old invalid payable accounts in FY2012.

Management Comments:

RMIPA has started analyzing the accounts, but was not able to finish it during the FY 2011. Analysis is ongoing and will be adjusted accordingly in FY 2012.

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.

APPENDIX II

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.