

**REPUBLIC OF PALAU SOCIAL SECURITY
RETIREMENT FUND**

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2009

**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, 2009, and have issued our report thereon dated March 3, 2010. 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 control 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 (pages 3 and 4) as item 2009-1.

We noted certain matters that we reported to management of the Fund in a separate letter dated March 3, 2010.

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.

Deloitte & Touche LLC

March 3, 2010

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Findings and Responses
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-1

Criteria: The Fund's investment policy, Section 4, Portfolio Allocation, sets forth the following limits on U.S. Core equities and fixed income investments:

<u>Asset Class</u>	<u>in Percentage</u>		
	<u>Lower Limit (%)</u>	<u>Strategic Allocation</u>	<u>Upper Limit</u>
Equities			
U.S. Core	45	50	55
Fixed Income			
U.S. Core	35	40	45

Condition: At September 30, 2009, the Fund was not in compliance with the above criteria as follows:

<u>Investment</u>	<u>Market Value</u>
U.S. Governments and Federal Agency bonds	
U.S. Government agencies	\$ 14,521,278
U.S. Treasury obligations	6,599,655
Municipal obligations	111,794
Corporate bonds	<u>8,671,198</u>
Total fixed income - US Core	\$ <u>29,903,925</u>
Total investment market value	\$ 63,975,898
% portfolio allocation - fixed income US Core	47%
Common/Corporate Stock per industry	
Basic material	\$ 2,322,300
Capital goods	846,927
Communication services	289,007
Consumer cyclicals	1,720,664
Consumer staples	2,193,578
Energy	901,738
Financials	4,983,539
Health care	4,196,240
Technology	8,678,711
Transportation	781,890
Money market, mutual funds and cash management	<u>763,873</u>
Total equities - US Core	\$ <u>27,678,467</u>
Total investment market value	\$ 63,975,898
% portfolio allocation - equities US Core	43%

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

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Recommendation: We recommend that the Fund ensure that investments adhere to restrictions of investment policy. It is our understanding that the above condition was corrected in January, 2010 through a transfer of funds.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Gregorio Ngirmang, Administrator

Corrective Action: Completed

When this situation came about, the obvious corrective action was to rebalance the portfolio, but the Fund decided, instead to not only do that, but to hire a new equity manager to manage some of the funds resulting from the rebalance. It took some time for the Fund's investment advisor to do a search and the Board of Trustees to interview the finalists and make its selection. Additional time was also spent setting up the account with the newly hired money manager and then transfer the assets.

Proposed Completion Date: January 2010

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**Unresolved Prior Year Comments
Year Ended September 30, 2009**

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