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July 7, 2015

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, 2014 (on which we have issued our report dated July 7, 2015) 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, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 7, 2015, 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 – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MWSC's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1) Account Reconciliation

   The beginning net position balance was overstated by $187 in comparison with the FY13 ending balance. This exception resulted in a proposed audit adjustment. We recommend management properly and timely reconcile general ledger accounts.

2) Fixed Assets

   Various fixed assets were recorded in the register with estimated useful lives less than required by the capitalization policy. We recommend management establish internal control 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 2013.

3) Bank Reconciliation

   Our examination of bank reconciliations noted stale checks in the General and Payroll fund accounts of $14,112 and $2,092, respectively. Reconciling items do not appear to be monitored. We recommend management strengthen and improve internal control policies over the review of bank reconciliations.

4) Payroll

   Of twenty three employee files tested, four did not contain updated Personnel Action Forms. Thus, validation of current pay rates was not possible. We recommend that management timely update and maintain documentation in personnel files.

5) MISSA and Withholding Taxes

   Examination of MISSA contributions revealed late filing of the following quarterly returns:

Quarterly return ended	Date filed
December 2013	February 2, 2014
March 2014	April 21, 2014
June 2014	August 6, 2014

   Quarterly returns are due on the 10th day of the month following the quarter-end.

   MWSC was not able to timely file and remit MISSA contributions.

   Form 1178 for withholding taxes covering the pay periods September 7, 2014 to October 04, 2014, which includes withholding taxes for the pay period to January 24, 2015, was filed and remitted on March 23, 2015. The RMI Income Tax Code states that Form 1178 is due within two (2) weeks following the preceding four (4) week period. MWSC was noncompliant with the requirement.

   We recommend management file and timely remit MISSA contributions and withholding taxes.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

6) Expenses

One cash disbursement did not contain the supplier invoice. Thus, we were not able to verify the validity of the payment.

We recommend management require adequate documentation supporting disbursements.

7) Revenues

Customer Master File Update

The Customer type (Residential, Government and Commercial class) and the corresponding rate for 2 of 75 customer accounts tested were not updated.

One account was tagged as commercial class per the billing system but was charged the residential class rate.

One account was tagged as residential class per the billing system but was charged the commercial class rate.

The status of several customers was not updated. We noted two inactive customer accounts that were tagged as "ACTB" active and billable per the billing system.

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

8) Cash Collections and Deposit Documentation

Certain collections were not supported by cash receipts.

We recommend adequate documentation be maintained with respect to cash collections.

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 2014 and in the prior year. The related receivable of $88,217 was fully provided by an allowance. It appears that inadequate collection efforts resulted in long outstanding receivables and 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, 2014 receivable aging indicated that customer water accounts with balances greater than 90 days represent 83%. 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. We encourage MWSC to 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 2013.

SECTION II – OTHER MATTERS, CONTINUED

2) Disconnection of Non-paying Customers

Of 68 items tested, 16 indicated an absence of subsequent collection from October 2014 to December 2014. MWSC policy is to disconnect nonpaying customers whose balances are thirty days overdue and are above $150. Examination revealed that 16 unpaid customer accounts more than 90 days remained connected as of September 30, 2014.

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 2013.

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 Company 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.