

**MAJURO WATER AND SEWER COMPANY, INC.**

**(A COMPONENT UNIT OF THE REPUBLIC OF  
THE MARSHALL ISLANDS)**

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2008**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Majuro Water and Sewer Company, Inc.:

We have audited the financial statements of the Majuro Water and Sewer Company, Inc. (MWSC), as of and for the year ended September 30, 2008, and have issued our report thereon dated March 26, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the MWSC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MWSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MWSC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses (pages 3 through 6) as item 2008-3 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

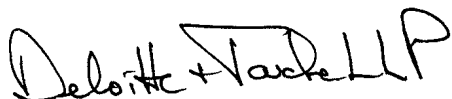
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MWSC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2008-1 and 2008-2.

We also noted certain matters that we reported to management of the MWSC in a separate letter dated March 26, 2009.

MWSC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MWSC's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Deloitte + Stachell LLP". The signature is written in a cursive, stylized font.

March 26, 2009

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses  
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-1

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: MWSC filed and paid income taxes withheld for the fiscal year ended September 30, 2008 in a manner inconsistent with the criteria. We noted that the number of days that late payments were made ranged from five (5) to two hundred twenty two (222) as follows:

<b>PPE</b>	<b>Amount (Including penalty &amp; interest)</b>	<b>Tax paid</b>	<b>Due Date</b>	<b>Date Tax Return Filed</b>	<b>Date Tax Paid</b>	<b># of days late payment</b>
10/13/07	\$ 4,791	\$ 4,791	10/27/07	02/20/08	02/22/08	118
11/10/07	\$ 4,322	\$ 4,322	11/24/07	02/20/08	02/22/08	90
12/08/07	\$ 5,360	\$ 5,360	12/22/07	02/20/08	02/22/08	62
01/05/08	\$ 4,430	\$ 4,430	01/19/08	08/28/08	08/28/08	222
02/02/08	\$ 4,488	\$ 4,488	02/16/08	08/28/08	08/28/08	194
03/01/08	\$ 5,078	\$ 5,078	03/15/08	08/28/08	08/28/08	166
03/29/08	\$ 4,746	\$ 4,746	04/12/08	08/28/08	08/28/08	138
04/26/08	\$ 4,607	\$ 4,607	05/10/08	08/28/08	08/28/08	110
05/24/08	\$ 4,385	\$ 4,385	06/07/08	08/28/08	08/28/08	82
06/21/08	\$ 4,253	\$ 4,253	07/05/08	08/28/08	08/28/08	54
07/19/08	\$ 4,078	\$ 4,078	08/02/08	08/28/08	08/28/08	26
08/16/08	\$ 3,999	\$ 3,999	08/30/08	09/16/08	09/17/08	18
09/13/08	\$ 4,306	\$ 4,306	09/27/08	10/01/08	10/02/08	5

Cause: The cause of the above condition is that tax payments were not made in accordance with the criteria.

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

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

Prior Year Status: The above condition was reported in the audits of MWSC for fiscal years 2005 through 2007.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2008

Local Noncompliance, Continued

Finding No. 2008-1, Continued

Auditee Response and Corrective Action Plan: Withholding Tax Returns have been filed on time. We do acknowledge that MWSC was late on a number of occasions in paying the withholding taxes. Part of the cause of this problem has been lack of available cash. Instructions have been issued to remit the taxes on time whenever possible thereby reducing the incidences of noncompliance in the future.

## MAJURO WATER AND SEWER COMPANY, INC.

### Schedule of Findings and Responses, Continued Year Ended September 30, 2008

#### Local Noncompliance

##### Finding No. 2008-2

Criteria: On January 6, 2006, MWSC entered into a promissory note to repay delinquent taxes of \$164,048. The terms of the agreement included interest at 12% to be repaid over a period of twenty four months commencing January 2006. Total repayment scheduled for fiscal year 2008 was \$68,848 representing the balance of the promissory note.

Condition: During fiscal year 2008, MWSC paid \$27,200 of the scheduled repayment.

Cause: The cause of the above condition appears to be lack of adequate cash available for repayment.

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

Recommendation: We recommend that management ensure compliance with the RepMar Income Tax of 1989, as amended.

Prior Year Status: The above condition was reported as a finding in the audits of MWSC for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: We acknowledge the MWSC was not able to remit sufficient funds to RepMar to satisfy the conditions of the promissory note entered into on 6th January 2006. The main cause of this problem has been lack of available cash. Instructions have been issued to remit the taxes on time whenever possible thereby reducing the incidences of non-compliance in the future.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2008

Journal Entries

Finding No. 2008-3

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriate approved and documented. Further, an independent review of journal vouchers should occur.

Condition: MWSC does not have a policy concerning authorization and review of manual journal entries. Manual journal entries are prepared and posted by a single person without independent review.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that journal entries are subjected to review and approval.

Effect: The effect of the above condition is a potential that unauthorized journal entries may lead to misstatements of general ledger accounts.

Recommendation: We recommend that management adopt policies and procedures to ensure that only authorized journal entries are posted to the general ledger.

Prior Year Status: The above condition was reported as a finding in the audit of MWSC for fiscal year 2007.

Auditee Response and Corrective Action Plan: A procedure was put in place last year but not properly followed. Staffs have been instructed to follow the existing procedure at all times.

**MAJURO WATER AND SEWER COMPANY, INC.**

Unresolved Prior Year Findings  
Year Ended September 30, 2008

The status of unresolved prior year findings are disclosed within the Schedule of Findings and Responses section (pages 3 through 6) of this report.