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November 30, 2022

Mr. Thomas Maddison
Chief Executive Officer
RMI Ports Authority

Dear Mr. Maddison:

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, 2021, on which we have issued our report dated November ___, 2022, 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated November ___, 2022, 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, 2021 that we wish to bring to your attention.

1) General Journal Entries

Various year-end general journal entries reflected no evidence of review and approval by an appropriate level of management. Furthermore, hard copy general journal files contain a listing of entries without a journal entry identifier or supporting reference number. Finally, the majority of year-end general journal entries were not supported by supporting calculations, attachments and description of the entry. We also noted certain general journal entries were not in compliance with U.S. GAAP resulting in proposed audit adjustments. We recommend management establish internal control policies and procedures requiring: (1) the review of documents by an appropriate level of management and document that such review was performed; (2) that general journal entries be referenced by a unique identifier number; and (3) that general journal entries conform with U.S. GAAP.

2) Bank Reconciliations

Monthly bank reconciliations are prepared; however, such lack the respective inspection dates evidencing timeliness of review. We recommend management establish internal control policies and procedures requiring independent inspection and verification of documents be evidenced by signature and date of inspection.

3) Cash Collections

Of 55 revenue items tested, 3 daily collections were not timely deposited. We recommend management establish internal control policies and procedures requiring the timely deposit of cash collections.

4) Lease Revenue

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

5) Receivables

a. During the year ended September 30, 2021, trade receivables increased from $1,687,797 to $1,740,857 for which a corresponding allowance for uncollectible accounts of $1,439,866 as of September 30, 2021 was recognized. Furthermore, the September 30, 2021 receivable aging indicated that customer accounts with balances greater than 1 year represent 82% of the total receivable balance. We recommend management reassess collectability of receivables and adopt appropriate internal control policies over collections. Furthermore, we recommend management continue to review the subsidiary ledger to determine uncollectible accounts to be written-off and to obtain requisite Board approval. Finally, we recommend management continue its efforts to improve receivable collections.

b. The Authority's Seaport Division receivable aging schedule is based on the arrival date of vessels, which is normally different from the invoice date. We recommend management establish internal control policies and procedures to timely process and record Seaport Division invoices and review the reasonableness of the Seaport Division receivables aging schedule.

SECTION I - DEFICIENCIES, CONTINUED

6) Unreconciled Liability Accounts

As of September 30, 2021, the Authority's liabilities included the following:

a. Accounts Payable Account (GL Account # 20101) of $81,282 included amounts payable to vendors of $6,815, which were deemed fully paid yet were included in the subledger.

b. RMI Income Tax Account (GL Account # 21003) of $11,815 representing income taxes withheld from employee wages, which has not changed from prior year and was overstated by $5,195.

c. Unearned Revenues Account (GL Account # 23000) of $12,335 representing advance payments made by customers, which has not changed since FY 2019.

We recommend management establish internal control policies and procedures requiring reconciliation and analysis of all significant general ledger accounts.

7) Timely Recording of Expenses

As of September 30, 2021, the following expenses were not accrued:

a. Utilities expense of $101,055 paid in October 2021 for the months of July to September 2021.

b. Pilotage expenses of $17,832 paid in October to December 2021 for the months of July to September 2021.

c. Gas, oil and fuel expenses of $7,014 paid in October 2021 for the month of September 2021.

In addition, the payment voucher, vendor invoice, etc. for pilotage expense of $5,400 paid in November 2021 (check # 13783) was not made available.

Audit adjustments were proposed to correct these misstatements. We recommend management establish internal control policies and procedures over the accuracy and timely recording of expenses and the completeness of payment vouchers.

8) Payroll Calculation and Personnel Documents

Of 28 payroll expenses tested, the following exceptions were noted:

a. Personnel Action Forms for two payroll disbursements were not made available.

b. Payrates for two payroll disbursements did not agree with the corresponding payrates per the respective Personnel Action Forms.

c. 104 hours paid for one employee exceeded the approved 80 hours resulting in an overpayment of $242.

We recommend management establish internal control policies and procedures over the maintenance of employee personnel files and the accuracy of payroll calculations.

SECTION I - DEFICIENCIES, CONTINUED

9) Annual Leave

During the year ended September 30, 2021, annual leave liability was not calculated for two employees. Furthermore, annual leave liability for one employee was calculated using an incorrect rate. This condition resulted in a $8,131 understatement of the annual leave liability. No audit adjustment was proposed as this amount was not considered material to the financial statements. We recommend management establish internal control policies and procedures over the calculation of employee leave entitlements.

10) Fixed Assets

During the year ended September 30, 2021, we noted the following fixed asset observations.

a. The Authority does not implement periodic inspection and inventory of capital assets.

b. Some fixed asset register amounts do not agree with trial balance amounts. This is caused by asset disposals not removed from the register and prior year adjustments not reflected in the register.

c. For 12 of 15 assets sighted for existence, tag numbers on the register are either not updated or not properly tagged.

d. Three assets were unlocated at the time of physical inspection. One has not been used and two were in possession of a terminated employee.

e. The fixed asset register does not completely include the percentage of Federal participation in the project costs for the Federal award for the property 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 internal control 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, and trial balance amounts.

