

April 15, 2006

CONFIDENTIAL

Mr. William F. Roberts
General Manager
Majuro Water and Sewer Company, Inc.

Dear Mr. Roberts:

In planning and performing our audit of the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) for the year ended September 30, 2005, on which we have issued our report dated April 15, 2006, we developed the following recommendations concerning certain matters related to MWSC's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Water Delivery Invoices

Of twenty-five water delivery invoices tested, invoice #s WD2004-349, WD2004-363, WD2004-1084, WD2004-1093, WD2005-873, WD2005-1181, and WD2005-1657 did not evidence customer signatures indicating the receipt of service. Additionally, invoice #s WD2004-491, WD2004-502, WD2004-1424, WD2004-1455, WD2004-1524, WD2004-1728, WD2004-1764, and WD2004-1771 were missing. Copies of these invoices were reprinted from the system for test purposes.

Of six water delivery sales tested, four invoice numbers (WDF2005-0249, WDF2005-0549, WDF2005-1023, and WDF2005-1277) did not evidence customer signatures.

We recommend that management ensure that water delivery invoices are signed by the customer to indicate the receipt of delivery. Additionally, we recommend that copies of invoices be filed and maintained to support revenues earned.

(2) Water System Billing

Water billings for the month of June 2005 were missing. We were informed that billings for the month of June were printed on regular paper and may have been discarded. We recommend that management ensure that copies of billings are filed and maintained.

(3) Employee Advances

At September 30, 2005, MWSC recorded employee advances of \$4,128 due primarily from a former employee. This receivable has been outstanding for over four years.

We recommend that management ensure that advances to employees are reimbursed in a timely manner. This matter was discussed in our previous letters dated December 21, 2004, February 16, 2004, November 25, 2002, and January 11, 2002.

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(4) Fixed Assets

Office equipment valued at \$2,165 was not supported by a valid invoice. Additionally, computer systems totaling \$45,531 were disposed of during the year but were not removed from the fixed asset register. We recommend that management ensure that fixed asset purchases are supported by valid invoices and fixed assets no longer in use be removed from the fixed asset register.

(5) Payroll

Of twenty-five payroll disbursements tested, check #s 6496 and 6970 indicated discrepancies between timesheets and payroll reports. Additionally, check #s 5139, 6732, and 7039 indicated an absence of manager timesheet approval. We recommend that management ensure that hours paid agree with actual hours worked as evidenced on timesheets. Additionally, we recommend that management ensure that timesheets are approved.

(6) Receivables

At September 30, 2005, the aged utility receivable subsidiary ledger indicated that customer accounts outstanding in excess of sixty days represented 93% of the total receivables of \$1,500,659. An allowance of \$1,389,198 has been recorded against this balance. We recommend that management review the aged receivable subsidiary ledger and determine the detail of uncollectible accounts receivable to be written-off and obtain approval from the Board. This matter was discussed in our previous letters dated December 21, 2004, February 16, 2004, November 25, 2002, January 11, 2002, January 19, 2001 and December 6, 1999.

(7) RepMar Subsidy

At September 30, 2005, MWSC received \$99,405 from RepMar for payment of subsidy/water bills. The payment was received from RepMar after MWSC sent letters of requests for disbursement of the subsidy/water bills. RepMar considers this as a payment of water bills rather than a subsidy. We were informed that actual water invoices, which totaled \$169,220 for current year charges, were not presented to RepMar with the letters of requests.

We recommend that MWSC provide actual water invoices to RepMar for payment of its water bills.

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This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

