

January 12, 2023

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, 2021, on which we have issued our report dated January 12, 2023, 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated January 12, 2023, 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,



SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving MISSA's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

(1) Beneficiaries Outside the Marshall Islands

During the year ended September 30, 2021, MISSA paid benefits to more than 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 of the Marshall Islands. This matter was discussed in our previous management letter for the audit of fiscal year 2020.

(2) Bank Reconciliations

During the year ended September 30, 2021, we noted certain bank reconciliations did not evidence independent supervisory approval. Furthermore, we noted stale-dated checks totaling \$72,406 representing checks dated March 2019 to March 2021 included within outstanding checks. We recommend management establish internal control policies and procedures requiring independent supervisory approval of prepared bank reconciliations. Furthermore, we recommend bank reconciliations exclude stale-dated checks, which should instead be credited to a beneficiary payable liability account subject to periodic monitoring.

(3) Retirement Fund Benefit Payments

In accordance with MISSA's policy, benefit payment checks are not processed for net benefit amounts, after allotments and other deductions, below \$5. Instead, a dummy check is processed each month for the total of net benefit amounts below the threshold. Such checks are normally not signed and are kept on file indefinitely. We recommend that such dummy checks be voided and that net benefit amounts below the threshold be credited to a beneficiary payable liability account subject to periodic monitoring.

(4) Retirement Fund Benefit Payments

Of 35 Retirement Fund benefit payments tested, we noted the following exceptions:

- a. One item (check # 390074) for which the beneficiary claim transmittal lacked evidence of independent supervisory approval; and
- b. Four items (check #s 388430, 388955, 389800 and 390516) for which allotments were not supported by underlying allotment forms.

We recommend management establish internal control policies and procedures requiring independent supervisory approval of beneficiary claim transmittals and benefit payment allotments be supported by underlying allotment forms.

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) Local Noncompliance - Income Tax Act

MISSA filed and paid income taxes withheld for the payroll periods July 26 to August 21, 2021, August 23 to September 18, 2021, and September 20 to October 16, 2021 of \$4,804, \$4,753 and \$4,598, respectively, in a manner inconsistent with the Income Tax Act of 1989 whereby such were filed and paid 6 days, 6 days and 5 days, respectively, late. We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act.

SECTION I - OTHER MATTERS, CONTINUED

(2) Retirement Savings Plan

During the year ended September 30, 2021, MISSA made contributions of \$20,821 to retirement savings plans for the benefit of MISSA employees. These matching contributions, which represent employer match based on employee contributions, may constitute wages under the Income Tax Act 1989 and thus may 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 the matching employer contributions. This matter was discussed in our previous management letters for the audits of fiscal years 2017 through 2020.

(3) Board Sitting Fees

During the year ended September 30, 2021, MISSA paid sitting fees of \$8,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may 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 management letters for the audits of fiscal years 2019 and 2020.

(4) Local Noncompliance - RMI Procurement Code

Section 128 of the RMI Procurement Code requires that a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item. MISSA made two payments of \$31,995 and \$24,950 for the purchase of two vehicles for which supporting documentation was inadequate to evidence the procurement process, specifically the sole source purchase. We recommend management require adequate documentation be maintained to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor selection and document the basis of a sole source provider.

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.