

**MARSHALL ISLANDS  
SOCIAL SECURITY ADMINISTRATION**

**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

**YEAR ENDED SEPTEMBER 30, 2000**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Marshall Islands Social Security Administration:

We have audited the financial statements of the Marshall Islands Social Security Administration (MISSA) as of and for the year ended September 30, 2000, and have issued our report thereon dated March 2, 2001. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether MISSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 22) as items 2000-15 and 2000-16.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MISSA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect MISSA's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-1 through 2000-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-2 through 2000-14, to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of MISSA in a separate letter dated March 2, 2001.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche*

March 2, 2001



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Marshall Islands Social Security Administration:

Compliance

We have audited the compliance of the Marshall Islands Social Security Administration (MISSA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2000. MISSA's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 22). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of MISSA's management. Our responsibility is to express an opinion on MISSA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MISSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on MISSA's compliance with those requirements.

In our opinion, MISSA complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2000.

Internal Control Over Compliance

The management of MISSA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MISSA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of MISSA as of and for the year ended September 30, 2000, and have issued our report thereon dated March 2, 2001. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of MISSA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche*

March 2, 2001

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Expenditures of Federal Awards  
CFDA #15.875 - U.S. Department of the Interior  
Year Ended September 30, 2000

	<u>Compact Funds Received</u>	<u>Compact Funds Expended</u>
Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association.	\$ 250,200	\$ 250,200
Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 221(b) of the Compact of Free Association.	<u>242,505</u>	<u>242,505</u>
	<u>\$ 492,705</u>	<u>\$ 492,705</u>

The above funds are received in a subrecipient capacity through the Republic of the Marshall Islands. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. Compact funds expended are included within expenditures of the Governmental Fund Type - Special Revenue Fund, totaling \$1,587,850 for the year ended September 30, 2000.

# MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

## Schedule of Findings and Questioned Costs Year Ended September 30, 2000

### Part I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. MISSA's one major program was as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. MISSA did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

### Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2000-1	Payroll	7
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### Part III - Federal Award Findings and Questioned Cost Section

No federal award findings are reported for the year ended September 30, 2000.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

**Part II - Financial Statement Findings Section**

Payroll

Finding No. 2000-1

Criteria: Employee allotments should be properly supported and authorized.

Condition: Of six payroll disbursements of the Retirement Fund and the Basic Health Benefits Plan tested, two payroll allotments (check #s 12608 and 12866) were not evidenced by supporting employee allotment authorizations.

Cause: The cause of the above condition is the lack of compliance with established policies and procedures regarding employee allotments.

Effect: The effect of the above condition is the possibility of unauthorized employee allotments.

Recommendation: We recommend that MISSA adhere to policies and procedures requiring authorization forms for employee allotments.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1998 and 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Cash and Cash Equivalents

Finding No. 2000-2

Criteria: All bank accounts should be reconciled on a monthly basis in order to detect and correct errors in a timely manner.

Condition: At September 30, 2000, bank reconciliations for the Retirement Fund cash in bank general ledger accounts (A/c #s 111-1001 and 111-1038) and the Basic Health Benefits Plan cash in bank general ledger accounts (A/c #s 222-1032 and 222-1037) included reconciling items relating to collections, totaling \$182,804 and \$30,883, respectively, which had not been deposited to the respective bank accounts. A monthly summary of undeposited collections by checks and cash is as follows:

<u>Month</u>	<u>Retirement Fund</u>		<u>Basic Health Benefits Plan</u>		<u>Total</u>
	<u>Checks</u>	<u>Cash</u>	<u>Checks</u>	<u>Cash</u>	
July 1999	\$ 7,784	\$ 968	\$ -	\$ -	\$ 8,752
September 1999	7,193	1,354	-	-	8,547
October 1999	161,550	940	551	84	163,125
November 1999	-	-	2,816	5,651	8,467
December 1999	-	2,515	-	-	2,515
March 2000	-	500	3,506	9,406	13,412
April 2000	-	-	1,664	3,359	5,023
May 2000	-	-	785	1,546	2,331
July 2000	-	-	54	1,461	1,515
	<u>\$ 176,527</u>	<u>\$ 6,277</u>	<u>\$ 9,376</u>	<u>\$ 21,507</u>	<u>\$ 213,687</u>

Cause: The cause of the above condition is the lack of independent verification of validated bank deposit slips with the Daily Deposit Form and adherence to established policies and procedures requiring monthly reconciliation of bank accounts to the general ledger.

Effect: The effect of the above condition is the possibility of misappropriation of cash balances.

