

May 17, 2007

CONFIDENTIAL

Mr. William F. Roberts
General Manager
Majuro Water and Sewer Company, Inc.

Dear Mr. Roberts:

In planning and performing our audit of the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) for the year ended September 30, 2006, on which we have issued our report dated May 17, 2007, we developed the following recommendations concerning certain matters related to MWSC's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Water Delivery Invoices

Of twenty-five water delivery invoices tested, invoice #s WD2004-1967, WD2004-2303, WD2005-1949, WD2005-1963, WD2005-1974, WD2005-1980, WD2005-2027, WD2005-2077, WD2005-2156, and WD2005-2303 were not provided for examination. Additionally, for invoice #2004-2214, we noted that the sale amount was \$0. Upon inquiry, we were provided another invoice that indicated a sale of \$20; however, no cash receipt was provided to support payment of this invoice.

We recommend that management ensure that properly executed water delivery invoices are maintained on file. Additionally, we recommend that information on invoices be based on actual transactions and not be recreated at the time of audit. We also recommend that services be billed in the correct amount.

(2) Cash Receipts

Collections for December 9, 2006 and December 23, 2006 were not certified by the Accounting Department.

We recommend that management ensure that collections are verified by the Accounting Department to ensure their completeness.

(3) Payroll Expense

Check #8486 was issued for payment of 86 hours; however, the underlying timesheet indicated 80 hours. We also noted that the payroll verification reports for pay periods ending October 1, 2005, July 22, 2006, August 19, 2006 and September 2, 2006 were not signed by the Senior Accountant.

We recommend that management ensure that hours paid are based on actual time worked.

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(4) Inventory

Inventory, per the valuation report, should be based on underlying invoices. Of sixteen inventory items tested, we noted one item, (Part # SP213) where the cost reported in the valuation report indicated \$912.94. However, the actual invoice cost was \$1,825.88, which resulted in a variance of \$912.94.

We recommend that management ensure that costs recorded in the valuation report are supported by related invoices.

(5) Water Delivery Sales

Of forty water system invoices tested, we were unable to test invoice #s 776504 and 776511 as the reading transaction report relating to these invoices was missing. We recommend that management ensure that documentation is maintained to support recorded sales.

(6) Receivables

At September 30, 2006, the receivable aging indicated that customer accounts with balances greater than sixty days represent 91% of the total. A reserve of \$1,362,077 was established. We recommend that management review the subsidiary ledger and determine uncollectible accounts to be written-off and obtain approval from the Board. This matter was discussed in our previous letters dated April 15, 2006, December 21, 2004, February 16, 2004, November 25, 2002, January 11, 2002, January 19, 2001 and December 6, 1999.

(7) Expenditures

Check# 14477 was issued in the amount of \$3,211.45; however, only \$2,866.27 was supported by valid invoices. We recommend that management ensure that expenditures are supported by valid invoices.

GJ#04/08 was recorded in the amount \$4,754.98; however, the supporting journal voucher indicated only \$4,749.03. We recommend that management ensure that journal vouchers are recorded correctly.

(8) Water Delivery Sales

Of twenty four water delivery sales tested, the following exceptions were noted:

- Invoice #WDF2005-2135 did not evidence the customer's signature indicating that water was received.
- Invoice# WDF2006-3551 indicates that payment is for reconnection of five toilets at \$100 each. However, the invoice was issued in the amount of \$625. No explanation was provided for the difference.
- Invoice# TC 2006-0518 indicates that the invoice is \$48. However, the amount paid per cash receipt# 21554 is \$40. No explanation was provided for the variance.

We recommend that management ensure that customers sign invoices indicating that service has been received. We further recommend that management ensure that customers are billed correctly and payments received are correctly matched with applicable invoices.

Mr. William F. Roberts
Majuro Water and Sewer Company, Inc.
February 7, 2007

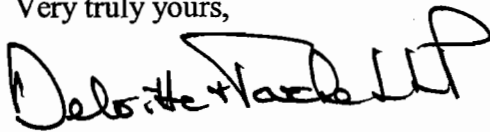
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This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

A handwritten signature in black ink, appearing to read "Delbert H. Harkins". The signature is written in a cursive style with a large, prominent initial "D".