

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

INDEPENDENT AUDITORS' REPORTS 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*

Chairman
Marshall Islands Nuclear Claims Tribunal:

We have audited the financial statements of the Marshall Islands Nuclear Claims Tribunal (the Tribunal) as of and for the year ended September 30, 2001, and have issued our report thereon dated February 25, 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 the Tribunal'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* and which is described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 12) as item 2001-5. We also noted one immaterial instance of noncompliance, which we have reported to management of the Tribunal in a separate letter dated February 25, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tribunal'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 the Tribunal's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2001-1 through 2001-4.

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 2001-4 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Tribunal in a separate letter dated February 25, 2002.

This report is intended solely for the information and use of the Tribunal, management, federal awarding agencies, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

February 25, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Chairman
Marshall Islands Nuclear Claims Tribunal:

Compliance

We have audited the compliance of the Marshall Islands Nuclear Claims Tribunal (the Tribunal) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2001. The Tribunal's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 12). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of the Tribunal's management. Our responsibility is to express an opinion on the Tribunal's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Tribunal's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Tribunal's compliance with those requirements.

In our opinion, the Tribunal complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2001.

Internal Control Over Compliance

The management of the Tribunal is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Tribunal's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Tribunal as of and for the year ended September 30, 2001, and have issued our report thereon dated February 25, 2002. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Tribunal. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Tribunal, management, federal awarding agencies, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche

February 25, 2002

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

	<u>Prior Year's Unexpended Funds</u>	<u>2001 Funds Received</u>	<u>Total Funds Available</u>	<u>2001 Funds Expended</u>	<u>Excess of Funds Available Over Funds Expended</u>
<p>Funds passed through the Republic of the Marshall Islands per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association (CFDA #15.875, U.S. Department of the Interior)</p>	\$ <u>399,165</u>	\$ <u>5,763,650</u>	\$ <u>6,162,815</u>	\$ <u>5,965,360</u>	\$ <u>197,455</u>

See accompanying notes to schedule of expenditures of federal awards.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Notes to Schedule of Expenditures of Federal Awards
September 30, 2001

(1) United States Department of the Interior, Compact of Free Association

The Marshall Islands Nuclear Claims Tribunal (the Tribunal) is a subrecipient of funds received through Section 177 of the Compact of Free Association (the Compact) from the Republic of the Marshall Islands. These funds must be distributed in accordance with the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact between the Government of the United States and the Government of the Republic of the Marshall Islands dated July 21, 1986. Additionally, it has been determined these funds are not subject to general U.S. federal requirements such as OMB Circulars A-102 and A-87, but rather must be expended in compliance with local laws and regulations and Compact intent.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Tribunal and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, one of which is considered to be a material weakness.
3. One instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to the major federal award program were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the major federal award program expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Tribunal's one major program was:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association, Title I, Article VII, Section 177	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Tribunal did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2001-1	Payroll	8
2001-2 - 3	Receivables	9 - 10
2001-4	Payables	11
2001-5	Local Noncompliance	12

Section III - Federal Award Findings and Questioned Costs

No federal award findings are reported for the year ended September 30, 2001.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Payroll

Finding No. 2001-1

Criteria: Payroll-related disbursements should be in accordance with established policies and procedures.

Condition: At September 30, 2001, annual leave hours for five employees indicated that leave hours paid exceeded available leave hours. Based on the employees' hourly rates, annual leave advanced amounted to \$5,261. Of these five employees, we noted that annual leave was advanced for two employees in the amount of 140 hours and 160 hours, respectively. Section 2b of the Tribunal's policies and procedures manual indicates that employees may not receive more than 80 hours of advanced annual leave. For the remaining three employees, leave hours paid exceeded available leave hours due to apparent oversight by Tribunal employees in the preparation of bi-weekly payroll checks.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding annual leave payments.

Effect: The effect of the above condition is the payment of annual leave in excess of available leave hours.

Recommendation: We recommend that the Tribunal adhere to established policies and procedures regarding annual leave payments. Furthermore, we recommend that annual leave paid be based on available leave hours.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Receivables

Finding No. 2001-2

Criteria: The Tribunal's credit card transactions should be limited to purchases directly related to the Tribunal's operations.

