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May 8, 2006

CONFIDENTIAL

Mr. William F. Roberts
 General Manager
 Marshalls Energy Company, Inc.
 P.O. Box 1439
 Majuro, Marshall Islands 96960

Dear Mr. Roberts:

In planning and performing our audit of the financial statements of Marshalls Energy Company, Inc. (MEC) for the year ended September 30, 2005, on which we have issued our report dated May 8, 2006, we developed the following recommendations concerning certain matters related to MEC's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Cash Receipts

Of twenty-five cash receipts tested, we noted one (receipt # 5361) where the carbon copy was manually altered. Additionally, the cash reconciliations that included two receipts tested (receipt #s 160849 and 162734) were not signed as certified by the accounting manager. We recommend that management ensure that receipt carbon copies are not altered and that all cash reconciliations are reviewed and certified by the accounting manager.

(2) Purchases/Disbursements

Of twenty-five nonpayroll purchases/disbursements tested, the receipt dates for five items (check #s 9892, 10291, 10315, 11250 and 12399) were not made available. Additionally, the purchase requisition for one item (check # 11670) and the purchase order and vendor invoice for one item (check # 11169) were not made available. We recommend that management ensure that receipt dates for all purchases are adequately documented and that all purchases/disbursements are adequately supported.

(3) Payroll

Of twenty-five payroll disbursements tested, we noted the following:

- The approved hours differed from the hours paid for the following employees:

<u>Employee #</u>	<u>PPE</u>	<u>Approved Hours</u>	<u>Paid Hours</u>
DO47	10/31/04	96.0	97.0
DM03	03/06/05	95.5	97.5
JG04	09/18/05	80.0	88.0

(3) Payroll, Continued

- Certain authorized allotment forms were not made available for the following employees:

<u>Employee #</u>	<u>PPE</u>
AO34	12/12/04
DO21	01/19/05
GO89	01/27/05

We recommend that management ensure that employees are paid approved hours and that authorized allotment forms are retained.

(4) Electricity Receivables

As of September 30, 2005, the aged electricity receivables subsidiary ledger indicated that customer accounts, excluding RepMar-related and Majuro Water and Sewer accounts, with balances greater than ninety days represented fifty-seven (57) percent of the total balance of \$3,263,830. These balances include customers who are deceased or who have left the island, for which collection is unlikely. We recommend that management review the aged electricity receivable subsidiary ledger and determine uncollectible accounts to be submitted to the Board for write off consideration. This matter was discussed in our previous letter dated January 11, 2005.

(5) Other Receivables

We noted two amounts of \$10,500 and \$32,490 that were posted to the wrong customer account (A/c # 12208). We recommend that management ensure that collections and adjustments are posted to the correct customer accounts.

(6) Materials and Supplies

At September 30, 2005, MEC recorded materials and supplies totaling \$2,051,574, which did not reconcile with the subsidiary ledgers' balance of \$1,585,628. Reconciliations were later performed and adjusting entries were then posted to the general ledger. We recommend that management ensure that materials and supplies are properly reconciled to the supporting subsidiary ledgers on a monthly basis and in a timely manner.

(7) Materials and Supplies

Of twenty-five materials and supplies items tested, the recorded unit cost for one item (part # PO90A, valued at \$33,485, per unit) varied from the actual unit cost of \$3,450. We recommend that management ensure that materials and supplies are accurately valued. This matter was discussed in our previous letter dated January 11, 2005.

(8) Materials and Supplies

Of twenty-five materials and supplies items tested, the vendor invoice was not made available for one item (part # ADL40). We recommend that management ensure that all materials and supplies are adequately supported.

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(9) Accrued Liabilities

Salaries and wages were not accrued at September 30, 2005. An audit adjustment was proposed to accrue salaries and wages totaling \$77,345. We recommend that management ensure that salaries and wages are properly accrued.

(10) Depreciation Rates

MEC is required to apply RUS approved depreciation rates on all fixed assets. The list of approved depreciation rates could not be located when requested. We recommend that this list be located and copies provided to relevant accounting staff who are responsible for recording and depreciating fixed assets, to ensure compliance with RUS guidelines. This matter was discussed in our previous letters dated January 11, 2005 and December 18, 2003.

(11) Insurance

The franchise agreement with RepMar governing solar and other renewable alternative energy systems effective April 15, 2003, requires that MEC maintain general comprehensive liability insurance covering the grantor (RepMar) and MEC, and their respective employees against liability claims for bodily injuries, death and property damages occasioned by franchise activities. The franchise covers the entire Republic of the Marshall Islands. The renewed insurance policy covers only MEC and its employees for incidents occurring at three locations (Majuro, including Rongrong, Jaluit, and Wotje). We recommend that management comply with the franchise requirements. This matter was discussed in our previous letter dated January 11, 2005.

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This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

