

MAJURO WATER AND SEWER COMPANY, INC.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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, 2002, and have issued our report thereon dated November 25, 2002. 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.

Compliance

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 grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings (pages 3 and 4) as item 2002-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MWSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MWSC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2002-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of MWSC in a separate letter dated November 25, 2002.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

November 25, 2002

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings
Year Ended September 30, 2002

Purchases/Disbursements

Finding No. 2002-1

Criteria: Utilities and operations should be insured by adequate general liability insurance in the event of accidents.

Condition: As of September 30, 2002, MWSC does not have an insurance policy with respect to general liability insurance.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of substantial losses in the event of accidents.

Recommendation: We recommend that management consider obtaining general liability insurance.

Prior Year Status: The lack of adequate insurance coverage was reported as a finding in the audits of MWSC for fiscal years 1994 through 2001.

Auditee Response and Corrective Action Plan: We agree with the finding. Due to financial constraints as MWSC is wholly owned by the RMI Government, we have opted to be self-insured.

MAJURO WATER AND SEWER COMPANY, INC.

Schedule of Findings, Continued
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-2

Criteria: Section 5 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: At September 30, 2002, MWSC owed RepMar \$232,484 in income tax withholdings from employee wages. This amount is represented by income tax withheld from employee wages for the periods October 17, 1993 through July 15, 1994; January 1, 1995 through May 27, 1995; March 30, 1997 through December 17, 1999; June 3, 2000 through December 15, 2000; and July 15, 2001 through November 30, 2001.

Cause: The cause of the above condition is unknown.

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

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

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended, was reported as a finding in the audits of MWSC for fiscal years 1996 through 2001.

Auditee Response and Corrective Action Plan: We agree with the finding. Due to financial constraints, we are currently unable to pay the liability. We are having discussions with the Taxation Department to negotiate a settlement of debt.

MAJURO WATER AND SEWER COMPANY, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2002

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