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May 11, 2015

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, 2014, on which we have issued our report dated May 11, 2015, 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, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated May 11, 2015, 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,

Deloitte & Touche LLP

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KAJUR's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

(1) Fuel Inventory

A $653,954 decrease in fuel inventory resulted from a reconciliation of actual inventory on hand during the September 30, 2014 count.

Per examination of the Daily Inventory Report and the Daily Meter Reading Report, we noted discrepancies in four months tested. Actual gallons consumed from the main tank exceed recorded daily meter readings. Daily variances are summarized into monthly averages as presented below.

Month	Average Monthly Variance of Actual Consumption over Fuel Expense Recorded
January	17%
March	68%
May	24%
August	13%
Average	31%

We also noted days where a sounding was not performed due to weather conditions. As a result, no information for that day's inventory consumption was recorded.

We recommend that KAJUR review attendant controls over the accounting processes governing power plant operation fuel expense. Furthermore, we recommend periodic reconciliations occur with month end sounding reports to reduce significant year-end adjustments. KAJUR may also consider rotation of duties if personnel are unavailable to perform fuel soundings. This matter was discussed in our previous letter to management for fiscal years 2012 and 2013.

(2) Diesel Fuel Expense

Tests of diesel fuel sales noted incorrect recognition of cost of sales. Sales of $21,265 were recorded in a similar amount as cost of sales, resulting in a cost of sales overstatement of $6,810. We recommend KAJUR consistently review journal entries and establish costing methods.

Diesel fuel of $6,658 was issued in support of a government related project. No receiving receipt or agreement was provided to support this issuance at no cost. We recommend KAJUR maintain receiving documents and written agreements to support the authenticity of expense transactions.

(3) Materials and Supplies Inventory and Issuances

The extrapolated understatement of inventory errors amounted to $90,850. This error is primarily driven by improper allocation of freight charges and handling fees.

An approved work order (WO) form is not prepared prior to requests for inventory. 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.

Motors and pumps of $39,215 were expensed. These items have estimated useful lives of 2 to 5 years and each individual item exceeded the $500 capitalization threshold. These items were not capitalized as fixed assets. This matter was corrected through a proposed audit adjustment.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(3) Materials and Supplies Inventory and Issuances, Continued

We recommend KAJUR establish a proper cost inventory valuation method. In addition, we recommend management implement appropriate internal control policies and procedures requiring adequate documentation of inventory issuance tickets. Furthermore, we recommend KAJUR comply with its policy on fixed asset capitalization.

(4) Fixed Asset Register

The fixed asset register was overstated by $456,754 compared with the general ledger balance. The fixed asset register is not timely reconciled with general ledger balances. We recommend KAJUR update and timely reconcile the fixed asset register. This overstatement was corrected during the audit process.

(5) Accounts Receivable

An allowance for doubtful accounts has been established corresponding to 89% of total receivables. We recommend KAJUR establish adequate collection policies and revisit long outstanding receivables for possible write off.

(6) Prepayment

A prepaid $25,834 purchase order dated 9/13/13 was received on December 19, 2013. In addition, $14,695 of freight costs and import taxes related to a vehicle received on August 30, 2014. As of September 30, 2014, these amounts were reflected as prepayments which resulted in a proposed audit adjustment. Additionally, 27% of prepayments were aged over six months.

We recommend KAJUR adopt internal control procedures over monitoring prepayments and received purchases. In addition, we recommend revisiting long outstanding prepayments and determine appropriate action.

(7) Bank Reconciliation

The September 2014 bank reconciliation included $2,771 of stale dated checks reported as reconciling items. We recommend that management timely monitor outstanding stale dated checks. Furthermore, we recommend that management review long and outstanding reconciling items.

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, 2012, and 2013.

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, 2012, and 2013.

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.