

Management Letter

Marshalls Energy Company, Inc.

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2023



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November 18, 2025

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 the business-type activities of Marshalls Energy Company, Inc. (MEC) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MEC's internal control. Accordingly, we do not express an opinion on the effectiveness of MEC's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Bank Reconciliations

Comment: Our review of the bank reconciliations identified two vendor letter-of-credit payments totaling \$2,184,241 that had cleared the bank but were not recorded in the general ledger. Audit adjustments were proposed to correct this misstatement.

Recommendation: We recommend management establish internal control policies and procedures ensuring all disbursements are recorded timely and reconciliations reviewed promptly to identify unrecorded transactions.

Liability Account with Debit Balances

Condition: During our audit, we noted that a liability account (GL Acct # 2005) reflected a debit balance of \$151,799 and was not properly reconciled. Liability accounts should normally have credit balances, and unreconciled amounts may indicate posting errors or misclassifications. It was subsequently determined that the debit balance was the result of a \$163,725 misstatement between liability accounts. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend that management review and reconcile all liability accounts regularly to ensure balances are accurate and properly classified.

Power Plant Inventory

Condition: During our review of the power plant inventory listing aggregating \$1,921,702, we noted certain items showing zero quantities on hand but still reflecting an aggregate cost amount of \$5,215. This indicates that inventory records may not be updated promptly upon usage or disposal. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management review and reconcile the inventory listing regularly to ensure quantities and values are accurate and that obsolete or consumed items are properly adjusted.

Receivables - Allowance for Doubtful Accounts

Comments:

- a. 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.
- b. In addition, during our audit, we noted that the allowance for doubtful debts was overstated by \$739,603. An audit adjustment was proposed to correct the overstatement and is presented as an uncorrected misstatement.

Recommendation: We recommend management establish internal control policies and procedures requiring assessment of the collectability of accounts receivable and timely adjustment of the allowance for doubtful accounts enhancing the reliability of MEC's financial reporting process. Furthermore, we recommend management establish a revised written policy governing receivable collections and write-offs.

Collection of Outer Island Solar Electricity Billings

Comment: As of September 30, 2023, Outer Island solar receivable balances amounted to \$2,037,710. MEC charges solar electricity customers a flat amount of \$5 per month and does not enforce an established 30-day disconnection policy. A corresponding allowance for doubtful accounts has been established in the amount of \$2,033,584.

Recommendation: We recommend management establish internal control policies and procedures governing outer island solar collections.

Line Loss

Comment: During our review of MEC's operational performance, we observed an increase in line losses in the current year compared to the prior year. We have observed that line losses are not being consistently monitored, analyzed, and addressed in a structured manner.

Recommendation: We recommend management implement a robust system for continuous monitoring of line losses by using advanced metering infrastructure and energy management software to track technical and non-technical losses.

Prepayments

Comment: Prepayments made on behalf of Kwajalein Atoll Joint Utilities Resources, Inc. in the amount of \$260,573 were determined to be uncollectable. An audit adjustment was proposed to expense this amount.

Recommendation: We recommend management review such transactions to ensure amounts advanced to or on behalf of other entities are supported by formal agreements and are recoverable and promptly write off any amounts deemed uncollectable.

Cash Power Sales - Scratch Cards

Comment: During our audit, we noted that MEC does not have a process to track cash power sales from scratch cards. At September 30, 2023, MEC recorded a liability of \$134,184 associated with cash power sales from scratch cards. An audit adjustment was proposed to recognize revenue from cash power sales.

Recommendation: We recommend management establish policies and procedures over revenue recognition associated with cash power sales from scratch cards.

Gross Revenue Tax (GRT) Payments

Comment: The Government of the Republic of the Marshall Islands imposes a gross revenue tax (GRT) of 3% on revenues. As per Income Tax Act of 1989, as amended, sales of electricity by public utility companies are exempt from GRT. Accordingly, MEC is exempt from GRT on the sale of electric services. MEC is required to pay GRT on all other revenues. It was observed that MEC has not been paying GRT consistently with enabling legislation. As of September 30, 2023, MEC is liable for current and delinquent GRT of \$1,600,895, which is included as a liability in payables to affiliates.

Recommendation: We recommend management comply with enabling legislation concerning payment of GRT.

This communication is intended solely for the information and use of management, the Board of Directors, 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.

At this time, we would like to thank all the staff and management of MEC for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Sincerely,

