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July 4, 2014

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), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2013, on which we have issued our report dated July 4, 2014, 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, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 4, 2014, 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 noted no matters related to control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention.

## 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) Payable to a Related Party

Since September 30, 2006, the Authority has recorded a $134,724 payable to RepMar 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 to management for the audits of fiscal years 2006 through 2012.

Prior Year Management Comments:

Noted and agreed.

Current Year Management Comments:

Noted and agreed.

(2) Fixed Asset Tags

The Authority's asset tags were not affixed to seven of sixteen (or 44%) fixed assets tested for existence. Tag #s per the fixed asset register for these items are 0571, 0624, 0801, 0548, 0717, 0725-0734, and 0771. Additionally, license plate #s (5126 and 5679) on two vehicles did not agree with the fixed asset register. We recommend that tags be verified as part of the fixed assets physical count process and that the fixed asset register be updated to reflect correct vehicle license plate numbers.

Management Comments:

RMIPA agrees and will take corrective action.

(3) Maintenance of Lease Agreements

An amended lease agreement with Marshall Islands Shipping Corporation (MISC) for warehouse space has yet to be signed. We recommend that the amended agreement be signed and maintained on file. This matter was discussed in our previous letter to management for the audit of fiscal year 2012.

Prior Year Management Comments:

RMIPA has been following this up with MISC for their concurrence since November 2011.

Current Year Management Comments:

RMIPA is doing something to resolve this lease issue with MISC.

(4) Clearance of Vessel Forms

These pre-numbered forms are not utilized in sequential order and are not forwarded to accounting in a timely manner to facilitate monitoring by management, to verify completeness of revenue recording, and to allow timely billings to customers. We recommend that Clearance of Vessel forms be sequentially issued and timely forwarded to accounting.

Management Comments:

RMIPA agrees and will take corrective action.

(5) Tariff Rates

Airport equipment usage rates are not included in the Authority's June 1, 2011 Revised Tariff template. We recommend that all rates be documented as approved.

Management Comments:

Noted and agreed. It was not listed or included in the Authority's June 1, 2011 Revised Tariff Rates, but in one of its Board Resolution, but was not forwarded to the auditors during the time of audit.

## 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 is 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.