

MAJURO ATOLL WASTE COMPANY
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2011

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Majuro Atoll Waste Company:

We have audited the financial statements of Majuro Atoll Waste Company (MAWC) as of and for the year ended September 30, 2011, and have issued our report thereon dated July 13, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of MAWC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MAWC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MAWC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MAWC's internal control over financial reporting.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

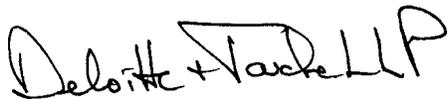
Compliance and Other Matters

As part of obtaining reasonable assurance about whether MAWC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 8) as items 2011-1 and 2011-2.

We also noted certain matters that we reported to management of MAWC in a separate letter dated July 13, 2012.

MAWC's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MAWC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of Majuro Atoll Waste Company, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Stadel LLP". The signature is written in a cursive, slightly stylized font.

July 13, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors
Majuro Atoll Waste Company:

Compliance

We have audited Majuro Atoll Waste Company's (MAWC) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on MAWC's major federal program for the year ended September 30, 2011. MAWC's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 8). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of MAWC's management. Our responsibility is to express an opinion on MAWC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MAWC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MAWC's compliance with those requirements.

In our opinion, MAWC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its one major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

Management of MAWC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MAWC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of MAWC's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MAWC's internal control over compliance.

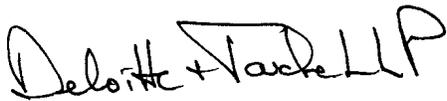
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of MAWC as of and for the year ended September 30, 2011, and have issued our report thereon dated July 13, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of MAWC. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and management of Majuro Atoll Waste Company, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

July 13, 2012

MAJURO ATOLL WASTE COMPANY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

<u>Federal Grantor/Pass-Through Grantor's Program Title</u>	<u>Federal CFDA Number</u>	<u>2011 Expenses and Transfers</u>
U.S. Department of the Interior, Office of Insular Affairs, Economic, Social and Political Development of the Territories:		
<u>Republic of the Marshall Islands</u>		
Pass-through:		
Compact of Free Association, Compact Sector Grants:		
Environmental Sector Grant	15.875	\$ 325,000
Infrastructure Improvement Sector Grant	15.875	334,404
Solid Waste Collection Program	15.875	<u>153,081</u>
Total Federal Assistance Expended		\$ <u><u>812,485</u></u>

<u>Purpose of Expenditures of Federal Awards</u>	<u>Federal CFDA Number</u>	<u>2011 Expenses and Transfers</u>
<u>Republic of Marshall Islands</u>		
Federal awards for operating	15.875	\$ 325,000
Federal awards for capital projects	15.875	<u>487,485</u>
		\$ <u><u>812,485</u></u>

See accompanying notes to schedule of expenditures of federal awards.

MAJURO ATOLL WASTE COMPANY
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

Part I - Summary of Auditors' Results Section

Financial Statements

- | | |
|--|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None noted |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major programs:

- | | |
|---|-------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None noted |
| 7. Type of auditors' report issued on compliance for major programs | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. MAWC's major program were as follows: | |

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
Compact of Free Association, Compact Sector Grants	15.875

- | | |
|---|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Part II - Financial Statement Findings Section

<u>Finding No.</u>	<u>Finding</u>	<u>Page No</u>
2011-1	Local Noncompliance	7
2011-2	Local Noncompliance	8

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.

MAJURO ATOLL WASTE COMPANY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-1

Local Noncompliance

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MAWC filed and paid income taxes withheld for the year ended September 30, 2011 in a manner inconsistent with the criteria. Specifically, withholding tax returns for the four-week periods ended April 22, 2011, May 20, 2011, June 17, 2011, July 15, 2011, August 12, 2011 and September 9, 2011, were not filed and paid within the 14-day deadline. At September 30, 2011, MAWC was liable to RepMar for income taxes withheld from employee wages in the amount of \$15,398, which represented income taxes withheld for the months of April 2011 through September 2011 plus penalty and interest incurred for the period.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with RepMar Income Tax Act of 1989, as amended

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: MAWC will look into establishing the necessary policies and procedures in order to correct the deficiency mentioned above and avoid repeating the same condition.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No. 2011-2

Local Noncompliance

Criteria: 49 MIRC Chapter 1, Social Security Act of 1990, Section 131 state that no later than the tenth (10th) day after the end of each quarter, every employer, including every self-employed worker, shall (a) submit to the Administrator a report of the wages and salaries paid by him and the contributions due from him; and (b) pay into the Fund the contributions due.

Condition: MAWC filed and paid employer and employees contributions withheld for the year ended September 30, 2011 in a manner inconsistent with the criteria. Specifically, tax returns for the quarters ended December 31, 2010, March 31, 2011, June 30, 2011 and September 30, 2011 were not filed and paid within the 10 day deadline. At September 30, 2011, MAWC was liable to MISSA for employer and employees contributions withheld in the amount of \$49,747, which represents contributions withheld for the months of October 2010 through September 2011 plus penalty and interest incurred for the period.

Cause: The cause of the above condition appears to be lack of policies and procedures to implement and monitor timely filing of returns and payment of contributions in accordance with the Social Security Act of 1990.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990. However, MAWC entered into a promissory note with MISSA in the amount of \$48,666, which includes monthly payments of \$2,500 commencing November 30, 2011 until the delinquent debt is brought current.

Recommendation: We recommend that management establish policies and procedures to comply with the Social Security Act of 1990.

Auditee Response and Corrective Action Plan: MAWC will look into establishing the necessary policies and procedures in order to correct the deficiency mentioned above and avoid repeating the same condition.