

April 5, 2022

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, 2020, on which we have issued our report dated April 5, 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 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 5, 2022, 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.

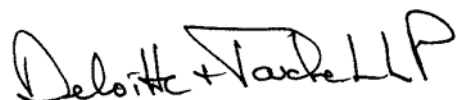
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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,



## SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KAJUR's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) Other Accounts Receivable

Comment # 1: As of September 30, 2020, the following balances within Account # 1340 - Other Receivables were not supported by account reconciliations:

Admin	\$ 30,202
Water	19,023
KADA	<u>12,686</u>
	<u>\$ 61,911</u>

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

Comment # 2: Transactions amounting to \$4,100 pertaining to sale of fuel was not reversed and \$1,050 was incorrectly recorded as a receivable. We recommend management properly reconcile customer receivables.

(2) Accounts Payable

As of September 30, 2020, a \$30,548 variance existed between the general ledger and the accounts payable subsidiary ledger. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures requiring timely reconciliation of general ledger balances.

(3) Revenues

Comment # 1: Of 34 cash power sales receipts and daily collection reports tested, one was not timely recorded and deposited. We recommend management establish internal control policies and procedures requiring timely recording and depositing of 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 control policies and procedures over the maintenance and review of customer status.

Comment # 3: Of 9 fuel sales tested, one customer was provided the special fuel rate of \$4.10/gallon even though the customer was not on the designated special rates list. Special fuel rates were negotiated in the prior year to lessen the impact of load shedding for commercial customers who utilized their own generator units. These special rates continue to be utilized even though load shedding is no longer required. We recommend management consider reassessing the need for special fuel rates.

(4) Nonpayroll Expenses

During the year ended September 30, 2020, one inventory issuance of \$2,334 was expensed seven months after issuance. We recommend management establish internal control policies and procedures requiring inventory issuances be timely recorded.

(5) Payroll

Comment # 1: During the year ended September 30, 2020, overtime charges of \$130,166 were incurred, which represent 12% 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

(5) Payroll, Continued

Comment # 2: Of 39 payroll expenses tested, the following exceptions were noted:

- a) 2 instances where annual leave paid for Employee #s 1002 and 4020 (Check #s 19189 and 34989) was not supported by an approved leave form.
- b) 2 instances where Personnel Action Forms for Employee #s 3314 and 4219 were not evidenced as approved.
- c) 4 instances where wages paid (Checks # 19151, 19993, 35554 and 20378) were not supported by approved timesheets.

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

Comment # 3: KAJUR paid salaries on behalf of a third party for which a \$47,693 receivable was recognized as of September 30, 2020. No history of collection was noted from this third party. We recommend management establish internal control policies and procedures requiring timely collection of receivables.

(6) Review of Documents

Comment # 1: During the year ended September 30, 2020, we noted bank reconciliations and nine journal vouchers were not evidenced by independent supervisory review. We recommend management establish internal control policies and procedures requiring that bank reconciliations and journal vouchers be subjected to independent supervisory review and approval.

Comment # 2: During the year ended September 30, 2020, we noted certain cash collection reports without evidence of a review process. We recommend management establish internal control policies and procedures requiring completeness of review over collection reports.

## SECTION II - OTHER MATTERS

We identified, and have included below, other matters involving KAJUR's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) 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, 2020 was filed and paid on 10/20/2020, which is after the required filing date. We recommend management establish internal control policies and procedures to monitor compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

(2) 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. All of the employer withholding tax returns for the year ended September 30, 2020 were filed and/or paid after the required filing dates. We recommend management establish internal control policies and procedures to monitor compliance with the Income Tax Act of 1989.

## SECTION II - OTHER MATTERS

(3) Board Sitting Fees

During the year ended September 30, 2020, KAJUR paid sitting fees of \$3,600 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.

(4) State-Owned Enterprise (SOE) Act of 2015

Section 623 of the SOE Act of 2015 requires directors to hold meetings at least once every two months, and at such other times as they consider necessary for the efficient conduct of the SOE's business. We noted above that during the periods January 2020 to May 2020 and July 2020 to September 2020, no board meetings occurred. We recommend management consider frequency of meetings as required under the SOE Act of 2015.

## 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.