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May 5, 2011

Mr. Nelperson Etse
General Manager
Pohnpei Port Authority
P.O. Box 1150
Kolonia, Pohnpei 96941

Dear Mr. Etse:

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, 2010 (on which we have issued our report dated May 5, 2011), 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the management, also dated May 5, 2011, 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 management, others within the organization, and the Office of the National 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, 2010 that we wish to bring to your attention:

1. Allowance for bad debts

Comment: Subsequent collections of outstanding September 30, 2010 receivables were lower than management estimated. Therefore, the allowance for bad debts was understated and an audit adjustment was proposed in the amount of $50,433 to correct this condition.

Recommendation: Management should monitor subsequent collections of outstanding receivables and consider the results in establishing the allowance for bad debts.

2. Operational Reports

Comment: Seaport and Airport operational reports are prepared on a monthly basis. The reports initially provided were not compared with actual results. We also noted that the summary of the operational report was not reconciled with the supporting schedules. Additionally, obvious mathematical errors were noted in the supporting schedules to the monthly operational report.

Recommendation: We recommend that operational reports, prepared independent of accounting, be compared with actual recorded information and discrepancies, if any, be timely investigated. Also, to enhance the quality and accuracy of the monthly operational report, adequate review of the schedules and reports is recommended. This matter has been reported in the fiscal year 2007, 2008, 2009 audits in our previous letters dated January 13, 2008, April 24, 2009, and July18, 2010, respectively.

3. Seaport Division Clearance Monitoring Report

Comment: The Clearance Monitoring Report serves as a master control sheet and captures all the services provided for vessels during the year. However, we noted obvious input errors (e.g. DOA, DOD and Gross Register Ton) in the report originally provided. The data included in the revised monitoring report does not agree with the Pilotage Monthly Report and Boat Movement Report. This variance could be attributable to the error existing in the monthly reports that have not been revised as of date of the revised schedule.

Recommendation: Same recommendation stated in #2.

4. Departure Fee Exemption

Comment: For the departure fee exemption, the same personnel are assigned to both collect and identify exempt passengers in addition to the exemptions pertaining to „passenger in transit‟ and „JICA members‟ that are identified by the airline personnel and airport manager, respectively. The expected revenue is understated by $16,384 based on the departure passenger reports provided by the airport division manager when comparing to revenue recorded by the accounting department. The lack of segregation of duties mentioned above provides the opportunity for corresponding personnel to wrongfully identify exempt passengers and to potentially misappropriate collected cash.

Recommendation: We recommend that the exempt passenger list be certified by someone other than the collector.

5. Issuance of materials and supplies

Comment: PPA received replacement parts and equipment from the AIP Grant. We observed that PPA prepared the issuance ticket for one item that is identified as "Expired" however, the item was not removed from the schedule provided and the carrying values of the replacement parts as of September 30, 2010 are also not shown.

Recommendation: It is a best practice to document issuances of replacement parts through an approved issuance slip that provides monitoring and accountability over equipment and supplies. Timely update of the schedule of replacement parts inventory is also necessary.

6. Lease Agreement

Comment: Terminal concession lease agreements for four tenants expired during FY 2010; however, management did not timely renew the agreements.

Recommendation: Written lease agreements should be timely updated and all leases should be supported by written agreements.

SECTION II – 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.

APPENDIX II

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.