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April 12, 2019

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, 2018 (on which we have issued our report dated April 12, 2019) 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 12, 2019, 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,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified, and have included below, certain deficiencies involving MWSC's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

1) Revenues

   Water Reading

   One of 37 utility billings tested had an incorrect meter reading due to reading two water meters (Account Nos. 052307 and 051037) instead of one (Account No. 052307). The error resulted in an overstatement of revenue of $41,853, which MWSC subsequently corrected.

   Water Delivery Revenue

   We examined delivery status reports noting the number of gallons delivered and recalculated expected billed amounts based on the approved water tariff, which indicated that gallons delivered exceeded gallons invoiced and billed to customers.

   Customer Master File Update

   Five customer accounts were tagged as "ACTB", active and billable, but were not completely billed during the year. Either the water meters had technical issues or the reading did not occur.

   We recommend management timely revisit and improve internal controls over the review of water meters, water readings and invoicing of gallons delivered to/used by customers.

2) Inventories

   Adjustments to reduce inventory that resulted from a physical count totaled $52,910 at September 30, 2018. Issuance slips should accompany all items released from the warehouse and receiving reports should support all receipts. It appears that these inventory adjustments may represent issuances not documented during the year. We recommend management investigate discrepancies between cycle counts and inventory records to strengthen controls over inventory and to provide more accurate financial information.

3) Capital Assets

   MWSC's capital fixed asset policy requires that assets with acquisition costs of $500 and above are capitalized and depreciated based on estimated useful lives; however, office equipment of $689 that met the policy criteria was not capitalized. We recommend management establish adequate internal controls over capital assets to comply with established policies.

4) Accrued Expenditures

   Obligations for goods and services for which invoices have yet to be received should be accrued in the accounting period in which the goods and services were provided. A $2,250 payment (check#22313) was not accrued as at September 30, 2018. As the amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management require the accrual of expenditures in the accounting period in which goods and services are provided.

5) Debit Balances in Accounts Payable

   At September 30, 2018, MWSC recorded three debit balances within payables aggregating $14,552. Debit balances generally pertain to unidentified balances and overpayments to vendors in prior years. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management revisit payable accounts with debit balances and assess whether such be recognized as expense.

SECTION I – DEFICIENCIES, Continued

6) Credit Balances in Accounts Receivables

At September 30, 2018, MWSC recorded 335 credit balances within customer utility accounts aggregating $45,801. Credit balances pertain to customer overpayments of utility billings. Of the total amount, $4,705 pertains to customers who moved-out or who had disconnected meters. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management revisit customer utility accounts with credit balances and assess whether such be recognized as revenue.

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) Local Noncompliance with the RMI Procurement Code

The following purchases were not adequately documented to evidence compliance with the procurement process set forth in the RMI Procurement Code:

a. Check # 21625 - purchase of office supplies for $689
b. Check # 22313 - vehicle repairs for $913
c. Check # 22317 - purchase of tools and supplies for $2,152
d. Check # 22373 - purchase of maintenance supplies for $1,095

We recommend management establish adequate internal control policies and procedures requiring compliance with the RMI Procurement Code.

2) Local Noncompliance with the Income Tax Act

MWSC filed and paid income taxes withheld for the year ended September 30, 2018 in a manner inconsistent with the Income Tax Act of 1989, specifically, withholding taxes of $49,265 were not timely remitted.

We recommend management establish adequate internal control policies and procedures requiring compliance with the Income Tax Act.

3) Local Noncompliance with the Social Security Act and the Social Security Health Fund Act

MWSC filed and paid employer and employee contributions withheld for the year ended September 30, 2018 in a manner inconsistent with the Social Security Act and the Social Security Health Fund Act. Specifically, social security contributions for the following quarters were not timely remitted:

Quarter Ended	Amount Owed	Due Date	Date filed	Date fully paid
March 31, 2018	$ 30,784	04/10/18	04/11/18	06/19/18
June 30, 2018	$ 33,671	07/10/18	07/17/18	09/03/18
September 30, 2018	$ 30,818	10/10/18	10/10/18	11/28/18

We recommend management establish adequate internal control policies and procedures requiring compliance with the Social Security Act and the Social Security Health Fund Act.

SECTION II – OTHER MATTERS, Continued

4) Retirement Savings Plan

Taxes are currently not withheld on MWSC's matching of employee contributions to the retirement plan. We recommend that management require applicable taxes be withheld on employer matching of retirement plan contributions and be remitted to taxing authorities.

5) Receivable Collections

Water utility receivables increased during 2018 from $1,688,789 to $1,970,324. A related allowance for uncollectible accounts of $1,896,648 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 management reassess collectability of receivables and adopt appropriate internal control policies over collections.

The September 30, 2018 receivable aging indicated that customer water accounts with balances greater than 90 days represent 92%. We recommend 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 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 2017.

6) Disconnection of Non-paying Customers

Of 67 customer utility accounts tested, 11 pertain to users of fresh water and salt and sewer meters, having balances of more than $150 and which have been unpaid for over 90 days. These accounts were not disconnected at September 30, 2018 despite the outstanding balances and insufficient subsequent collections from October 2018 to December 2018. Current MWSC disconnection policy is to disconnect nonpaying customers with balances 30 days overdue that exceed $150. We recommend 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 2017.

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.