

April 19, 2017

Mr. Jack Chong Gum
General Manager
Marshalls Energy Company, Inc.
P.O. Box 1439
Majuro, Marshall Islands 96960

Dear Mr. Chong Gum:

In planning and performing our audit of the financial statements of Marshalls Energy Company (MEC) as of and for the year ended September 30, 2016 (on which we have issued our report dated April 19, 2017), 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 MEC'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 MEC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MEC'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MEC's internal control over financial reporting and other matters as of September 30, 2016, that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 19, 2017, on our consideration of MEC'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.

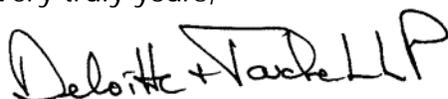
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 MEC for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

SECTION I - DEFICIENCIES

We identified, and have included below, certain deficiencies involving MEC's internal control over financial reporting as of September 30, 2016, that we wish to bring to your attention:

(1) Receivables

Collection of outer island solar electricity billings:

Outer island solar electricity customers are to be billed at \$5 per month; however, customers are not billed and collection follow-up does not appear to occur. MEC does not enforce the 30-day disconnection policy. We recommend management establish and enforce policies and procedures governing outer island collections. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2015.

Returned checks receivable:

At September 30, 2016, MEC recorded \$87,899 of returned checks receivable. The amount was fully reserved for except for \$23,900 that was subsequently received and collected. We recommend management establish related policies and procedures. This matter was discussed in our previous letters to management for the audits of fiscal years 2009 through 2015.

(2) Inventory

Fuel inventory:

Inventory reconciliation variances appear to exist throughout the year but do not appear to be investigated. While there is an acceptable industry variance rate, noted variances exceeded the acceptable or normal rate. We recommend management strengthen internal control policies over monitoring, reconciliation, and review of fuel inventory.

Also, inventory files and sub-ledgers maintained by the tank farm are not regularly reconciled with the general ledger. We recommend management implement appropriate internal controls over inventory management. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

Inventory count variance:

Inventory count performed during year-end indicated an instance of variance between the quantity per audit and quantity per valuation report. The variance amounted to \$17,233. We recommend management implement appropriate internal control over inventory management.

(3) Property, Plant and Equipment

Periodic inventories of plant and equipment:

A physical count of fixed assets was not performed during fiscal year 2016. We recommend management perform periodic physical counts and tag all fixed assets. Furthermore, we recommend management routinely update and reconcile the fixed asset register. Lack of a physical count of fixed assets was discussed in our previous letters to management for the audits of fiscal years 2007 through 2015.

Monitoring the outer island fixed asset register:

A fixed asset register as of September 30, 2016 for outer island residential solar projects was not provided. We recommend management support fixed asset costs, accumulated depreciation, and depreciation expense through a reconciled fixed asset register. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

SECTION I – DEFICIENCIES, CONTINUED

(4) Electric Revenue

Rotation of meter readers:

Meter readers are not periodically rotated. To improve controls, we recommend meter reader schedules be rotated.

Also, an instance of incorrect meter reading and billing was noted. We recommend management strengthen internal control policies over review and recording of meter readings.

(5) Fuel Revenue

Documentation of negotiated prices:

Of 45 fuel sales tested, 18 did not agree to the documented sales price. Lower fuel prices are to regular customers who purchase fuel in bulk. There is no documentation of these negotiated offered prices. We recommend a policy be formulated and implemented relative to this matter, including appropriate documentation of sales prices. This matter was discussed in our previous letters to management for the audits of fiscal years 2014 and 2015.

Issuance of Bunker Delivery Receipts (BDRs):

We noted that there fuel sales from walk-in customers totaling \$9,836 were not supported by a BDR. We recommend consistent issuances of BDR's to support recorded financial statement transactions.

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) Periodic Preparation and Review of Financial Reports

Management has established budgets and targets as measurement tools against actual performance. However, quarterly reports prepared for fiscal year 2016 were not compared and evaluated against budgets. We recommend that management develop a documented procedure for the financial reporting process including review against budget and other internal metrics. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

(2) Information Technology

MEC has not adopted formal policies and procedures governing information technology and data security. Consequently, passwords are not authenticated or enforced in accordance with minimum standards of password length, strength, and lock-out attempts. Backups are not regularly performed and there is no offsite storage for backups. Further, backup restoration is not routinely tested. We recommend that management adopt formal policies and procedures governing information technology and data security. This matter was discussed in our previous letters to management for the audits of fiscal years 2008 through 2015.

SECTION II - OTHER MATTERS, CONTINUED

(3) Depreciation Rates

MEC is required to apply RUS-approved depreciation rates on all fixed assets. The list of approved depreciation rates could not be located. We recommend this list be located and copies provided to accounting staff responsible for recording and depreciating fixed assets. This matter was discussed in our letters to management for the audits of fiscal years 2003 through 2015.

(4) Retirement Savings Plan

Taxes are currently not withheld on MEC's matching of employee contributions to the retirement plan. We recommend management require that applicable taxes be withheld on employer matching of retirement plan contributions and be remitted to taxing authorities. This matter was discussed in our previous letters to management for the audits of fiscal years 2010 and 2015.

(5) Submission of Annual Certificate

Under the loan agreement with Rural Utilities Service, within 90 days of the close of each calendar year, MEC is required to submit a written statement signed by the General Manager, stating that during such year MEC has fulfilled its obligations under the agreement throughout such year in all material respects or, if there has been a default in the fulfillment of any such obligations, specifying each default know to said person and the nature and status thereof. MEC has not submitted such statement. We recommend MEC comply with the reporting requirement. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

(6) Adequacy of Documents

Settlement agreements should be retained on file but an executed agreement with one customer could not be located. We recommend documentation should be on file in support of all recorded financial statement transactions.

(7) Local non-compliance

49 MIRC Chapter 1, Social Security Act of 1990, Section 131 states that no later than the tenth (10th) day after the end of each quarter, every employer, including every self-employed worker, shall (a) submit to the Administrator a report of the wages and salaries paid by him and the contributions due from him; and (b) pay into the Fund the contributions due. During the year, MEC filed and remitted social security employer and employee contributions for the quarter ended December 31, 2015 on January 13, 2016.

Also, 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter. During the year, we noted that MEC unpaid tax returns for the periods 11/24/15 to 12/21/15 and 8/30/16 to 9/26/16 were not filed until 1/29/16 and 10/26/16, respectively.

(8) Fuel issuances

We noted BDR No. 9594 has no signature on the "Approved by Security" portion. Also, we noted usage of BDRs from the prior year sequence. We recommend management strengthen internal control policies over recording, monitoring, and documentation of fuel issuances.

SECTION II - OTHER MATTERS, CONTINUED

(9) Inventory issuances

We noted that the purchase and issuance of inventory per invoice# PSINV000017 was not specified recorded in the inventory system. No issuance slips were provided to support usage of the items.

We recommend that the Procurement Department implement a documented receiving and issuance report process, including agreeing nature and quantity of goods received with those ordered and issuances with issuance slips. Documentation should be complete and should be filed timely.

(10) Payroll

An employee was overpaid. We recommend review of employee timecards and review of check vouchers occur prior to check preparation and payment.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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

MEC'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.