

June 30, 2010

Mr. Rod Nakamura
General Manager
Kwajalein Atoll Joint Utilities Resources, Inc.:

Dear Mr. Nakamura:

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, 2009, on which we have issued our report dated June 30, 2010, 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, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 30, 2010, 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.

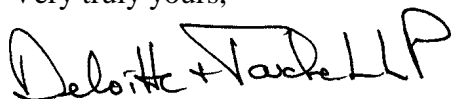
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2009 that we wish to bring to your attention:

1) Cash Receipts

It is KAJUR's policy to have a debit meter cash collection report prepared daily, to be signed by the preparer and to be verified by a customer service supervisor. In case the customer service supervisor prepared the debit meter cash collection report, the accountant should perform the verification. Of thirty-three cash collection reports examined, ten reflected an absence of a customer service supervisor/accountant's signature evidencing verification. In addition, two cash collection reports were not signed by the preparer or the cashier.

Also, for the cash collection reports dated October 31, 2008 and March 28, 2009, revenue recorded was overstated by \$20 as the reversal of erroneous cash power token amounts were not deducted.

Furthermore, it is KAJUR's policy to deposit cash collections the next business day. However, we noted several instances where the deposit was made few days after the date the cash was collected.

We recommend that management establish monitoring controls pertaining to cash receipts processing and reporting to determine if established policies and procedures are consistently followed. We also recommend the management to strictly follow its policy in depositing daily cash collections the next business day to avoid possible instances of theft or missing cash collections.

2 Customer's Acknowledgement of Receipt on Items Sold

KAJUR utilizes its sales invoices as delivery receipts when selling water, fuel and other inventory items. Current policy does not appear to require that customer sign the sales invoice as evidence of receipt. The lack of customer acknowledgement could result in questionable sales. We recommend that all customers be requested to sign and indicate clearly the date of receipt of goods.

3) Leave Accrual

KAJUR does not appear to have an official leave policy. Although it was represented verbally that KALGOV policies are followed, no official policy has been adopted. Upon examination of the accrued annual and sick leave as of September 30, 2009 using this policy, we noted that:

- 21 employees accrued annual leave in excess of a cap of 240 hours per year, the total of which was 1,416 hours or \$9,917. This balance was adjusted by management upon an auditor request.
- 3 employees had accrued sick leave in excess of a cap of 960 hours per year, the total of which was 32.5 hours or \$1,985.
- There were negative sick and annual leave balances totaling some \$2,605.
- KAJUR had not yet reversed accrued sick and annual leave for terminated employees of \$5,943. This was adjusted by management upon the auditors' request.

As management represented that they are following KALGOV's leave policy, we recommend that such policy be consistently followed.

4) Freight Costs

KAJUR does not have a policy that includes freight cost in inventory and fixed assets valuations. We recommend that management establish policies and guidelines to include applicable freight costs in inventory and fixed assets valuations.

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) Accounting and Internal Control Policies and Procedures Manual

KAJUR currently does not have a formal accounting policies and procedures manual. A comprehensive accounting policies and procedures manual should be readily accessible to accounting personnel to assist in ensuring that accounting policies are followed and are consistently applied. This manual would also benefit the entity when there is turnover of key personnel. Thoroughly documented policies and procedures can reduce the learning period for new employees and provide management with increased assurance that accounting policies and procedures are understood and are consistently followed.

We recommend that management consider adopting an accounting manual to govern the financial reporting process and other significant business cycles within the entity such as expenditures, revenue and payroll cycles.

2) Procurement

KAJUR does not have written policies and procedures governing its procurement processes. We recommend that KAJUR adopt formal policies and procedures that are consistent with RepMar's Procurement Code.

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.

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.