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) Prepayments

The Authority's practice is to prepay $5,000 to a vendor for future fuel consumption. Section 146 (Subsection 1) of Financial Management Act of 1990 states that for vendors located in Republic of Marshall Islands, checks for bills of materials, supplies and incidentals of every kind and character, shall be made payable to the order of each individual person to whom the Republic is indebted, except for assignment of monies approved by the Secretary of Finance per Section 148 of the same Act, but only after an invoice arid purchase order have been presented and certified that the materials, supplies, and incidentals have been received. We recommend management establish internal control policies and procedures over advance payments to vendors and comply with the Financial Management Act.

SECTION II - OTHER MATTERS

2) Retirement Savings Plan Taxation

During the year ended September 30, 2021, the Authority made contributions of $73,894 to retirement savings plans for the benefit of the Authority employees. These matching contributions, which represent employer match based on employee contributions, may constitute wages under the Income Tax Act 1989 and thus may 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 the matching employer contributions. This matter was discussed in our previous audits for fiscal years 2018 through 2020.

3) Board Sitting Fees

During the year ended September 30, 2021, the Authority paid sitting fees of $11,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may 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. This matter was discussed in our previous audits for fiscal years 2019 and 2020.

4) Withholding Taxes

As of September 30, 2021, the Authority has unpaid withholding taxes from contractors of $39,420, that originated from prior years and current year (GL codes 22011 and 22010). In addition, untimely remittance of taxes resulted in penalties amounting to $2,746. Per Section 110 of Income Tax Act of 1989, every business, on or before the last day of the month following the close of each quarter, shall pay the amount of tax imposed to the Secretary of Finance. We recommend management compliance with the provisions of the law. This matter has been previously reported in the audit of the Authority for fiscal year 2020.

5) Pilotage Fees

During the year ended September 30, 2021, the Authority paid pilotage fees of $232,429 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 a 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, 2021, the Authority has yet to comply with the recommended action plans of the Government Ethics Board. We recommend management comply 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. This matter was discussed in our previous audits for fiscal years 2019 and 2020.

6) Compliance with Shipping Pilotage Regulations (2007)

Section 24 (3i) of RMI Shipping Pilotage Regulations (2007) requires the Authority pay 10% quarterly of its pilot related revenues to the RMI General Fund or any other Fund established, for the sole purpose of creating a Training Fund for Marshallese pilots. As of September 30, 2021, the payable to Ministry of Transportation, Communications and Information Technology amounted to $555,398 and no payments have been made for the past several fiscal years. We recommend management comply with regulations over payments of pilot related fees. This matter was discussed in our previous audit for fiscal year 2020.

SECTION II - OTHER MATTERS, CONTINUED

7) Local Noncompliance - Income Tax Act

The Authority filed and paid income taxes withheld for the payroll period September 10 to October 7, 2021 of $8,823 in a manner inconsistent with the Income Tax Act of 1989 whereby such were filed three days late and paid four days after the filing date. We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act.

8) Local Noncompliance - Social Security Act and the Social Security Health Fund Act

The Authority filed and paid employer and employee contributions withheld for the quarter ended September 30, 2021 in a manner inconsistent with RepMar Social Security Act and Social Security Health Fund Act whereby such were paid three days late resulting in $131 interest and penalty. We recommend management establish internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act.

9) Local Noncompliance - RMI Procurement Code

Section 128 of the RMI Procurement Code requires that a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item. The Authority made various payments totaling $40,180 to a company for fuel for which supporting documentation was inadequate to evidence the procurement process, specifically the sole source purchase. We recommend management require adequate documentation be maintained to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor selection and should document the basis of a sole source provider.

10) Special Overtime

The Authority's employee handbook includes the following:

Section 2.2.2 (Exempt and Non-Exempt Employees) states that "Exempt" employees are managers, executives, supervisors, professional staff, technical staff, officers, directors, chiefs, owners and others whose base salary is $19,000 and above per annum and whose duties and responsibilities allow them to be "exempt" from overtime pay provisions as determined by the Authority’s management.

Section 3.1.7 (Special Overtime) states that as with Regular Overtime, exempt employees are not eligible to receive special overtime pay.

We noted one exempt classified employee with an annual salary of above $19,000 who received a special overtime payment of $537 for PPE 07/21/2021. We recommend management establish internal control policies and procedures requiring compliance with the employee handbook for special overtime.

11) Minutes of Meetings

Certain Board minutes of meetings held during the year ended September 30, 2021 were not available for inspection. We recommend that minutes of Board meetings be formally documented by the Secretary and be approved by the Board of Directors.

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.