

March 26, 2009

Mr. William F. Roberts  
General Manager  
Majuro Water and Sewer Company, Inc.

Dear Members of the Board of Directors:

In planning and performing our audit of the financial statements of the Majuro Water and Sewer Company, Inc. (the Company) as of and for the year ended September 30, 2008 (on which we have issued our report dated March 26, 2009), 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, we considered the Company's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Company's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors and management, also dated March 26, 2009, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

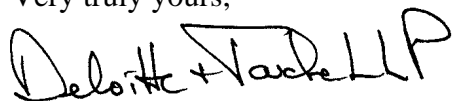
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Company for their cooperation and assistance during the course of this engagement.

Very truly yours,



## SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MWSC's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

### 1) Utility Receivable

MWSC policy is to disconnect nonpaying customers whose balances are 60 days overdue and are above \$150. As of September 30, 2008, of ninety six (96) items tested, we noted the following policy violations:

Thirty one (31) 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. Sixteen (16) 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.

### 2) Utility Receivable

As at September 30, 2008, receivable aging indicated that customer accounts with balances greater than 60 days represent 93% of the total. A reserve of \$1,368,769 was established for doubtful debts. 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.

### 3) Utility Revenue

During the year ended September 30, 2008, certain meter readings for inactive customer accounts in the months of March, August and September 2008 were not billed. This resulted in an approximate \$3,000 error. We recommend that management ensure that appropriate review occurs prior to printing customer bills.

### 4) Payroll Expense

Employee salaries and wages including overtime paid through check#s 10986 and 11370 were not supported by timesheets approved by the Manager as per Company policy. Furthermore, the overtime approval form for an employee paid through check# 10986 was not signed by the Manager. We recommend that management strengthen its policies and procedures to ensure that only approved regular and overtime hours are paid as per Company policy.

## SECTION II – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary Company or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

The Company's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.