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June 5, 2018

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, 2017, on which we have issued our report dated June 5, 2018, 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, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 5, 2018, 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. However, this report is also a matter of public record.

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.

Deloitte & Touche LLP

Very truly yours,

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KAJUR's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

(1) Cash power Sales

Comment: Of 36 cash power sales receipts tested, five were not timely deposited.

Recommendation: We recommend management timely record and deposit cash power sales.

(2) Capital Asset Register

Comment 1: The capital asset register is not timely reconciled with the general ledger. Accumulated depreciation per the capital asset register was overstated by $277,633 when compared with the general ledger.

Comment 2: KAJUR has not implemented adequate internal control over monitoring use of Company vehicles and related gas usage.

Comment 3: KAJUR lacks adequate documentation to support that a capital asset inventory is periodically performed.

a) Of 11 capital asset additions tested, five were identified as replacements. KAJUR failed to retire replaced capital assets. Capital assets were overstated by $39,273. An audit adjustment was proposed to correct the misstatement.

b) Of 14 capital assets tested for verification, six were identified as not useable, damaged and or replaced. A $42,602 loss on capital asset retirement was proposed over this matter as an audit adjustment.

c) Inventory issuance ticket no. 2864 ($23,158) includes three AMPCO pumps. The asset location is unknown.

Recommendation: We recommend KAJUR update and timely reconcile the capital asset register. In addition, 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 to identify if assets should be considered for disposal or retirement.

(3) Payroll

Comment: During FY2017, KAJUR recognized $171,851 of overtime charges. This represents 17% of regular salaries and a 26% increase from FY2016. The following overtime charges were not supported with a supervisor signature.

Payperiod	Employee No.	Hours	Amount
February 25, 2017	20-2300000	51	$ 497
May 20, 2017	20-2300000	18	184
June 3, 2017	34-0000000	8	132

Recommendation: We recommend KAJUR consider and assess staffing adequacy to determine if additional employees are necessary to reduce overtime charges. We also recommend overtime charges be supported by documented approvals.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Accounts Payable

Comment: At September 30, 2017, $47,718 of accounts payable were outstanding for over a year.

Recommendation: We recommend management review long outstanding payables and determine an appropriate course of action.

(5) Operating expense

Comment: At September 30, 2017, KAJUR recorded a $5,208 adjusting entry charged to miscellaneous expense resulting from reconciliation with an affiliated entity.

Recommendation: We recommend management timely perform intercompany reconciliations.

(6) Accounts receivable - Others

Comment: As of September 30, 2017, supporting details were not available for certain AR-Other opening balances as follows:

Admin	$ 12,945
KRS	4,804
Electric	504
Water	19,023
Total	$ 37,276

Thus, we were not able to verify the validity of the above balances reported.

Recommendation: We recommend that management determine the validity of balances reported in AR-Others as noted above.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters involving KAJUR's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

(1) Revenues

Comment: KAJUR does not maintain records of power generated, transmitted and billed throughout the year. Such information would be helpful in monitoring line losses.

Recommendation: 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 2016.

SECTION III - DEFINITION

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.