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July 7, 2010

Mr. David Paul
General Manager
Majuro Water and Sewer Company, Inc.

Dear Mr. Paul:

In planning and performing our audit of the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2009 (on which we have issued our report dated July 7, 2010), 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 MWSC'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 MWSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MWSC'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 MWSC's internal control over financial reporting and other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 7, 2010, on our consideration of MWSC'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 MWSC for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MWSC's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

1) Cash Receipts

We examined the cash collection report and reconciliation prepared by the billing department for December 22, 2008 collections. The deposit was made on December 24, 2008, when MWSC's policy is to deposit collections daily. Furthermore, cash receipt #77196 was not included in the cash collection report. We recommend that management implement the daily deposit of collections to comply with MWSC's policy. Additionally, cash collection reports should be thoroughly reviewed to determine that all pre-printed cash receipt forms are accounted for.

2) Payroll Expense

Of three (3) overtime payments tested, we noted check# 11888, dated December 23, 2008, where an employee was paid one (1) hour in excess of approved overtime hours. We recommend that management strengthen its policies and procedures to ensure that only approved regular and overtime hours are paid as per Company policy.

3) Utility Revenue

During the year ended September 30, 2009, certain meter readings for inactive customer accounts in the months of November 2008 and June 2009 were not billed. This resulted in an approximate $5,000 error. We recommend that management ensure that appropriate review occurs prior to printing customer bills.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Utility Receivable

As at September 30, 2009, receivable aging indicated that customer accounts with balances greater than 60 days represent 96% of the total. A reserve of $1,473,944, equivalent to 91% of total utility receivables, was established for doubtful debts. We recommend that management continue to review the subsidiary ledger to determine uncollectible accounts to be written-off and to obtain requisite approval from the Board. Furthermore, we recommend that management establish a system to improve the collection of accounts receivable.

2) Utility Receivable

MWSC policy is to disconnect nonpaying customers whose balances are sixty days overdue and are above $150. As of September 30, 2009, of one hundred twenty three (123) items tested, we noted thirteen (13) customers continued to be connected to the water and/or sewer system despite noncompliance with the policy. We recommend that management establish procedures to ensure compliance with the policy.

SECTION II – OTHER MATTERS, Continued

3) Inventory

During physical count of inventory at September 30, 2009, we noted an incorrect quantity was recorded in the countsheet for part # PL400. The error was corrected as of September 30, 2009. We recommend that a person independent of inventory maintenance observe inventory counts and verify the accuracy of recorded quantities.

4) Income Tax Payable

On January 6, 2006, MWSC entered into a promissory note to repay delinquent withholding income taxes of $164,048. The terms of the agreement included interest at 12% to be repaid over a period of twenty four months commencing January 2006. As of September 30, 2009, the promissory note has not been fully paid and a remaining balance of $14,848 exists. We recommend that management comply with the terms of the promissory note and the provisions of the Income Tax Act of 1989, as amended.

5) Reconciliation of Subsidiary Ledger and General Ledger Accounts

Reconciliation of accounts receivable and accounts payable is performed annually, at fiscal year-end. However, this practice may not be adequate to determine that all transactions are captured timely and that generated reports to management are accurate. We recommend that management execute monthly reconciliations of accounts.

6) Group Life Insurance

During fiscal year 2009, MWSC obtained group life insurance policy for its employees. Costs of such are shared by MWSC and the employee and must be remitted following a payroll payment on a bi-weekly basis. However, we noted that payments to the insurance company for pay periods April 11, 2009 through June 20, 2009 and June 21, 2009 through July 18, 2009 were only made on October 5, 2009 and December 8, 2009 through check #s 10499 and 10802, respectively. As such, payments were made several months late. We recommend that management require timely payment of life insurance premium to prevent possible unnecessary claims or losses due to late remittance of employee and employer contributions.

SECTION II – DEFINITIONS

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

A *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 and correct 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 would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary Company or competence 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

MWSC'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.