

Management Letter

Majuro Water and Sewer Company, Inc.

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

Year ended September 30, 2023



**Shape the future
with confidence**



Shape the future
with confidence

Ernst & Young (RMI), Inc.
P.O. Box 1288
Majuro, Republic of the Marshall
Islands 96960

Tel: +1 692 625 7387
Fax: +1 692 625 7388
ey.com

June 23, 2026

Mr. Damian Capelle
General Manager
Majuro Water and Sewer Company, Inc.
Majuro, Marshall Islands 96960

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, 2023, 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, 2023, the bank reconciliation included outstanding checks of \$12,912 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.

Non-Active Customers Receiving Utility Service

Condition: During our review of customer account records, we identified 680 customers classified as *non-active* within the billing system; however, sewer services continued to be provided to those customers. As a result, service consumption may not have been appropriately monitored, billed, or subjected to established account management procedures.

Recommendation: We recommend management implement procedures to periodically reconcile active service connections to customer account records in the utility billing system. Any discrepancies should be promptly investigated and corrected to ensure that account classifications accurately reflect the status of utility services being provided and that all customers receiving service are appropriately billed.

Incorrect Meter Reading Resulting in Overstatement of Water Billings

Condition: During our testing of customer utility billings and revenue records, we identified one instance (Customer Acct # 52876) where an incorrect meter reading was entered into the billing system, resulting in an overstatement of the customer's water consumption and related billing charges of \$19,322. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management strengthen controls over meter reading and billing processes by implementing supervisory reviews of unusual consumption fluctuations, utilizing automated exception reports to identify abnormal readings, and requiring timely investigation and correction of discrepancies before bills are issued.

Methodology for Estimating Allowance for Doubtful Accounts

Condition: During our review of the allowance for doubtful accounts, we noted that management's methodology is based primarily on identifying customer accounts with balances outstanding for more than 90 days. The methodology does not consider the collectability risk associated with accounts that are less than 90 days past due or other factors that may affect the likelihood of collection.

Recommendation: We recommend management should develop and implement a documented methodology for estimating the allowance for doubtful accounts that considers the entire accounts receivable portfolio. The methodology should incorporate historical loss experience, aging categories, current economic conditions, collection trends, and other relevant factors to arrive at a reasonable estimate of expected credit losses.

Policy for Assessing Inventory Obsolescence

Condition: During our review of inventory management practices, we noted that MWSC has not established a formal policy or procedure for identifying, analyzing, and evaluating slow-moving inventory items for potential obsolescence. MWSC's slow-moving inventory comprises of approximately 86% (or \$761,794) as of September 30, 2023. As a result, inventory is not periodically assessed to determine whether carrying values remain recoverable.

Recommendation: We recommend that management establish and implement a formal inventory obsolescence policy that includes periodic reviews of inventory aging and usage patterns, criteria for identifying slow-moving or obsolete items, documentation requirements for management's assessment, and procedures for recording inventory valuation allowances or write-offs when appropriate.

Aged Vendor Liabilities Remaining Outstanding

Condition: During our review of the accounts payable subsidiary ledger, we noted several vendor invoices that have remained outstanding for more than three years in the aggregate amount of \$40,203 and continue to be reported as liabilities in the financial records. Management was unable to provide sufficient evidence that these obligations remain valid and payable.

Recommendation: We recommend management perform a comprehensive review of all aged vendor liabilities on at least an annual basis. Long-outstanding balances should be investigated, supported through vendor confirmations or other documentation, and adjusted or written off when the obligation is determined to no longer exist. Management should also establish procedures for the periodic review and resolution of aged accounts payable balances.

Recurring Audit Adjustments Not Timely Addressed

Condition: During the 2023 audit, we noted that audit adjustments identified during the prior year audit had not been fully addressed by management. Specifically, negative balances within the accounts payable subsidiary ledger totaling \$44,928 and unrecorded vendor invoices totaling \$27,832 remained unresolved at the beginning of the current year. Failure to timely investigate and resolve prior year audit adjustments increases the risk of misstated financial records, inaccurate subsidiary ledger balances, and incomplete liabilities being reported in the financial statements. Additionally, recurring audit adjustments may indicate deficiencies in MWSC's financial reporting and period-end review processes.

Recommendation: We recommend management establish procedures to formally track, investigate, and resolve all audit adjustments identified during the annual audit process. Corrective actions should be documented, assigned to responsible personnel, and monitored to ensure implementation. In addition, periodic reviews of subsidiary ledger balances and accounts payable accruals should be performed to identify and correct unusual balances and unrecorded liabilities on a timely basis.

MISSA Contributions Payable

Condition: During our audit, we noted that the liability for delinquent payments of \$232,390 to the Marshall Islands Social Security Administration (MISSA) for employer and employee contributions recorded in the general ledger was not supported by a reconciled subsidiary schedule. Management was unable to provide documentation demonstrating that the recorded liability had been reconciled to underlying quarterly MI-SS-3 tax returns, inclusive of accrued penalties and interest. The completeness and accuracy of the liability balance, including accrued penalties and interest of \$25,159, was verified through alternative audit procedures resulting in an understatement of \$18,971 in recorded balances. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management prepare and maintain a detailed schedule of delinquent MISSA liabilities, including the quarterly MI-SS-3 tax returns involved, principal amounts due, accrued penalties and interest, payments made, and outstanding balances. The schedule should be reconciled to the general ledger on a periodic basis and independently reviewed to ensure accuracy and completeness.

RMI Withholding Tax Payable

Condition: During our audit, we noted that the liability for delinquent payments of \$149,818 to the RMI Ministry of Finance, Banking and Postal Service (MOFBPS) for employee withholding taxes recorded in the general ledger was not supported by a reconciled subsidiary schedule. Management was unable to provide documentation demonstrating that the recorded liability had been reconciled to underlying 4-weekly Form 1178 tax returns, inclusive of accrued penalties and interest. The completeness and accuracy of the liability balance, including accrued penalties and interest of \$14,222, was verified through alternative audit procedures resulting in an overstatement of \$17,959 in recorded balances. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management prepare and maintain a detailed schedule of delinquent MOFBPS liabilities, including the 4-weekly Form 1178 tax returns involved, principal amounts due, accrued penalties and interest, payments made, and outstanding balances. The schedule should be reconciled to the general ledger on a periodic basis and independently reviewed to ensure accuracy and completeness.

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