

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, 2009

**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 (the Company) as of and for the year ended September 30, 2009, and have issued our report thereon dated September 15, 2010. 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 the Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Company's internal control over financial reporting.

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 *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

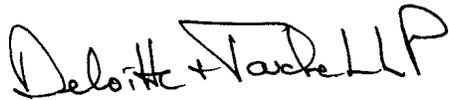
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify 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 Company'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Company in a separate letter dated September 15, 2010.

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.

September 15, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO 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 the compliance of Majuro Atoll Waste Company (the Company) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The Company's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 11). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company'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 the Company'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 on the Company's compliance with those requirements.

As described in items 2009-01 through 2009-03 in the accompanying Schedule of Findings and Questioned Costs, the Company did not comply with requirements regarding procurement and suspension and debarment, equipment and real property management, and period of availability of federal funds that are applicable to its major federal program as described in the Federal Award Findings and Questioned Cost Section of the accompanying Schedule Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for the Company to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Company complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01 through 2009-03 to be significant deficiencies.

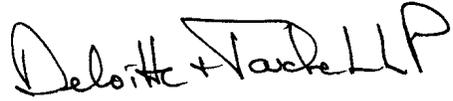
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01 through 2009-03 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Company as of and for the year ended September 30, 2009, and have issued our report thereon dated September 15, 2010. 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 6) is presented for additional analysis as required by OMB Circular A-133. The accompanying schedule is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Company. 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.

The Company's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Company's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors and management of Majoro 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.

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September 15, 2010

MAJURO ATOLL WASTE COMPANY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Federal Grantor/Pass-Through Grantor's Program Title	Federal CFDA Number	2009 Expenses and Transfers
<u>Republic of the Marshall Islands</u>		
Pass-through:		
Compact of Free Association, Compact Sector Grants:		
Health Sector Grant	15.875	\$ 325,000
Public Infrastructure Sector Grant	15.875	120,000
 <u>U. S. Department of the Interior, Office of Insular Affairs</u>		
Direct Programs:		
Economic, Social and Political Development of the Territories:		
Solid Waste Collection Program	15.875	<u>250,000</u>
Total Federal Assistance Expended		<u>\$ 695,000</u>

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

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 that are not considered to be material weaknesses? | None noted |
| 4. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|--------------------------------|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None noted |
| 7. Type of auditors' report issued on compliance for major programs | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| 9. The Company's major program were as follows: | Federal
CFDA Number |
| <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 |

Part II - Financial Statement Findings Section

No matters are reportable.

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-01	15.875	Procurement and Suspension and Debarment; and Allowable Costs/ Cost Principles	\$203,314

MAJURO ATOLL WASTE COMPANY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Part III - Federal Award Findings and Questioned Cost Section, Continued

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-02	15.875	Equipment and Real Property Management	\$ -
2009-03	15.875	Period of Availability of Federal Funds	\$ 66,500

MAJURO ATOLL WASTE COMPANY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Finding No.: 2009-01
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Solid Waste Collection Program
Federal Agency: U.S. Department of the Interior
Office of Insular Affairs
Requirements: Procurement and Suspension and Debarment; and Allowable Costs/Cost
Principles
Questioned Costs: \$203,314

Criteria: Procurement of goods and services should occur in compliance with the provisions applicable to federal and local laws; and, Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable costs principles.

Condition: In our tests of capital expenditures, we were able to examine procurement documents and note the request for proposals for the purchase of loader vehicles. However, we were not provided with bid documents as it was represented that no formal bids were submitted. Management travelled and searched for loader vehicles and represented that several companies products were reviewed, but only one of the companies was reported to sell loader trucks that can function on the diesel fuel utilized in Majuro. We were not provided with descriptions of loader trucks from the alternate vendors to allow us to verify management representations or to determine compliance with applicable federal procurement requirements. We also noted no formal policy and activity to ensure that only activities and costs allowed are charged to federal grants.

Cause: There appears to be a lack of internal controls to ensure compliance with the criteria.

Effect: The Company may be in noncompliance with the criteria and questioned costs result from this condition. The details of the questioned costs follow:

Sterling	\$ 99,507
Sterling side loader	<u>103,807</u>
	\$ <u>203,314</u>

Recommendation: The Company should comply with the criteria.

Auditee Response and Corrective Action Plan: We will work towards improvements and establishing clear policies and procedures that should make future audits better.

MAJURO ATOLL WASTE COMPANY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.:	2009-02
CFDA Programs:	15.875 Economic, Social and Political Development of the Territories Solid Waste Collection Program 15.875 Compact of Free Association, Compact Sector Grants Health Sector Grant Public Infrastructure Sector Grant
Federal Agency:	U.S. Department of the Interior Office of Insular Affairs
Requirements:	Equipment and Real Property Management
Questioned Costs:	\$0

Criteria: Equipment acquired with federal funding is subject to maintenance requirements.

Condition: The Company has not set a policy governing maintenance of assets and was not able to document that equipment maintenance was occurring.

Cause: There appears to be a lack of controls to establish compliance with the criteria.

Effect: The Company may be in noncompliance with the criteria.

Recommendation: The Company should comply with the criteria.

Auditee Response and Corrective Action Plan: We will work towards improvements and establishing clear policies and procedures that should make future audits better.

MAJURO ATOLL WASTE COMPANY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-03
CFDA Program: 15.875 Compact of Free Association, Compact Sector Grants
Public Infrastructure Sector Grant
Federal Agency: U.S. Department of the Interior
Office of Insular Affairs
Requirements: Period of Availability of Federal Funds
Questioned Costs: \$66,500

Criteria: Federal funds are to be used only during the authorized period of availability; and, Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable costs principles.

Condition: US Compact funding of \$120,000 was received by the Company in 2009. The grant fund may not be used for any obligation or expenditure incurred prior to the effective date of the grant, October 1, 2008. However, the Company attributed a \$66,500 seawall improvement expense to this grant fund. The expenditure for this project was incurred in October to December 2007. We also noted no formal policy and activity to ensure that only activities and costs allowed are charged to federal grants.

Cause: There appears to be a lack of internal controls to ensure compliance with the criteria.

Effect: The Company may be in noncompliance with the criteria and questioned costs result.

Recommendation: The Company should comply with the criteria.

Auditee Response and Corrective Action Plan: We will work towards improvements and establishing clear policies and procedures that should make future audits better.