



January 18, 2003

CONFIDENTIAL

Mr. James Plasman
Acting Chairman
Marshall Islands Nuclear Claims Tribunal

Dear Mr. Plasman:

In planning and performing our audit of the financial statements of the Marshall Islands Nuclear Claims Tribunal (the Tribunal) for the year ended September 30, 2002, on which we have issued our report dated January 18, 2003, we developed the following recommendations concerning certain matters related to the Tribunal's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Local Noncompliance

Section 119 of the Marshall Islands Nuclear Claims Tribunal Act, 1987, requires that the employment of a Clerk be approved by Cabinet. Although management advised us that such approval was obtained at the commencement of operations of the Tribunal, no Cabinet Minute was made available. We recommend that the Tribunal obtain a copy of the Cabinet Minute approving the employment of the Clerk by the Tribunal. This matter was discussed in our previous letters dated February 25, 2002, March 9, 2001, March 24, 2000, January 25, 1999 and December 2, 1997.

(2) Local Noncompliance

At September 30, 2002, the Tribunal owed the Government of the Republic of the Marshall Islands (RepMar) \$7,713 in income tax withholdings from contract payments to U.S. contractors from May 16, 2001 to August 3, 2002. The Income Tax Act of 1989, Part VI, Non-Resident Income Tax, Section 18 "Liability of the Client" states, "the tax so deducted shall be paid on or before the last day of the month following each quarter." As of January 18, 2003, no portion of the \$7,713 had been paid. In addition, social security taxes totaling \$6,465 for October 2001, December 2001, and March 2002 were paid in November and December of 2002. We recommend that the Tribunal comply with the local tax laws.

(3) Claims Disbursements

Of sixteen claims disbursements tested, the direct deposit authorization was not made available for one claim payment (Claim # 23-00963) to ensure that the deposit was made to the benefit of the claimant. We recommend that the Tribunal retain sufficient documentation to support all claim disbursements.

(4) Payroll Deduction Authorization

Of five payroll deductions tested, deduction authorizations were not made available for three deductions to ensure that the deduction was based on proper employee authorization. We recommend that the Tribunal retain sufficient documentation to support all payroll deductions.

(5) Accrued Vacation Leave

Paragraph D(a) of Tribunal employment contracts states that total hours accrued shall not exceed two hundred and eight hours at the end of each calendar year. Of fourteen employees tested, four employees accrued in excess of two hundred and eight hours. In addition, of three employees tested, vacation leave hours in one pay period were not properly accrued. We recommend that the Tribunal maintain a leave ledger and perform a periodic reconciliation with the balance in the payroll module.

Furthermore, Paragraph 10(a) of Tribunal employment contracts states that employees shall not be permitted to receive cash for leave accruals except upon termination of the contract by the Tribunal or upon the employee's resignation, unless prior approval from the Chairman is obtained. We noted five cash payments for accrued leave hours during fiscal year 2002. One cash payment was requested in order to pay the employee's receivable for personal use of credit cards during fiscal year 2002 (see comment # 10). We recommend that the Tribunal adhere to existing personnel policies.

At September 30, 2002, annual leave balances for five employees indicated that leave hours taken and/or paid exceeded available leave hours. Based on the employees' hourly rates, overdrawn annual leave amounted to \$3,754. Two of the overdrawn leave amounts were due to failure to update the leave history in a timely manner; one was due to hours cashed that were not deducted from the balance in a timely manner; and one was due to the hours cashed that were not deducted from the accrued leave balance as of September 30, 2002. We recommend that the Tribunal maintain updated annual leave histories to ensure that annual leave taken/paid are based on available leave hours.

(6) Travel

Of six travel expenses tested, supporting documentation for one (recorded per journal voucher TA # 963) was not made available. We recommend that all journal entries be properly documented, supported and approved to ensure that they are for valid transactions.

In addition, the following were noted related to TA # 963 for the Finance Officer:

- Ten days of per diem were authorized and paid for one day of Microsoft PowerPoint training in Connecticut and two days of shopping for office supplies;
- Phone charges totaling \$548 were expensed, \$32 of which were made to the Tribunal's telephone number; and

(6) Travel, Continued

the Finance Officer receives professional maintenance allowances of \$7,000 per year, for fees, expenses and travel costs associated with maintaining her expertise and skill as a Finance Officer.

We recommend that the Tribunal limit the use of travel expense to those directly related to the Tribunal's operations.

(7) Fixed Assets

The fixed assets register was not updated for current year additions and deletions. We recommend that the Tribunal maintain an updated fixed asset register to support the general ledger balance.

(8) Prior Year Audit Adjustments

None of twenty audit adjustments proposed and approved for the fiscal year 2001 audit were recorded properly by the Tribunal at the beginning of fiscal year 2002. We recommend that the Tribunal record all approved audit adjustments.

(9) Payables

The Tribunal is not utilizing the Accounts Payable Module within the current accounting system to ensure proper recording and monitoring of all vendor invoices. We recommend that the Tribunal utilize the Accounts Payable Module within the current accounting system to ensure proper recording and maintenance of vendor invoices.

(10) Receivables

The Tribunal's credit card transactions should be limited to purchases directly related to the Tribunal's operations. At September 30, 2002, the Tribunal recorded receivables from employees in the amount of \$2,030, which includes \$1,775 and \$255 relating to personal use of the Tribunal's credit card by the Finance Officer and the former Chairman, respectively. Receivables from the Finance Officer were partially reduced through accrued annual leave liquidations (see comment # 5). We recommend that the Tribunal limit the use of the Tribunal's credit card to purchases directly related to the Tribunal's operations.

(11) Local Noncompliance

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. At September 30, 2002, the Tribunal recorded receivables from employees for advances totaling \$4,000 related to a former Chairman of the Tribunal who is deceased. We recommend that the Tribunal determine the proper disposition of these advances.

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We have also communicated certain matters noted during our audit of the financial statements of the Tribunal for the year ended September 30, 2002, which we considered to be reportable conditions in our report dated January 18, 2003.

Mr. James Plasmán
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This report is intended solely for the information and use of 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,

DeWitt & Jaudke