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October 13, 2022

Mr. Jack Chong Gum
Chief Executive Officer
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, 2021 (on which we have issued our report dated October 13, 2022), 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, 2021, that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated October 13, 2022, 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,

Deloitte & Touche LLP

SECTION I - DEFICIENCIES

We identified, and have included below, certain deficiencies involving MEC's internal control over financial reporting as of September 30, 2021, that we wish to bring to your attention:

(1) Receivables

Allowance for Doubtful Debts Policy:

MEC's current allowance for doubtful debts policy includes assessment of specifically identified accounts and application of certain allowance percentages on remaining receivables depending on the receivable age bracket. This policy has been effective since 2016. We recommend management establish internal control policies and procedures over the doubtful debts policy and revisit the current policy by developing an updated historical analysis of receivables collectability. This matter was discussed in our previous letter to management for the audit of fiscal year 2020.

Customer Credit Balances:

As of September 30, 2021, customer credit receivable balances amounted to $279,109, of which $60,455 pertains to long-outstanding collections requiring application to customer debit balances. The remaining $218,654 pertains to over collections from customers, specifically from a local government, which provides electricity allowances to its constituents. Management has been in communication with the local government in order to resolve the credit balances. An audit adjustment was proposed to present the amount as deferred revenue. We recommend management establish internal control policies and procedures over the reconciliation of credit balances to properly reflect application to customer accounts. Furthermore, we recommend management correctly present credit balances as deferred revenue. This matter was discussed in our previous letter to management for the audit of fiscal year 2020.

Collection of Outer Island Solar Electricity Billings:

Outer island solar electricity customers are billed $5 per month and as of September 30, 2021, the outstanding balance amounted to $1,661,567; however, collection follow-up does not appear to occur. MEC does not enforce the 30-day disconnection policy. We recommend management establish internal control policies and procedures governing outer island solar collections. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2020.

Returned Checks Receivable:

As of September 30, 2021, MEC recorded $67,286 of returned checks receivable with a corresponding allowance for doubtful debts. We recommend management establish internal control policies and procedures over collection of returned checks. This matter was discussed in our previous letters to management for the audits of fiscal years 2009 through 2020.

(2) Inventory

Fuel Inventory:

Inventory reconciliation variances appear to exist throughout the year but do not appear to be investigated. While there may be an acceptable industry variance rate, the noted variances exceeded the acceptable or normal rate. We recommend management establish internal control policies and procedures over monitoring, reconciliation, and review of fuel inventory. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

In addition, some fuel dipping sheets are missing. Further, we noted several errors in the recorded number of gallons (converted based on actual fuel dipping sheets) per the Daily Statistical Fuel Report. Also, there are inconsistencies between the recorded reading per actual fuel dipping sheets and the Daily Statistical Fuel Report. We recommend management establish internal control policies and procedures over inventory management to prevent 1) missing fuel tickets and 2) incorrect conversion of fuel volume, and to monitor usage and contents of the tanks. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2020.

SECTION I - DEFICIENCIES, CONTINUED

(2) Inventory, Continued

Encoding Error:

One inventory item was encoded in the inventory system with different inventory item code. Extrapolation of identified inventory misstatements resulted in a potential $233,492 understatement. We recommend management establish internal control policies and procedures over accurate encoding of inventories in the inventory system.

Physical Count:

Inventory count observation revealed the following:

a) Inventory items were excluded from the inventory schedule but were not properly tagged as 'Not Inventoriable'.

b) Inventory items were excluded from the inventory schedule for unknown reasons.

c) Various discrepancies between the physical count and reported quantity per the inventory schedule resulted in a recount of all inventory items.

There are four inventory items with a physical count different from the reported quantity per the inventory schedule. Extrapolation of identified inventory misstatements resulted in a potential $8,502 understatement.

Moreover, one inventory item added in the inventory schedule as a result of the physical count has no documentation supporting the assigned unit cost.

We recommend management implement internal control procedures to effectively monitor and reconcile results of inventory count and inventory quantities reflected on the inventory valuation report. Also, we recommend management implement internal control procedures regarding inventory count.

Inventory Valuation:

The year-end inventory valuation report included the following errors:

a) Twenty-three inventory items had zero quantities but reflected a positive total cost of $686.

b) Ten items had zero quantities but reflected a negative total cost of $3,915.

c) Three items had quantities on hand but reflected a negative total cost of $672.

d) Three items had negative quantities on hand, no assigned unit cost but a negative total cost of $2,175.

We recommend management review the compiled inventory valuation report to identify errors or inconsistencies before finalizing inventory adjustments.

SECTION I - DEFICIENCIES, CONTINUED

(3) Property, Plant and Equipment

Updating of Fixed Asset Register and Asset Tags:

Two assets are tagged but tag numbers are not reflected in the fixed asset register. Two assets do not have a tag or serial number traceable to the fixed asset register. Moreover, the asset tag number of one asset is not consistent with the tag number reflected in the fixed register. We recommend management establish internal control policies and procedures over the update of the fixed asset register reflecting asset tag numbers and continue tagging old assets. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

Asset Disposal Form Preparation:

Accumulated depreciation and net book value of one asset disposal reflected on the Asset Disposal Form is inaccurate. We recommend management implement internal control procedures to verify correctness and accuracy of information reflected on Asset Disposal Form.

