

November 14, 2016

Mr. Joseph Batol  
General Manager  
Majuro Water and Sewer Company, Inc.

Dear Mr. Batol:

In planning and performing our audit of the financial statements of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2015 (on which we have issued our report dated November 14, 2016) 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 MWSC'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 MWSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 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 MWSC's internal control over financial reporting and other matters as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated November 14, 2016, on our consideration of MWSC'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.

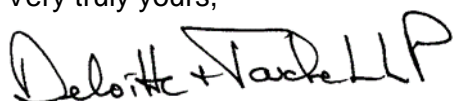
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 MWSC 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, 2015 that we wish to bring to your attention:

1) Fixed Assets

Various fixed assets were recorded with estimated useful lives that are less than that required by the capitalization policy. In addition, the issuance slip, invoice, and check payment supporting one acquisition (Flow meter) was missing. We recommend that management establish internal controls to comply with established policies and adequate documentation over approvals that evidence valid transactions. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2014.

2) Social Security and Withholding Tax Remittances

Examination of Social Security payments revealed late filing of the following quarterly returns:

<u>Quarter Ended</u>	<u>Date filed</u>
December 31, 2014	January 13, 2015
March 31, 2015	April 27, 2015

Returns are due on the 10<sup>th</sup> day of the month following the quarter-end. MWSC was noncompliant with this requirement.

Furthermore, examination of Withholding Tax payments (Form 1178) revealed late filing of the following pay-period returns:

<u>Pay-period Ended</u>	<u>Date filed</u>
October 5 to November 1, 2014	March 23, 2015
November 2 to 29, 2014	March 23, 2015
November 30 to December 27, 2014	March 23, 2015

Form 1178 is due within two weeks following the preceding four week pay period. MWSC was noncompliant with this requirement.

We recommend that management file and timely remit Social Security and Withholding Tax payments in accordance with established requirements.

3) Expenses

One \$8,960 cash disbursement recorded and paid in fiscal year 2015 was not accrued in fiscal year 2014. We recommend that management monitor and timely record unpaid invoices.

**SECTION I – CONTROL DEFICIENCIES, CONTINUED**

4) Revenues

*Cash Receipts and Collection Documentation*

Certain collections were not supported by cash receipts. Original invoices signed by a MWSC representative and the customer were not on file.

*Daily Cash Collection*

4 of 17 daily cash collections tested were deposited an average of 4 to 5 banking days after the receipt date. We recommend that management establish internal control policies and procedures requiring that cash collections be deposited the next banking day.

*Customer Master File Update*

The status of several customers was not timely updated. We noted 10 of 31 customer accounts tested were tagged as "ACTB", active and billable, but due to inactivity and an absence of billing statements issued, these accounts should be classified as inactive accounts "OFFB".

One customer account remained connected with fresh water, was tagged as active and billable, but no minimum charge and billing statement was issued.

Three customer accounts which have four or more toilets were charged 70% of the specified rate multiplied by the number of units. However, we were not able to validate the number of units since such was not indicated in the billing system and in billing statements.

We recommend that management timely revisit and improve internal controls over the review of customer status and review corresponding customer rates.

5) Accounts Payable

Support for a vendor with an outstanding balance as of September 30, 2015, was not provided since the file was incomplete and could not be located. Thus, we were not able to verify invoice details. We recommend that management implement adequate documentation over the accounts payable reconciliation process.

## SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

### 1) Receivable Collections

Water delivery receivables increased in fiscal year 2015 from \$88,217 in 2014 to \$141,636 in 2015. A related allowance for uncollectible accounts of \$123,174 was provided. It appears that inadequate collection efforts resulted in long outstanding receivables and an increase in the allowance for uncollectible accounts. We recommend that management reassess collectability of receivables and adopt appropriate internal control policies over collections.

The September 30, 2015 receivable aging indicated that customer water accounts with balances greater than 90 days represent 91%. 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. Furthermore, we recommend that management continue its efforts to improve the collection of receivables. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2014.

### 2) Disconnection of Non-paying Customers

Of 68 items tested, 13 pertain to users of fresh water and salt meters, having balances of more than \$150 and which have been unpaid for over 90 days which were not disconnected as of September 30, 2015. These 13 accounts indicated an absence of subsequent collection from October 2015 to December 2015. In addition, 47 of 68 pertain to salt and sewer users which remained connected as of September 30, 2015 despite long outstanding balances and an absence of subsequent collections from October to December 2015. Current MWSC policy is to disconnect nonpaying customers whose balances are thirty days overdue and are above \$150. We recommend that management enforce procedures compliant with this policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2014.

## SECTION III – DEFINITIONS

The definition of a deficiency 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 authority 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**

MWSC'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.