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June 26, 2019

Mr. James Bing II
Executive Director
RMI Ports Authority

Dear Mr. Bing:

In planning and performing our audit of the financial statements of RMI Ports Authority (the Authority), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2018, on which we have issued our report dated June 26, 2019, 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 26, 2019, 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 noted the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention.

1) Bank Reconciliation

The September 30, 2018 bank reconciliation included a $6,566 deposit in transit that has been outstanding for more than four months. Furthermore, a $3,628 deposit in transit was included in the trial balance. We recommend management investigate and resolve all dated items. This matter was discussed in our previous letter to management for fiscal year 2017.

2) Collections

We noted receivables of $686,098 that are aged over six years. We recommend management establish internal control policies relative to timely reviewing and updating aging reports. This matter was discussed in our previous letter to management for fiscal year 2017.

3) Unearned Revenue

As of September 30, 2018, unearned revenue amounts to $115,531 which includes amounts from prior years. We recommend management timely review customer prepayments and invoices and perform customer account reconciliations to minimize opportunity for errors. This matter was discussed in our previous letter to management for fiscal year 2017.

4) Revenues

Test of revenues noted the following:

a. Reconciliation of the Daily Sales Report to airline's manifest:

We noted an overage of passengers in the manifest that could possibly indicate a collection shortage. Students and children are exempted from domestic departure fees or a discount of $5 for international flights applies. The Authority only ticks the manifest if the passenger is a student/child for domestic flights and no documentation is on file for international flights. Further, documentation or proof of collection discount/exemption could not be provided for verification.

Further, we noted the Daily Sales Reports for 11/18/2017 and 03/18/2018 were not reconciled to underlying manifests.

b. Vessel services checklist and clearance of vessel:

Of 59 samples tested, 17 have no signature of the verifier on the vessel services checklist and 3 items have inconsistent departure dates in the vessel clearance which differ from that of the invoice and checklist.

We recommend management improve document filing and safekeeping. We also recommend management require that daily sales report be thoroughly reviewed and reconciled with supporting manifest, and that vessel service checklists be verified for accuracy of services rendered and the consistency of the details in the supporting invoice, clearance and checklist.

5) Unrecorded revenue

Examination of subsequent invoices revealed that invoice #s 74681 and 74677 dated October 2018 aggregating $16,237 were recorded in FY2019; however, services were rendered in FY2018. This matter was corrected through a proposed audit adjustment.

We recommend management perform invoice review subsequent to fiscal year end and verify that all revenues are recorded in the correct accounting period.

SECTION I – DEFICIENCIES, CONTINUED

6) Fixed assets

Of 27 assets sighted for existence, four were either not properly tagged or tags were not updated on the fixed asset register. Furthermore, roadways contributed to RepMar were not reconciled to the fixed asset register. This matter was corrected through a proposed audit adjustment and a FY2017 restatement.

We recommend management establish policies and procedures over fixed assets and strengthen asset monitoring, maintenance procedures and disposals, if needed. Furtermore, we recommend management consider tagging all applicable property and equipment to facilitate accurate record keeping and accountability.

7) Annual Leave Hours

In FY2018, two employees were paid 182 hours of excessive sick and vacation leave. It appears that there is a lack of adequate review of authorization and payroll processing. We recommend management thoroughly review sick and vacation leave requests and determine remaining leave credits before approval.

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) Local noncompliance on RMI Procurement Code

Purchases of transportation equipment aggregating $54,513 were not adequately documented to evidence compliance with RepMar's procurement process.

We recommend management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

2) Board minutes of meetings

Not all minutes of meetings held during fiscal year 2018 were provided. Further, some Board minutes provided are drafts with no Board signature/approval.

We recommend management require all minutes of meetings be formally documented and approved.

3) Retirement savings plan taxation

Taxes are currently not withheld on the Authority's matching of employee contributions to the retirement plan. We recommend management require applicable taxes be withheld on employer matching of retirement plan contributions.

SECTION III – DEFINITION

The definition of a deficiency that 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 is 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.