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June 28, 2013

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) as of and for the year ended September 30, 2012 (on which we have issued our report dated June 28, 2013), 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, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 28, 2013, 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 identified, and have included below, deficiencies involving the Authority's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

(1) Late Remittance of Withholding Tax

Withholding taxes for the period of October 31, 2011 – November 27, 2011 were not remitted until January 11, 2013. We recommend that management timely remit taxes to regulatory authorities.

Management Comments:

Noted and agreed.

(2) Wharfage Fees Not Being Billed Based on the Correct Quantity

Two sales invoices (Invoice No. 63708 and 63640) were based on incorrect quantities, resulting in an understatement of the amount due from the customer. The shore tank data was miscalculated, and actual metric tons received were more than what was billed, amounting to a $9,254 understatement of wharfage fees. We recommend that careful reconciliation and review of invoices occur prior to being sent to customers.

Management Comments:

Noted and agreed.

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 recorded a payable to RepMar of $134,725 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 for the audits for fiscal years 2006 through 2011.

Prior Year Management Comments:

RMIPA is recommending this to be waived and it will be discussed through its regular Board Meeting.

Current Year Management Comments:

Noted and agreed.

(2) Journal Vouchers

Two general journal vouchers made on September 30, 2012 were without evidence of review. The journal vouchers were for a correction on write-off of financing charges receivable and adjustments for accrued annual leave. We recommend that journal entries be reviewed and approved by the Director and such review and approval be documented in journal vouchers.

Management Comments:

Noted and agreed.

(3) Writing off Assets No Longer in Use

Three assets could not be physically inspected as the assets were no longer in use: Brass Rack Unit (Airport), computer system (Asset No. 0579-Seaport), and Flatbed Truck (Seaport). The three assets are fully depreciated, and no impact on the financial statements results. However, related disclosures can be misstated. We recommend that RMIPA periodically perform a physical verification of all assets.

Management Comments:

Noted and agreed.

(4) Maintenance of Lease Agreements

RMIPA does not have on file signed agreements for two concession and lease income agreements (Air Marshall Islands office lease agreement and Marshall Islands Shipping Corporation warehouse lease agreement). We recommend that signed agreements be followed-up and obtained.

Management Comments:

A copy of AMI lease agreement for the office is found and forwarded to the Airport to process the renewal. For the warehouse lease, it was suggested to draft a lease agreement based on the space they are occupying at the current rate. For MISC, on the other hand, RMIPA has been following this up with them for their concurrence since November 2011.

(5) Missing Clearance

RMIPA was not able to provide clearance #301381 for Seaport. As such, we were unable to determine why that clearance was not invoiced. We recommend that invoices and supporting documents be maintained and retained on file.

Management Comments:

Noted and agreed.

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 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.