



February 18, 2002

CONFIDENTIAL

Board of Directors
Marshall Islands Social Security Administration

Dear Board Members:

In planning and performing our audit of the financial statements of the Marshall Islands Social Security Administration (MISSA) as of and for the year ended September 30, 2001, on which we have issued our report dated February 18, 2002, we developed the following recommendations concerning certain matters related to MISSA's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Revenue/Receipts

Of nine employer contribution receivable balances tested, we noted two receivable balances (Tax ID #s 00074-4 and 11055-4, totaling \$94,923 and \$61,845, respectively) that were subsequently paid on cash receipt #s 19861 and 19895. The calculation of interest penalties of \$63 and \$288, respectively, did not appear to be in accordance with established policies and procedures. We recommend that interest penalties on delinquent contributions be calculated in accordance with established policies and procedures.

(2) Revenue/Receipts

Of twenty-five cash receipts of the Health Care Revenue Fund tested, we noted one cash receipt (CR # 8927 for \$77) pertaining to Ebeye hospital charges that was not supported by pre-numbered Ebeye hospital cash receipts. Furthermore, the supporting deposit to the bank was evidenced by a photocopied deposit slip. We recommend that MISSA ensure that all hospital cash receipts are evidenced by serially numbered cash receipts that are accounted for and that deposits be evidenced by original deposit slips.

(3) Purchases/Disbursements

Of forty-five off-island health care disbursements of the Basic Health Benefits Plan and Supplemental Health Benefits Plan tested, the Explanation of Benefits (EOB) relating to benefits paid for one patient (check # 95 for \$1,359) was not made available. We recommend that all EOBs be properly filed in alphabetical or numeric order.

(4) Purchases/Disbursements

Of thirty-two non-payroll disbursements of the Health Care Revenue Fund tested, we noted one disbursement (check # 809 for \$24) was not evidenced by an invoice or other supporting document, one disbursement (check # 1399 for \$17,364) was not supported by an approved purchase order, and two disbursements (check #s 3139 and 4488 for \$5,191 and \$1,573, respectively) were not supported by receiving reports to indicate that the goods were actually received. We recommend that non-payroll disbursements be supported by adequate evidential matter such as purchase orders, invoices, contracts and/or receiving reports.

(5) Purchases/Disbursements

Of thirty-three Supplemental Health Benefits Plan disbursements made by MISSA's third party administrator, we noted one disbursement (check # 7592 for \$206) for services provided that were performed subsequent to the patient's membership being terminated. Based on discussions with MISSA staff, an updated listing of current members may not have been available to the third party administrator at the time the patient was hospitalized. We recommend that MISSA ensure that its third party administrator has current listings of Supplemental Health Benefits Plan members and that all patients charged to the Supplemental Health Benefits Plan are eligible for benefits.

(6) Purchases/Disbursements

During our testing of non-payroll administrative expenditures of the Basic Health Benefits Plan, we noted one travel advance (TA # 3472) that authorized travel for a period of twenty-one days. The period of travel was extended by fifteen days without an authorized amendment. Although no additional per diem was claimed by the traveler, MISSA paid additional car rental payments. We recommend that extensions of travel be supported by authorized travel amendments.

(7) Purchases/Disbursements

During our testing of third party administrative fees of the Basic Health Benefits Plan, we noted one invoice for the month of February 2001, totaling \$51,236, that lacked evidence of review by MISSA personnel. We recommend that MISSA review invoices relating to third party administrative fees to ensure the validity of the charges.

(8) Cash and Cash Equivalents

At September 30, 2001, bank reconciliations for certain general ledger cash in bank accounts included the following unidentified bank debits:

<u>General Ledger Account</u>	<u>Amount</u>
111-1033	\$ 1,103
111-1036	\$ 5,248
111-1038	\$ 539
444-1039	\$ 1,765

We recommend that MISSA investigate these bank debits and determine whether adjustments are necessary. This matter was discussed in our previous letter dated March 2, 2001.

