

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002

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, 2002, and have issued our report thereon dated November 7, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings (pages 3 and 4) as item 2002-2. We noted one immaterial instance of noncompliance, which we have reported to management of MISSA in a separate letter dated November 7, 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 one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying Schedule of Findings (pages 3 and 4) as item 2002-1.

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 2002-1 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 November 7, 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

November 7, 2002

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION

Schedule of Findings
Year Ended September 30, 2002

Payables and Accrued Liabilities

Finding No. 2002-1

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

Condition: At September 30, 2002, certain liabilities to health care providers, totaling \$2,213,503, are in dispute. Of this amount, \$931,612 relates to five 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 2001.

Auditee Response and Corrective Action Plan: MISSA accepts the finding and will continue to liaise with Ministry of Health officials and various overseas health providers in order to establish an accurate record of outstanding liabilities and to implement payment arrangements.

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Schedule of Findings, Continued
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-2

Criteria: Public Laws 2001-35 and 2002-57 transferred the administration of the Health Care Revenue Fund and the Health Fund (consisting of the Basic Health Benefits Plan and the Supplemental Health Benefits Plan), respectively, to RepMar's Ministry of Health and Environment (MOHE). Additionally, Public Law 2001-31 required that 45% of contributions collected by the Basic Health Benefit Plan be transferred to the Health Care Revenue Fund.

Condition: MISSA continues to record assets and liabilities of the Health Care Revenue Fund, and assets, liabilities and transactions of the Health Fund. Additionally, although Public Law 2002-57 repealed Public law 2001-31, MISSA continues to transfer 45% of contributions collected by the Basic Health Benefits Plan to MOHE.

Cause: The cause of the above condition is that MISSA and MOHE have not determined when actual transfer will occur.

Effect: The effect of the above condition is noncompliance with Public Laws 2001-35 and 2002-57 and possible overpayments to MOHE.

Recommendation: We recommend that MISSA coordinate with MOHE on the transfer of assets, liabilities and transactions of the Health Care Revenue Fund and the Health Fund.

Auditee Response and Corrective Action Plan: MISSA accepts the finding. Since the passage of Public Laws 2001-35 and 2002-57, MISSA has made considerable effort through consultations and advanced planning with key MOHE officials to ensure the timely and smooth transfer of the Health Fund. As agreed by both MISSA and MOHE, the "transitional period" provision under the new law was intentionally included to ensure that the transfer in administration of the Health Fund occurs only when the MOHE has established the necessary internal framework and acquired enough manpower to properly manage the various programs under the Health Fund. Therefore, both parties agreed on the following timetable of events:

- . December 1, 2002 - Transfer of Health Fund Personnel to MOHE.
- . December 1, 2002 - Mid January 2003 - MISSA geared up to transfer disbursement of all Health Fund checks to MOHE. Final disbursement was made mid January 2003. The initial cut-off of December 31, 2002 has to be deferred because of delays in setting up certain accounts by MOHE.
- . January 16, 2003 - MISSA transferred remaining funds in Health Fund cash accounts to MOHE.

On liabilities, MISSA continues to work in close coordination with MOHE, the various providers and vendors to establish total liabilities. Finally, the last phase of the transfer, which will remain with MISSA for an indefinite period of time, is the collection and enforcement of Health Fund taxes.

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Unresolved Prior Year Findings
Year Ended September 30, 2002

The status of unresolved findings is discussed in the Schedule of Findings section of this report (pages 3 and 4).