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April 24, 2009

The Board of Directors
Pohnpei Port Authority

Dear Members of the Board of Directors:

In planning and performing our audit of the financial statements of the Pohnpei Port Authority (the Authority) as of and for the year ended September 30, 2008 (on which we have issued our report dated April 24, 2009), 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, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors and management, also dated April 24, 2009, 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 Public Auditor 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

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Authority's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

Line Handling Fees

Comment: Collection of line handling fees is required by Seaport Regulations. In the current year, PPA did not charge a certain customer line handling fees. No formal documentation was located in file that exempts the customer from this service.

Recommendation: Since line handling services are documented in the Seaport Policy, exemptions from this service should be formally documented.

Auditee Response and corrective action: The issue stemmed from the customer's complaint that it should not pay for services that PPA was not able to provide. The charges were not assessed by Seaport Division due to its personnel's difficulty to secure the succeeding boats parallel to the customer's first vessel that is tied to the bollard. However, management resolves to provide the services henceforth and agrees to your recommendation to formally document the cause for line handling fee exemptions.

Operational Report – Seaport

Comment: Seaport and Airport operational reports are prepared on a monthly basis. The reports are not compared to actual results.

Recommendation: We recommend that operational reports, prepared independent of accounting, be compared to actual recorded information and discrepancies if any, be timely investigated. This matter was discussed in our previous letter dated January 13, 2008.

Issuance of materials and supplies

Comment: PPA received replacement parts and equipment from the AIP Grant. We observed that issuances and usage of these assets was not documented. Although the Authority can identify the whereabouts of the assets, a listing of assets used was not readily available.

Recommendation: It is a best practice to document issuance of replacement parts thru an approved issuance slip to provide monitoring and accountability over equipment and supplies.

Payroll

Comment: A user ID of a terminated employee is still used.

Recommendation: User ID's of terminated employees should be discontinued.

Travel Advances

Comment: Certain travel advances of $2,700, aged past 90 days, are not timely liquidated and collection has not occurred through payroll allotments.

Recommendation: These advances were not liquidated due to insufficiency of liquidating documents. Although it is appropriate to record these as advances, this condition results in an understatement of expenses. The Authority should consider providing an allowance for these advances. This matter was discussed in our previous letter dated January 13, 2007.

Property and Equipment

Comment: In the course of testing property and equipment, we noted the following:

1) In verification of a Yamaha Used Boat 70 HP engine, the asset actually was a Yamaha 60HP engine. The description in the fixed asset register was based on the purchase documents. It appears that equipment received was not the same as equipment ordered.

2) The specific details of the nature of a change order to a certain contract were not available. The contractor provided a breakdown of costs as basis of the original contract; hence, change orders requested would normally be supported by a similar breakdown.

3) Formal maintenance procedures are required for equipment. We could not determine the manner in which maintenance responsibilities are carried out by the Authority.

Recommendation:

1) Upon receipt of a purchased asset, the Authority should ensure asset specifications coincide with the purchase order and discrepancies if any should be resolved.

2) The change order was approved by the Board, thus validating the transaction. However, underlying documentation detailing the basis of the increase in contract costs should be on file.

3) A formal maintenance program should be developed for federal assets.

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.