

July 26, 2011

Mr. Gregory J. Danz  
Chairman  
Marshall Islands Nuclear Claims Tribunal

Dear Mr. Danz:

In planning and performing our audit of the financial statements of the Marshall Islands Nuclear Claims Tribunal (the Tribunal) as of and for the year ended September 30, 2010 (on which we have issued our report dated July 26, 2011), 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, we considered the Tribunal's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Tribunal's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tribunal's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Tribunal's internal control over financial reporting and other matters as of September 30, 2010 that we wish to bring to your attention.

We have also issued a separate report to you, also dated July 26, 2011, on our consideration of the Tribunal's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

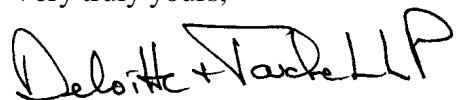
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Tribunal for their cooperation and assistance during the course of this engagement.

Very truly yours,



## SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Tribunal's internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

### 1. Journal Vouchers

All general journal entries should be independently reviewed and approved by the Chairman before posting to the general ledger. We recommend that the Tribunal require that all journal entries be independently reviewed and approved prior to posting to the general ledger. This matter was discussed in our previous letter dated March 25, 2010.

### 2. Bank Reconciliations

Bank reconciliations are prepared on a monthly basis; however, no independent review of such occurs. A regular and thorough review of bank reconciliations is critical to ensuring that Tribunal cash is safeguarded and is recorded accurately. We recommend that management implement a policy that all bank reconciliations are reviewed in detail each month to assist in requiring that reconciling items, especially outstanding deposits, are cleared in a timely fashion to minimize fraud risk. This matter was discussed in our previous letter dated March 25, 2010.

### 3. Fixed Assets

As of September 30, 2010, total asset costs of \$70,335 did not reconcile with the \$103,007 stated per the subsidiary fixed asset register. We recommend that fixed assets be periodically reconciled to the subsidiary fixed asset register. This matter was discussed in our previous letter dated March 25, 2010.

### 4. Receivables

At September 30, 2010, the Tribunal recorded receivables from RepMar and employees amounting to \$18,666 and \$1,363, respectively. The receivable from RepMar of \$18,666 and the receivables from employees of \$1,202 are over a year old and are fully allowed for. We recommend that management consider writing these amounts off as collection does not appear likely. This matter was discussed in our previous letter dated March 25, 2010.

### 5. Claims Payable

At September 30, 2010, claims payable included unpaid balances of \$563 each for claim #s 23-03975 and 23-04733 despite overpayments in prior years on these two claims of \$1,188 and \$1,688, respectively. Total amount owed to the Tribunal from these two claims at September 30, 2008 was \$1,750, which management does not expect to be able to collect. We recommend that management correct the payable outstanding for these two claims. This matter was discussed in our previous letter dated March 25, 2010.

## SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

### 1. Local Noncompliance

At September 30, 2010, 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." We recommend that the Tribunal comply with local tax laws. This matter was discussed in our previous letter dated March 25, 2010.

### 2. Local Noncompliance

Section 119 of the Marshall Islands Nuclear Claims Tribunal Act, 1987, requires that employment of a Clerk be approved by the Cabinet. However, such approval was not obtained by the Tribunal upon hiring its clerk. We recommend that management consider reassessing the requirements of the Marshall Islands Nuclear Claims Tribunal Act and ensure compliance with such specifically in regard to employment of a clerk. This matter was discussed in our previous letter dated March 25, 2010.

### 3. Segregation of Duties

One of the main objectives of internal accounting control is to safeguard an entity's assets. An effective means to achieving this objective is to segregate accounting duties such that an individual who has access to assets (e.g., cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records supporting those assets. Segregation of duties can provide reasonable assurance that an individual would be prevented from removing an asset from the Tribunal and concealing that activity by altering the related accounting records. The Tribunal's current level of staffing limits the number of personnel available for accounting duties.

Accordingly, an appropriate segregation of duties may not be practical which results in a weakness in internal controls. To mitigate this weakness, a critical element in Tribunal's internal control system is the close involvement of management in the day-to-day operations and close review of accounting activities and financial reports.

We encourage close involvement of management on a continuing basis and their thorough review of accounting activities and financial reports as a means to maintain effective internal controls until a more structured control environment becomes cost effective.

## SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

The Tribunal's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.