Fixed Asset Physical Count:

A physical count of fixed assets was not performed during fiscal year 2021. We recommend management perform a periodic physical asset count.

(4) Electric Revenue

Meter Reader Rotation:

Meter readers are not periodically rotated. We recommend management establish internal control policies and procedures over the rotation of meter readers. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

Line Loss Monitoring:

Line losses are a function of kilowatt hours generated compared with kilowatt hours billed. Management does not perform monitoring and review of line losses. We recommend management establish internal control policies and procedures over the monitoring and review of line losses. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

Implementation of Tariff Reduction:

Management did not fully implement the terms of a cabinet memorandum which resulted in MEC's $41,000 approximate loss of revenue. We recommend management verify compliance with the terms of cabinet memoranda.

Online Cash Power Sales Reconciliation:

MEC has not adopted formal policies and procedures governing reconciliation between recorded cash power revenue from web portal sales and system-generated cash power revenue reports run in Suprima. We recommend management adopt formal policies and procedures governing reconciliation of recorded cash power revenue from web portal sales and system-generated cash power revenue reports run in Suprima.

SECTION I - DEFICIENCIES, CONTINUED

(4) Electric Revenue, Continued

Meter Reading for Prepaid Meter Connections:

Meter reading for prepaid meter connections is not fully and timely performed. Hence, calculation of deferred revenue is not timely provided during the audit. Further, there is no internal control procedure in place to review correctness of meter readings used in the calculation of deferred revenue at year-end. We recommend management establish policies and procedures regarding meter reading for prepaid meter connections.

(5) Other Revenue

Differences in fuel prices charged:

For 7 of 51 fuel revenue items tested, charged prices differ from CEO approved prices. Extrapolation of the identified misstatement resulted in a potential $20,056 overstatement. We recommend management establish internal control policies and procedures over fees charged in accordance with approved tariffs. This matter was discussed in our previous letter to management for the audit of fiscal year 2020.

(6) Daily Collection Receipts

For 7 of 36 daily cash collections tested, deposits occurred on an average of 2 to 5 banking days after receipt. Although this may be acceptable per MEC's policy, we recommend management establish internal control policies and procedures over the requirement for cash collections to be deposited on the next banking day. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

(7) Fuel Usage

Fuel usage for the months of August and September 2021 relating to generators approximating $7,700 are improperly recorded as auto, POL and maintenance expense. We recommend management improve internal control procedures over monitoring of fuel usage that will enable MEC to record expenses in the correct account.

(8) Fuel Sales Reconciliation

The fuel sales log is not timely and completely reconciled to the recorded fuel sales, resulting in multiple versions being provided during the course of the audit and an unreconciled variance of $1,340. We recommend management establish internal control policies and procedures to facilitate a timely and accurate general ledger reconciliation process.

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) Information Technology

MEC has not adopted formal policies and procedures governing information technology and data security. We recommend 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 2020.

SECTION II - OTHER MATTERS, CONTINUED

(2) Retirement Savings Plan

Taxes are currently not withheld on MEC's matching of employee contributions to the retirement plan. We recommend management require 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 through 2020.

(3) Adequacy of Documentation

Settlement agreements should be retained on file; however, an executed agreement with one customer could not be located. Further, renewed employment contract of one employee could not be provided. Also, an offset agreement with one vendor could not be provided. We recommend documentation be on file to support all recorded financial statement transactions. This matter was discussed in our previous letters to management for the audits of fiscal years 2018 through 2020.

(4) Propane Gas issuances

We are unable to test the completeness of Product Delivery Reports (PDR forms) issued due to issuance not being in sequence. Also, there is no reconciliation performed over propane sales and inventory. We recommend management improve internal controls over approved PDRs. This matter was discussed in our previous letters to management for the audits of fiscal years 2018 through 2020. Also, we recommend management establish internal control policies and procedures over reconciliation of propane sales and inventory.

(5) Board Sitting Fees

During the year ended September 30, 2021, MEC paid sitting fees of $26,100 to Board members. These fees may constitute wages under the Income Tax Act of 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by MEC. 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. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

(6) Human Resource Policy and Procedures

MEC has not adopted formal policies and procedures governing annual leave entitlements of resigning employees. We recommend management adopt formal policies and procedures governing annual leave entitlements of resigning employees.

(7) Missing Bunker Delivery Receipt

Eighteen Bunker Delivery Receipts (BDRs) could not be located and provided during the course of the audit. We recommend management establish internal control policies and procedures to facilitate proper monitoring and filing of BDRs.

(8) Long Outstanding Payable

MEC has recorded a $311,000 payable to RepMar that has been outstanding since 2012. We recommend management obtain resolution from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the long outstanding payable.

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.