



November 7, 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, 2002, on which we have issued our report dated November 7, 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) Purchases/Disbursements

Of nineteen non-payroll disbursements of the Health Care Revenue Fund tested, we noted one disbursement (check # 8283 for \$169,670) for which \$1,544 was not evidenced by an invoice or other supporting document, one disbursement (check # 8537 for \$2,789) was not supported by receiving reports or indications that the goods were actually received. We recommend that non-payroll disbursements be supported by adequate evidential matter such as invoices, contracts and receiving reports. This matter was discussed in our previous letter dated February 18, 2002.

(2) Cash and Cash Equivalents

At September 30, 2002, 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	\$ 8,090
111-1038	\$ 539
444-1039	\$ 755

We recommend that MISSA investigate these bank debits and determine whether adjustments are necessary. This matter was discussed in our previous letters dated March 2, 2001 and February 18, 2002.

(3) Cash and Cash Equivalents

At September 30, 2002, the following bank accounts have been closed but the following balances are recorded in the general ledger:

<u>General Ledger</u> <u>Account</u>	<u>Amount</u>
111-1001	\$ (8,338)
111-1033	\$ (7,608)
111-1038	\$(23,937)
222-1006	\$(21,101)
222-1008	\$ 8,199
222-1010	\$ 20,418
222-1032	\$ (6,202)
222-1037	\$ (7,718)
444-1021	\$(27,990)

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 letters dated March 2, 2001 and February 18, 2002.

(4) Receivables

At September 30, 2002, 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 \$1,220,520) and the Basic Health Benefits Plan (A/c #s 222-1400 and 222-1500, totaling \$726,591) for which several employers are not making payments in accordance with signed promissory notes. These balances have been either allowed for or reserved for within fund balance of the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$1,220,520 and \$726,591, respectively. We recommend that MISSA improve monitoring and follow-up procedures to ensure the timely collection of notes receivable pertaining to outstanding employer contributions. This matter was discussed in our previous letter dated February 18, 2002.

(5) Receivables

At September 30, 2002, MISSA recorded receivables from RepMar in the Retirement Fund (A/c # 111-1308, totaling \$170,270) and the Basic Health Benefits Plan (A/c # 222-1308, totaling \$1,766,430) 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 either allowed for or reserved for within fund balance of the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$170,270 and \$673,943, respectively. We recommend that MISSA pursue reimbursement from RepMar by establishing a repayment plan. This matter was discussed in our previous letter dated February 18, 2002.

(6) 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, 2002, MISSA recorded receivables due from employers relating to these undeposited contributions in the Retirement Fund and the Basic Health Benefits Plan of \$98,203 and \$3,391, respectively. These balances have been reserved for within fund balance of the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$98,203 and \$3,391, respectively. We recommend that MISSA increase efforts in obtaining replacement checks from employers. This matter was discussed in our previous letter dated February 18, 2002.

(7) Receivables

At September 30, 2002, MISSA recorded advances and other receivables in the Retirement Fund (A/c #s 111-1221, 111-1223 and 111-1230 totaling \$68,209, \$87,746 and \$97,227, respectively) and the Basic health Benefits Plan (A/c #s 222-1221, 222-1222 and 222-1230 totaling \$47,301, \$12,226 and \$12,098, respectively) due primarily from previous Board members and staff that have not been collected in a timely manner. These balances have been either allowed for or reserved for within fund balance of the Retirement Fund and the Basic Health Benefits Plan in the amounts of \$253,182 and \$71,625, respectively. We recommend that MISSA improve monitoring and follow-up procedures to ensure the timely collection of advances. This matter was discussed in our previous letter dated February 18, 2002.

(8) Receivables

At September 30, 2002, the Basic Health Benefits Plan recorded a receivable from HMAA (A/c # 222-1231, totaling \$106,925), which represented the remaining bank balance of an initial deposit of \$75,000 made by MISSA to open a Philippine Peso bank account, and transferred funds of \$47,500 for Philippines referral. In January 2002, Philippine referrals ceased. No reconciliation was performed by MISSA for the entire fiscal year due to the lack of receipt of bank statements, check registers and other supporting documents. This balance has been either allowed for or reserved for within fund balance of the Basic Health Benefits Plan in the amount of \$106,925. We recommend that reconciliation of the Philippine Peso account be performed. This matter was discussed in our previous letters dated March 2, 2001 and February 18, 2002.

(9) Fixed Assets

Of twenty-three fixed assets tested, five items totaling \$12,410, were determined to no longer be in working condition or missing. Furthermore, a physical count has not been performed in prior years and identification tags are not attached to old fixed assets. We recommend that all fixed assets be periodically inventoried and that fixed asset registers be updated for inoperative computer equipment. Furthermore, we recommend that pre-numbered fixed asset identification tags be attached to fixed assets in order to identify MISSA's fixed assets and to facilitate the maintenance of the fixed assets register.

(10) Prepaid Items

At September 30, 2002, MISSA recorded prepayments for medical supplies in the Health Care Revenue Fund (A/c # 444-1235, totaling \$259,511) 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 \$259,511. We recommend that MISSA follow-up with the vendor concerning a refund of the prepaid amount. This matter was discussed in our previous letter dated February 18, 2002.

(11) 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 2002. 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. This matter was discussed in our previous letter dated February 18, 2002.

(12) Outstanding Checks

At September 30, 2002, 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, 222-1016 and 222-1037) and the Health Care Revenue Fund cash in bank general ledger accounts (A/c #s 444-1021 and 444-1039) included checks, totaling \$108,027, \$32,502 and \$34,420, 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 letters dated March 2, 2001 and February 18, 2002.

(13) Claims Payable

At September 30, 2002, 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 October 30, 2000, March 2, 2001 and February 18, 2002.

(14) Accounts Payable

At September 30, 2002, the following general ledger liability accounts included the following amounts that have been outstanding for greater than two years:

<u>General Ledger Account</u>	<u>Amount</u>
111-2004	\$80,332
111-2005	\$88,819
222-1005	\$14,791
222-2004	\$44,617

We recommend that MISSA investigate these outstanding balances and determine whether adjustments are necessary.

(15) 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, 2002, MISSA recorded a total fund equity of \$607,793 in the Basic Health Benefits Plan, as funds available to fund future benefit obligations. Furthermore, in October 2001, MISSA obtained an actuarial valuation of the Retirement Fund as of September 30, 2001. The valuation reported actuarial accrued liabilities of the Retirement Fund of \$217,959,000. As of September 30, 2002, MISSA recorded a total fund equity of \$34,263,040 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 letters dated March 2, 2001 and February 18, 2002.

(16) 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, 2002, we noted that taxes withheld from employee wages for the bi-weekly pay periods ended July 14, 2002 through August 10, 2002 was 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. This matter was discussed in our previous letter dated February 18, 2002.

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We have also communicated certain matters noted during our audit of the financial statements of MISSA for the year ended September 30, 2002, which we considered to be reportable conditions in our report dated November 7, 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,

