

Management Letter

Kwajalein Atol Joint Utilities Resources, Inc.

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

Year ended September 30, 2022



**Shape the future
with confidence**

June 11, 2026

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, 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 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 our review of the monthly bank reconciliations, we noted several stale-dated checks totaling \$47,191 that are still listed as outstanding.

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

Long Outstanding Receivables

Condition: Based on our review of other receivables, we noted the amount of \$133,336 that has remained outstanding and uncollected for several years, dating back to 2008. Formal collection efforts are not being initiated on a consistent basis for these overdue accounts.

Recommendation: We recommend that management strengthen accounts receivable collection policies and procedures to ensure more timely collection. Furthermore, we recommend that management implement a formal, periodic process for identifying and writing off uncollectible accounts in accordance with an established policy.

Unreconciled Subsidiary Ledgers

Condition: During our engagement, we noted effective procedures are not in place to ensure the timely and accurate reconciliation of subsidiary ledgers. At September 30, 2022, we noted the following variances:

1. A \$174,540 variance existed between the utilities accounts receivable GL balance (\$3,242,404) and the detailed sub-ledger balance (\$3,416,944). An adjustment was proposed to correct this misstatement.
2. A \$16,276 variance existed between the supplies, fuel and lubricants inventory GL balances (\$776,868) and the detailed sub-ledger balances (\$760,592). As the variance was not considered material to the financial statements, no adjustment was proposed.
3. A \$28,191 variance existed between the fixed asset accumulated depreciation GL balance (\$2,989,248) and the detailed fixed asset register balance (\$2,961,057). As the variance was not considered material to the financial statements, no adjustment was proposed.

Recommendation: We recommend that management establish internal control policies and procedures requiring timely performance and independent review of subsidiary ledger balances to the GL monthly.

Incorrect Valuation of Fuel Inventory

Condition: During our review of the year-end inventory valuation, we noted that diesel fuel inventory of 71,047 gallons was valued using an outdated cost (\$4.42 per gallon) rather than the most recent invoice price (\$3.95 per gallon), resulting in a \$33,392 overstatement of inventory. An adjustment was proposed to correct this misstatement.

Recommendation: We recommend that management establish internal control policies and procedures to ensure that inventory valuation at year-end reflects the lower of cost or net realizable value, supported by the latest vendor invoices.

Monitoring of Fuel Efficiency

Condition: During our review of the power plant operations for the year ended September 30, 2022, we observed that the plant does not consistently reconcile the total volume of diesel fuel consumed with the total kWh generated.

Recommendation: We recommend that management strengthens its controls over fuel inventory and usage by implementing monitoring procedures, including implementation of: (i) a mandatory daily log that calculates the fuel consumption rate per kWh generated; (ii) the weekly reconciliation of fuel inventory (Opening Stock + Purchases - Consumption = Closing Stock) and compare this against the total kWh generated; and (iii) a policy requiring investigation into any day where fuel consumption exceeds the standard baseline by a specific percentage.

Unexpended Grant Proceeds

Condition: At September 30, 2022, unexpended grant proceeds totaling \$22,478 from the International Union for Conservation of Nature and Natural Resources remain unchanged since 2017 and are recorded as restricted net position in the financial statements. While the grantor has not requested a return of these funds, the amount has not been utilized for the intended purpose nor released from restriction.

Recommendation: We recommend that management obtain written confirmation from the grantor stating that the funds do not need to be returned and specifying how the funds can be used or if they can be reclassified as unrestricted.

Grant Revenue Recognition

Condition: During our engagement, we noted that revenue recognition for direct payments made by the Asian Development Bank (ADB) for the Ebeye Water Supply and Sanitation Project were incorrectly recorded. Specifically, revenues relating to 2021 of \$61,273 were recognized in 2022 while 2022 revenues of \$85,008 were recognized in 2023, resulting in a net understatement in 2022 of grant revenues and related expenses of \$23,735. An adjustment was proposed to correct this misstatement.

Recommendation: We recommend that management establish internal control policies and procedures over monitoring of ADB grant activity reports to ensure that grant revenues and related expenses associated with direct payments are recorded in the correct accounting period.

Inadequate Employee Master File Records

Condition: The employee listing provided by management was incomplete and inaccurate, preventing us from confirming whether payroll expenses recorded in the financial statements were complete, accurate, and related only to actual employees who provided services.

Recommendation: We recommend management strengthen controls by ensuring the employee master list is updated promptly, reconciled regularly with HR and payroll records, and supported by proper documentation and review to ensure payroll expenses are complete, accurate, and properly supported.

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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.

We would be pleased to discuss the above matter or to respond to any questions, at your convenience.

Ernst + Young