

July 9, 2015

Mr. Jorelik Tibon  
General Manager  
Majuro Atoll Waste Company  
Republic of the Marshall Islands

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Majuro Atoll Waste Company (MAWC) as of and for the year ended September 30, 2014 (on which we have issued our report dated July 9, 2015), 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 MAWC'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 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MAWC's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 9, 2015, on our consideration of MAWC'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.

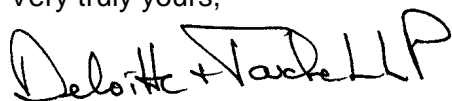
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 MAWC 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 MAWC's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

### 1. Allowance for Doubtful Accounts

Receivables of \$37,707 were deemed uncollectible as of September 30, 2014, which is 52% of total trade receivables. Additional bad debt expense of \$5,850 was recorded during the audit.

We recommend that management perform regular assessments of the collectability of accounts receivable. Management should have a formal written policy governing collection and write-offs of receivables and improve collection efforts to reduce bad debts.

### 2. Revenues

- a) In 6 of 18 revenues tested, the Commercial Dumpster Service Agreement detailing pertinent information regarding the rate per pick up, number of bins, pick up schedule and frequency was not signed by the General Manager.
- b) Of 1 of 18 revenues tested, journal voucher support (JV #581) was not signed by both a preparer and a reviewer.
- c) Of 4 of 18 revenues tested, a Commercial Dumpster Service Agreement was not on file.
- d) Of 9 of 18 revenues tested, delays in the deposit of cash receipts ranging from 2 to 4 working days occurred.

We recommend that management monitor daily transactions and approve journal vouchers. In addition, all service agreements should be signed by applicable parties and be filed to minimize the opportunity for future disputes. We also recommend management adopt internal control policies and procedures over the completeness of sales transactions and timely deposit of collections.

### 3. Payroll

- a) Of 2 of 24 payroll payments tested, a different pay rate was applied when compared to the employment contract.
- b) Of 5 of 24 payroll payments tested, executed employment contracts were not on file.

We recommend that management adopt internal control policies and procedures governing completeness of employee permanent files. In addition, employment contracts should be drafted and signed to minimize the opportunity for future disputes.

### 4. Liabilities

- a) There was more than one voucher #0046. This means that check vouchers were not sequentially numbered.
- b) Accrued vacation leave as of 11/28/2014 was paid on 12/19/2014; however, there is no Board approval supporting this action.

We recommend that management verify sequential numbering of check vouchers support management actions be supported by written approval/policies as approved by the Board.

### 5. Procurement

One acquisition of \$1,540 was not supported by required vendor quotation.

We recommend that management comply with RepMar's Procurement code.

## SECTION II - DEFINITIONS

The definition of a control deficiency is as follows:

A *control 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 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 is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications 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**

MAWC'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.