Recommendation: We recommend that MISSA investigate the undeposited collections and adhere to established policies and procedures requiring the monthly reconciliation of all bank accounts. Furthermore, we recommend that collections be deposited to bank accounts in a timely manner and that management ensure the validated bank deposit slips are independently verified and matched against the Daily Deposit Form.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Cash and Cash Equivalents

Finding No. 2000-3

Criteria: All bank accounts should be reconciled on a monthly basis to in order to detect and correct errors in a timely manner.

Condition: At September 30, 2000, bank reconciliations for the Retirement Fund cash in bank general ledger accounts (A/c #s 111-1001 and 111-1033) and the Basic Health Benefits Plan cash in bank general ledger accounts (A/c #s 222-1006 and 222-1032) included unidentified deposits, totaling \$11,964 and \$9,100, respectively, for which no supporting documentation was available to determine the validity of the transaction and whether the amount has been correctly recorded. A monthly summary of unidentified deposits is as follows:

<u>Month</u>	<u>Retirement Fund</u>	<u>Basic Health Benefits Plan</u>	<u>Total</u>
October 1999	\$ -	\$ 900	\$ 900
December 1999	8,153	-	8,153
March 2000	-	2,000	2,000
August 2000	3,198	-	3,198
September 2000	60	6,121	6,181
Unknown	<u>553</u>	<u>79</u>	<u>632</u>
	\$ <u>11,964</u>	\$ <u>9,100</u>	\$ <u>21,064</u>

Cause: The cause of the above condition is the lack of adherence to established policies and procedures requiring monthly reconciliation of bank accounts to the general ledger.

Effect: The effect of the above condition is the possibility of misappropriation of cash balances.

Recommendation: We recommend that MISSA adhere to established policies and procedures requiring the monthly reconciliation of all bank accounts. In addition, we recommend that management ensure that supporting documentation be retained for deposits.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Investments

Finding No. 2000-4

Criteria: An investment of 20% or more of the voting stock of an investee is presumed to give the investor significant influence. The equity method of accounting for investments requires the investor to record, as earnings or loss, its proportionate share of the investee's earnings or loss. In addition, the equity method of accounting for investments requires the investor to record dividends received from an investee as a reduction in the carrying amount of the investment.

Condition: At September 30, 2000, MISSA maintained a 33% interest in the voting stock of Bank of the Marshall Islands (BOMI) for which MISSA did not record equity in earnings of BOMI, totaling \$650,602, for the year ended September 30, 2000. In addition, MISSA recorded dividend income, totaling \$64,485, for dividends received from BOMI during the year ended September 30, 2000. Audit adjustments were proposed to record MISSA's interest in BOMI using the equity method of accounting.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the understatement of investment balances.

Recommendation: We recommend that MISSA adhere to accounting principles generally accepted in the United States of America requiring the use of the equity method of accounting for investments of 20% or more of the voting stock of an investee.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Receivables

Finding No. 2000-5

Criteria: Receivables from the Section 177 Health program should be collected in a timely manner.

Condition: As of September 30, 2000, MISSA recorded receivables due from the Section 177 Health program in the Basic Health Benefits Plan (A/c # 222-1307, totaling \$208,511) and the Health Care Revenue Fund (A/c # 444-1307, totaling \$21,974) that have been outstanding for over two years. These balances represent health referral costs incurred by MISSA for patients entitled to receive health care under the Section 177 Health program not yet reimbursed.

Cause: The cause of the above condition is the lack of payment by the Section 177 Health program.

Effect: The effect of the above condition is an allowance for doubtful accounts in the Basic Health Benefits Plan and the Health Care Revenue Fund of \$208,511 and \$21,974, respectively.

Recommendation: We recommend that MISSA pursue reimbursement from the Section 177 Health program and establish a formal repayment schedule.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1997 through 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Receivables

Finding No. 2000-6

Criteria: Notes receivable representing overdue employer contributions should be collected in accordance with established repayment schedules.

Condition: Notes receivable and court judgments pertaining to overdue employer contributions recorded in the Retirement Fund (A/c #s 111-1400 and 111-1500, totaling \$473,766) and the Basic Health Benefits Plan ( A/c #s 222-1400 and 222-1500, totaling \$287,324) indicate that several employers are not making payments in accordance with signed promissory notes.

Cause: The cause of the above condition is the lack of adherence by employers to the repayment terms and conditions of executed promissory notes and court judgments.

Effect: The effect of the above condition is an allowance for doubtful accounts in the Retirement Fund and the Basic Health Benefits Plan of \$406,976 and \$212,120, respectively.

