

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

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2010

**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, 2010, and have issued our report thereon dated August 1, 2011. 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

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.

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 that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 and 4), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

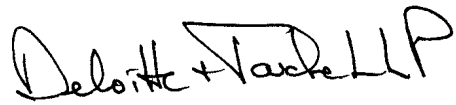
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2010-2 to be a material weakness.

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 Responses as item 2010-1.

We noted certain matters that we reported to management of MAWC in a separate letter dated August 1, 2011.

This report is intended solely for the information and use of the Board of Directors and management of MAWC 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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

August 1, 2011

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

Schedule of Findings and Responses
Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-1

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: During the year September 30 2010, MAWC purchased bins with a total cost of \$100,026 including freight charges. It was represented that bidding from two vendors were obtained. However, RMI government requires that procurement actions of goods and services provide full and open competition which should be appropriately documented in the procurement files. However, complete documentation to evidence compliance with the required competitive bidding process could not be provided.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audit of MAWC for fiscal year 2009.

Auditee Response and Corrective Action Plan: RepMar's procurement process will be followed accordingly and appropriately documented in the procurement files on our next purchases.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Equipment and Real Property Management

Finding No. 2010-2

Criteria: Federal requirements state that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

1. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who hold title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of property, and any ultimate disposition data including the date of disposal and sale price of the property;
2. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
3. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
4. Adequate maintenance procedures must be developed to keep property in good condition;
5. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: MAWC does not have established property maintenance policies and has not effectively implemented an entity-wide maintenance plan. During the year ended September 30, 2010, fixed assets with remaining net book value of \$32,581 were fully depreciated due to non-working conditions.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of property maintenance.

Effect: The effect of the above condition is a lack of compliance with federal regulations.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with federal requirements.

Prior Year Status: Lack of established policies and procedures on property maintenance was reported as a finding in the audit of MAWC for fiscal year 2009.

Auditee Response and Corrective Action Plan: There was a financial crisis and the company needs to pay the top priorities in order to keep the business running and continue its operation. As a corrective action plan, the company employed a regular mechanic who is assigned to maintain the equipment properly and also to ask budget increment from RepMar.

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Unresolved Prior Year Findings
Year Ended September 30, 2010

The status of unresolved prior year findings is discussed within the Schedule of Findings and Responses section of this report (pages 3 and 4).