Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

April 10, 2017

Mr. Romeo Alfred
General Manager
Kwajalein Atoll Joint Utilities Resources, Inc.

Dear Mr. Alfred:

In planning and performing our audit of the financial statements of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2016, on which we have issued our report dated April 10, 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 KAJUR'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 KAJUR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KAJUR'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 KAJUR'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 10, 2017, on our consideration of KAJUR'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 KAJUR 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 KAJUR for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I - CONTROL DEFICIENCIES

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

(1) Cash power Sales

Cash power sales of $12,935 were not timely recorded at September 30, 2016. Three of 39 cash power revenue samples were not timely deposited.

We recommend management timely record and deposit cash power sales.

(2) Capital Asset Register

Accumulated depreciation per the capital asset register was overstated by $376,241 when compared with the general ledger. The capital asset register is not timely reconciled with the general ledger. KAJUR lacks adequate documentation to support that a capital asset inventory is periodically performed. In addition, KAJUR has not implemented adequate internal control over monitoring use of Company vehicles and related gas usage.

A high-pressure pump (cost of $37,986) was erroneously capitalized though such was not installed at September 30, 2016. This misstatement was corrected during the audit process.

We recommend KAJUR update and timely reconcile the capital asset register. In addition, adequate review over recording capitalized assets should occur. KAJUR may consider providing a log per vehicle that tracks the user, mileage, and trip purpose to monitor if usage is work related. Furthermore, we recommend KAJUR perform periodic inventories of capital assets.

(3) Journal Entries

Journal voucher number 16JV-0157 lacked a signature from the preparer and the reviewer. We recommend KAJUR require journal vouchers be adequately signed to facilitate accountability and evidence that independent review occurred.

(4) Payroll

Of 20 payroll items tested, two lacked an updated personnel action form evidencing the approved pay rate. In addition, two annual leave and sick leave transactions were not timely updated in the register. It appears there is a lack of adequate review and documentation to support the completeness and authorization of payroll processing.

During FY2016, KAJUR recognized $135,909 of overtime charges. This represents 14% of regular salaries and an increase from 11% in FY2015.

We recommend KAJUR enhance record maintenance requiring that personnel files be updated. In addition, we recommend KAJUR timely update the payroll register. KAJUR may also wish to consider an assessment of the adequacy of the staffing pattern due to the amount of overtime incurred.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Bank Reconciliation

The September 2016 bank reconciliation included $18,605 of outstanding checks reported as reconciling items. The checks appear to have been voided but were not cleared from the books. KAJUR recorded an adjusting journal entry to reverse voided checks during the audit process.

We recommend that management timely monitor outstanding checks.

(6) Prepayment

Recorded prepayments of $115,484 as of September 30, 2016 have not been timely cleared or monitored.

We recommend KAJUR perform timely reconciliation and periodic review of prepayments. In addition, we recommend that KAJUR determine the appropriate course of action related to long outstanding prepayments.

(7) Fuel Expense

A year-end $135,184 adjustment was recorded to reconcile the results of year-end soundings. However, this adjustment resulted from an incorrect calculation of August 2016 fuel consumption.

We recommend KAJUR perform adequate review of fuel consumption calculations as a basis for fuel expense recordation.

(8) Accounts Receivable

Trade electric receivables were not appropriately aged. The outstanding balance for Electric account # 163000E at September 30, 2016 per the aging schedule did not agree with the billing statement (a difference of $721).

We recommend KAJUR perform adequate review of accounts receivable aging to facilitate accurate reporting.

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) Procurement

KAJUR does not have written policies and procedures governing its procurement process. We recommend that KAJUR adopt formal policies and procedures that are consistent with RepMar's Procurement Code. This matter was discussed in our previous letters to management for fiscal years 2011 through 2015.

SECTION II - OTHER MATTERS, CONTINUED

(2) Revenues

KAJUR does not maintain records of power generated, transmitted and billed throughout the year. Such information would be helpful in monitoring line losses. We recommend management consider maintaining records of power generated, transmitted and billed. This matter was discussed in our previous letters to management for fiscal years 2011 through 2015.

SECTION III - DEFINITIONS

The definition of a deficiency 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

KAJUR'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.