

November 25, 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, 2002, on which we have issued our report dated November 25, 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) Purchases/Disbursements

We noted one disbursement made after year-end (check # 008) that was not signed by two check signatories. We recommend that management ensure that policies and procedures requiring two check signatories are adhered to. This matter was discussed in our previous letter dated January 11, 2002.

(2) Payroll

Of twenty-five payroll disbursements tested, we noted four bi-weekly payroll verification reports (pay periods ended 10/06/01, 11/07/01, 05/18/02 and 08/10/02) 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. We also recommend that payroll verification reports be properly filed. This matter was discussed in our previous letters dated January 11, 2002, January 19, 2001 and December 6, 1999.

(3) Payroll

Of twenty-five payroll disbursements tested, authorized allotment forms were not made available for three employees (employee #s MW64, MW95 and MW110) for voluntary deductions. We recommend that management ensure that authorized allotment forms are retained on file. This matter was discussed in our previous letter dated January 11, 2002.

(4) Payroll

Duplicate check voucher copies for pay period 04/20/02 were unavailable and could not be located. We recommend that management ensure that duplicate check vouchers are kept on file.

(5) Payroll

RMI tax deductions for the General Manager were based on a bi-weekly rate. We recommend that management ensure that tax deductions for the General Manager are calculated based on the monthly rate in accordance with RepMar tax rates.

(6) Receivables

At September 30, 2002, the aged utility receivables subsidiary ledger indicated that customer accounts with balances greater than sixty days represented 90% of the total balance of \$1,472,941. An accumulated amount of \$1,395,485 has been recorded as an allowance against this balance, which includes customers who are deceased or have left island, and collection appears unlikely. We recommend that management review the aged receivable subsidiary ledger 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 11, 2002, January 19, 2001 and December 6, 1999.

(7) Employee Advances

At September 30, 2002, MWSC recorded employee advances, totaling \$4,128, which have been outstanding for over two years. We recommend that management ensure that advances to employees are reimbursed in a timely manner. This matter was discussed in our previous letter dated January 11, 2002.

(8) Inventory

During inventory price testing, we noted that the unit cost of two parts (PL191 and PL400) have decreased from the prior year. Since no purchases were made during the year, the unit cost should not have changed. We recommend that the unit cost in the Valuation Report be reviewed to ensure that inventory as of September 30, 2002 is properly recorded.

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We have communicated certain matters noted during our audit of the financial statements of MWSC for the year ended September 30, 2002, which we considered to be reportable conditions in our report dated November 25, 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.

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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*