

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL  
(AN EXPENDABLE TRUST FUND)

INDEPENDENT AUDITORS' REPORTS 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*

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, 2002, and have issued our report thereon dated January 18, 2003. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We did note immaterial instances of noncompliance, which we have reported to management of the Tribunal in a separate letter dated January 18, 2003.

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 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 the Tribunal's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs (pages 7 and 8) 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, we believe the reportable condition described above is not 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 January 18, 2003.

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*

January 18, 2003



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, 2002. 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 and 8). 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, 2002.

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, 2002, and have issued our report thereon dated January 18, 2003. 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.

*Debitte & Touche*

January 18, 2003

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL  
(AN EXPENDABLE TRUST FUND)

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002

|  | <u>Prior Year's<br/>Unexpended<br/>Funds</u> | <u>2002<br/>Funds<br/>Received</u> | <u>Total<br/>Funds<br/>Available</u> | <u>2002<br/>Funds<br/>Expended</u> | <u>Excess of<br/>Funds<br/>Available<br/>Over Funds<br/>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>197,455</u>                            | \$ <u>21,285,206</u>               | \$ <u>21,482,661</u>                 | \$ <u>21,482,400</u>               | \$ <u>261</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, 2002

(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, 2002

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. One reportable condition in internal control over financial reporting was identified, which is not considered to be a material weakness.
3. No 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 no 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,<br>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> |
|-------------------------|-----------------|---------------------|
| 2002-1                  | Receivables     | 8                   |

**Section III - Federal Award Findings and Questioned Costs**

No federal award findings are reported for the year ended September 30, 2002.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Receivables

Finding No. 2002-1

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, 2002, the Tribunal recorded unliquidated travel advances, totaling \$7,971, that have not been liquidated within the prescribed time frame.

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.

Prior Year Status: The lack of adherence to established policies and procedures regarding the timely liquidation of employee travel advances was reported as a finding in the Single Audit of the Tribunal for fiscal year 2001.

MARSHALL ISLANDS NUCLEAR CLAIMS TRIBUNAL  
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Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2002

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 7 and 8).

# NUCLEAR CLAIMS TRIBUNAL

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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, 2002

### **Financial Statement Findings Section**

#### Receivables

##### Finding No. 2002-1

This finding relates to unliquidated travel advances due to untimely filing of travel vouchers in connection with authorized official Tribunal travel. The Tribunal's Policies and Procedures Manual (Section VI.E) requires that travel vouchers closing out official business travel be submitted to the Finance Officer within thirty days of completion of travel. In fact, travel vouchers for two of the Travel Authorizations noted had been submitted by the traveler prior to September 30, 2002, but had not been entered into the accounting system. Travel vouchers for all unliquidated travel advances issued during FY 2002 have been submitted and the Travel Authorizations closed out.

In order to encourage timely submission of a travel voucher, the Tribunal formally adopted an amendment to its Policies and Procedures Manual providing that "No travel advance for an employee will be authorized if the employee has an unliquidated travel advance. Failure to close out travel advances in a timely manner may lead to repayment of such amounts from the employee's paycheck." (Amendment dated April 23, 2002)

# NUCLEAR CLAIMS TRIBUNAL

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### Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2001:

#### **Financial Statement Findings Section**

- Finding No. 2001-1 - Corrective action was taken.
- Finding No. 2001-2 - Corrective action was taken.
- Finding No. 2001-3 - Not corrected. See corrective action plan to Finding 2002-1.
- Finding No. 2001-4 - Corrective action was taken.
- Finding No. 2001-5 - Corrective action was taken.