

May 10, 2006

CONFIDENTIAL

Ms. Saane Aho  
Administrator  
Marshall Islands Social Security Administration

Dear Ms. Aho:

In planning and performing our audit of the financial statements of the Marshall Islands Social Security Administration (MISSA) as of and for the year ended September 30, 2005, on which we have issued our report dated May 10, 2006, we developed the following recommendations concerning certain matters related to MISSA's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Contribution Receipts

Of twenty-five (25) contribution receipts tested, we noted the following:

Contributions received on cash receipt # 31188, dated August 23, 2005, were deposited on August 29, 2005, which is five days later due to the unavailability of the cash receipt system for one week.

We recommend that provisional/manual receipts be available when the system does not generate cash receipts. Provisional receipts should be kept in a vault or in a secured/locked cabinet control purposes. Further, both cash and checks should be deposited daily irrespective of the system's status.

(2) Contribution Receipts

No one person should have access to custodial, recording and reconciliation processes involving cash. An officer has access to the aforementioned processes. We recommend that MISSA ensure proper segregation of duties.

(3) Benefit Expenditures

Of thirty three (33) benefit payments tested, we noted the following:

For check # 543236, there was no allotment authorization to support a deduction from the benefit payment.

For check # 544517, the benefit calculation was calculated incorrectly.

We recommend that MISSA ensure that all supporting evidence for calculation of benefits and related deductions be maintained to support validity and accuracy of payments. Furthermore, we recommend that MISSA investigate the cause of the benefit calculation error.

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(4) Receivables

At September 30, 2005, MISSA recorded notes receivable and court judgments for overdue employer contributions (A/c #s 111-1400 and 111-1500), totaling \$4,501,770). An allowance for these balances has been provided for in the amount of \$4,283,486.

We recommend that MISSA improve monitoring and follow-up procedures to ensure timely collection of notes receivable pertaining to outstanding employer contributions. This matter was discussed in our previous letters in relation to the audits for fiscal years 2002, 2003 and 2004.

(5) Fixed Assets

Review of the fixed asset register indicated inconsistencies in estimating useful lives of buildings and improvements. Further, there are no established policies and procedures governing fixed asset accounting and management. We recommend that MISSA establish fixed asset policies and procedures to provide guidance on the various processes in the fixed asset accounting and management cycle.

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This report is intended solely for the information and use of the Board of Directors, 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,

