

December 21, 2004

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, 2004, on which we have issued our report dated December 21, 2004, 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) Payroll

Comment:

Of twenty-five payroll disbursements tested, check #s 3218, 3587, 3628, 4111, 4223, and 5024 contained discrepancies between the timesheet and the payroll report.

Recommendation:

We recommend that management ensure that hours paid agree to actual hours worked as evidenced on timesheets.

(2) Cash Receipts

Comment:

Of twenty-five cash receipts tested, service cash receipt # 17001 was issued for a returned check totaling \$422.20, which was posted to Other Income.

Recommendation:

We recommend that management ensure that revenues are posted properly.

(3) Water System Billing

Comment:

Of twenty-five water system invoices tested, we noted one invoice (#694343) where the reading meter log read 1,324,440 gallons. However, the amount charged on the invoice was 1,324,350 gallons, a variance of 90 gallons that equates to a monetary difference of \$1.44.

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(3) Water System Billing, Continued

Recommendation:

We recommend that management ensure that water invoices are charged the correct water usage based on the meter reading log.

(4) Water Delivery Billings

Comment:

Of twenty-five water delivery invoices tested, one invoice (#12387) was not signed by the customer to indicate that delivery was received.

Recommendation:

We recommend that management ensure that water delivery invoices are signed by the customer indicating that service has been provided.

(5) Separation of Duties

Comment:

The Senior Accountant is responsible for all general ledger postings.

Recommendation:

We recommend that management review and approve the Senior Accountant's journal entries before posting to the general ledger.

(6) Cash

Comment:

During the year ended September 30, 2004, two bank accounts were closed but the following balances were still recorded in the general ledger.

<u>General Ledger Account</u>	<u>Amount</u>
1003	(\$5,117)
1004	(\$1,944)

Recommendation:

We recommend that management investigate these balances and determine required action. This matter was discussed in our previous letter dated February 16, 2004.

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(6) Employee Advances

Comment:

At September 30, 2004, MWSC recorded employee advances, totaling \$4,127, relating primarily to an amount due from a former employee that has been outstanding for over three years.

Recommendation:

We recommend that management ensure that advances to employees are reimbursed in a timely manner. This matter was discussed in our previous letters dated February 16, 2004, November 25, 2002, and January 11, 2002.

(7) Inventory

Comment:

The unit cost of one part (ME0479) was \$219.43 in the current year and in prior year, the item was valued at \$0. Another part (PL181) had a price of \$66.80 in the current year. However, the prior year valuation was \$120. Since no purchases were made during the current year of either of these items, the unit cost should have remained unchanged.

Recommendation:

We recommend that management ensure that unit costs per the Valuation Report are reviewed. This matter was discussed in our previous letters dated February 16, 2004 and November 25, 2002.

(8) Revenue

Comment:

Total water system revenue for July 2004 was \$86,917.13. However, the amount posted to the general ledger was \$86,927.13, a variance of \$10.

Recommendation:

We recommend that management ensure that revenue amounts are posted correctly to the general ledger.

(9) Other Revenue

Comment:

Work order # (15984) was issued to a customer for rental of a back hoe. However, there were no customer signatures on the work order evidencing that service was rendered.

Recommendation:

We recommend that management ensure that customers sign work orders indicating that the service has been provided.

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(10) Revenue

Comment:

A transaction reading report for the month of April 2004 was missing.

Recommendation:

We recommend that management ensure that supporting documents are maintained and filed to support recorded revenue.

(11) Receivables

Comment:

At September 30, 2004, the aged utility receivable subsidiary ledger indicated that customer accounts with balances greater than sixty days represented 91% of the total balance of \$1,562,095 (inclusive of amounts due from affiliate of \$205,004). An allowance of \$1,425,337 has been recorded against this balance.

Recommendation:

We recommend that management review the aged receivable subsidiary ledger and determine a listing of uncollectible accounts receivable to be written-off by Board approval. This matter was discussed in our previous letters dated February 16, 2004, November 25, 2002, January 11, 2002, January 19, 2001 and December 6, 1999.

(12) Accounts Payable/Expenditure

Comment:

At September 30, 2004, MWSC recorded \$133,668 in electric expense, which is significantly lower than the prior year expense of \$182,906. As there were no significant changes in the operation of MWSC relating to electric usage, we would not expect electric expense to be significantly lower than the prior year. MWSC had posted credit balances in the amount of \$20,904 shown on the invoices as credits to electricity expense and debits to electric payable instead of recording current charges per the invoices. This matter was corrected through a proposed audit adjustment. We were informed that the Accounts Payable clerk performed the posting.

Recommendation:

We recommend that the Senior Accountant review invoices before they are posted and evidence that review on the invoices.

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(13) Payroll Expenditure

Comment:

For payroll check #s 3162, 3299, 3498, 3540, & 3699, payroll registers could not be provided for review.

Recommendation:

We recommend that management ensure that payroll registers are maintained on file to support payroll expense.

(14) RepMar Subsidy

At September 30, 2004, MWSC received \$100,000 from RepMar for payment of water bills. The payment was received from RepMar after MWSC send letters of requests for disbursement of subsidy. We were informed that actual water invoices were not presented to RepMar with the letters of requests.

Recommendation:

We recommend that MWSC provide actual water invoices to RepMar for payment of their water bills.

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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,