(9) Cash and Cash Equivalents

The Retirement Fund's bank account (A/c # 111-1001), the Basic Health Benefits Plan's bank accounts (A/c # 222-1006, 222-1008 and 222-1037) and the Health Care Revenue Fund's bank account (A/c #444-1021) have been closed. At September 30, 2001, these accounts still recorded balances of \$(8,338), \$(21,101), \$8,199, \$(7,718) and \$(27,990), respectively, in the general ledger. We recommend that MISSA investigate these balances and determine the nature, if any, of adjustments to the general ledger. This matter was discussed in our previous letter dated March 2, 2001.

(10) Receivables

At September 30, 2001, 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 \$23,774) that have been outstanding for over three 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. These balances have been reserved for within the Basic Health Benefits Plan and the Health Care Revenue Fund in the amounts of \$208,511 and \$23,774, respectively. We recommend that MISSA pursue reimbursement from the Section 177 Health program and establish a formal repayment schedule.

(11) Receivables

At September 30, 2001, MISSA recorded notes receivable and court judgments pertaining to overdue employer contributions in the Retirement Fund (A/c #s 111-1400 and 111-1500, totaling \$372,948) and the Basic Health Benefits Plan (A/c #s 222-1400 and 222-1500, totaling \$233,627) that were not reconciled to supporting subsidiary ledgers. Furthermore, we noted that several employers are not making payments in accordance with signed promissory notes. These balances have been reserved for within the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$372,948 and \$233,627, respectively. We recommend that MISSA reconcile notes receivable on a monthly basis. Furthermore, we recommend that MISSA improve monitoring and follow-up procedures to ensure the timely collection of notes receivable pertaining to outstanding employer contributions.

(12) Receivables

At September 30, 2001, MISSA recorded receivables from RepMar in the Retirement Fund (A/c # 111-1308, totaling \$354,614) and the Basic Health Benefits Plan (A/c # 222-1308, totaling \$787,934) that include amounts that have not been reimbursed in a timely manner. The receivable balance of the Retirement Fund includes the purchase of vehicles by MISSA, totaling \$66,859, on behalf of various RepMar ministries in fiscal year 1995. The receivable balance of the Basic Health Benefits Plan represents disbursements made by MISSA for and on behalf of the RepMar office in Honolulu. These balances have been reserved for within the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$66,859 and \$787,934, respectively. We recommend that MISSA pursue reimbursement from RepMar by establishing a repayment plan.

(13) Receivables

During the year ended September 30, 2000, the 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 represented undeposited employer contributions. During the year ended September 30, 2001, MISSA reclassified these balances as receivables due from employers. At September 30, 2001, MISSA recorded receivables due from employers relating to these undeposited contributions in the Retirement Fund and the Basic Health Benefits Plan of \$160,824 and \$4,639, respectively. These balances have been reserved for within the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$160,824 and \$4,639, respectively. We recommend that MISSA increase efforts in obtaining replacement checks from employers.

(14) Receivables

At September 30, 2001, MISSA recorded advances and other receivables in the Retirement Fund (A/c #s 111-1221 and 111-1223, totaling \$72,442 and \$87,746, respectively) and the Basic health Benefits Plan (A/c #s 222-1221 and 222-1222, totaling \$48,956 and \$6,716, respectively) due primarily from previous Board members and staff that have not been collected in a timely manner. These balances have been reserved for within the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$160,188 and \$55,672, respectively. We recommend that MISSA improve monitoring and follow-up procedures to ensure the timely collection of advances.

(15) Receivables

At September 30, 2001, the Basic Health Benefits Plan recorded a receivable from HMAA (A/c # 222-1231, totaling \$44,425), which represented the remaining bank balance of an initial deposit of \$75,000 made by MISSA to open a Philippine Peso bank account. No reconciliation was performed by MISSA for the entire fiscal year. This condition was resolved through alternative auditing procedures. We recommend that a monthly reconciliation of the Philippine Peso account be performed. This matter was discussed in our previous letter dated March 2, 2001.

(16) Receivables

At September 30, 2001, MISSA recorded receivables from plan members in the Basic Health Benefits Plan (A/c # 222-1211, totaling \$6,140) and the Supplemental Health Benefits Plan (A/c # 333-1211, totaling \$21,226) that include premiums that were remitted to MISSA in excess of ten days subsequent to the coverage period. We recommend that MISSA adhere to established policies and procedures requiring premiums to be paid no later than ten days subsequent to the coverage period.

