

July 8, 2016

Mr. Romeo Alfred
General Manager
Kwajalein Atoll Joint Utilities Resources, Inc.

Dear Mr. Alfred:

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, 2015, on which we have issued our report dated July 8, 2016, 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, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 8, 2016, 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.

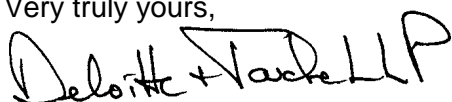
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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, 2015 that we wish to bring to your attention:

(1) Materials and Supplies Inventory and Issuances

An approved work order is not prepared prior to inventory requests. Inventory issuance tickets do not contain issuer and receiver signatures. Thus, we are not able to verify evidence of authorization and actual receipt and installation of materials and equipment.

We recommend management implement appropriate internal control policies and procedures requiring adequate documentation of inventory issuance tickets.

(2) Fixed Asset Register

The fixed asset register's accumulated depreciation was overstated by \$431,688 compared with the general ledger balance. The fixed asset register is not timely reconciled with general ledger balances.

An understatement of \$50,539 in depreciation expense was noted. In addition, four water pumps with a cost of \$30,545 were erroneously capitalized as fixed assets though such were not installed at September 30, 2015. These misstatements were corrected during the audit process.

We recommend KAJUR update and timely reconcile the fixed asset register. In addition, adequate review of depreciation expense calculation and recording of capitalized fixed assets should occur.

(3) Procurement

Of five prepayments tested, four did not evidence an adequate competitive procurement process. Documentation that quotations were requested from adequate qualified sources is not on file. KAJUR follows the RepMar Procurement Code, which requires government agencies to perform competitive procurement processes. This matter was discussed in our previous letters to management for fiscal years 2013 and 2014.

In addition, KAJUR paid \$1,217 for two cellphones which were recorded as materials and supplies. Adequate documentation was not noted evidencing that the competitive procurement process was conducted. Furthermore, one of the cellphones should have been capitalized. KAJUR provided an adjusting entry to capitalize the cellphone during the audit process.

We recommend KAJUR be consistent in complying with procurement regulations required by the RepMar Procurement Code. Furthermore, we recommend KAJUR appropriately capitalize qualified fixed assets.

(4) Payroll

Of 22 payroll items tested, two timesheets did not reflect a supervisor signature that evidenced independent review. It appears there is a lack of adequate review and documentation to document the completeness and authorization of payroll processing.

Accrued payroll of \$41,801 was not properly recorded at year-end.

During FY2015, KAJUR recognized \$107,702 of overtime charges. This represents 11% of regular salaries recorded during the year.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Payroll, Continued

We recommend KAJUR enhance payroll processing by verifying that timesheets are properly signed and approved. In addition, we recommend KAJUR properly accrue payroll at year-end. KAJUR may also wish to consider an assessment of staffing adequacy to determine what the additional employees are required due to the amount of overtime incurred.

(5) Bank Reconciliation

The September 2015 bank reconciliation included \$2,648 of stale dated checks reported as reconciling items. The checks appear to have been voided but were not cleared from the books. KAJUR provided an adjusting journal entry to reverse voided checks during the audit process. We recommend that management timely monitor outstanding stale dated checks. .

(6) Revenues

Implementation of revised electricity rates was delayed by one day. An approved memorandum reducing the electricity rate was not timely received. It appears that there is lack of communication with the affiliate company that would have minimized the implementation delay. We recommend that KAJUR seek timely updates from the affiliate on significant matters that impact its operations.

Deduction rates for receivables in arrears range from 50% to 100%. We recommend that KAJUR adopt a formal policy governing receivable collection.

One of 75 metered customers tested indicated that it took three months before the defective meter was replaced. The customer was not billed for the three months. While the unbilled amount was not significant, we noted KAJUR lacks adequate maintenance and timely resolution that may result in possible revenue losses. We recommend KAJUR perform timely monitoring and resolution of defective meters.

(7) Operating Expenses

Of 23 operating expenses tested, one \$14,543 travel expense for reverse osmosis (RO) specialist training did not evidence competitive airfare price searches. Furthermore, the ticket showed a 10-day stay in Los Angeles without appropriate supporting information.

We recommend KAJUR adopt related policies and procedures.

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) Procurement

KAJUR does not have written policies and procedures governing its procurement process. We recommend that KAJUR adopt formal policies and procedures that are consistent with RepMar's Procurement Code. This matter was discussed in our previous letters to management for fiscal years 2011 through 2014.

SECTION II - OTHER MATTERS, CONTINUED

(2) Revenues

KAJUR does not maintain records of power generated, transmitted and billed throughout the year. Such information would be helpful in monitoring line losses. We recommend management consider maintaining records of power generated, transmitted and billed. This matter was discussed in our previous letters to management for fiscal years 2011 through 2014.

SECTION III - DEFINITIONS

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.