

May 3, 2007

CONFIDENTIAL

Ms. Saane Aho  
Administrator  
Marshall Islands Social Security Administration

Dear Ms. Aho:

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, 2006, on which we have issued our report dated May 3, 2007, 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) Contribution Receipts

Cash receipt numbers 33782 through 34299 were not in file. Due to vendor error, these receipts were not printed. However, no evidence was made available to support that the receipts were not printed and delivered by the vendor.

We recommend that all pre-numbered forms, such as cash receipts, be properly accounted for.

(2) Contribution Receipts

Of twenty five (25) contributions tested, one instance related to receipt #33317, which was filed and paid on the 11<sup>th</sup> of the following quarter but no penalty or interest was assessed.

We recommend that management establish policies and procedures to ensure compliance with prescribed laws and regulations.

(3) Contribution Receipts

Of twenty five (25) contributions tested, one instance related to a collection (receipt #31751) where only the employee's share (7%) was filed and paid on the employer quarterly tax return. This resulted in a \$438.11 underpayment of tax. The employer was not notified of the error until six (6) months after the filing date.

We recommend that management establish policies and procedures to ensure compliance with prescribed laws and regulations and that review of employer quarterly tax returns occur in a timely fashion.

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(4) Payments

Of forty two (42) benefit payments tested, we noted errors in the calculation of three (3) instances (check #s 567482, 562260 and 566711). Tests showed variances of \$6.23, \$0.60 and \$25.36, respectively when compared with actual payments.

We recommend that management ensure that adequate internal controls over processing benefit payments are established to ensure that recalculations and other changes in benefit payments are documented, reviewed and approved by appropriate personnel to support the validity and accuracy of changes.

(5) Benefit Payments

Of forty two (42) benefit payments tested, two instances (check #560578 and 555845), were not supported by approved recalculation reports or other similar documents. These instances involved benefit recalculations for dependent children upon change of status by other dependent children or a surviving spouse.

We recommend that MISSA ensure that adequate internal control over processing of benefit payments is established and that recalculations and other changes to benefit payments be properly documented, reviewed and approved by appropriate personnel.

(6) Benefit Payments

Outstanding checks from fiscal year 2005 to August 2006 amounted to \$65,377 while checks from FY 2001 to FY 2004 reverted to cash amounted to \$68,886. This condition may indicate risk of invalid payments.

Further, a benefit payment to a survivor dependent child, paid through check# 560578, indicated that there are no established procedures for determining continued eligibility of the survivor spouse as the payment to the latter was put on hold upon receiving a telephone call that she remarried. There was also no evidence on file regarding the change in computation of benefits for the dependent children as a result of holding the payment to the spouse. We also noted that the date the child turns 18 was not input in the database. This information should be entered to automatically notify MISSA when the child changes status. Otherwise, MISSA will continue to make payments after the child reaches 18.

Based on the foregoing, we recommend that internal control policies and procedures in relation to benefits processing be revisited to ensure that payments are made only to eligible beneficiaries.

(7) Benefit Payments

Of forty two (42) benefit payments tested, four instances (check #s 554272, 557068, 552670 and 554171) were not supported by allotment authorizations.

We recommend that MISSA ensure that all evidence supporting calculations of benefits and related deductions be maintained. This matter was discussed in our letter to management in relation to the fiscal year 2005 audit.

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(8) Receivables

As of September 30, 2006, MISSA recorded notes receivable and court judgments for overdue employer contributions (a/c #s 111-1400 and 111-1500), totaling \$4,152,689. An allowance of 100% of these balances has been provided.

We recommend that MISSA improve monitoring and follow-up procedures to ensure timely collection of notes receivable pertaining to outstanding employer contributions. This matter was discussed in our previous letters in relation to the audits of fiscal years 2002 through 2005.

(9) Accounts Payable

Review of RepMar withholding tax payable indicated that of the \$18,549 balance, only \$1,672 pertains to an actual payable as of September 30, 2006. The \$16,672 remainder is a carryforward from prior years and has not been reconciled.

We recommend that management ensure that a review and reconciliation of this account occurs.

(10) Journal Entries

Of twenty nine (29) journal vouchers reviewed, two (2) instances, (JV06-099 and JV06-128) were not approved by the administrator or deputy administrator.

We recommend that journal entries be appropriately reviewed and approved prior to processing.

(11) Computer Processing Controls

In January 2006, the network server containing the FoxPro system and various user files crashed due to hard disk failure. This resulted in the loss of several files, specifically files of individual users saved in network shared folders. These files included tax compliance worksheets for certain delinquent employers, which had to be reconstructed after the incident. We also noted that MISSA primarily relies on firewall security provided by the internet service provider's router.

We recommend that management establish adequate internal control policies and procedures over computer processing and the operations of the IT department. The policies and procedures should include among others, scheduled back-up and retention of data, firewall protection, and regular Microsoft security updates.

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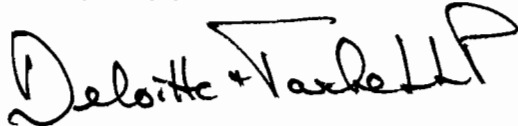
This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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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,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font. The word "Deloitte" is on the left, followed by a plus sign, and "Touche LLP" is on the right. The "T" in "Touche" is particularly large and has a long horizontal stroke that extends to the left, crossing over the "Deloitte" part of the signature.