REPUBLIC OF PALAU SOCIAL SECURITY
RETIREMENT FUND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2011
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2011, and have issued our report thereon dated April 17, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control over financial reporting.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.
Compliance and Other Matters

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 grant agreements, 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 and which is described in the accompanying Schedule of Findings and Responses (page 3) as item 2011-1.

We noted certain matters that we reported to management of the Fund in a separate letter dated April 17, 2012.

The Fund’s response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Fund’s response and, accordingly, we express no opinion on it.

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.

[Signature]

April 17, 2012
Local Noncompliance

Finding No. 2011-1

Criteria: The Fund’s investment policy, Section 7, Permitted Investments by Asset Class, Subsection B, U.S. Fixed Income, requires that U.S. corporate bonds and nonconvertible preferred stocks shall have a rating of no less than BBB-/Baa3 by Moody’s, S&P 500 or Fitch.

Condition: As of September 30, 2011 the Household Finance Corp Notes corporate bond, with a market value of $150,216, has a rating of W or unrated.

Cause: The cause of the above condition is lack of monitoring of investment ratings.

Effect: The effect of the above condition is noncompliance with the investment policy.

Recommendation: We recommend that the Fund ensure that investments adhere to investment policy restrictions.

Prior Year Status: The lack of monitoring of investments was reported as a finding in the audits of the Fund for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Satoru W. Adachi, Administrator and Janice Mathew, CFO

Corrective Action: We will properly monitor investment funds on a monthly and quarterly basis to ensure that the Fund is in compliance with its investment policies.

Proposed Completion Date: September 30, 2012
The status of unresolved prior year findings is discussed within the Schedule Findings and Responses section of this report (page 3).