

MAJURO WATER AND SEWER COMPANY, INC.
**(A COMPONENT UNIT OF THE REPUBLIC OF
THE MARSHALL ISLANDS)**

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2011

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 Water and Sewer Company, Inc.:

We have audited the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2011, and have issued our report thereon dated July 3, 2012. 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

Management of MWSC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MWSC'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 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 that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 5), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2011-3 to be material weaknesses.

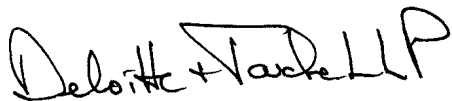
Compliance and Other Matters

As part of obtaining reasonable assurance about whether MWSC'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2011-1 and 2011-2.

We also noted certain matters that we reported to management of MWSC in a separate letter dated July 3, 2012.

MWSC's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MWSC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

July 3, 2012

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings and Responses Year Ended September 30, 2011

Local Noncompliance

Finding No. 2011-1

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MWSC filed and paid income taxes withheld for the year ended September 30, 2011 in a manner inconsistent with the criteria as follows:

Per examination of income tax returns and tax payments for pay period October 1, 2010 to December 5, 2010, there were no records of filings and payment of withholding taxes.

Cause: The cause of the above condition is the lack of policies and procedures to monitor timely filing of returns and payment of withheld income taxes.

Effect: The effect of the above condition is noncompliance with RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended. Furthermore, we recommend that there be close monitoring by management to review that all withheld tax filings are made on a timely basis.

Prior Year Status: The above condition was reported in the audits of MWSC for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

October 1, 2010 – December 5, 2010 filings were late, but filed and paid after the audit. The Accounting Manager will be closely monitoring timely filing and reporting in FY2012.

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2011

Local Noncompliance

Finding No. 2011-2

Criteria: 49 MIRC Chapter 1, Social Security Act of 1990, Section 131 states that no later than the tenth (10th) day after the end of each quarter, every employer, including every self-employed worker, shall (a) submit to the Administrator a report of the wages and salaries paid by him and the contributions due from him; and (b) pay into the Fund the contributions due.

Condition: MWSC filed and paid employer and employees contributions withheld for the year ended September 30, 2011 in a manner inconsistent with the criteria, as follows:

Quarter Ending	Check#	Amount (including penalties & interest)	Deadline	Date of payment	# of days late
12/31/2010	12586	\$ 30,276	01/10/2011	01/21/2011	11
03/31/2011	12690	\$ 2,105	04/10/2011	02/14/2011	0
03/31/2011	12858	\$ 22,612	04/10/2011	04/18/2011	8
06/31/2011	13283	\$ 15,000	07/10/2011	07/11/2011	1
06/31/2011	13374	\$ 5,000	07/10/2011	07/21/2011	11
06/31/2011	13394	\$ 4,496	07/10/2011	07/29/2011	19
09/30/2011	13665	\$ 28,945	10/10/2011	10/10/2011	0

Cause: The cause of the above condition appears to be lack of policies and procedures to implement and monitor timely filing of returns and payment of contributions in accordance with the Social Security Act.

Effect: The effect of the above condition is noncompliance with the Social Security Act.

Recommendation: We noted that there was a significant improvement compared to 2010. However, we continue to recommend that management establish policies and procedures to comply with the Social Security Act of 1990.

Prior Year Status: The above condition was reported in the audits of MWSC for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan: Delayed payments were due to cash flow problems. The Accounting Manager will make efforts in FY2012 to pay after every pay period, as opposed to waiting after each quarter, so that payments are made on a timely basis.

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings and Responses, Continued Year Ended September 30, 2011

Monitoring Water Losses

Finding No. 2011-3

Condition: While interviewing the Operation Manager, it was noted that the tank meters have been broken for a number of years, and it is difficult to monitor the amount of water losses. MWSC is reliant on the meters attached to the residences/buildings to be able to accurately bill the customers, however, it is possible for some individuals to ‘steal’ water by digging underground and attaching a pipe/hose to an existing pipe.

Cause: MWSC has had a lack of resources to fund new meters or repair and maintenance on the tank meters.

Effect: Loss of potential revenue.

Recommendation: It was noted that management has submitted a proposal to the Pacific Adaptation to Climate Change to obtain funding for new meters. When MWSC obtains the new meters in FY2012, we recommend that MWSC compare the amount of water output from the tanks to the amount of water being billed, measure the water losses and pinpoint the sources of water losses on a regular basis.

Auditee Response and Corrective Action Plan:

Bulk meters have arrived through PACC grants. The meters were received here in Majuro on May 17, 2012. They will be installed in Plant C to measure how much water is being distributed and at the Laura Plant. Within this summer (June or July) the bulk meters will be installed. With the PACC funds, we will be able to purchase a Leak Locator to detect leaks within the distribution system, thus creating a Leak Detection Team within our line employees. There will be daily readings of the meters to measure the amount of water being distributed. We will then compare these readings with the monthly bills to measure how much we are actually losing in the system. All these actions are part of the monitoring program we are implementing through the PACC funds.

MAJURO WATER AND SEWER COMPANY, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2011

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 3 through 5) of this report.