

MARSHALL ISLANDS  
SOCIAL SECURITY ADMINISTRATION

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



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, 2001, and have issued our report thereon dated February 18, 2002. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance, which we have reported to management of MISSA in a separate letter dated February 18, 2002.

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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 5) as items 2001-1 through 2001-3.

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 item 2001-3 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of MISSA in a separate letter dated February 18, 2002.

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

*Deloitte & Touche*

February 18, 2002

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings  
Year Ended September 30, 2001

Revenue/Receipts

Finding No. 2001-1

Criteria: Effective internal controls over cash require that cash receipts be serially numbered, issued in numeric sequence and fully accounted for to ensure completeness.

Condition: During the year ended September 30, 2001, MISSA's Ebeye office did not issue cash receipts for contributions on preprinted and sequentially numbered cash receipts. We noted that cash receipts were issued with cash receipt numbers being manually entered onto the preprinted cash receipt.

Cause: The cause of the above condition is unknown

Effect: The effect of the above condition is the possible misappropriation of cash receipts.

Recommendation: We recommend that MISSA ensure that all cash receipts are serially numbered and be issued in numeric sequence.

Auditee Response and Corrective Action Plan: MISSA accepts this finding and will adhere to the recommendation.

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Schedule of Findings, Continued  
Year Ended September 30, 2001

Cash and Cash Equivalents

Finding No. 2001-2

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, 2001, bank reconciliations for the Retirement Fund cash in bank general ledger accounts (A/c #s 111-1001, 111-1033 and 111-1036), the Basic Health Benefits Plan cash in bank general ledger accounts (A/c #s 222-1006, 222-1016 and 222-1032) and the Health Care Revenue Fund cash in bank general ledger accounts (A/c #s 444-1021 and 444-1039) included unidentified deposits, totaling \$17,712, \$13,038 and \$1,230, respectively, for which no supporting documentation was available to determine the validity of the transaction and whether the amount has been correctly recorded. A summary of unidentified deposits is as follows:

<u>Fiscal Year</u>	<u>Retirement Fund</u>	<u>Basic Health Benefits Plan</u>	<u>Health Care Revenue Fund</u>	<u>Total</u>
2000	\$ 11,964	\$ 9,100	\$ 637	\$ 21,701
2001	<u>5,748</u>	<u>3,938</u>	<u>593</u>	<u>10,279</u>
	\$ <u>17,712</u>	\$ <u>13,038</u>	\$ <u>1,230</u>	\$ <u>31,980</u>

Cause: The cause of the above condition is the lack of investigation and follow-up of bank reconciliation variances in a timely manner.

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

Recommendation: We recommend that MISSA investigate and follow-up on bank reconciliation variances in a timely manner. In addition, we recommend that management ensure that supporting documentation be retained for deposits.

Prior Year Status: This condition was reported as a finding in the audit of MISSA for fiscal year 2000.

Auditee Response and Corrective Action Plan: MISSA accepts this finding and is currently taking steps to ensure that monthly bank reconciliations are performed.

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Schedule of Findings, Continued  
Year Ended September 30, 2001

Payables and Accrued Liabilities

Finding No. 2001-3

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

Condition: At September 30, 2001, certain liabilities to health care providers, totaling \$2,501,638, are in dispute. Of this amount, \$800,821 relates to four 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. Additionally, disputed vendor invoices provided by the hospital in the amount of \$596,569 are not supported by evidence that goods were received.

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 and that all vendor invoices should be evidenced by receiving reports to support whether goods were received.

Prior Year Status: This condition was reported as a finding in the audits of MISSA for fiscal years 1998 through 2000.

Auditee Response and Corrective Action Plan: MISSA accepts this finding and is currently taking steps to resolve the disputed liabilities with health care providers and vendors.

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Unresolved Prior Year Findings  
Year Ended September 30, 2001

The status of unresolved findings is discussed in the Schedule of Findings section of this report (pages 3 through 5).