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January 18, 2022

Mr. Bryan Edejer
Acting Administrator
Marshall Islands Social Security Administration
P.O. Box 175
Majuro, Marshall Islands 96960

Dear Mr. Edejer:

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, 2020, on which we have issued our report dated January 18, 2022, 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, we considered MISSA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MISSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MISSA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses of significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MISSA's internal control over financial reporting and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated January 18, 2022, on our consideration of MISSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.



We wish to thank the staff and management of MISSA for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MISSA's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

(1) Social Security Contributions from Government Employees

During the year ended September 30, 2020, social security contributions from government employees were overstated by \$262,901 while basic health plan contributions from government employees and related liability to the Marshall Islands Health Fund were understated by the same amount. MISSA initially records all government collections as social security contributions and subsequently adjusts the basic health plan amount to payable to Health Fund. An audit adjustment was proposed to correct this matter. We recommend management establish internal control policies and procedures to facilitate review and reconciliation of social security and basic health plan contributions from government employees.

(2) Contribution Revenues

For the year ended September 30, 2020, contribution revenues of \$627,139 were recognized in the incorrect accounting period due to the lack of formal procedures requiring reconciliation of trial balance and cash register amounts resulting in an overstatement of current year 2020 revenues and an understatement of prior year 2019 revenues. As this matter was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures requiring the reconciliation of trial balance and cash register amounts as part of the financial statement closing process.

(3) Contribution Revenues

For the year ended September 30, 2020, duplicate recording of contribution revenues and related receivables amounting to \$34,026 were identified representing wire transfers from employers for September 2020 quarter contributions received before year end. As this matter was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures over contribution revenues and the recording of wire transfers from employers.

(4) Contribution Refunds

In March 2020, MISSA refunded \$64,443 in contributions to employees who exceeded the maximum annual taxable wages of \$20,000 and \$40,000 for health tax and social security tax, respectively, for the calendar year January 1, 2019 to December 31, 2019. However, an adjustment to reduce social security contributions and related liability to the Marshall Islands Health Fund was not recorded. This matter was subsequently corrected by management during the audit process. We recommend management establish internal control policies and procedures over the recording of contribution refunds.

(5) Investment in Marshall Islands Holdings, Inc. (MIHI)

As of September 30, 2020, MISSA's investment in MIHI is estimated to be impaired by approximately \$685,000. We recommend management establish internal control policies and procedures requiring the performance of annual impairment testing of the investment in MIHI.

(6) Beneficiaries Outside the Marshall Islands

During the year ended September 30, 2020, MISSA paid benefits to 400 beneficiaries living outside the Marshall Islands. This number may currently be increasing as more Marshallese migrate to the United States. Currently, MISSA's procedures of verifying continued eligibility are applied only to non-citizen beneficiaries. We recommend management consider extending procedures to periodically verify continued eligibility of Marshallese beneficiaries living outside the Marshall Islands.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

(1) Retirement Savings Plan

Taxes are not currently withheld on MISSA's matching of employee contributions to the retirement plan. We recommend management require that applicable taxes be withheld on employer matching of retirement plan contributions and be remitted to taxing authorities. This matter was discussed in our previous letters to management for the audits of fiscal years 2017 through 2019.

(2) Board Sitting Fees

During the year ended September 30, 2020, MISSA paid sitting fees of \$12,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MISSA. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members. This matter was discussed in our previous letter to management for the audit of fiscal year 2019.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MISSA's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.