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September 11, 2020

Mr. Joseph Pedro
General Manager
Kwajalein Atoll Joint Utilities Resources, Inc.

Dear Mr. Pedro:

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, 2019, on which we have issued our report dated September 11, 2020, 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 11, 2020, 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.

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, 2019 that we wish to bring to your attention:

(1) Other Accounts Receivable

Comment # 1: At September 30, 2019, the following receivable balances were not supported by account reconciliations:

Admin	$ 39,192
Water	19,023
KADA	12,686
	$ 70,901

As these amounts were not considered material to the financial statements, no audit adjustments were proposed. We recommend management establish internal control procedures requiring receivable balances be supported by underlying account reconciliations.

Comment # 2: Of 3 samples tested, $2,511 of customer receivables were improperly aged. We recommend management properly age customer receivables.

(2) Accounts Payable

At September 30, 2019, a $30,810 variance exists between the general ledger and the accounts payable subsidiary ledger. As this amount is not considered material to the financial statements, no audit adjustment was proposed. We recommend management perform timely reconciliation of general ledger balances.

(3) Unearned Revenue

During the year ended September 30, 2019, there was a net post-adjusting credit of $106,710 to unearned revenue for mid-corridor customers; however, no subsidiary ledger by customer was provided to support this amount. We recommend management maintain a subsidiary ledger by customer for unearned revenue.

(5) Revenues

Comment # 1: Of 37 cash power sales receipts and daily collection reports tested, two were not timely recorded and deposited. We recommend management timely record and deposit cash power sales.

Comment # 2: Of 24 postpaid electric sales tested, 3 customer accounts were inactive; however, the customer status was tagged as "ACTB" active and billable. We recommend management establish internal controls over the maintenance and review of customer status.

Comment # 3: A customer receivable balance was reduced by $706; however, the adjustment was not supported by an approved adjustment form. We recommend management adequately document approved adjustments to customer balances.

(6) Payroll

Comment # 1: During the year ended September 30, 2019, overtime charges of $153,936 were incurred, which represents 15% of regular salaries. We recommend management consider and assess staffing adequacy to determine if additional employees are necessary to reduce overtime charges.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(6) Payroll, Continued

Comment # 2: Of 38 payroll expenses tested, the following exceptions were noted:

a) A $98 payment (Check # 18602) for claimed leave hours was not supported by an approved leave form.
b) A $786 payment (Check # 18276) for claimed sick leave was not supported by an approved sick leave form or other certificate.
c) A personnel action form (Employee # 4511) indicated no evidence of approval.
d) An employee's pay rate (Employee # 34-1000007) was not supported by an approved personnel action form.
e) Three payments (Check #s 18458, 34321 and 34486) in the aggregate amount of $1,421 were not supported by approved timesheets.

We recommend all employment changes be supported by approved personnel action forms. We also recommend time charges be supported by documented and approved timesheets and sick/leave forms.

Comment # 3: During the year ended September 30, 2019, $28,090 was paid by KAJUR on behalf of other third parties that were recorded as salaries expense. Management subsequently recognized a receivable due from these third parties. We recommend management implement internal control procedures over the recoding of salary payments on behalf of third parties.

(7) Board Minutes

Board minutes are a primary means by which an entity documents the administration of its operations. Not all Board minutes of meetings held during fiscal year 2019 were available for examination. We recommend management require that all Board minutes of meetings be formally documented and be adequately safeguarded and filed.

(8) Nonpayroll Expenses

Of 21 nonpayroll expenses tested, the following exceptions were noted:

a) A $482 travel expense (Check # 34034) for airfare was not supported by a vendor invoice.
b) A $432 materials and supplies expense (Document # 19-PO-6818) for cement, dated 2/27/2019, was untimely recorded on 8/7/2019.

We recommend management establish internal control policies and procedures requiring expenses to be adequately supported by vendor invoices and timely recorded.

(9) Review of Documents

We noted FY 2019 bank reconciliations and journal vouchers (JV #s 19JV-0331 and 19JV-0366) were not evidenced by independent supervisory review. We recommend management establish internal control policies and procedures requiring bank reconciliations and journal vouchers to evidence independent supervisory review and approval.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters involving KAJUR's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

(1) Revenues

KAJUR does not maintain records of power generated, transmitted and billed throughout the year. Such information would assist management 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 2018.

SECTION II - OTHER MATTERS, CONTINUED

(2) Local Noncompliance - Social Security Act of 1990 and Social Security Health Fund Act of 1991

Sections 131 and 215 of the Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, each employer shall submit to the Social Security Administration a report of wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213, and 214, respectively, and pay into the Fund the contributions due. The employer quarterly tax return for the quarter ended September 30, 2019 was filed and paid on 10/15/2019, which is after the required filing date. We recommend management establish policies and procedures to monitor compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

(3) Local Noncompliance - Income Tax Act of 1989

Section 105 of the Income Tax Act of 1989 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. The employer withholding tax return for PPE 10/5/2019 was filed and paid on 1/9/2020, which is after the required filing date. We recommend management establish policies and procedures to monitor compliance with the Income Tax Act of 1989.

(4) Board Sitting Fees

During the year ended September 30, 2019, KAJUR paid sitting fees of $5,500 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by KAJUR. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

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.