Recommendation: We recommend that MISSA improve monitoring and follow-up procedures to ensure the timely collection of notes receivable pertaining to outstanding employer contributions.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1993 through 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Receivables

Finding No. 2000-7

Criteria: Payments made by MISSA on behalf of RepMar and other agencies should be collected in a timely manner.

Condition: Receivables from RepMar recorded in the Retirement Fund (A/c # 111-1308, totaling \$110,770) and the Basic Health Benefits Plan (A/c # 222-1308, totaling \$662,938) have not been reimbursed in a timely manner. The receivable balance of the Retirement Fund includes the purchase of vehicles by MISSA on behalf of various RepMar ministries in fiscal year 1995. The receivable of the Basic Health Benefits Plan represents disbursements made by MISSA for and on behalf of the RepMar office in Honolulu.

Cause: The cause of the above condition is the lack of reimbursement to MISSA for disbursements made for and on behalf of various RepMar ministries and the RepMar office in Honolulu.

Effect: The effect of the above condition is an allowance for doubtful accounts in the Retirement Fund and the Basic Health Benefits Plan of \$42,673 and \$205,284, respectively.

Recommendation: We recommend that MISSA pursue reimbursement from RepMar by establishing a repayment plan.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1996 through 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Receivables

Finding No. 2000-8

Criteria: Advances and other receivables should be collected in a timely manner.

Condition: Receivables recorded in the Retirement Fund (A/c #s 111-1221 and 111-1223, totaling \$71,585 and \$89,296, respectively) and the Basic Health Benefits Plan (A/c # 222-1221, totaling \$48,256) due primarily from previous Board members and staff have not been collected in a timely manner.

Cause: The cause of the above condition is the lack of repayments by previous Board members and staff.

Effect: The effect of the above condition is an allowance for doubtful accounts in the Retirement Fund and the Basic Health Fund Benefits Plan of \$178,342 and \$41,560, respectively.

Recommendation: We recommend that MISSA improve monitoring and follow-up procedures to ensure the timely collection of advances.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1996 through 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Prepaid Items

Finding No. 2000-9

Criteria: Prepayments should be followed-up to ensure that goods are received after payment.

Condition: During the year ended September 30, 1998, MISSA prepaid a vendor, totaling \$56,868, for the purchase of a mammogram machine, which was never received by MISSA. MISSA subsequently prepaid another vendor, totaling \$68,700, for the purchase of a mammogram machine that was received by MISSA during fiscal year 1999. As of September 30, 2000, MISSA has not been refunded \$56,868 from the original vendor. In addition, MISSA recorded prepayments for medical supplies in the Health Care Revenue Fund (A/c # 444-1235, totaling \$226,829) that included amounts, totaling \$150,940, which were not supported by receiving records to indicate whether the medical supplies and equipment were received.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that funds have been expended for goods that were not received by MISSA.

Recommendation: We recommend that MISSA follow-up with the vendor concerning a refund of the prepaid amount.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1995 through 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Prepaid Items

Finding No. 2000-10

Criteria: A rental agreement should be executed between MISSA and the Government of the Republic of the Marshall Islands (RepMar) regarding the use of the Hawaii apartment complex.

Condition: During the year ended September 30, 1995, \$500,000 previously advanced to RepMar was reclassified to prepaid rent, at the direction of RepMar. This amount was intended to be offset against future rental charges for off-island medical referral patients on an apartment complex in Hawaii. As of September 30, 1997, the prepayment was fully liquidated as rental charges; accordingly, no rental charges were recorded by MISSA for fiscal years 1998 through 2000. In addition, no rental agreement has been executed between MISSA and RepMar for the accommodation of off-island medical referral patients in Hawaii. Management is currently in the process of executing a rental agreement.

Cause: The cause of the above condition is the lack of a rental agreement between MISSA and RepMar concerning the use of the Hawaii apartment complex.

Effect: The effect of the above condition is the possibility of understatement of off-island medical referral expenditures.

Recommendation: We recommend that MISSA execute a new rental agreement.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1998 and 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Payables and Accrued Liabilities

Finding No. 2000-11

Criteria: All disbursements should be properly recorded in the correct accounting period.

Condition: Of twenty check vouchers (for payments made subsequent to September 30, 2000) of the Health Care Revenue Fund, five disbursements (check #s 684, 870, 1401, 1406 and 1495, totaling \$69,516), relating to fiscal year 2000 medical supplies expenditures, were not accrued at year end and one disbursement (check # 993 for \$24,081), relating to fiscal year 2001 medical supplies expenditures, was accrued at year end.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility that expenditures incurred are not recorded in the correct accounting period.