Condition: At September 30, 2001, the Tribunal recorded receivables from employees in the amount of \$87,289, which includes \$22,738 relating to personal use of the Tribunal's credit card by the Finance Officer and the Chairman, totaling \$22,238 and \$500, respectively. The receivable due from the Finance Officer included amounts, totaling \$5,242, that were originally recorded as expenditures of the Tribunal. Due to the nature of these transactions, adjustments were proposed to record the amounts as receivables.

Cause: The cause of the above condition is the improper use of the Tribunal's credit card for purchases not related to the Tribunal's operations.

Effect: The effect of the above condition is the unauthorized use of the Tribunal's credit card and the understatement of receivables from employees.

Recommendation: We recommend that the Tribunal limit the use of the Tribunal's credit card to purchases directly related to the Tribunal's operations.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Receivables

Finding No. 2001-3

Criteria: Section 6e of the Tribunal's policies and procedures manual requires that travel advances to employees be liquidated within thirty days of completion of travel.

Condition: At September 30, 2001, the Tribunal recorded receivables from employees in the amount of \$87,289, which includes unliquidated travel advances, totaling \$13,043, that have not been liquidated within the prescribed time frame. This amount includes travel advances in the amount of \$7,290 that have been unliquidated since fiscal year 2000.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding the timely liquidation of employee travel advances.

Effect: The effect of the above condition is the possibility of uncollectible receivable balances.

Recommendation: We recommend that the Tribunal adhere to established policies and procedures regarding the timely liquidation of employee travel advances. Furthermore, we recommend that employees with outstanding travel advances be required to liquidate existing advances prior to approval for future travel.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Payables

Finding No. 2001-4

Criteria: A proper system of internal control requires that payables be monitored to ensure that invoices are not paid twice.

Condition: Our tests of disbursements made subsequent to September 30, 2001, noted one disbursement (check # 19481 for \$288,000) that represented a double payment on a previous disbursement (check # 19039 for \$216,000). The overpayment of \$216,000 was subsequently returned by the vendor to the Tribunal.

Cause: The cause of the above condition is the lack of utilization of the Accounts Payable Module within the current accounting system and the matching of vendor invoices with payments made.

Effect: The effect of the above condition is overpayment of vendor invoices.

Recommendation: We recommend that the Tribunal verify the validity of vendor invoices before payments are made to ensure that an invoice is not paid twice. Furthermore, we recommend that the Tribunal utilize the Accounts Payable Module within the current accounting system to ensure proper recording and monitoring of all vendor invoices.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
(AN EXPENDABLE TRUST FUND)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-5

Criteria: Section 115 (1)(a) of the Marshall Islands Nuclear Claims Tribunal Act, 1987, states that the Financial Officer shall in accordance with an annual budget approved by the Tribunal, disburse payments from the Operating Fund and ensure that all payments are in furtherance of Tribunal purposes.

Condition: At September 30, 2001, the Tribunal recorded receivables from employees in the amount of \$87,289, which includes advances totaling \$45,000. These advances pertain to payments made to one member of the Tribunal, the Chairman and one employee of \$21,000, \$21,000 and \$3,000, respectively. The advances to the member of the Tribunal represented salary advances, totaling \$19,000, for two quarters of fiscal year 2002 and an advance on professional allowances, totaling \$2,000, for one quarter of fiscal year 2002. The advances to the Chairman represented an advance on professional allowances, totaling \$8,000, for the entire fiscal year 2002 and an advance on housing allowances, totaling \$13,000, for the entire fiscal year 2002 and one month of fiscal year 2003. The advances to one employee represented an advance on professional allowances, totaling \$3,000, for the entire fiscal year 2002.

In addition, our tests of disbursements made subsequent to September 30, 2001, noted one disbursement (check # 19153 for \$10,000) that represented a payment to the Finance Officer as an advance on housing allowances for the entire fiscal year 2002. This advance was applied, in turn, as partial repayment of an employee receivable balance outstanding as of September 30, 2001.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with Section 115 (1)(a) of the Marshall Islands Nuclear Claims Tribunal Act, 1987.

