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September 15, 2010

Mr. Roger Cooper
General Manager
Majuro Atoll Waste Company

Dear Mr. Cooper:

In planning and performing our audit of the financial statements of Majuro Atoll Waste Company (the Company) as of and for the year ended September 30, 2008 (on which we have issued our report dated September 15, 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 the Company'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 the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 the Company's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 15, 2010, on our consideration of the Company'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 the Board of Directors, 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 the Company for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Company's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

1. Property and Equipment

Observations:

(1) The Company does not recognize depreciation on its assets. No policy on depreciation has as of yet been established.

(2) Capital expenditures have been reported as expenses in the statement of revenue, expenses, and changes in net assets and were not recorded in the statement of net assets.

(3) There is also no policy established related to maintenance of assets.

Audit adjustments were proposed to recognize capital assets and depreciation expense.

Recommendations:

(1) Assess the useful lives of property and equipment and determine the point when depreciation will commence. Depreciation should be charged on a monthly basis.

(2) Property and equipment, including all related costs to bring the asset to the location and condition intended for use, should be capitalized and be presented as an asset in the statement of net assets.

(3) A policy on maintenance of assets should be established.

2. Liabilities

Observation:

Utilities and payroll accruals at September 30, 2008 were not accrued. Audit adjustments were proposed, where necessary, to recognize related accruals.

Recommendation:

Year end accruals should be recorded for all expenses incurred but unpaid.

3. Expenses

Observations:

(1) Training expenses were classified as miscellaneous expenses.

(2) The voucher and supporting third party invoices for a $1,047 repair and maintenance expense in 2008 cannot be located.

Recommendations:

(1) Reviews of transaction recording and financial report preparation should be strengthened to minimize misclassification, nonrecording and other errors. Consistent use of general ledger account classifications will facilitate consistent report classifications.

3. Expenses, Continued

(2) All vouchers and supporting third party invoices should be on file to facilitate a complete audit trail.

4. Payroll and Advances

Observations:

(1) Travel advances of $1,000 and $300 issued in March 2008 and June 2008, respectively, were presented as receivables as of September 30, 2008. The amounts had been liquidated but were not yet recorded as expenses.

(2) The Company allows employees to obtain salary advances. Per inquiry of management, the maximum allowed is $20. However, we noted that recorded advances exceed this amount.

(3) An employment contract has not been executed with the General Manager.

Recommendations:

(1) A policy of clearing advances within a definite timeframe should be established. Advance liquidations should be on file and be recorded to support an adequate audit trail. Expenses should be based on actual costs of purchases instead of the amounts advanced.

(2) Existing policies on employee advances should be followed and these policies should be reduced to writing.

(3) Employment contracts should be documented in writing.

5. MISSA and RMI Returns

Observation:

The Company incurred late fees and interest due to late filing of social security and health plan contributions for the quarter ended December 31, 2007.

Recommendation:

Liabilities to Marshall Islands Social Security Administration and Republic of Marshall Islands should be paid to minimize penalties.

6. Board of Directors' Minutes of Meetings

Observation:

The minutes were prepared by the General Manager and did not appear to be very detailed. In certain board resolution cases, board members did sign the resolutions documenting their concurrence. The Board secretary has not signed the minutes.

Recommendation:

Meeting minutes should be prepared and be certified by the Board Secretary. The Board members should document approval of the minutes.

7. Article of Incorporation

Observation:

The Company only has a photocopy of the Articles of Incorporation and the pages are incomplete.

Recommendation:

An original, complete and signed copy or the Articles of Incorporation should be kept on file.

8. Procurement Code Compliance

Observation:

The Company's procurement process and compliance requirements is not completely documented. Purchases currently occur without a requisite number of bids or proposals.

Recommendation:

Compliance with the RMI procurement code should occur. Bids, proposals or price quotations, evaluation documents prepared to support vendor selection and notice of awards sent to suppliers should be kept on file to comply with procurement policies and procedures.

9. Allowance for Doubtful Accounts

Observation:

A receivable of $12,907 is deemed to be uncollectible as of September 30, 2008. However, a reserve for doubtful accounts had not been recorded. An audit adjustment was proposed to recognize bad debts pertaining to this receivable balance.

Recommendation:

Regular assessments of the collectability of accounts receivable should occur. Collection follow up procedures should be developed and provisions for an allowance for doubtful accounts should occur for potentially uncollectible accounts.

10. Liabilities

Observation:

Due to cash flow constraints, the Company has not been timely paying its vendors.

Recommendation:

Cash flows should be continually reviewed and liabilities should be paid as they fall due.

11. Grants

<u>Observations:</u>

(1) Travel was charged to a grant to acquire waste collection equipment. Per inquiry, the expense was related to travel costs incurred to inspect the equipment before purchase.

(2) The Company was not able to file a timely report for grants received from the Turkish Government. Further, of the $475,000 grant received from the Republic of Turkey, $327,000 of projects was not disbursed as planned. The funds appear to have been used for other operating costs.

<u>Recommendations:</u>

(1) Expenditures from grants received should directly relate to the purpose for which the grants were received. Further, schedules of expenses should be prepared and supporting documents should be filed properly.

(2) Grantor required reports should be timely and completely filed. Grant funds received should only be disbursed as allowed by grant agreements.

(3) Grant funds should only be disbursed during the period of availability.

12. Discounts to Customers

<u>Observation:</u>

One customer was given a 20% discount on waste collection fees due to the attendant volume of business. There is no formal policy that describes how discounts may be awarded. Management negotiated with the customer but no approval from the Board of Directors was obtained. Also, no written agreement was entered into supporting the arrangement.

<u>Recommendation:</u>

A discount policy should be established and be approved by the Board.

13. Undeposited Cash

<u>Observation:</u>

As of September 30, 2008, $4,080 of undeposited cash appears as other assets in the general ledger. These amounts were asserted to be deposited to the bank on the next banking day after year-end. However, we were not able to trace the amounts to the October 2008 bank statement. The deposit slips that detail the amount deposited in October 2008 are not on file.

<u>Recommendation:</u>

The Company should ensure that all deposit slips are on file. There should be a clear record of the deposit of all cash collections and cash should be deposited on the next banking day.

SECTION II – 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 Company 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

The Company'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.