

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

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

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**YEAR ENDED SEPTEMBER 30, 2012**

**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, 2012, and have issued our report thereon dated June 20, 2013. 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 over financial reporting 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 and correct 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 2012-1 to be material weaknesses.

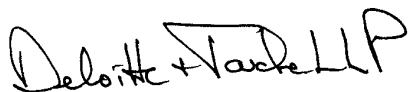
## Compliance and Other Matters

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 item 2012-2.

We also noted certain matters that we reported to management of MWSC in a separate letter dated June 20, 2013.

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 + Touche LLP". The signature is written in a cursive, stylized font.

June 20, 2013

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses  
Year Ended September 30, 2012

Billing Reports

Finding No. 2012-1

Criteria: Adequate internal control policies necessitate the billing process to provide accurate and reliable information.

Condition: Per examination of monthly billing reports and customer's statement of accounts, we noted the following exceptions:

Item #	Month	Customer #	Class	Previous Reading	New Reading	Consumption	Rate	Amount
1	November	052364	WMC	23,779,700	16,611,710	(7,167,990)	0.015	-
2	February	051976	WMC	776	7,785,690	21,620	0.015	324.30
3	February	053448	WMC	2,649,500	-	-	0.015	-
4	April	053560	WMC	550,460	589,580	-	0.015	-
5	July	052783	WMC	1,307,720	132,200	(1,100,000)	0.015	-
6	September	052271	WMR	156,680	192,820	6,170	0.006	37.02

For item # 1, there was an error in entering the current reading, which should be 23,829,800 per reading sheet for the month of November 2011. The error resulted in an unbilled amount of \$752.

For item # 2, there was an error in entering the data in the billing system where previous month billing report recorded 7,604,070. Consumption for the month should have been 181,620 resulting in an unbilled amount of \$2,400.

For item # 3, no reading was provided in the billing system for February. Per audit, current month reading was 2,750,200 where the expected consumption amounted to 100,700 or an unbilled amount of \$1,510.

For item # 4, no consumption was recorded on the billing system for the month. Based on the information presented, consumption should have been 39,120 or \$587 in unbilled revenues.

For item # 5, it appears that there is an error in entering data on the billing system. No investigation was conducted to resolve the variance.

In item # 6, we noted that the above data should have resulted in 36,140 of consumption instead of 6,170 being recorded. Per further investigation, while it was indicated per the reading sheet that the customer was disconnected in August, the reading for July 2012 was 192,040 per the billing and reading reports. It appears that there is inconsistency of information between the billing report and the customer's statement of account.

Cause: The cause of the above condition appears to be lack of policies and procedures to review and monitor monthly billing reports that should have identified incorrect information.

Effect: The effect of the above condition resulted in unbilled revenues which contributed to a loss of earnings.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2012

Billing Reports, Continued

Finding No. 2012-1, Continued

Recommendation: We recommend management adopt and implement appropriate internal control policies relative to review and monitoring of monthly billing reports that will provide accurate and reliable information. Furthermore, we recommend that exceptions be resolved in a timely manner.

Auditee Response and Corrective Action Plan: MWSC has noted the findings that the auditors have raised in this audit report. We have done some changes in the structure within the Billing Department to address these findings and previous findings in the past in regards of the billing system.

Along with the new structure, we recently have implemented a new billing and accounting system. With the new billing software, there will be less room for human errors. There is a check and balance coded in the new system that helps the users in ensuring that all readings are entered correctly. We are very confident that with the new billing system (Utility Star) we are able to rectify all above-mentioned findings in the coming years.

## MAJURO WATER AND SEWER COMPANY, INC.

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Local Noncompliance

##### Finding No. 2012-2

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: RepMar requires that procurement actions of goods and services provide full and open competition and compliance with this provision should be appropriately documented in the procurement files. We noted the \$85,200 purchase of a billing system and \$36,268 for accounting system where documentation on file was inadequate to evidence the proper competitive sealed bidding process.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: MWSC operates under the same management as MEC. Earlier in 2010, management decided on converting into a new accounting and billing system – MIP and UTP Billing. The plan was MEC would take the lead on this conversion with MWSC and KAJUR following behind. In FY12, when MWSC received grant funding for the purchase of its accounting and billing system, no bidding process was conducted since management had already decided on the systems MWSC would use.

**MAJURO WATER AND SEWER COMPANY, INC.**

Unresolved Prior Year Findings  
Year Ended September 30, 2012

There are no unresolved prior year findings.