

RMI PORTS AUTHORITY

**(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

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

YEAR ENDED SEPTEMBER 30, 2010

**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, 2010, and have issued our report thereon dated August 11, 2011. 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 *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

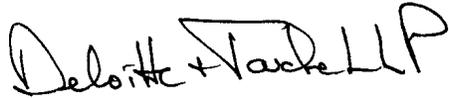
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal 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 August 11, 2011.

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 + Tuckers LLP". The signature is written in a cursive, slightly stylized font.

August 11, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 RMI Ports Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2010. 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 10). 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.

As described in items 2010-01 and 2010-02 in the accompanying Schedule of Findings and Questioned Costs, the Authority did not comply with requirements regarding equipment and real property management, and reporting that are applicable to its Airport Improvement Program (CFDA # 20.106) major federal program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Airport Improvement Program (CFDA # 20.106) major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

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 to determine the 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

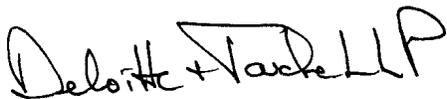
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2 to be material weaknesses.

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, 2010, and have issued our report thereon dated August 11, 2011. 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 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 basic financial statements taken as a whole.

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

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.



August 11, 2011

RMI PORTS AUTHORITY

Schedule of Expenditures of Federal Awards Year Ended September 30, 2010

Program Title	Grant Number	Program or Award Amount	Balance October 1, 2009	Cash Receipts FY 10	Expenditures/ Adjustments FY 10	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>						
Rehabilitate Runway 7/25 -Phase II	Project #3-68-0001-06	\$ 13,000,000	\$ 1,733,299	\$ (978,814)	\$ (635,368)	\$ 119,117
Construct ARFF Building Phase II and Modify Service Road Design Phase I	Project #3-68-0001-07	14,000,000	1,879,904	(3,815,079)	2,431,502	496,327
Conduct Airport Master Plan Study	Project #3-68-0001-08	999,995	7,970	(566,496)	671,507	112,981
Improve Runway Safety Area (Relocate Service Road) - Phase	Project #3-68-0001-09	8,000,000	-	-	176,248	176,248
		<u>35,999,995</u>	<u>3,621,173</u>	<u>(5,360,389)</u>	<u>2,643,889</u>	<u>904,673</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>(64,006)</u>	<u>64,006</u>	<u>-</u>
 Total Capital Improvement Programs		<u>\$ 36,173,995</u>	<u>\$ 3,621,173</u>	<u>\$ (5,424,395)</u>	<u>\$ 2,707,895</u>	<u>\$ 904,673</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, 2010

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>2,643,889</u>
Total RMI Ports Authority federal program expenditures			\$ <u>2,707,895</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, 2010

PART I - SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. Identification of major programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	U.S. Department of Transportation: Airport Improvement Program

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$300,000 |
| 11. Auditee qualified as a low-risk auditee? | No |

PART II- FINANCIAL STATEMENT FINDINGS SECTION

No matters were reportable.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2010-1	Equipment and Real Property Management	\$ -	8
2010-2	Reporting	-	10

RMI PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-1
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: 49 CFR 18.32(d), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states 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 occur regularly. Further, the Authority has not conducted a physical count of fixed assets in fiscal years 2007 through 2010; therefore, reconciliation between the inventory count and general ledger could not be performed.
- As the 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 policies over property maintenance and has not effectively implemented an entity-wide maintenance plan.

Cause: The cause of the above condition is lack of adequate procedures requiring physical counts of fixed assets are periodically conducted and lack of established procedures governing property maintenance.

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

Recommendation: We recommend that management require that a regular physical count of fixed assets is conducted. We also recommend that equipment listings be compiled and procedures implemented that provide maintenance and safeguards against loss, damage or theft of property.

RMI PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-1, 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: The Ports Authority agrees with the auditor's finding and will implement corrective measures and appropriate policies and procedures as needed to protect its assets and property.

RMI PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-2
CFDA No.: 20.106
Agency: U.S. Department of Transportation
Program Name: Airport Improvement Program
Area: Reporting
Questioned Costs: \$0

Criteria: Recipients should use the standard financial reporting forms or such other forms as may be authorized by the OMB. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. Pursuant to OMB 110 Part 23, the following reporting requirements should be complied with. For FAA funded accounts, the Authority is required to submit SF 271, Outlay Report and Request for Reimbursement, each time an electronic or ECHO web transfer is requested. Further, SF 272, Federal Cash Transaction Report should also be submitted on a quarterly basis. However, based on the Program Guidance Letter 10-1 issued by FAA, a new Federal Financial Reporting (FFR) form number SF-425 shall be used no later than October 2009 to comply with OMB. All references to SF-269, SF 269-A, SF-272 and SF-272A are to be replaced with SF-425.

Condition: The Authority did not submit the quarterly reporting using the SF 272 form and has not adopted the new FFR using the SF 425 form.

Cause: The cause of the above condition is the lack of adequate procedures requiring reporting requirements are met.

Effect: The effect of the above condition is a lack of compliance with the criteria.

Recommendation: We recommend that management maintain compliance with the updated reporting requirements and require timely completion and submission of reports.

Auditee Response and Corrective Action Plan: The Ports Authority has been doing this and it was not intentionally done to forget its reporting requirements. The Ports Authority was short of manpower during FY 2010 since the Comptroller left and there was no proper turnover that happened during that time. Though, the Ports Authority agrees with the auditors that compliance should be maintained and deadline should be met in all kinds of situations.

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Unresolved Prior Year Findings
Year Ended September 30, 2010

There are no prior year findings unresolved as of September 30, 2010.