RMI PORTS AUTHORITY

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2005

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: +1 671 646 3884
Fax: +1 671 649 4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON 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 (the Authority) as of and for the year ended September 30, 2005, and have issued our report thereon dated March 31, 2006. 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 2005-1 through 2005-4.

A material weakness is a reportable 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 caused by error or fraud 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 that none of the reportable conditions described above is a material weakness.

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 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 March 31, 2006.

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

March 31, 2006

RMI PORTS AUTHORITY

Schedule of Findings
Year Ended September 30, 2005

Revenues

Finding No. 2005-1

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

Condition: During the year September 30, 2005, the Authority did not have a valid lease agreement with one airport tenant. Additionally, two lease agreements expired during the year for which no new lease agreements were made available.

Cause: The cause of the above condition is because of inadequate lease maintenance.

Effect: The effect of the above condition is that the Authority 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.

Prior Year Status: The lack of valid lease agreements with tenants was reported as a finding in the audit of the Authority for fiscal year 2004.

Auditee Response: Management agrees with the auditors' recommendation and will ensure that all RMI Ports Authority's (the Authority) tenants have a valid lease on file.

Accounts Payable

Finding No. 2005-2

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

Condition: As of September 30, 2005, the Authority has 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 it is not possible to determine whether this amount represents a valid liability.

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

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

Prior Year Status: The lack of a formal agreement with RepMar for prior year payment of utility bills was reported as a finding in the audit of the Authority for fiscal year 2004.

Auditee Response: the Authority 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.

Capitalization Policy

Finding 2005-3

Criteria: The Authority's capitalization policy requires that all qualifying assets with costs in excess of $500 be capitalized.

Condition: The Authority proposed an entry to capitalize $54,112 in previously recorded repairs and maintenance expenses, despite each asset having an individual cost of less than $500. Additionally, another entry proposed was to capitalize $19,902 of previously recorded inventory items that were utilized in ordinary repairs and maintenance. As these amounts did not meet the Authority's capitalization policy, the entries were not recorded in the audit process.

Cause: The cause of this condition appears to be potential noncompliance with the Authority's capitalization policy.

Effect: The condition has no impact on the financial statements since the proposed entries were not recorded.

Recommendation: The Authority should either comply with its stated capitalization policy or consider the reasons why such policy should be amended.

Auditee Response: Management agrees with the auditors' recommendation and will ensure that the Authority's capitalization policy is strictly implemented.

Journal Vouchers

Finding 2005-4

Criteria: Journal entries recorded into the general ledger should be supported by authorized journal vouchers.

Condition: During tests of disbursements, three journal entries were not properly supported by journal vouchers. We were informed that the Authority does not utilize formal journal vouchers.

Cause: The cause of this condition is a lack of internal control requiring the use of journal vouchers to provide an audit trail.

Effect: The effect of the above condition is that unauthorized journal entries may have been posted during the year.

Recommendation: We recommend that the Authority utilize formal journal vouchers to provide an audit trail and to ensure that management properly approves entries.

Auditee Response: Management agrees that journal entries in the general ledger should be supported by duly approved journal vouchers. We are now implementing the said procedures effective fiscal year 2005/2006.