Recommendation: We recommend that the Tribunal comply with Section 115 (1)(a) of the Marshall Islands Nuclear Claims Tribunal Act, 1987, requiring that all payments made from the Operating Fund are reasonable and in furtherance of Tribunal purposes.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL
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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2001

There are no unresolved findings and questioned costs or matters of noncompliance from prior year audits of the Tribunal.

NUCLEAR CLAIMS TRIBUNAL

REPUBLIC OF THE MARSHALL ISLANDS

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Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and on Compliance for the Year Ended September 30, 2001

Financial Statement Findings Section

Payroll

Finding No. 2001-1

This finding relates to payment of annual leave in excess of available leave hours. The Policies and Procedures Manual, Section II.B.3 provides for receipt of advance annual leave upon written authorization from the Chairman. Such advance is limited to eighty hours in excess of the employee's annual leave accrual balance. Section IV.F provides that two weeks notice of resignation be given by an employee. Any advanced leave not earned will be deducted from the final paycheck (Section II.B.3). The Tribunal believes this provides a significant measure of protection for the Tribunal from the loss of such advances.

In the case of the two advances in excess of eighty hours, these were caused by confusion as to the correct calculation of accrued leave. In order to protect from a recurrence of this, all leave balances have been recalculated and submitted to employees for their review and correction if necessary. All advanced leave is now less than eighty hours.

Receivables

Finding No. 2001-2

This finding relates to the use of the Tribunal credit card for personal use. In the past, small incidental personal expenses have been charged to the Tribunal credit card, usually in conjunction with Tribunal approved travel. Such charges were made with the authorization of the Chairman and were paid back to the Tribunal upon the completion of travel. No specific written policy was made in light of the small and incidental nature of such use. In the present case, it is clear that this privilege has been abused. The outstanding balance has been repaid and the Tribunal is instituting a policy of no personal use of the Tribunal credit card. In addition, the Finance Officer has lost credit card privileges.

Finding No. 2001-3

This finding relates to untimely closing of travel advances. Section VI.E of the Policies and Procedures Manual requires that travel vouchers to close out Tribunal authorized travel be submitted to the Finance Officer within thirty days of the completion of travel. The finding notes a number of unliquidated travel advances. These have either been closed out or will be in a timely fashion. In order to encourage timely submission of travel vouchers, the Tribunal is adopting a policy requiring submission of a travel voucher for an outstanding travel authorization as a condition of future travel.

Financial Statement Findings Section, Continued

Payables

Finding No. 2001-4

This finding relates to the double payment of vendor invoice and is regarded as representing a material weakness in the Tribunal's system of internal control over financial reporting. The overpayment has been recovered. The means to address this weakness was present in the Tribunal's accounting system (Accounts Payable Module) but was not utilized. Future problems of this nature will be avoided through the use of this Module, which has been adopted in the practice of the Finance Office.

Local Noncompliance

Finding No. 2001-5

This finding relates to the Tribunal's practice of allowing advances. The Tribunal's Policy and Procedures Manual deals with advances in two places. One is in relation to leave advances, as discussed above in our response to Finding No. 2001-1. The other is at Section V.B, "Payroll Advances", which provides: "The Nuclear Claims Tribunal rarely advances or loans money to employees. In the event an employee must borrow against his or her paycheck, the situation must first be discussed with the employee's supervisor. If he or she feels that the request is justified, an "Employee I.O.U" form will be provided to fill out and sign, which will be submitted to the Chairman and Finance Office for approval."

One of the cited instances relates to advances made to a Member of the Tribunal. Under contract, a Member is paid on a quarterly basis. In the case of off-island Members, these payments are sometimes made in conjunction with that Member's travel to Majuro as a matter of convenience, and may not precisely track the quarterly timetable.

In the case of other advances, there are potential problems in long-term advances. The Finance Office may not properly track the indebtedness of the employee, resulting in improper payment of advanced amounts. This problem has been addressed through the institution of a spreadsheet program to identify advanced amounts and ensure no improper payment is made. An additional problem is extension of advances beyond an existing fiscal year, into a year for which there is not yet budget authority. In reviewing advance requests, the Finance Office considers the contractual situation of the requesting employee to ensure advances do not exceed the contractual term of the employee. At this stage of the Tribunal's existence, advances beyond the existing fiscal year would be regarded as imprudent and will not be approved absent authority from the Cabinet extending the life of the Tribunal beyond this fiscal year.