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July 3, 2012

Mr. Hirobo Obeketang
General Manager
Majuro Water and Sewer Company, Inc.

Dear Mr. Obeketang:

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, 2011 (on which we have issued our report dated July 3, 2012), 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, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 3, 2012, 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, 2011 that we wish to bring to your attention:

New in fiscal year ended 2011:

1) Approval of Timecards

   In testing the design and implementation of the payroll controls, we noted that the timecards were not signed by employees or by the reviewing superintendent. Since 2010-2011, the Manager has implemented a control where superintendents review applicable employee timesheets. Superintendents are asked to report to the Manager only if there is an issue with the timecards. However, there is no evidence of the review being performed. There is a possibility that the superintendents may have missed reviews of timecards, leading to over-paid salaries and wages. We recommend that the reviewers evidence their review on the timecards, for example by initialing the timecards.

2) Inadequate Documentation of Employee Termination

   There exist situations when an employee resigned or was terminated and the employee's formal letter of termination was not included in the employee file. We also noted that pay rates were not updated regularly in file, and the date of termination is not noted on the personnel schedule. The recorded salaries and wages may be inaccurate if a formal record of termination if not maintained. Prior to an employee departing, MWSC should obtain the employee's signature on the notice of termination form. This signature would potentially release MWSC of future liability. A terminations checklist detailing all procedures and duties that are required for an employee being terminated, resigning, retiring, etc. should be formally implemented and completed prior to the employee leaving. This checklist should be signed off by management and be kept with the employee file.

3) Review of AR Other Account

   The amount received from RepMar for the reimbursement of audit fees was greater than the amount set up as a receivable in the AR Other Account. This resulted in an understatement of AR Other. We recommend that the AR Other account be reviewed in detail at year-end. It may help to summarize the amount receivable per customer, to be able to aggregate related debit balances.

4) Unpaid Prepaid Balances

   Several prepaid balances have not been paid as at year-end. Invoices are recorded in prepaid and payables upon receipt of the invoices, regardless whether the amount has been paid before or after year-end. This resulted in an overstatement of prepaid expenses and payables. We recommend that a review of the prepaid expenses account be performed at year-end to verify the prepaids consist of amounts paid prior to year-end.

5) Recording of Invoices with Longer Period of Service

   Insurance invoices are recorded into prepaids and payables, but there is no consideration of the period of service. This condition resulted in an overstatement of prepaid expenses and payables, and an understatement of expenses. We recommend that for invoices related to services which are for a longer time period (e.g. insurance), a detailed calculation be performed to determine how much relates to each period and that this balance be recorded accurately in prepaid expenses, payables, and expenses.

6) Lack of Detailed Review of the Sales Log

We noted a few instances of a typo between the reading log and the computer system. In one instance, the invoice was sent in error to an inactive customer. We noted a lack of an independent check of the reading log to the amount recorded in the computer system. This resulted in an overstatement of recievables and sales. We recommend that a more detailed and careful review of the reading log against the computer system be performed by a person independent of the typist.

7) Lack of Reversal of Prior Year Accruals

Certain prior year audit accruals were not reversed in the current year. This resulted in an misstatement of payables when the invoice was paid. We recommend that MWSC review the adjusting entries posted at the end of the audit, and determine that appropriate reversing entries are posted in the following year.

8) Lack of Reconciliation of the Withholding Taxes Payable Account

MWSC erroneously wrote-off payables to RepMar due to a lack of reconciliation of the account prior to the write-off. This resulted in an understatement of payables and an overstatement of other income. This also resulted in missing filings and late payment for the months of September to December 2010. We recommend that the withholding taxes payable account be regularly reconciled to verify that all filings and payments are timely performed.

9) Credit Balances in Accounts Receivable

A significant number of credit balances exist in the detailed receivable listing. This condition resulted in an understatement of receivables and of deferred revenue. We recommend that MWSC review the detailed receivable listing at year-end and reclassify all necessary customer credit balances to deferred revenue.

Carried forward from prior years:

10) Reconciliation of Inventory, Subsidiary Ledgers to General Ledger Accounts

A reconciliation of the inventory listing, accounts receivable and accounts payable subledgers to the general ledger was not performed prior to the audit commencement. At September 30, 2010, the general ledger balance differed by approximately $11,000 with the inventory listing, $19,000 with the accounts receivable subledger, and $5,000 with the accounts payable subledger. We recommend that management execute more frequent account reconciliations. This matter was discussed in our previous letter to management for the audits of fiscal year 2009 and 2010.

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) Collection of Receivables

As at September 30, 2011, receivable aging indicated that customer water accounts with balances greater than 60 days represent 99% of the total. Additionally, the aging schedule for accounts receivable for water deliveries was also 98% ($65,047) provided for as at September 30, 2011. 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. We have noted that the billing clerks are currently drafting a write-off listing for approval to the Board, and that MWSC has hired an employee to help with the collection of accounts. We encourage MWSC to continue its efforts to improve the collection of receivables. This matter was discussed in our previous letter to management for the audits of fiscal year 2007 through 2010.

2) Disconnection of Non-paying Customers

MWSC policy is to disconnect nonpaying customers whose balances are sixty days overdue and are above $150. As of September 30, 2011, we noted that this policy has not been strictly enforced as certain customers 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 letter to management for the audits of fiscal year 2007 through 2010.

3) Inactive Customers for Water System Revenue

During the year ended September 30, 2011, certain meter readings for inactive customer accounts in the months of October, November 2010, January, April, and May 2011 appeared in the meter reading transaction report. Such did not result in customer billings. We recommend that management undertake appropriate review prior to printing customer bills to determine that all customer consumption is billed. This matter was discussed in our previous letter to management for the audits of fiscal year 2008 through 2010.

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.

APPENDIX II

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.