

August 1, 2011

Mr. Steve Why  
General Manager  
Majuro Atoll Waste Company  
Republic of the Marshall Islands

Dear Mr. Why:

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, 2010 (on which we have issued our report dated August 1, 2011), 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated August 1, 2011, 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.

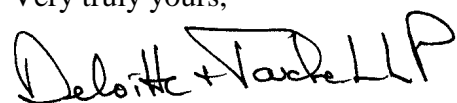
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2010 that we wish to bring to your attention:

### (1) MISSA and RMI Returns

Throughout the year, MAWC has been incurring interest and penalties for late filing of tax returns. Furthermore, MAWC was delinquent in the remittance of Gross Receipts Taxes (GRT) and employee withholding taxes as at year end. Specifically, the quarterly GRT return for June 30, 2010 in the amount of \$2,243 as well as the monthly withholding tax returns for June, July and August in the amounts of \$1,772, \$1,701, and \$1,775, respectively, were unpaid as at September 30, 2010. We recommend that timely remittance of taxes withheld to regulatory authorities be done to avoid unnecessary payment of charges and to comply with enabling tax legislation.

### (2) Property and Equipment

Capital expenditures of \$3,925 were recorded as an outright expense and not recorded as part of property and equipment in the statement of net assets. We recommend proper review of the nature of expenses requiring that items which meet the capitalization policy are appropriately classified and recognized.

### (3) Payroll

There was no employment contract completed for the general manager. We recommend that management require that contracts are documented in writing to validly support employment terms and benefits.

### (4) Allowance for Doubtful Accounts

No assessment of allowance for doubtful accounts adequacy was made during the year. We recommend that management implement collection follow up procedures and evaluate long outstanding customer balances to properly assess the adequacy of allowance for doubtful accounts. Management should consider account write-offs if the probability of collection is remote. Appropriate documentation should be maintained to support the basis of the provision and attendant write-offs.

## SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

### (1) Articles of Incorporation

MAWC does not have a complete set of articles of incorporation on file. We recommend that original, complete and signed copy of articles of incorporation be obtained and kept on file.

**SECTION III- DEFINITIONS**

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, 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.