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September 8, 2014

Mr. Joseph Batol
General Manager
Majuro Water and Sewer Company, Inc.

Dear Mr. Batol:

In planning and performing our audit of the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2013 (on which we have issued our report dated September 8, 2014), 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, we considered MWSC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MWSC's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 8, 2014, on our consideration of MWSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MWSC for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MWSC's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1) Account Reconciliation

   The beginning balance of net position was understated by $4,275 in comparison with the FY12 ending balance. This exception resulted in a proposed audit adjustment. We recommend management timely reconcile general ledger accounts.

2) Fixed Assets

   Various fixed assets were recorded in the register with estimated useful lives less than required in the capitalization policy. Furthermore, we noted the sale and transfer of vehicle ownership to the former General Manager with an original cost of $17,479 without adequate documentation of approval. Thus, we were not able to verify the validity of this transaction. Proceeds from sale of $10,000 were recognized with the remaining amount of $7,479 recorded as a receivable. We recommend management establish internal control to comply with established policies and adequate documentation over approvals that evidence valid transactions.

3) Bank Reconciliation

   Our examination of bank reconciliations noted stale checks in the General and Payroll fund accounts of $2,731 and $1,832, respectively. Monitoring reconciling items does not appear to be occurring. We recommend management establish adequate internal control policies over clearing reconciling items.

4) Payroll

   Of twenty three checks tested, four employees did not have updated Personnel Action Forms on file. Thus, validation of payrates was not possible. We recommend management maintain documentation supporting current payroll rates.

5) MISSA and Withholding Taxes

   The MISSA quarterly return for June 30, 2013 was submitted on September 11, 2013. MWSC did not timely file and remit MISSA contributions as the quarterly return was due on July 10, 2013.

   Form 1178 for withholding taxes covering the pay periods June 15, 2013 to September 7, 2013 was filed and remitted on December 31, 2013. The RMI Income Tax Code states that Form 1178 is due within two weeks following the preceding four week period. MWSC was noncompliant with the requirement.

   We recommend management file and remit MISSA contributions and withholding taxes in a timely manner.

6) Inventory

Inventory costing does not include freight charges. Furthermore, item no. EL0179 increased by one unit during FY13 though no purchase occurred during the year. In addition, several work order forms were not properly signed by the approver and certain inventory issuance slips were not on file.

We recommend management adopt appropriate internal control policies over monitoring, documentation, and valuation of inventories.

7) Expenses

Three travel expenses were not supported by formal invoices. Furthermore, MWSC does not have formal accounting policy over reporting and liquidation of travel expenses.

A travel expense of $2,400 covered 16 days of per diem. Upon scrutiny of the training schedule, we noted that the travel could have been reduced to 6 - 8 days. It appears that the review process resulted in higher travel costs incurred.

One $1,290 expense did not contain a check payment on file. Thus, we were not able to examine the check details.

We recommend management require adequate documentation supporting disbursements and the cash reconciliation process. In addition, we recommend improved review processes over travel authorizations be considered.

8) Revenues

Customer Master File Update
The status of several customers was not updated. We noted inactive accounts through a significant period that are tagged as active and billable per the billing system. We recommend that customer status be timely updated.

Cash Collections and Deposits Documentation
Of 75 utility revenue collections, 11 were not timely deposited. A similar situation existed with respect to 6 of 17 water delivery revenues. Delays in deposit ranged from two to five working days.

Certain collections were not supported by cash receipts. Furthermore, there were missing daily cash reconciliations and deposit slips. Thus, we were not able to verify the completeness of related collections and amounts deposited.

One customer was incorrectly billed for $12,010 during the August 2013 billing period. The error resulted in a proposed audit adjustment.

We recommend adequate documentation be maintained with respect to cash collections and that timely deposits occur. In addition, we recommend improved internal controls over the review of billing processes that validate the correctness of amounts billed to customers.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Collection of Receivables

   Water delivery receivables increased in fiscal year 2013 and the prior year. We noted increasing movement from FY12 to FY13 for water delivery receivables. The outstanding balance of $88,217 was fully provided by an allowance. It appears that inadequate collection efforts resulted in long outstanding receivables and an increase in the allowance for uncollectible accounts. We recommend management reassess collectibility of receivables and adopt appropriate internal control policies over collections.

   The September 30, 2013 receivable aging indicated that customer water accounts with balances greater than 90 days represent 86% of the total. We recommend that management continue to review the subsidiary ledger to determine uncollectible accounts to be written-off and to obtain requisite approval from the Board. We encourage MWSC to continue its efforts to improve the collection of receivables. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2012.

2) Disconnection of Non-paying Customers

   MWSC policy is to disconnect nonpaying customers whose balances are thirty days overdue and are above $150. As of September 30, 2013, this policy has not been enforced as certain customers continue to be connected despite policy noncompliance. We recommend that management establish procedures compliant with this policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2012.

3) Maintenance of Files

   A signed grant agreement from an international donor was not available to support disbursements and fund administration. Thus, we were not able to verify terms and conditions per the agreement. We recommend management adopt internal controls over adequate documentation governing grant disbursement and administration.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary Company or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MWSC's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.