Recommendation: We recommend that MISSA ensure all disbursements be recorded in the correct accounting period.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1997 through 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Payables and Accrued Liabilities

Finding No. 2000-12

Criteria: MISSA should resolve disputed liabilities to health care providers on a timely basis.

Condition: As of September 30, 2000, certain liabilities to health care providers, totaling \$2,125,797, are in dispute. Of this amount, \$800,821 relates to off-island medical referral benefits that exceeded MISSA's contractual limit of \$100,000 per patient; and \$337,852 relates to off-island medical referral benefits for patients covered under the Section 177 Health program.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of unrecorded liabilities relating to disputed amounts.

Recommendation: We recommend that MISSA resolve the disputed liabilities with the health care providers.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1998 and 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Payables and Accrued Liabilities

Finding No. 2000-13

Criteria: Expenditures should be recorded when the related fund liability is incurred.

Condition: At September 30, 2000, the Basic Health Benefits Plan's liabilities to a third party administrator for health care benefit costs and administrative fees, totaling \$380,410 and \$237,734, respectively, were not accrued. An audit adjustment was proposed to record these expenditures in the correct accounting period. Furthermore, a portion of the amounts accrued represent liabilities of the Supplemental Health Benefits Plan. Management was not able to determine the allocation of liabilities owed between the Basic Health Benefits Plan and the Supplemental Health Benefits Plan.

Cause: The cause for the above condition is unknown.

Effect: The effect of the above condition is the possibility that expenditures incurred are not recorded in the correct accounting period or in the correct plan.

Recommendation: We recommend that MISSA ensure all disbursements be recorded in the correct accounting period and in the correct plan.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Interfunds

Finding No. 2000-14

Criteria: Interfund balances should be reconciled on a regular basis and in a timely manner. In addition, accounting principles generally accepted in the United States of America require that uncollectible interfund receivables be liquidated through fund transfers.

Condition: At September 30, 2000, the interfund balances were not properly reconciled resulting in numerous proposed audit adjustments to correct the errors. Furthermore, MISSA is currently reserving fund balance for interfund receivables of the Retirement Fund and the Health Care Revenue Fund that may ultimately be considered uncollectible.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures requiring monthly reconciliation of interfund balances to the general ledger.

Effect: The effect of the above condition is that errors may not be detected on a timely basis.

Recommendation: We recommend that MISSA adhere to established policies and procedures requiring the monthly reconciliation of interfund balances. Furthermore, we recommend that MISSA determine whether liquidation of these balances through fund transfer is appropriate.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-15

Criteria: Section 5 of the Republic of the Marshall Islands (RepMar) Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: As of September 30, 2000 and for the year then ended, MISSA did not pay income tax withholdings from employee wages within the time prescribed:

<u>PPEs</u>	<u>Date Paid</u>
10/09/99 & 10/23/99	04/29/00
11/06/99 & 11/20/99	05/10/00
12/04/99 & 12/18/99	05/10/00
01/01/00 & 01/15/00	05/10/00
01/29/00 & 02/12/00	05/10/00
02/26/00 & 03/11/00	05/10/00
04/22/00 & 05/06/00	01/25/01
05/20/00	01/25/01
06/03/00 & 06/17/00	09/28/00
07/01/00 & 07/15/00	09/28/00
08/26/00 & 09/09/00	01/25/01
09/23/00 & 10/07/00	01/25/01

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended.

Recommendation: We recommend that MISSA comply with the Income Tax Act of 1989, as amended.

Prior Year Status: This condition was reported as a finding in the audit of MISSA for fiscal year 1999.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-16

Criteria: The Social Security Act of 1990, as amended, imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security System or any other recognized Social Security System. With respect to wages paid from July 1, 2000 and thereafter, the tax rate shall be seven percent.

Condition: MISSA did not comply with the Social Security Act of 1990, as amended, and the increase in tax rate became effective as of January 1, 2001.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990, as amended.

Recommendation: We recommend that MISSA comply with the Social Security Act of 1990, as amended.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Unresolved Prior Year Findings  
Year Ended September 30, 2000

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 6 through 22).



**MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION**  
**Republic of the Marshall Islands**

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Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and on Compliance for the Year Ended September 30, 2000

**Financial Statement Findings Section**

Payroll

Finding No. 2000-1

MISSA accepts this finding and will take steps that will ensure that all employee leave slips and allotments are authorized. In addition, MISSA Board has directed management to limit employee allotments to four on-island banks. This will reduce the number of allotments and should ensure better control.

Cash and Cash Equivalents

Finding No. 2000-2

MISSA is reviewing this matter.

Finding No. 2000-3

MISSA is reviewing this matter.

