

Management Letter

Majuro Water and Sewer Company, Inc.
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2022



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November 20, 2025

Mr. Damian Capelle,
General Manager
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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, 2022, 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, 2022, the bank reconciliation included outstanding checks in the amount of \$8,726 that were stale dated, some of which have been outstanding for an extended period. These items have not been investigated or cleared in a timely manner.

Recommendation: We recommend management review all outstanding checks on a regular basis, investigate those that remain uncleared for extended periods, and take appropriate action such as reissuance, cancellation, or escheatment as required by policy and applicable law.

Cash in Bank - Bank Reconciliations

Condition: At September 30, 2022, the bank reconciliations did not reconcile to the general ledger cash balances by \$368 and \$572, respectively, indicating errors or timing differences that have not been investigated or resolved in a timely manner.

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

Receivable from affiliates

Condition: At September 30, 2022, certain receivable balances due from affiliates relating to water deliveries did not agree to the amounts confirmed, indicating potential errors in account balances. While the balances have been fully provided for, the underlying transaction appears to lack proper substantiation requiring investigation and reconciliation.

Recommendation: We recommend management establish policies and procedures requiring periodic review of receivable balances to ensure accurate financial reporting.

Inventory Valuation

Condition: At September 30, 2022, the inventory listing included 37 items with quantities on hand that are recorded at a zero value, indicating potential errors in inventory valuation.

Recommendation: We recommend management establish policies and procedures requiring periodic review of inventory valuations to ensure accurate financial reporting.

Accounts Payable

Condition: Our review of the accounts payable subsidiary ledger noted several vendor accounts reflecting negative balances aggregating \$72,761. Negative balances in accounts payable typically indicate potential data entry errors, incorrect application of payments, or instances where payments were recorded prior to invoice entry. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management review the accounts payable subsidiary ledger to identify and investigate the cause of negative balances. Necessary adjustments should be made to correct any errors, and controls should be strengthened to ensure that payments are not processed without proper invoice recording and approval.

Depreciation of Capital Assets

Condition: During the audit, we noted that depreciation expense for certain capital assets was incorrectly calculated, resulting in inaccurate asset valuations and a \$85,470 understatement of depreciation expense. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management review depreciation methods, useful lives, and calculations to ensure consistency with accounting policies and applicable standards.

Inaccurate Meter Reading Data Entry

Condition: During our review of utility billing and revenue records, we identified two instances aggregating \$94,582 where customer utility billings and related receivables were overstated due to incorrect data entry of meter readings. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management review utility revenue entries against supporting documents and strengthen controls over data entry to prevent errors.

Withholding Tax Remittances

Condition: During the year ended September 30, 2022, MWSC filed Income Tax Withholding returns for multiple months in a manner inconsistent with the requirements of the Income Tax Act 1989. All months were filed late except December, April, and August, which were submitted on time. Refer the schedule below. However, no payments were made for any month during the year, and the total unpaid withholding tax has been recorded as a liability at year-end.

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

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