



January 11, 2002

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, 2001, on which we have issued our report dated January 11, 2002, 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) Revenue/Receipts

Of twenty-five cash receipts tested, we noted three cash receipts (receipt #s 135802, 136271, and 136505) that were deposited to the bank three working days after receipt and one cash receipt (receipt # 134893) that was deposited to the bank four working days after receipt. Furthermore, we noted that cash receipt #s 137486, 137646, 137649 through 137660, 137779 and 137781 through 137784 were not issued in numeric sequence. We recommend that management ensure that deposits are made to the bank in a timely manner and that receipts are issued in numeric sequence.

(2) Revenue/Receipts

Of twenty-five cash receipts tested, we noted one cash receipt (receipt # 134845, totaling \$2,810), which pertained to a payment from the Marshall Islands Social Security Administration (MISSA), for retiree allotments to be applied to the respective customer utility accounts. Of the seventy-nine utility accounts to which the payment was applied, we noted eleven instances where the customer name differed from the retiree's name. No allotment authorizations were made available to determine whether the application of the payment was correct. We recommend that management ensure that the application of payments from MISSA for retiree allotments are supported by authorized allotment forms where the customer's name differs from the retiree's name.

(3) Revenue/Receipts

Of forty utility billings tested, we noted one utility billing (billing # 635952) pertaining to October 2000 where the beginning meter reading of zero gallons did not agree with the manual meter reading log of 830 gallons. Based on discussions with Billing Department staff, a new meter was installed through work order # 6515. The work order was not made available to verify that a new meter was authorized to be installed. We recommend that management ensure that new meter installations are supported by authorized work orders.

(4) Revenue/Receipts

Of twenty-five water delivery invoices tested, we noted one water delivery invoice (invoice # 8235) that was voided. The original invoice was not made available to verify that the invoice was, in fact, voided. We recommend that management ensure that original copies of unissued invoices that are voided are maintained on file.

(5) Purchases/Disbursements

Of twenty-five non-payroll disbursements tested, we noted one disbursement (check # 7933 for \$39) that was not signed by two check signatories. Furthermore, we noted one disbursement made after year-end (check # 8305 for \$590,213) that was not signed by two check signatories. We recommend that management ensure that policies and procedures requiring two check signatories are adhered to.

(6) Payroll

Of twenty-five payroll disbursements tested, we noted nine bi-weekly payroll verification reports (pay periods ended 10/21/00, 11/04/00, 12/30/00, 1/13/01, 3/10/01, 5/05/01, 6/16/01, 6/30/01 and 8/25/01) that were not initialed by the senior accountant to evidence review. We recommend that management ensure that the bi-weekly payroll verification reports are initialed by the senior accountant to evidence review. This matter was discussed in our previous letters dated January 19, 2001 and December 6, 1999.

(7) Payroll

Of twenty-five payroll disbursements tested, we noted one disbursement (check # 37209 for \$159) that was not supported by a documented authorized pay rate. We recommend that management ensure that all employee pay rates are authorized and documented. This matter was discussed in our previous letter dated January 19, 2001.

(8) Payroll

Of twenty-five payroll disbursements tested, authorized allotment forms were not made available for four employees (employee #s MW12, MW25, MW26 and MW77) for voluntary deductions. We recommend that management ensure that authorized allotment forms are retained on file.

(9) Payroll

Of twenty-five payroll disbursements tested, we noted that the employee timesheet log for the pay periods ended 6/02/01 and 6/16/01 for two employees (employee #s MW92 and MW72, respectively) were not properly completed to support hours worked. We recommend that management ensure that employee timesheet logs are properly completed.

Mr. William F. Roberts  
January 11, 2002  
Page Three

(10) Cash

At September 30, 2001, the bank reconciliation for the General Account indicated one deposit in transit, totaling \$8,920, for cash receipts dated September 21, 2001, which were not deposited until October 5, 2001. We recommend that management ensure that deposits are made to the bank in a timely manner.

(11) Receivables

At September 30, 2001, the aged utility receivables subsidiary ledger indicated that customer accounts with balances greater than sixty days represented 93% of the total balance of \$1,487,086. An accumulated amount of \$1,385,272 has been recorded as an allowance against this balance, which includes customers who are deceased or have left island, and collection appears unlikely. Furthermore, the aged water delivery receivables subsidiary ledger, totaling \$23,612, indicated that substantially all customer accounts were greater than sixty days. An accumulated amount of \$16,248 has been recorded as an allowance against this balance. We recommend that management review the aged receivable subsidiary ledgers and determine a listing of uncollectible accounts receivable to be written-off and obtain approval from the Board. This matter was discussed in our previous letters dated January 19, 2001 and December 6, 1999.

(12) Employee Advances

At September 30, 2001, MWSC recorded employee advances, totaling \$4,128, which have been outstanding for over one year. We recommend that management ensure that advances to employees are reimbursed in a timely manner.

\* \* \* \* \*

We have communicated certain matters noted during our audit of the financial statements of MWSC for the year ended September 30, 2001, which we considered to be reportable conditions in our report dated January 11, 2002.

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,

*Deloitte & Touche*