

Management Letter

RMI Ports Authority

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2022



September 26, 2024

Management and the Board of Directors
RMI Ports Authority

In planning and performing our audit of the financial statements of the business-type activities of RMI Ports Authority (the Authority) as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Bank Reconciliations

Condition: During the year ended September 30, 2022, monthly bank reconciliations were timely prepared; however, such lacked independent review and approval by management.

Recommendation: We recommend management establish internal control policies and procedures requiring regular independent review processes by management of monthly bank reconciliations to ensure accuracy and accountability in financial reporting.

Cash Collections

Condition: Of the 44 revenue items tested, 2 daily collections were not timely deposited to bank.

Recommendation: We recommend management establish internal control policies and procedures requiring the timely deposit of cash collections to bank.

Deposits in Transit

Condition: As of September 30, 2022, the Authority recorded deposits in transit (GL Account # 1499) of \$5,122, of which \$4,098 pertained to prior year not deposited to bank. No account reconciliation was made available documenting the validity of recorded amounts.

Recommendation: We recommend management establish internal control policies and procedures requiring deposits in transit account be timely deposited to bank. Furthermore, we recommend management reconcile the deposits in transit account to ascertain the validity of recorded amounts.

Trade Receivables

Condition: As of September 30, 2022, the Authority's trade receivable aged subsidiary ledger included \$1,268,588 for past due customer accounts with balances greater than 90 days, representing 83% of the total trade receivable balance. Of this amount, \$804,030 relates to past due amounts from Air Marshall Islands, Inc. (AMI). Total trade receivables due from AMI amount to \$820,223. No financial statement impact results as a corresponding allowance for doubtful accounts of \$813,806 has been recorded by the Authority.

Recommendation: We recommend management establish internal control policies and procedures to strengthen and improve collection efforts associated with AMI receivables.

Allowance for Doubtful Accounts

Condition: The Authority utilizes the trade receivable aged subsidiary ledger in estimating the allowance for doubtful accounts. For 5 of 32 invoices tested for verification of aging, we noted inconsistencies with the aged classification whereby the Authority did not consider relevant credit term of invoices in the aging of accounts receivable balances. It was determined that this matter did not negatively impact the Authority's determination of the allowance for doubtful accounts.

Recommendation: We recommend management investigate whether there are additional features in the accounts receivable module, including whether system or process changes could be carried out, to allow for relevant credit terms of invoices to be considered in the aging of accounts receivable balances.

Capital Assets

Condition: During the year ended September 30, 2022, we noted the following observations:

- a. The Authority does not implement periodic inspection and physical inventory of capital assets.
- b. Tag numbers on the capital asset register are either not updated or not properly tagged.
- c. Receiving reports for capital asset acquisitions are not maintained.

Capital Assets, continued

Condition, continued:

- d. Emergency retrofitting works amounting to \$379,903 associated with the Amata Kabua International Airport terminal building were expensed as repairs and maintenance. As the nature of the activities enhanced the life of the terminal building, these costs should have been capitalized. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management establish internal control policies and procedures over capital assets including: (1) the performance of a physical inventory of capital assets on a periodic basis; (2) effective tagging of capital assets with unique identification numbers; (3) the maintenance of receiving reports for capital assets to support the asset acquisition date, the condition of asset upon delivery, and to document any discrepancies between asset purchased and the asset actually received; and (4) the capitalization of costs for items that are expected to have an estimated useful life in excess of one year.

Unreconciled Liability Accounts

Condition: As of September 30, 2022, the Authority's liabilities included the following:

- Accounts Payable Account (GL Account # 20101) of \$205,747 included amounts payable to vendors of \$9,336, which were deemed fully paid yet were included in the subsidiary ledger and included amounts payable to a certain vendor of \$30,858, which were deemed to be payable to the U.S. Federal Aviation Administration.
- RMI Income Tax Payable Account (GL Account # 21003) of \$12,402 representing income taxes withheld from employee wages, which was overstated by \$8,580.
- Unearned Revenues Account (GL Account # 23000) of \$12,335 representing advance payments made by customers, which had not changed since fiscal year 2019.

Recommendation: We recommend management establish internal control policies and procedures requiring reconciliation, monitoring and analysis of all liability accounts and, for any unusual items identified, require that such be promptly investigated and adjusted, as necessary.

Landing Fees

Condition: During the year ended September 30, 2022, landing fees charged to one airline (Invoice # 78870) for \$510 per landing were not levied in accordance with the Authority's established tariff rate for scheduled flights of \$397 per landing.

Recommendation: We recommend management establish internal control policies and procedures requiring revenues be levied in accordance with established tariffs. Furthermore, we recommend management require adequate documentation be maintained for instances where fees are levied outside of established tariff rates.

Pilotage Fees

Condition: During the year ended September 30, 2022, the Authority paid pilotage fees of \$250,744 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 and RepMar's prevalent taxation laws and regulations. As of September 30, 2022, the Authority has yet to comply with the recommended action plan of the Government Ethics Board.

Recommendation: 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.

Board Sitting Fees

Condition: During the year ended September 30, 2022, the Authority paid sitting fees of \$17,600 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 Authority.

Recommendation: 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.

Retirement Savings Plan

Condition: During the year ended September 30, 2022, the Authority made employer contributions, totaling \$39,999, to employee retirement savings plan. Taxes are not currently withheld and paid on the employer contributions.

Recommendation: 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 employer contributions to employee retirement savings plan.

Compliance with Shipping Pilotage Regulations (2007)

Condition: Section 24 (3i) of the RMI Shipping Pilotage Regulations (2007) requires the Authority to pay 10% quarterly of its pilot related revenues to the RMI General Fund or any other Fund established or created, for the sole purpose of creating a Training Fund for Marshallese pilots. As of September 30, 2022, the payable to Ministry of Transportation, Communications and Information Technology amounted to \$608,426 and no payments have been made for the past several fiscal years.

Recommendation: We recommend management comply with regulations over payments to the RMI General Fund of pilot-related fees.

Compliance with RMI Procurement Code

Condition: 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 the following payments for which supporting documentations were inadequate, specifically for the sole source purchase requirement:

- Pilot boat rental expense payments to one vendor (Check #s 13809, 13867, 13976, 14022 and 14087) totaling \$73,000.
- Repairs of termite infested areas within the airport terminal (Check # 14187) totaling \$170,601.
- Equipment rental payment (Check # 14195) totaling \$40,479.

Recommendation: We recommend management require adequate documentation be maintained to comply with the applicable procurement requirements. Specifically, documentation should indicate, at a minimum, the history of procurement, including rationale for contractor selection, and should document the basis of a sole source provider.

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This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of the Authority for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP