

May 16, 2008

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, 2007, on which we have issued our report dated May 16, 2008, 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) Deposit of Collections

Reconciliation of cash receipts against deposits is performed on a daily basis. However, actual deposit occurs 2 to 3 days after the collection date. It is MWSC policy to deposit collections daily or on the following business day. We recommend that management establish adequate internal control and procedures to ensure compliance with the policy.

(2) Utility Receivable

It is MWSC policy to disconnect nonpaying customers whose balances are 60 days overdue and are above \$150. As of September 30, 2007, of 177 items tested, we noted the following policy violations:

Sixty four (64) customers continued to be connected to the sewer system despite noncompliance with the policy. Connection to the water system had been cut off in all instances.

Twenty eight (28) customers continued to be connected to the water and/or sewer system despite noncompliance with the policy.

We recommend that management establish procedures to ensure compliance with the policy .

(3) Utility Receivable

At September 30, 2007, receivable agings indicated that customer accounts with balances greater than sixty days represent 92% of the total. A reserve of \$1,272,678 was established. During fiscal year 2007, management and the board of directors approved the write-off of receivables aggregating \$237,380. 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. This matter was discussed in our previous letters for the audits of fiscal years 1999 through 2006.

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(4) Other Receivable

As of May 4, 2008, a customer has not been billed and there was no evidence of collection effort for an affiliate receivable of \$2,660 recorded on September 30, 2007. Management should establish adequate policies and procedures to ensure that receivables are timely billed and collected.

(5) Inventory

Of nineteen (19) inventory items tested, we noted the following:

- PL 726 – meter box with 10 units counted during the physical count was not included in the final inventory valuation report.
- TL059 – tire with 2 units counted during the physical count was reported in the final valuation with a quantity of 1.

We recommend that management establish policies and procedures to ensure that inventory records are reconciled with physical counts.

(6) Reconciliation of General Ledger and Subsidiary Ledgers

Subsidiary ledgers, particularly for accounts receivable, accounts payable and fixed assets are reconciled on an annual basis. We recommend that management establish policies and procedures to execute reconciliations periodically during the year.

(7) Payroll Expense

Check #9574 was issued for payment of 177 hours, which included 97 overtime hours; however, we did not find evidence of manager approval. We recommend that management strengthen its policies and procedures to ensure that only approved overtime hours are paid as per Company policy.

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We have previously communicated certain matters noted during our audit of the financial statements of MWSC for the year ended September 30, 2007, which we considered to be significant deficiencies, in our report dated May 16, 2008.

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,

