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May 18, 2011

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

Dear Mr. Alfred:

In planning and performing our audit of the financial statements of the 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, 2010, on which we have issued our report dated May 18, 2011, 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated May 18, 2011, 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 LLC

APPENDIX I

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KAJUR's internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

(1) General Journal Entries

Our tests of general journal entries noted the following:

- Gaps in the numerical sequence of general journal entries were as follows:

Start	End	Number of Missing Journal Entries
58	60	1
176	178	1
202	268	65
268	297	28
327	329	1
331	333	1

- Duplicate numbering of general journal entries were as follows:

GJ #	Dates of Journal Entries
GJ-J0038	12/31/09; 01/26/10
GJ-J0107	03/31/10; 05/27/10
GJ-J0374	06/30/10; 09/30/10

We recommend that KAJUR establish procedures to ensure the numerical control of general journal entries.

(2) Inventory

The September 30, 2010 inventory count included one hundred five meter bases that were purchased in the prior year. The September 30, 2009 inventory count only included thirty-seven of these meter bases. We were informed that sixty-eight meter bases were not included in the September 30, 2009 count. Additionally, we noted $10,431 of spare parts delivered in August 2010 and included in the October 2010 inventory valuation report that were not included in the September 2010 inventory valuation report. Management considered the effects of these discrepancies immaterial to the financial statements. We recommend that KAJUR establish policies and procedures to ensure that all inventory items are included in the year-end physical count and valuation report. KAJUR should consider maintaining perpetual inventory records that reflect inventory on hand.

KAJUR does not include freight cost in inventory valuations. We recommend that management establish policies and guidelines to include freight costs in inventory valuations. This matter was discussed in our previous letter dated June 30, 2010.

During our observation of the inventory count we noted one employee smoking inside the fuel plant facility despite 'no smoking' signage posted. We recommend proper monitoring and compliance with safety rules and regulations.

(3) Deferred Revenues

Our tests of free issue coupons for mid-corridor residents noted issuances to one customer in March 2010 where the summary of free issue tokens reported $596 and the issue report and token log reported $296. We recommend that KAJUR ensure correct amounts are recorded for tokens issued.

APPENDIX I, CONTINUED

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Other Expenses

Our tests of other expenses noted one item (check no. 7859) for which supporting vendor invoices were not available. We recommend that KAJUR ensure that supporting documents for expenses are maintained.

(5) Collection Reports

Cash collection reports are not sequenced by date. We recommend that KAJUR ensure that the cash collection reports are sequenced by date.

(6) Other Expenses

KAJUR did not prepare receiving reports for two disbursements (check nos. 7252 and 7322) representing purchases of supplies and materials for administrative purposes. We recommend KAJUR prepare receiving reports to document the receipt of purchases.

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 letter dated June 30, 2010.

(2) Revenues

KAJUR does not maintain records on power generated, transmitted and billed throughout the year. Such information would be helpful in monitoring line losses. We recommend management consider maintaining records on power generated, transmitted and billed.

SECTION III - DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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.

APPENDIX II

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.