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July 6, 2020

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, 2019, on which we have issued our report dated July 6, 2020, 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 6, 2020, 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, 2019 that we wish to bring to your attention.

1) Deposit in Transit

A $6,599 deposit in transit (G/L Account # 1499) was included in the trial balance. We recommend management investigate and resolve this item. This matter was discussed in our previous letters to management for fiscal years 2017 and 2018.

2) Cash Collections

Eighteen samples were not deposited within 2-3 business days after collection. We recommend management adopt internal control policies and procedures over timely deposit of cash collections.

3) Receivables

At September 30, 2019, we noted the following observations over receivables:

a. Receivables amounting to $1,006,166 were aged over six years. We recommend management establish internal control policies and procedures relative to timely review and update of aging reports. This matter was discussed in our previous letters to management for fiscal years 2017 and 2018.

b. The Authority does not maintain an employee receivable subsidiary ledger by employee (G/L Account #s 11013 and 11014). We recommend management prepare and maintain subsidiary ledgers to support employee receivable accounts.

c. One sample invoice (#76126) was recorded 27 days after the transaction date. Further, the Authority's seaport receivable aging schedule is based on the arrival date of vessels, which is normally different from the invoice date. We recommend management revisit its internal control policies and procedures to: (1) timely process and record invoices; and (2) review the reasonableness of seaport aging schedule.

4) Unearned Revenues

During the year ended September 30, 2019, the Authority reversed unearned revenues account and recognized revenues of $119,893. These pertain to prior year long outstanding items. We recommend management timely review customer prepayments and invoices and perform account reconciliations to correctly report unearned revenue and revenue accounts, respectively.

5) Seaport Revenues

During the year ended September 30, 2019 test of revenues, we noted the following:

a. One item indicated no verifier signature on the vessel services checklist and four items indicated inconsistent departure dates in the vessel clearance between the invoice and checklist.

b. Four sample items indicated wharfage revenues were miscalculated.

c. One sales receipt for walk-in customer collections was missing. There is a possibility that the Authority issued a clearance vessel without collecting applicable fees.

SECTION I - DEFICIENCIES, CONTINUED

5) Seaport Revenues, Continued

d. Seventeen invoices totaling $50,750 pertain to FY2018 and were not recorded in the correct accounting period resulting in overstated FY2019 revenues. As this matter was not considered material to the financial statements, no audit adjustment was proposed.

e. One FY2018 vessel clearance was erroneously included in the FY2019 vessel clearance log. We also noted usage of pre-numbered vessel clearance book without verification of the proper sequence.

We recommend management improve internal control policies and procedures over: (1) the verification of the vessel services checklist by an authorized personnel to ensure accuracy of the services rendered and the consistency of the details in the supporting invoice, clearance and checklist; (2) the review of the wharfage fees calculation; (3) the issuance of clearance vessel to walk-in customers; (4) the timely recording of revenues; and (5) the sequential usage of pre-numbered vessel clearances.

6) Timely Recording of Revenues

Screening fees of $16,399 (invoice #76293) and wharfage fees of $6,364 (invoice #76262-A) were not timely recorded. Audit adjustments were proposed to correct this matter. We recommend management implement policies and procedures requiring timely recognition of revenues.

7) Lease Revenue

The Authority earns and records revenue from leasing a container yard at a rate equal to 1.5% of the lessee's gross receipts, based on the submitted reports of the lessee. We recommend management implement internal control policies and procedures over the review of the pertinent documents to verify the accuracy of recorded and collected lease income.

8) Timely Recording of Assets and Expenses

During the year ended September 30, 2019, we noted the following unrecorded assets and expenses.

1. Construction in progress- $255,148
2. Building improvements- $62,117
4. Utilities- $36,314
4. Pilotage expenses- $22,680
5. Transportation equipment- $21,335
6. Other expenses- $9,400

Audit adjustments were proposed to correct these matters. We recommend management improve internal control policies procedures over the accuracy and timely recording of assets and expenses.

9) Fixed Assets

During the year ended September 30, 2019, we noted the following observations over fixed assets.

a. Of 23 assets sighted for existence, four tags were not updated on the fixed asset register.

b. Two assets have been disposed in the previous years but not removed from the fixed assets register.

SECTION I - DEFICIENCIES, CONTINUED

9) Fixed Assets, Continued

c. The fixed asset register does not completely include the percentage of Federal participation in the project costs for the Federal award under the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property, in accordance with the applicable equipment management requirements. Further, there is no control system to ensure adequate safeguards to prevent loss, damage, or theft of the property.

We recommend management establish policies and procedures over fixed assets and strengthen asset monitoring, maintenance procedures and disposals. Furthermore, we recommend management consider tagging all applicable property and equipment to facilitate accurate record keeping and accountability. Lastly, we recommend management update the fixed asset register based on the inventory of fixed assets in accordance with applicable property rules and regulations.

10) Annual Leave Hours

Per the Authority's contracts with employees, any annual/vacation leave entitlement in excess of 208 hours outstanding at the end of the payroll year shall not be carried forward to the subsequent year. Accrued annual leave was overstated by $21,070, due to accruals in excess of 208 hours. An audit adjustment was proposed to correct this matter. Further, the Authority paid a total of $1,181 annual leave in excess of the maximum 208 hours to employees who resigned during the year. We recommend management establish internal control policies and procedures over employee leave entitlements.

11) Timely Reconciliation of Accounts

An adjustment of $24,000 and $7,828 was debited to miscellaneous expense and salaries, respectively, as a result of reconciling prepaid expense and payroll liability accounts. We recommend management perform timely reconciliation of general ledger and subsidiary ledgers.

12) Prepayments

The Authority's practice is to prepay $5,000 to a vendor for future fuel consumption. We recommend management revisit internal control policies and procedures over advance payments to vendors.

13) Review of Consultant Work

Various year end functions were performed by an outside consultant, including recordation of journal vouchers and monthly bank reconciliation statements. These functions performed by the consultant reflected no evidence of review and approval by an appropriate level of management. We recommend the review of these documents by an appropriate level of management and to document that such review was performed.

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

The Authority's income tax return for PPE 9/13/2019 was filed and paid after the required filing date. We recommend that management establish policies and procedures to monitor compliance with the RepMar Income Tax Act of 1989, as amended.

SECTION II - OTHER MATTERS, CONTINUED

2) Board Minutes of Meetings

Not all minutes of meetings held during fiscal year 2019 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.

4) Board Sitting Fees

During the year ended September 30, 2019, the Authority paid sitting fees of $13,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by the Authority. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

5) Pilotage Fees

During the year ended September 30, 2019, the Authority paid pilotage fees of $402,437 to qualified pilots, which included pilots who were employees of the Authority and other RepMar Ministries and Agencies. On April 9, 2019, RepMar's Government Ethics Board issued a directive to the Authority, which stated that the Authority's arrangement with the pilots constitutes violation of Ethics in Government Act, terms of employment by which these government employees must comply and RepMar taxation laws and regulations. As of September 30, 2019, the Authority has yet to comply with the recommended action plans of the Government Ethics Board.

We recommend management compliance with the recommended action plan of the Government Ethics Board and obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on pilotage fees.

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.