

Management Letter

Majuro Water and Sewer Company, Inc.

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2021



May 9, 2025

Board of Directors
Majuro Water and Sewer Company, Inc.

In planning and performing our audit of the financial statements of the business-type activities of Majuro Water and Sewer Company, Inc. (MWSC) as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MWSC's internal control. Accordingly, we do not express an opinion on the effectiveness of MWSC's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Cash in Bank - Stale-dated Checks

Condition: At September 30, 2021, the bank reconciliation included outstanding checks of \$33,218, which included stale-dated checks amounting to \$5,007.

Recommendation: We recommend management establish internal policies and procedures requiring timely resolution and follow-up of outstanding checks which have been outstanding for over six months.

Cash in Bank - Bank Reconciliations

Condition: At September 30, 2021, the two Bank of Guam Account bank reconciliations did not agree to the general ledger by \$368 and \$572, respectively. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend management establish internal policies and procedures requiring timely resolution of bank reconciling items.

Other Receivables

Condition: During our review of other receivable balances, totaling \$27,637, we noted that certain amounts, totaling \$15,170, lacked adequate supporting documentation, such as invoices, contracts, or other evidence to substantiate the validity and recoverability of the balances.

Recommendation: We recommend that management perform a detailed review of other receivable balances and ensure that each item is properly supported by relevant documentation. In cases where documentation cannot be obtained, consideration should be given to writing off the balances if they are deemed uncollectible. Additionally, controls should be strengthened to ensure that all future receivables are recorded with adequate supporting documentation.

Capital Assets

Condition: During our testing of capital assets, we identified one item for which the depreciation expense was understated by \$7,643 due to an error in the calculation. Specifically, the asset was depreciated over a longer useful life than the one stated in MWSC's accounting policy, resulting in a lower depreciation charge for the period. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management review the useful lives and depreciation methods applied to all capital assets to ensure consistency with MWSC's accounting policies. Additionally, implementing a review control over depreciation calculations may help identify and correct such errors on a timely basis.

Withholding Tax Remittances

Condition: During the year ended September 30, 2021, MWSC filed and paid income taxes withheld for payroll period ending February 27, 2021, March 13, 2021, July 31, 2021, August 28, 2021, and September 25, 2021 in a manner inconsistent with the Income Tax Act of 1989. Such were subsequently paid on April 13, 2021, and March 16, 2023, respectively.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act of 1989.

Social Security and Health Fund Remittances

Condition: During the year ended September 30, 2021, MWSC filed and paid Social Security and Health Fund contributions for quarter ended March 31, 2021 in a manner inconsistent with the Social Security Act of 1990. Such were subsequently paid on September 7, 2021.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with the Social Security and Health Fund Act of 1990.

Board Sitting Fees

Condition: During the year ended September 30, 2021, MWSC paid sitting fees of \$7,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by MWSC.

Recommendation: 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.

Retirement Savings Plan

Condition: During the year ended September 30, 2021, MWSC made employer contributions, totaling \$2,460, to employee retirement savings plan. Taxes are not currently withheld and paid on the employer contributions.

Recommendation: 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 employer contributions to employee retirement savings plan.

Board Meeting Minutes

Condition: During our review of corporate governance documentation, we noted that formal minutes were not available to support certain meetings of the Board of Directors. In some instances, it was unclear whether meetings had occurred or whether key decisions were formally documented and approved.

Recommendation: We recommend that management ensure minutes are prepared, reviewed, and formally approved for all Board of Directors meetings. These minutes should accurately reflect discussions held, decisions made, and actions agreed upon. Proper maintenance and timely approval of these records will enhance governance practices and support regulatory compliance.

This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MWSC for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young