

May 8, 2019

Mr. Jorelik Tibon  
General Manager  
Majuro Atoll Waste Company

Dear Mr. Tibon:

In planning and performing our audit of the financial statements of the Majuro Atoll Waste Company (MAWC) as of and for the year ended September 30, 2018 (on which we have issued our report dated May 8, 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 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, a deficiency related to MAWC's internal control over financial reporting and other matter 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 May 8, 2019, 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.

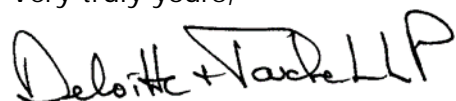
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

### 1. Allowance for Doubtful Accounts

Receivables of \$78,707, representing 69% of total trade receivables, were deemed uncollectible as of September 30, 2018. Of the total, \$56,126 has been provided with an allowance. We recommend that management perform regular assessments of the collectability of accounts receivable. Furthermore, we recommend management establish a written policy governing receivable collections and write-offs.

## SECTION II - OTHER MATTER

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

### 1. Local noncompliance on RMI Procurement Code

The following payments were not adequately documented to evidence compliance with the procurement process set forth in RepMar's Procurement Code:

- a. Purchase of other recycling expenses amounting to \$529, check #15282
- b. Purchase of Equipment Repairs & Maintenance amounting to \$1,236, check #15219

We recommend management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

## 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.