

**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, 2009**

**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, 2009, and have issued our report thereon dated July 16, 2010. 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 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 *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

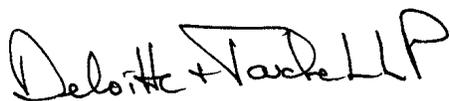
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control 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 July 16, 2010.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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 + Touche LLP". The signature is written in a cursive, stylized font.

July 16, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO 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 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 its major federal program for the year ended September 30, 2009. The Authority's major federal program 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 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 requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1.

### Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

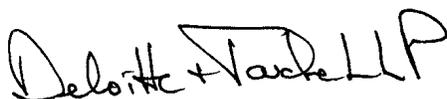
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

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 it.

#### 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, 2009, and have issued our report thereon dated July 16, 2010. 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 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 financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.



July 16, 2010

# RMI PORTS AUTHORITY

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2008	Cash Receipts FY09	Expenditures FY09	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>						
Two 1,500 gal ARFF Vehicles and Protective Clothing	Project #3-68-0001-03	\$ 1,551,772	\$ (85,952)	\$ -		\$ (85,952)
ARFF Building - Phase I (Design)	Project #3-68-0001-04	1,124,063	(263,827)	(124,063)	130,593	(257,297)
Rehabilitate Runway 7/25 -Phase I	Project #3-68-0001-05	11,500,000	(1,498,613)	-		(1,498,613)
Rehabilitate Runway 7/25 -Phase II	Project #3-68-0001-06	13,000,000	1,828,746	(1,963,386)	1,867,939	1,733,299
Construct ARFF Building Phase II and Modify						
Service Road Design Phase I	Project #3-68-0001-07	14,000,000	1,207,938	(8,990,385)	9,662,351	1,879,904
Conduct Airport Master Plan Study	Project #3-68-0001-08	999,995	-	(151,425)	159,395	7,970
		<u>42,175,830</u>	<u>1,188,292</u>	<u>(11,229,259)</u>	<u>11,820,278</u>	<u>1,779,311</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>(80,500)</u>	<u>80,500</u>	<u>-</u>
 <u>U.S. Department of Agriculture:</u>						
<u>CFDA #10.766</u>						
<u>Rural Development</u>						
CF Technical Assistant		<u>499,000</u>	<u>(39,000)</u>	<u>-</u>	<u>-</u>	<u>(39,000)</u>
Total Capital Improvement Programs		<u>\$ 42,848,830</u>	<u>\$ 1,149,292</u>	<u>\$ (11,309,759)</u>	<u>\$ 11,900,778</u>	<u>\$ 1,740,311</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, 2009

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>11,820,278</u>
Total RMI Ports Authority federal program expenditures			\$ <u>11,900,778</u>
% of total RMI Ports Authority federal program expenditures tested			<u>99.3%</u>

**RMI PORTS AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No significant deficiencies in internal control over financial reporting were identified.
3. No instances of noncompliance considered material to the financial statements were disclosed during the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The program tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
U.S. Department of Transportation: Airport Improvement Program	20.106

8. A threshold of \$357,023 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 qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

No matters were reportable.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2009-1	Equipment and Real Property Management	\$ -	8

## RMI PORTS AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-1  
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:** Federal requirements state that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who hold title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of property, and any ultimate disposition data including the date of disposal and sale price of the property;
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
4. Adequate maintenance procedures must be developed to keep property in good condition;
5. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

**Condition:** We noted the following exceptions to the criteria:

- Fixed asset records delineate the source of the equipment by division, cost, acquisition date, etc. These records, however, are not effectively maintained. Updates to the records occur only at the end of each fiscal year or during the physical inventory count, which does not regularly occur. Further, the Authority did not conduct a physical count of fixed asset in fiscal years 2007 through 2009; therefore, reconciliation between the inventory count and the general ledger could not be performed.
- As fixed asset records are not effectively updated, it does not appear that the Authority has effectively developed means to ensure that fixed assets are adequately safeguarded from loss, damage, theft, or that investigations of such losses could reasonably occur.
- The Authority does not have established property maintenance policies and has not effectively implemented an entity-wide maintenance plan.

**Cause:** The cause of the above condition is lack of adequate procedures relate to regular physical counts of fixed assets and lack of established property maintenance procedures.

**Effect:** The effect of the above condition is a lack of compliance with federal regulations.

**Recommendation:** We recommend that management ensure that regular physical counts of fixed asset are conducted. We also recommend that equipment listings be compiled, procedures be implemented that provide for adequate maintenance and that safeguards against loss, damage or theft of property be implemented.

## RMI PORTS AUTHORITY

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No.: 2009-1, Continued  
CFDA No.: 20.106  
Agency: U.S. Department of Transportation  
Program Name: Airport Improvement Program  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: We agree with the auditors' finding and will implement necessary policies and procedures as recommended by the auditors to address this noncompliance.