

**RMI PORTS AUTHORITY**

---

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

---

**YEAR ENDED SEPTEMBER 30, 2006**

**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, 2006, and have issued our report thereon dated June 20, 2007. 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 9) as item 2006-1.

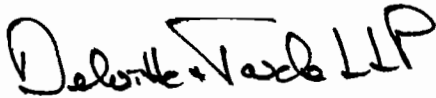
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 the reportable condition described above is not 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 June 20, 2007.

This report is intended solely for the information and use of the Board of Directors and management of the Authority's, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Deloitte + Toche LLP". The signature is written in a cursive, stylized font.

June 20, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors  
RMI Ports Authority:

Compliance

We have audited the compliance of the RMI Ports Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Authority's major federal programs is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 9). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs 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 and 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 on the Authority's compliance with those requirements.

As described in item 2006-2 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding cash management that are applicable to the Airport Improvements Project (CFDA #20.601).

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

### Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

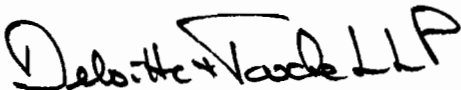
We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-2.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable condition and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the above-mentioned reportable condition to be a material weakness.

### 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, 2006, and have issued our report thereon dated June 20, 2007. 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 the purpose 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's. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and management of the Authority's, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than those specified parties.



June 20, 2007

**RMI PORTS AUTHORITY**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2005	Cash Receipts FY06	Expenditures FY06	Excess (Deficiency) of Authorization Over (Under) Program Expenditures
Funds received in a direct capacity:						
<u>U.S. Department of Transportation:</u>						
<u>CFDA # 20.601</u>						
<u>Airport Improvement Projects</u>						
21,500 gal ARFF Vehicles and Protective Clothing	Project #3-68-0001-03	\$ 1,500,000	\$ -	\$ (2,262)	\$ 2,262	\$ -
ARFF Building - Phase I (Design)	Project #3-68-0001-04	1,000,000	-	(116,059)	121,733	5,674
Rehabilitate Runway 7/25 -Phase I	Project #3-68-0001-05	10,000,000	-	(7,824,911)	10,000,000	2,175,089
Rehabilitate Runway 7/25 -Phase II	Project #3-68-0001-06	13,000,000	-	(225,768)	2,851,983	2,626,215
		<u>25,500,000</u>	<u>-</u>	<u>(8,169,000)</u>	<u>12,975,978</u>	<u>4,806,978</u>
<u>U.S. Department of Agriculture:</u>						
<u>CFDA #10.766</u>						
<u>Rural Development</u>						
CF Technical Assistant		499,000	111,000	(499,000)	310,000	(78,000)
Funds received in a pass-through capacity:						
<u>U.S. Department of the Interior:</u>						
<u>CFDA # 15.875</u>						
<u>Compact of Free Association - Section 211(d) Public Infrastructure Sector Grant</u>						
Funds passed through the Republic of the Marshall Islands Government:						
Majuro Airport Repaving		500,000	-	(500,000)	500,000	-
<b>Total Capital Improvement Programs</b>		<b>\$ 26,499,000</b>	<b>\$ 111,000</b>	<b>\$ (9,168,000)</b>	<b>\$ 13,785,978</b>	<b>\$ 4,728,978</b>

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

In accordance with Section .530 of OMB Circular A-133, the Authority is not considered a low-risk auditee as the year ended September 30, 2006 is the initial year in which a Single Audit of the Authority has been performed.

## RMI PORTS AUTHORITY

### Schedule of Awards Selected for Audit in Accordance with OMB Circular A-133 Year Ended September 30, 2006

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	20.601	Airport Improvement Projects	\$ 12,975,978
U.S. Department of the Interior	15.875	Compact of Free Association – Section 211(d) Public Infrastructure Sector Grant	<u>500,000</u>
			\$ <u>13,475,978</u>
Total RMI Ports Authority federal program expenditures			\$ <u>13,785,978</u>
% of total RMI Ports Authority federal program expenditures tested			<u>98%</u>

# RMI PORTS AUTHORITY

## Schedule of Findings and Questioned Costs Year Ended September 30, 2006

### Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, none of which were considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. A reportable condition in internal control over compliance with requirements applicable to major federal awards programs was identified, and which was considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Authority's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Transportation: Airport Improvement Projects	20.601
U.S. Department of the Interior: Compact of Free Association – Section 211(d) Public Infrastructure Sector Grant	15.875

8. A threshold of \$390,573 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

### Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2006-1	Journal Vouchers	\$ -	8

### Part III - Federal Award Findings and Questioned Costs Section

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2006-2	Cash Management	\$ -	9



## RMI PORTS AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

#### Journal Vouchers

#### Finding No. 2006-1

Criteria: Journal entries should be supported by authorized journal vouchers.

Condition: Journal vouchers were recorded in September 2006 without prior authorization.

Cause: The cause of the above condition is the lack of internal control requiring that journal vouchers be approved prior to recording.

Effect: The effect of the above condition is that unauthorized journal entries were posted during the month of September 2006.

Recommendation: We recommend that management ensure that journal vouchers are reviewed and approved prior to recording.

Auditees Response and Corrective Action Plan: Management agrees with the auditors' recommendation and will ensure that journal vouchers are reviewed and approved prior to recording.

**RMI PORTS AUTHORITY**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No: 2006-2  
CFDA No: 20.601  
Grantor Agency: U.S. Department of Transportation Federal Aviation Administration  
Program Name: Airport Improvement Projects  
Requirement: Cash Management  
Questioned Costs: \$0

**Criteria:** Cash management requirements under OMB Circular A-102 require that agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and the recipient's need for the funds.

**Condition:** The time elapsed between when federal funds were received and when checks cleared the bank ranges from one to eight days. The following is a calculation of the interest liability owed to the federal agency:

<u>Date of Deposit</u>	<u>Deposit</u>	<u>Days Elapsed</u>	<u>Treasury Rate</u>	<u>Interest Liability</u>
11/15/05	\$ 409,530	7	2.76%	\$ 217

No questioned costs result from this condition as the extrapolated liability is less than the \$10,000 threshold.

**Cause:** The cause of the above condition is the lack of established policies and procedures requiring that the time elapsed between drawdowns and disbursements be minimized.

**Effect:** The effect of the condition is noncompliance with federal cash management requirements.

**Recommendation:** We recommend that the Authority establish policies and procedures to ensure compliance with cash management requirements.

**Auditees Response and Corrective Action Plan:** Management agrees with the auditors' recommendation and will ensure that Port Authority's compliance with cash management requirements under OMB Circular A-102 is strictly followed. Management further agrees to develop and implement the recommended policies and procedures to ensure compliance with the above.