

June 22, 2018

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, 2017 (on which we have issued our report dated June 22, 2018) 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, certain deficiencies related to MWSC's internal control over financial reporting and other matters as of September 30, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 22, 2018, 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.

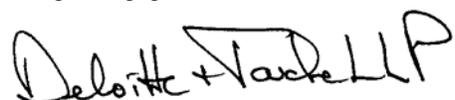
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

## SECTION I – DEFICIENCIES

We identified, and have included below, certain deficiencies involving MWSC's internal control over financial reporting as of September 30, 2017 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 two acquisition (US Motor and Vertical Turbine Pump) worth \$36,000 were missing. Further, no receiving reports were provided for items received from foreign donors. 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 2016.

### 2) Withholding Tax Remittances

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>
May 31, 2017 to July 8, 2017	August 18, 2017
July 9, 2017 to August 5, 2017	August 18, 2017
August 6, 2017 to September 2, 2017	September 20, 2017

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

We recommend that management timely file and remit withholding tax payments in accordance with established requirements.

### 3) Revenues

#### *Customer Master File Update*

The status of several customers was not timely updated. We noted 4 of 39 customer accounts tested were tagged as "ACTB", active and billable, but due to inactivity and an absence of issued billing statements, these accounts should be classified as inactive "OFFB".

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

#### *Water Delivery Revenue*

We examined delivery status reports noting number of gallons delivered and recalculated amount based on approved water delivery rate. Examination revealed that the actual number of gallons delivered exceeded total invoiced amounts. We recommend management improve internal control over the review of invoices.

### 4) Non-Revenue Water

Water leakage rates increased from 9% in FY16 to 31% in FY17. We recommend management implement internal controls to minimize water leakage rates.

## 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 utility receivables increased in fiscal year 2017 from \$1,495,195 to \$1,688,789. Water delivery receivables decreased in fiscal year 2017 from \$150,964 in 2016 to \$146,804 in 2017. A related allowance for uncollectible accounts of \$1,684,342 was provided. It appears that inadequate collection efforts resulted in long outstanding receivables and in 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, 2017 receivable aging indicated that customer water accounts with balances greater than 90 days represent 90%. 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 2016.

### 2) Disconnection of Non-paying Customers

Of 50 items tested, 13 pertain to users of fresh water and salt and sewer meters which have balances that exceed \$150 and which have been unpaid for over 90 days. These accounts were not disconnected as of September 30, 2017. These 13 accounts remained connected as of September 30, 2017 despite outstanding balances and an absence of subsequent collections (October 2017 to December 2017). Current MWSC policy is to disconnect nonpaying customers whose balances are thirty days overdue and which exceed \$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 2016.

## SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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.