(17) Receivables

At September 30, 2001, MISSA recorded a loan receivable in the Retirement Fund (A/c # 111-1310, totaling \$2,382) due from the Kwajalein Atoll Development Authority (KADA). As the loan was due to be paid in full in November 2000, we recommend that MISSA follow-up with KADA with respect to collection of the remaining balance.

(18) Prepaid Items

At September 30, 2001, MISSA recorded prepayments for medical supplies in the Health Care Revenue Fund (A/c # 444-1235, totaling \$291,981) that included amounts relating to prior years, totaling \$150,940, which were not supported by receiving records to indicate whether the medical supplies and equipment were received. This balance has been reserved for within the Health Care Revenue Fund in the amount of \$200,808. We recommend that MISSA follow-up with the vendor concerning a refund of the prepaid amount.

(19) Prepaid Items

During the year ended September 30, 1995, \$500,000 previously advanced to RepMar was reclassified to prepaid rent, at the discretion of RepMar. This amount was intended to 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 2001. In addition, no rental agreement or Memorandum of Understanding (MOU) has been executed between MISSA and RepMar for the accommodation of off-island medical referral patients in Hawaii. We were informed that management is currently in the process of executing an MOU. We recommend that MISSA execute an MOU with RepMar.

(20) Outstanding Checks

At September 30, 2001, the bank reconciliations for the Retirement Fund cash in bank general ledger accounts (A/c #s 111-1033, 111-1036 and 111-1038), the Basic Health Benefits Plan cash in bank general ledger accounts (A/c #s 222-1006, 222-1010 and 222-1016) and the Health Care Revenue Fund cash in bank general ledger accounts (A/c #s 444-1021 and 444-1039) included checks, totaling \$62,381, \$32,408 and \$28,759, respectively, that have been outstanding for over one year. We recommend that MISSA investigate these outstanding checks and determine whether such represent valid outstanding checks. This matter was discussed in our previous letter dated March 2, 2001.

(21) Accounts Payable

At September 30, 2001, MISSA recorded a payable to one vendor in the amount of \$43,092. Based on a confirmation received, the amount payable as of September 30, 2001, was \$21,956, resulting in an unreconciled balance of \$21,136. As this amount was not considered material, no adjustment was proposed. No explanation was made available concerning this unreconciled variance. We recommend that MISSA reconcile all significant accounts payable to supporting vendor statements and investigate all reconciling items.

(22) Claims Payable

At September 30, 2001, claims payable for the Basic Health Benefits Plan (A/c # 222-2500, totaling \$38,176) has not changed for the past four years. We recommend that MISSA determine whether the recorded liability is still valid. This matter was discussed in our previous letters dated March 2, 2001 and October 30, 2000.

(23) Actuarial Accrued Liabilities

In January 1998, MISSA obtained an actuarial valuation of the Basic Health Benefits Plan as of September 30, 1997. The valuation reported actuarial accrued liabilities for the Basic Health Benefits Plan of \$103,500,000. As of September 30, 2001, MISSA recorded a total fund deficiency of \$484,465 in the Basic Health Benefits Plan, as funds available to fund future benefit obligations. Furthermore, in December 2000, MISSA obtained an actuarial valuation of the Retirement Fund as of September 30, 1998. The valuation reported actuarial accrued liabilities of the Retirement Fund of \$191,987,000. As of September 30, 2001, MISSA recorded a total fund equity of \$35,033,325 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations. MISSA has not developed a formal plan to correct this potential funding deficiency. We recommend that MISSA develop a formal plan to address this potential funding deficiency. This matter was discussed in our previous letter dated March 2, 2001.

(24) Local Noncompliance

Section 5 of the Republic of the Marshall Islands Income Tax Act of 1989, as amended, requires that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act. During year ended September 30, 2001, we noted that taxes withheld from employee wages for the bi-weekly pay periods ended October 7, 2000 through March 24, 2001 were not paid within the prescribed timeframe. We recommend that MISSA comply with the Income Tax Act of 1989, as amended, and ensure that taxes withheld from employee wages are remitted within the time prescribed.

* * * * *

We have also communicated certain matters noted during our audit of the financial statements of MISSA for the year ended September 30, 2001, which we considered to be reportable conditions in our report dated February 18, 2002.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte & Touche