Investments

Finding No. 2000-4

MISSA accepts this finding and will use the equity method for purposes of recording its interest in the Bank of the Marshall Islands.

Receivables

Finding No. 2000-5

MISSA has contacted the administrators of the Section 177 Health Program to arrange collection of the amounts owing. It should be noted, however, that Mercy International, the former contractor for the health plan, has disputed parts of this receivable.

Finding No. 2000-6

MISSA accepts this finding and has taken or will take a number of steps to improve collection of overdue employer contributions. First, a full time legal counsel has been retained to assist in compliance actions. Second, two additional tax compliance personnel have been hired in a newly established Taxpayer Compliance Division. Third, MISSA will resume the practice of doing employer payroll audits.

Receivables, Continued

Finding No. 2000-7

MISSA is pursuing all necessary steps, including legal action, in order to recover the original costs of the vehicles. Simultaneous to the lease agreement for the Honolulu apartment complex, MISSA has entered into an agreement with the Ministry of Foreign Affairs for the settlement of the amounts owed to MISSA by RepMar as per the MOU.

Finding No. 2000-8

MISSA accepts this finding and has initiated actions to recover amounts owed. Some of these amounts represent unofficial purchases using the MISSA Visa Card. Those responsible have been making payments since 1997. However, such payments have not been made on a consistent basis and have resulted in a slow recovery of these amounts. MISSA has issued demand letters for all persons who have incurred unauthorized charges on Visa card accounts in order to settle these matters. Alternative recovery means, including court action, will be pursued in order to recover these amounts.

MISSA will review the history of repayments to look at more effective means of recovering these amounts.

Prepaid Items

Finding No. 2000-9

The last correspondence from the vendor was dated July 11, 1999, in which he promised to refund to MISSA the amounts outstanding. MISSA has taken steps to recover the monies, including preparation for civil action in the High Court of the Marshall Islands.

Finding No. 2000-10

MISSA accepts this finding and is in the process of finalizing a lease agreement with the Ministry of Foreign Affairs for the Honolulu apartment complex. Details of the lease agreement are being worked out and the signing of the lease by all concerned parties is expected for early April 2001.

Payables and Accrued Liabilities

Finding No. 2000-11

MISSA accepts this finding and will implement procedures to ensure that expenditures are charged to correct accounting period.

Finding No. 2000-12

MISSA accepts this finding and will work with the health care providers and RMI to review disputed liabilities.

Finding No. 2000-13

MISSA accepts this finding and will implement procedures to ensure that expenditures are charged to correct accounting period.

Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and on Compliance for the Year Ended September 30, 2000, Continued  
Page Three

Interfunds

Finding No. 2000-14

MISSA accepts this finding and will implement procedures to ensure reconciliation of interfund balances. In addition, management has taken steps to reduce the number of interfund transactions. MISSA does not agree that any interfund balances are uncollectible.

Local Noncompliance

Finding No. 2000-15

MISSA accepts this finding and has implemented procedures to ensure that payroll taxes are paid when due.

Finding No. 2000-16

MISSA accepts this finding and notes that it now collects contributions in accordance with the Social Security Act of 1990, as amended.



**MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION**  
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Summary Schedule of Prior Audit Findings

Status of audit findings included in the Independent Auditors' Report on Internal Control and on Compliance for the year ended September 30, 1999:

**Financial Statement Findings Section:**

- Finding No. 99-1 - Corrective action was taken.
- Finding No. 99-2 - Corrective action was taken.
- Finding No. 99-3 - Not corrected. See corrective action plan to Finding No. 2000-1.
- Finding No. 99-4 - Corrective action was taken.
- Finding No. 99-5 - Not corrected. See corrective action plan to Finding No. 2000-5.
- Finding No. 99-6 - Not corrected. See corrective action plan to Finding No. 2000-6.
- Finding No. 99-7 - Not corrected. See corrective action plan to Finding No. 2000-7.
- Finding No. 99-8 - Not corrected. See corrective action plan to Finding No. 2000-8.
- Finding No. 99-9 - Not corrected. See corrective action plan to Finding No. 2000-9.
- Finding No. 99-10 - Not corrected. See corrective action plan to Finding No. 2000-10.
- Finding No. 99-11 - Corrective action was taken.
- Finding No. 99-12 - Not corrected. See corrective action plan to Finding No. 2000-11.
- Finding No. 99-13 - Corrective action was taken.
- Finding No. 99-14 - Corrective action was taken.
- Finding No. 99-15 - Not corrected. See corrective action plan to Finding No. 2000-12.
- Finding No. 99-16 - Not corrected. See corrective action plan to Finding No. 2000-15.