

October 6, 2005

CONFIDENTIAL

Mr. James Plasman
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, 2004, on which we have issued our report dated October 6, 2005, 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) Payables

Many payable balances have not changed since the prior year. These appear to relate to unidentified parties. We recommend that the Tribunal consider identifying what these amounts relate to, or write them off as payment does not appear likely.

(2) Local Noncompliance

At September 30, 2004, 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 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 May 25, 2005, no portion of \$7,713 had been paid. In addition, there were variances in the general ledger and sub-ledger of RMI withholding tax and social security tax payables of \$2,538 and \$229, respectively, which the Tribunal was not able to identify.

We recommend that the Tribunal comply with local tax laws. We also recommend that the Tribunal resolve variances in the RMI withholding tax and social security tax payables. The matter regarding compliance with local tax laws was discussed in our previous letter dated February 26, 2004.

(3) Clerk of the Tribunal

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 to support this representation.

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 26, 2004, January 18, 2003, February 25, 2002, March 9, 2001, March 24, 2000, January 25, 1999 and December 2, 1997.

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(4) Check signatories

Tests of awardee payments revealed one instance where the check (#160) was signed by only one signatory. Check disbursements made to claimants should be signed by two signatories for internal control purposes.

(5) Prior Year Audit Adjustments

There were certain audit adjustments proposed and approved for the fiscal year 2003 audit that were not properly recorded by the Tribunal.

We recommend that the Tribunal ensure that all approved audit adjustments are properly recorded in the general ledger. This matter was discussed in our previous letters dated February 26, 2004 and January 18, 2003.

(6) Transfer of Funds

At September 30, 2004, the transfer of funds from the Compensation Fund did not agree with corresponding amounts recorded in the Operations Fund. Audit adjustments were proposed to correct amounts recorded as transfers from the Compensation Fund to the Operations Fund. We recommend that the Tribunal ensure that transfer accounts are reconciled at year-end. This matter was discussed in our previous letter dated February 26, 2004.

(7) Receivables

At September 30, 2004, the Tribunal recorded a receivable of \$4,401 from employees, of which \$3,755 relates to negative accrued leave balances from prior years. An audit adjustment was proposed to record an allowance for doubtful debts for these amounts. We recommend that management ensure that receivables from employees are pursued for collection in a timely manner.

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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,

