

September 30, 2021

Mr. Halston deBrum
General Manager
Majuro Atoll Waste Company

Dear Mr. deBrum:

In planning and performing our audit of the financial statements of Majuro Atoll Waste Company (MAWC) as of and for the year ended September 30, 2020 (on which we have issued our report dated September 30, 2021), 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 MAWC'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 MAWC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MAWC'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 MAWC's internal control over financial reporting and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 30, 2021, on our consideration of MAWC'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 control deficiency is also set forth in the attached Appendix I.

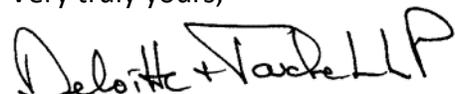
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

Very truly yours,



SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving MAWC's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

1. Allowance for Doubtful Accounts

Receivables of \$90,506, representing 76% of total trade receivables, were deemed uncollectible as of September 30, 2020. Of the \$90,506, an allowance for uncollectible accounts of \$88,006 has been established. We recommend management perform regular assessments of the collectability of accounts receivable. Furthermore, we recommend management establish a written policy governing receivable collections and write-offs.

2. Container Deposit Legislation (CDL) Recycling Coupons

During the year ended September 30, 2020, one \$20 CDL recycling coupon was in the possession of the cashier. In addition, certain customers have requested the cashier to retain CDL recycling coupons until such time the coupons are submitted for claim or disbursement. Such coupons should be in the custody of customers and be presented by customers for CDL claims. We recommend management discontinue temporary custody of CDL recycling coupons by the cashier.

3. Petty Cash Shortage

During the year ended September 30, 2020, a \$5,381 petty cash shortage occurred due to duplicate use of CDL recycling coupons for recycling replenishment requests. Furthermore, a reconciliation of recycling income to recycling expense resulted in a \$2,378 undocumented variance. We recommend management establish internal control policies and procedures over petty cash recycling replenishment requests.

4. Bank Reconciliations

During the year ended September 30, 2020, bank reconciliations were prepared in Excel with no evidence of independent review. We recommend management perform independent review of bank reconciliations.

5. Waste Collection Log Sheets

Daily log sheets for waste collection do not evidence the collector's signature. We recommend management require collector's signatures over daily log sheets.

6. Journal Entries

Certain journal entries were not supported by journal vouchers reflecting the required evidence of review and approval. We recommend management require that journal vouchers evidence review and approval.

7. Recycling Activities

During the year ended September 30, 2020, we noted the following:

1. Cash count reports lack evidence of review and approval.
2. Can and bottle counts are made through use of measured basket which is subject to distortion and may provide for inaccurate counts.
3. No daily count cross-check review process occurs of recycling items turned in by customers.

We recommend management require completeness of review and approvals over recycling activity documents. In addition, we recommend management implement a more accurate measurement of cans and bottles through (1) cross-checking of weight of pressed cans and bottles or (2) consider use of can/bottle counter machine.

SECTION I – DEFICIENCIES, CONTINUED

8. Payroll Documents

Of 24 payroll expense items tested, 5 employee contracts either lacked evidence of approval or were not on file. We recommend management require completeness and approval of employee contracts.

SECTION II - OTHER MATTERS

We also identified, and have included below, other matters involving MAWC’s internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

1. Income Tax Act

MAWC filed and paid income taxes withheld for the payroll period ending July 15, 2020 in a manner inconsistent with the Income Tax Act of 1989, specifically, withholding taxes of \$2,907 were not timely remitted wherein the Form 1178 was filed 26 days past the due date. We recommend management establish adequate internal control policies and procedures requiring compliance with the Income Tax Act.

2. Social Security Act and the Social Security Health Fund Act

MAWC filed and paid employer and employee contributions withheld for the year ended September 30, 2020 in a manner inconsistent with RepMar Social Security Act and the Social Security Health Fund Act. Specifically, social security contributions for the following quarters were not timely filed and remitted:

<u>Quarter Ended</u>	<u>Amount Owed</u>	<u>Due Date</u>	<u>Date filed and paid</u>
March 31, 2020	\$ 28,008	4/10/2020	4/13/2020
June 30, 2020	\$ 21,789	7/10/2020	7/13/2020

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

3. Local Noncompliance

Section 126.7 of RepMar's Procurement Code requires that awards shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made. We noted total purchases of hydraulic and engine oil amounting to \$12,420 which lacked or contained incomplete evidence of evaluation of the most economical purchase. We recommend management require that documentation be adequate to comply with applicable procurement requirements.

4. Donated Capital Assets

Subsequent period capital asset donations from a local government were not supported by corresponding asset values to facilitate a basis for recording. We recommend management communicate with the donor to ascertain donated asset values.

5. Fully Depreciated Capital Assets

In 2020, MAWC derecognized fully depreciated capital assets with a cost of \$86,655. These fully depreciated capital assets are either: (a) non-functioning or are out-of-service; or (b) can no longer be located. We recommend MAWC consider periodic checks of the condition of fully depreciated assets and derecognize those that are nonfunctional are deemed unusable.

SECTION II - OTHER MATTERS, CONTINUED

6. Board Sitting Fees

During the year ended September 30, 2020, MAWC paid sitting fees of \$4,500 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MAWC. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

SECTION III - DEFINITION

The definition of a control deficiency is as follows:

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 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 is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications 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

MAWC'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.