

**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, 2007**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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, 2007, and have issued our report thereon dated May 16, 2008. 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**

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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses (pages 3 through 6) as item 2007-3 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

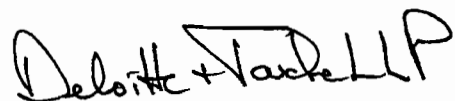
#### Compliance and Other Matters

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 2007-1 and 2007-2.

We noted certain matters that we reported to management of MWSC in a separate letter dated May 16, 2008.

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 and 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.

May 16, 2008

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

Schedule of Findings and Responses  
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-1

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 for the fiscal year ended September 30, 2007 in a manner inconsistent with the criteria. We noted that the number of days late ranged from three (3) to two hundred seven (207). The following is a list of the applicable pay periods including pay periods in fiscal year 2006 that has not been paid to date:

<u>PPE</u>	<u>Amount (Including Penalty &amp; interest)</u>	<u>Tax Paid</u>	<u>Due Date</u>	<u>Date Tax Return Filed</u>	<u>Date Tax Paid</u>	<u># of Days Late Payment</u>
10/15/05	\$ 4,349	-	10/29/05	11/25/05	not paid	-
11/12/05	\$ 4,427	4,427	11/26/05	12/19/05	12/19/05	23
01/07/06	\$ 6,915	-	01/21/06	02/08/06	not paid	-
02/04/06	\$ 4,644	-	02/18/06	03/23/06	not paid	-
03/18/06	\$ 7,042	7,042	04/01/06	04/24/06	10/25/06	207
04/15/06	\$ 4,915	4,915	04/29/06	10/17/06	10/25/06	179
05/13/06	\$ 4,763	4,763	05/27/06	10/18/06	10/25/06	151
06/10/06	\$ 4,477	4,477	06/24/06	10/18/06	10/25/06	123
07/08/06	\$ 4,382	4,382	07/22/06	10/18/06	10/25/06	95
08/05/06	\$ 4,332	4,332	08/19/06	10/18/06	10/25/06	67
09/16/06	\$ 6,769	6,769	09/30/06	10/18/06	11/07/06	38
10/14/06	\$ 4,232	4,232	10/28/06	11/03/06	11/07/06	10
11/11/06	\$ 4,123	4,123	11/25/06	11/29/06	11/29/06	4
12/09/06	\$ 4,395	4,395	12/23/06	12/28/06	12/28/06	5
01/06/07	\$ 4,204	4,204	01/20/07	01/23/07	01/23/07	3
02/03/07	\$ 4,928	4,928	02/17/07	05/09/07	05/09/07	81
03/03/07	\$ 4,816	4,661	03/17/07	05/09/07	05/09/07	53
03/31/07	\$ 4,839	4,839	04/14/07	06/20/07	06/21/07	68
04/28/07	\$ 4,566	4,566	05/12/07	06/20/07	06/21/07	40
05/26/07	\$ 4,526	4,526	06/09/07	06/20/07	06/21/07	12
06/23/07	\$ 4,189	4,189	07/07/07	08/09/07	09/06/07	61
07/21/07	\$ 4,488	4,488	08/04/07	09/05/07	09/06/07	33
08/18/07	\$ 4,205	4,245	09/01/07	09/05/07	09/06/07	5
09/15/07	\$ 4,305	4,217	09/29/07	10/02/07	10/02/07	3

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

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Local Noncompliance, Continued

Finding No. 2007-1, Continued

Cause: The cause of the above condition is that tax payments are not made in accordance with the criteria.

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

Recommendation: We recommend that management ensure compliance with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The above condition was reported as a finding in the audits of MWSC for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Withholding Tax Returns have been filed on time. We do acknowledge that MWSC was late on a number of occasions in paying the withholding taxes. Part of the cause of this problem has been lack of available cash. Instructions have been issued to remit the taxes on time whenever possible thereby reducing the incidences of non-compliance in the future.

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

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-2

Criteria: On January 6, 2006, MWSC entered into a promissory note to repay delinquent taxes of \$164,048. The terms of the agreement include interest at 12% to be repaid over a period of twenty four months commencing January 2006. Total repayment scheduled for fiscal year 2007 was \$81,600.

Condition: During fiscal year 2007, MWSC paid \$40,800 of the scheduled repayment.

Cause: The cause of the above condition appears to be lack of adequate cash available for repayment.

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

Recommendation: We recommend that management ensure compliance with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The above condition was reported as a finding in the audits of MWSC for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: We acknowledge that MWSC was not able to remit sufficient funds to RepMar to satisfy the conditions of the promissory note entered into on 6<sup>th</sup> January 2006. The main cause of this problem has been lack of available cash. Instructions have been issued to remit the taxes on time whenever possible thereby reducing the incidences of non-compliance in the future.

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

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Journal Entries

Finding No. 2007-3

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Further, an independent review of journal vouchers should occur.

Condition: MWSC does not have a policy concerning authorizations and review of manual journal entries. Manual journal entries are prepared and posted by a single person without independent review.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that journal entries are subjected to review and approval.

Effect: The effect of the above condition is a potential that unauthorized journal entries may lead to misstatements of general ledger accounts.

Recommendation: We recommend that management adopt policies and procedures to ensure that only authorized journal entries are posted to the general ledger.

Auditee Response and Corrective Action Plan: We acknowledge that MSWC did not have a procedure covering the required authorization of general ledger journals. This has since been rectified and a procedure is now in place requiring all general ledger journals to be authorized prior to being posted to the general ledger.

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

Unresolved Prior Year Findings  
Year Ended September 30, 2007

The status of unresolved prior year findings are disclosed within the Schedule of Findings and Responses section (pages 3 through 6) of this report.