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February 15, 2011

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, 2010 (on which we have issued our report dated February 15, 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 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated February 15, 2011, 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, 2010 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 June 25, 2010 collections. The deposit was made on June 29, 2010, when MWSC policy is to deposit collections daily. We recommend that management perform daily deposits to comply with MWSC policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 and 2009.

2) Inventory

a. Inventory custodians performed the annual physical count without independent verification. We recommend that a person independent of the custodian, such as an accounting staff, observes physical counts and verifies the accuracy of recorded quantities. This matter was discussed in our previous letter to management for the audit of fiscal year 2009.

b. Adjustments to reduce inventory after the physical count totaled $17,530 at September 30, 2010. Issuance slips should accompany all items released from the warehouse and receiving reports should support all receipts. It appears that this adjustment represents issuances that were not documented during the year. Furthermore, we examined the inventory reconciliation for May, August and September 2010 and noted that such did not contain evidence of management review. We recommend that management review monthly inventory reconciliations and investigate discrepancies between cycle counts and inventory records to strengthen controls over inventory and to provide more accurate financial information.

3) Payroll Expense

Of two (2) overtime payments tested, we noted check# 14075, dated April 10, 2010, where an employee was paid thirty-two (32) overtime hours without an approved overtime authorization form or timesheet. We recommend that management strengthen policies and procedures to ensure that only approved overtime hours are paid per Company policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2006 through 2009.

4) 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. Furthermore, at September 30, 2010, the general ledger utility receivable balance differed by $4,011 from the subsidiary ledger. Additionally, a detailed schedule of other accounts receivable (a/c # 1216) totaling $2,746 was not available for examination. We recommend that management execute more frequent account reconciliations. This matter was discussed in our previous letter to management for the audit of fiscal year 2009.

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 and Other Receivable

a. As at September 30, 2010, receivable aging indicated that customer accounts with balances greater than 60 days represent 93% of the total. A reserve of $1,607,383, equivalent to 91% of total utility receivables, was established for doubtful debts. Additionally, the aging schedule for accounts receivable-other was also fully provided for ($56,633) at September 30, 2010. 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. This matter was discussed in our previous letters to management for the audits of fiscal years 1999 through 2009.

b. MWSC policy is to disconnect nonpaying customers whose balances are sixty days overdue and are above $150. As of September 30, 2010, we noted that this policy has not been strictly implemented as certain customers such as #s 51930, 51206, 53891 and 52770 continue to be connected despite noncompliance with policy. We recommend that management establish procedures to ensure compliance with the policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2009.

2) Utility Revenue

During the year ended September 30, 2010, certain meter readings for inactive customer accounts in the months of October 2009, January, March and April 2010 appeared in the meter reading transaction report. Such did not result in customer billings. We recommend that management ensure that appropriate review occurs prior to printing customer bills to determine that all customer consumption is billed. This matter was discussed in our previous letters to management for the audits of fiscal years 2008 and 2009.

3) Reconnection Fees

We examined reconnection authorization forms and noted that such are not pre-numbered. We recommend that reconnection forms be numbered in sequence to facilitate tracking purposes to assist in complete recording of revenues and to minimize unauthorized reconnections.

4) Group Life Insurance

During fiscal year 2010, MWSC obtained a group life insurance policy for its employees. Costs of such are shared by MWSC and the employee and must be remitted on a bi-weekly basis. We noted that payments to the insurance company for pay periods May 23, 2010 through July 17, 2010 were made on October 14, 2010, which is several months late. We recommend that management require timely payment of life insurance premiums to minimize unnecessary claims or losses. This matter was discussed in our previous letter to management for the audit of fiscal year 2009.

SECTION III – 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.