

REPUBLIC OF PALAU SOCIAL SECURITY  
RETIREMENT 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 Social Security Retirement Fund:

We have audited the financial statements of the Republic of Palau Social Security Retirement Fund (the Fund) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 16, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings (page 3) as Finding 2003-1.

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. 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. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we 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 16, 2004.

This report is intended solely for the information and use 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 16, 2004

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Schedule of Findings  
Year Ended September 30, 2003

Local Noncompliance

Finding No. 2003-1

Criteria: RPPL 3-64 established the Fund to provide a social security system under which persons covered may be ensured a measure of security in their old age or during disability and may be given in old age an opportunity for leisure without hardship or complete loss of income and to provide survivor's insurance for their spouses and children.

Condition: The Fund's actuarial report as of October 1, 2001, indicates that an unfunded liability of approximately \$13,135,000 exists.

Cause: The cause of the above condition is that contributions to the Fund are not being made at sufficient rates to fund the liability.

Effect: The effect of the above condition is that the Fund may not be receiving sufficient contributions to meet future benefit payments.

Recommendation: We recommend that the Board of Trustees determine and implement a formal plan to fund the future liability.

Prior Year Status: Unfunded liabilities were reported as a finding in the audits of the Fund for fiscal years 1993 through 2002.

Auditee Response and Corrective Action Plan: With our continuing positive cash flow of about \$2,000,000 per year and income from Investment, we expect to gradually address our unfunded liability.

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Unresolved Prior Year Findings  
Year Ended September 30, 2003

The status of unresolved prior year findings are disclosed within the Schedule of Findings section of this report (page 3).