

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

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

YEAR ENDED SEPTEMBER 30, 2010

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, 2010, and have issued our report thereon dated February 15, 2011. 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 *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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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.

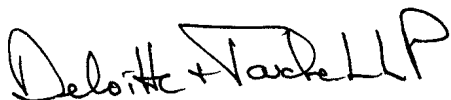
Compliance and Other Matters

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 2010-1 and 2010-2.

We also noted certain matters that we reported to management of MWSC in a separate letter dated February 15, 2011.

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.

February 15, 2011

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings and Responses
Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-1

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, 2010 in a manner inconsistent with the criteria, as follows:

Per examination of income tax returns and tax payments for pay period June 20, 2010 through July 4, 2010 and pay period July 5, 2010 through July 17, 2010, MWSC filed and paid tax on August 4, 2010, which is 4 days past the deadline.

Furthermore, it appears that taxes for the following periods have not been paid as of September 30, 2010:

<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.

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 2009.

Auditee Response and Corrective Action Plan: Delayed payment to RMI Tax was due to Cash Flow. Policies & procedures are in place to ensure payroll clerk file and pay RMI taxes in a timely manner. July 31, 2011 is the target date to pay off prior years outstanding.

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-2

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, 2010 in a manner inconsistent with the criteria, as follows:

<u>Quarter Ending</u>	<u>Check#</u>	<u>Amount (including penalties & interest)</u>	<u>Deadline</u>	<u>Date of payment</u>	<u># of days late</u>
September 30, 2009		\$ 33,499	12/1/2009	10/10/2009	52
December 31, 2009	10981	\$ 7,000	2/1/2010	1/10/2010	22
	11086	\$ 10,000	2/16/2010	1/10/2010	37
	11121	\$ 9,586	2/19/2010	1/10/2010	40
March 31, 2010	11471	\$ 15,000	4/27/2010	4/10/2010	0
	11660	\$ 10,000	6/9/2010	4/10/2010	60
	11781	\$ 7,183	6/28/2010	4/10/2010	79
June 30, 2010	11912	\$ 12,000	7/27/2010	7/10/2010	17
	11942	\$ 10,000	8/5/2010	7/10/2010	26
	11984	\$ 5,936	8/13/2010	7/10/2010	34
September 30, 2010	11986	\$ 1,985	8/16/2010	10/10/2010	0
	12068	\$ 1,997	9/15/2010	10/10/2010	0
	12241	\$ 23,872	10/26/2010	10/10/2010	16

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.

Prior Year Status: The above condition was reported in the audit of MWSC for fiscal year 2009.

Auditee Response and Corrective Action Plan: Policies & Procedures are in place to ensure payroll clerk file and pay MISSA taxes in a timely manner.

MAJURO WATER AND SEWER COMPANY, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2010

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 3 and 4) of this report.