

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Republic of Palau Civil Service Pension Trust Fund:

We have audited the financial statements of the Republic of Palau Civil Service Pension Trust Fund (the Fund) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 14, 2004. 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 Fund'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*. However, we noted one immaterial instance of noncompliance which we have reported to the management of the Fund in a separate letter dated January 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 and 4) as items 2003-1 and 2003-2.

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 over financial reporting that might be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting which we have reported to the management of the Fund in a separate letter dated January 14, 2004.

This report is intended for the information of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

January 14, 2004

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Schedule of Findings
Year Ended September 30, 2003

Benefit Disbursement

Finding No. 2003-1

Criteria: Adequate segregation of duties is a key internal control element, including the control that movement of assets must be separate and independent of the recording and reconciling process.

Condition: The duties of the Claims Officer include manual calculations of retiree benefits, entry of retiree data into the Fund's database and review of the retiree check register (monthly benefit report).

Cause: The cause of the above condition is lack of an internal control policy providing for adequate segregation of duties.

Effect: The effect of the above condition is a weakness in internal controls.

Recommendation: We recommend that the retiree check register be reviewed by management or a knowledgeable staff independent of the recording process, and that such review be evidenced (e.g., name of reviewer and date).

Auditee Response and Corrective Action Plan: We concur with the finding. Truly there is an absence of such element in our existing control policy, but benefit files show no evidence or indication of potential fraud or malfeasance. Nevertheless, the Plan immediately has implemented and included such element of control in our benefit claims procedure as soon as it was discussed with the field auditor. New pensioners files will reflect such procedure.

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Schedule of Findings, Continued
Year Ended September 30, 2003

Financial Reporting

Finding No. 2003-2

Criteria: Financial reporting includes accurate participant data, as the data enters into the valuation of the Fund's actuarial fund status.

Condition: Our review of participants' data noted variances between the Fund's underlying records and data provided to the actuary as follows:

	Per Monthly Benefit Report At October 10, 2001	Per Actuarial Report Based On October 1, 2001 Data	<u>Difference</u>
In-pay status:			
Early retirement	62	64	(2)
Retired:			
30 years of service	184	218	(34)
Age 60/RPPL 5-7	409	401	8
Survivor	283	307	(24)
Disability	21	21	-
Other categories	<u>23</u>	<u>-</u>	<u>23</u>
Net difference	<u>982</u>	<u>1,011</u>	<u>(29)</u>
Active participants	*	2,584	
Deferred vested	*	124	

* Information for these categories was not available. Reports provided were created in January, 2004 and significantly differed from these figures.

Cause: The cause of the above condition is the Fund's database has not been completely updated to include information of all participants.

Effect: The effect of the above condition is possible inaccurate data provided to the actuary.

Recommendation: We recommend that the database be updated and that management ensure data provided to the actuary is adequately supported by the Fund's underlying records.

Auditee Response and Corrective Action Plan: We agree that the accuracy in the Plan members database is the core element in valuating the Fund's actuarial status. Nonetheless, the Plan's actuarial records as of October, 2001 is also showing disparity of numbers as follows: 30 years - 178 vs. cited @ 184, 60 years of age - 412 vs. cited 409 and survivor - 281 vs. cited @ 283; other categories @ 23 needs clarification as to what that number might be. Secondly, for this particular valuation, while the Plan was undergoing a revision of Plan automation, we discovered that the Plan's Actuary was having difficulty in converting our database under Access 2000 to Access '99. Possible discrepancies may have resulted from that. The upcoming valuation for plan year 2003 to access 2004, will be handled by a different actuary.

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Unresolved Prior Year Comments
Year Ended September 30, 2003

There are no unresolved prior year findings from previous audits of the Fund.