

**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, 2009**

**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, 2009, and have issued our report thereon dated July 7, 2010. 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.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

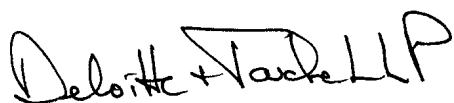
## Compliance and Other Matters

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 2009-1 and 2009-2.

We also noted certain matters that we reported to management of MWSC in a separate letter dated July 7, 2010.

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

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.

July 7, 2010

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

Schedule of Findings and Responses  
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-1

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, 2009 in a manner inconsistent with the criteria, as follows:

<u>PPE</u>	<u>Total Due (including penalties &amp; interest)</u>	<u>Total Paid</u>	<u>Due Date</u>	<u>Date Return Filed</u>	<u>Date of Payment</u>	<u># of days late</u>
9/13/08	\$4,306	\$4,306	9/27/08	10/1/08	10/2/08	5
10/11/08	\$4,310	\$4,310	10/25/08	10/27/08	10/27/08	2
12/6/08	\$4,448	\$4,352	12/20/08	12/18/08	1/5/09	16
1/3/09	\$4,369	\$4,369	1/17/09	1/19/09	1/26/09	9
1/31/09	\$5,124	\$5,124	2/14/09	7/24/09	7/30/09	166
2/28/09	\$4,758	\$4,758	3/14/09	7/24/09	7/30/09	138
3/28/09	\$4,924	\$4,924	4/11/09	7/24/09	7/30/09	110
4/25/09	\$5,000	\$5,000	5/9/09	7/24/09	7/30/09	82
5/23/09	\$4,295	\$4,295	6/6/09	7/24/09	7/30/09	54
6/20/09	\$4,525	\$4,525	7/4/09	7/24/09	7/30/09	26
7/18/09	\$4,693	\$4,693	8/1/09	7/31/09	8/7/09	6
8/15/09	\$4,423	\$4,423	8/29/09	9/1/09	9/1/09	3
9/12/09	\$4,258	\$4,258	9/26/09	9/28/09	9/28/09	2

Furthermore, it appears that taxes for the following periods have not been paid as of September 30, 2009:

<u>PPE</u>	<u>Amount Due</u>	<u>Date Return Filed</u>
9/17/05	\$ 7,098	11/9/05
10/15/05	\$ 4,349	11/25/05
12/15/05	\$ 6,915	2/8/06
1/7/06	\$ 10,439	11/24/09
2/4/06	\$ 4,644	3/26/06

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.

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

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-1, Continued

Recommendation: We recommend that management establish policies and procedures to comply with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The above condition was reported in the audits of MWSC for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan: Payroll Clerk is responsible for filing of taxes. The target date is September 15, 2010 to resolve the issue (outstanding RMI Tax). MWSC will issue checks to Ministry of Finance and every pay period for tax withheld from employees, to avoid delay in filing and payments.

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

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-2

Criteria: 49 MIRC Chapter 1, Social Security Act of 1990, Section 131 state 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, 2009 in a manner inconsistent with the criteria, as follows:

<u>Quarter Ending</u>	<u>Check#</u>	<u>Amount</u> (including penalties & interest)	<u>Deadline</u>	<u>Date of</u> <u>payment</u>	<u># of</u> <u>days late</u>
Sept. 30, 2008	8553	\$ 10,986	10/10/08	10/14/08	4
Sept. 30, 2008	8612	\$ 24,768	10/10/08	10/21/08	11
Dec. 31, 2008	9173	\$ 27,686	01/10/09	01/16/09	6
Mar. 31, 2009	10295	\$ 30,633	04/10/09	08/27/09	139
June 30, 2009	10519	\$ 18,000	07/10/09	10/13/09	95
June 30, 2009	10563	\$ 10,000	07/10/09	10/15/09	97
Sept. 30, 2009	10766	\$ 33,499	10/10/09	12/01/09	52

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 recommend that management establish policies and procedures to comply with the Social Security Act of 1990.

Auditee Response and Corrective Action Plan: Payroll Clerk is responsible for filing of taxes. The target date is September 15, 2010 to resolve the issue. MWSC will issue checks to Marshall Islands Social Security Administration and every pay period for tax withheld from employees, to avoid delay in filing and payments.

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

Unresolved Prior Year Findings  
Year Ended September 30, 2009

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