

Management Letter

Kwajalein Atoll Joint Utilities Resources, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2021





September 12, 2025

Management and the Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.

In planning the engagement to audit the financial statements of the business-type activities 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, 2021 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 its internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KAJUR's internal control. Accordingly, we do not express an opinion on the effectiveness of KAJUR'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 control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Cash in bank (Stale-dated Checks)

Condition: During the engagement to audit, we noted that there is no structured process in place to follow up on checks issued by KAJUR that remain unbanked for an extended period. As of September 30, 2021, KAJUR's bank reconciliation included outstanding checks of \$104,357, which included stale-dated checks amounting to \$47,306. Stale-dated checks may result in incorrect cash balances in financial records, leading to misstatements in financial statements.

Recommendation: We recommend management establish internal control policies and procedures requiring timely resolution and follow-up of stale-dated checks.

Unreconciled Utilities Receivable Subledger

Condition: During the engagement to audit, we noted an unreconciled variance between the general ledger (GL) and the accounts receivable (AR) subledger for utilities receivable of \$76,461. The lack of reconciliation indicates potential errors, omissions, or misclassifications in financial reporting, which may lead to inaccurate financial statements affecting management's decision-making and external reporting. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend that management implement a structured reconciliation process to ensure alignment between the GL and AR subledger for utilities receivable by conducting monthly reconciliations and promptly investigating variances, reviewing AR postings to ensure transactions are recorded accurately and completely, strengthening controls over AR adjustments, write-offs, and journal entries, and ensuring proper segregation of duties to reduce the risk of errors and fraud.

Fuel Inventory

Condition: During the engagement to audit, we noted that the valuation of year-end fuel inventory is not being conducted in accordance with consistent and appropriate valuation methods resulting in an \$23,984 understatement due to incorrect pricing. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend that management implement a standardized approach for valuing fuel inventory at year-end, ensuring adherence to appropriate accounting policies (e.g., FIFO, weighted average cost).

Fixed Asset Register

Condition: During the engagement to audit, we noted that the fixed asset register was not reconciled to the general ledger. A variance of \$6,388 was noted. As this amount was not considered material to the financial statements, no audit adjustment was proposed. Furthermore, we identified that certain fixed assets that have been disposed of are still included in the fixed asset register. No audit adjustment was proposed as these fixed assets were fully depreciated.

Recommendation: We recommend management implement a periodic reconciliation process between the fixed asset register and the general ledger. Furthermore, we recommend that management implement a process to ensure timely updates to the fixed asset register when assets are disposed of.

Grant Revenue

Condition: During the engagement to audit, we noted one instance where negative grant revenue amounting to \$135,158 was recorded in the financial statements. This transaction was due to an error in the monitoring and recording of construction in progress related to the ADB funded Ebeye Water Supply and Sanitation Project. An adjustment was proposed to correct this misstatement.

Recommendation: We recommend that management implement a periodic reconciliation and review process to ensure that revenues are properly classified and reported.

Withholding Tax Remittances

Condition: During the year ended September 30, 2021, KAJUR filed and paid income taxes withheld for the six payroll periods ended October 3, 2020, through December 12, 2020, in a manner inconsistent with the Income Tax Act of 1989. Such were subsequently paid on February 8, 2021.

Recommendation: We recommend management establish internal controls policies and procedures requiring compliance with Income Tax Act 1989.

Minutes for Board of Directors' Meetings

Condition: During the engagement to audit, we noted that formal minutes of meetings of the Board of Directors are either not being maintained or are incomplete. Proper documentation of board discussions, decisions, and approvals is essential for corporate governance and regulatory compliance.

Recommendation: We recommend that management implement a formal process for recording and maintaining minutes of all Board of Directors' meetings. The minutes should accurately reflect key discussions, decisions, and action points, and they should be reviewed and approved by the board in a timely manner. Proper record-keeping will enhance governance, accountability, and compliance with best practices.

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This communication is intended solely for the information and use of management, the Board of Directors of KAJUR, 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 would be pleased to discuss the above matter or to respond to any questions, at your convenience.

