Management Letter

Marshall Islands Postal Service Authority
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2022

Building a better working world

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Management and the Board of Directors
Marshall Islands Postal Service Authority

In planning and performing our audit of the financial statements of the business-type activities of Republic of the Marshall Islands Postal Service Authority (MIPSA) as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) 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 MIPSA's internal control. Accordingly, we do not express an opinion on the effectiveness of the MIPSA's internal control.

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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Stamp Inventory

Condition: As of September 30, 2022, MIPSA maintained stamp inventory on hand comprising 247,681 stamps that were not recorded in the general ledger. As the cost of stamp inventory on hand aggregating $6,192 was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend management establish internal control policies and procedures requiring unissued stamps be recognized and recorded as stamp inventory.

Capital Assets

Condition: During the year ended September 30, 2022, MIPSA over-depreciated 5 capital asset items in the aggregate amount of $2,232 and under-depreciated 11 capital asset items in the aggregate amount of $782. As these misstatements were not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend management establish internal control policies and procedures requiring the depreciation of capital assets based on their estimated useful lives.

Implementation of GASB Statement No. 87, Leases

Condition: During the year ended September 30, 2022, MIPSA assessed the implementation of GASB Statement No. 87 and performed the necessary lease inventory; however, the initial amount of $225,235 pertaining to leased assets and related lease liabilities was not recorded. Audit adjustments were proposed to recognize the initial implementation of GASB Statement No. 87 as well as current year $44,078 lease amortization and current year $33,235 reduction in lease liabilities.

Recommendation: We recommend management establish internal control policies and procedures requiring adjustments pertaining to GASB Statement No. 87 lease activities.

Postal Box Revenue

Condition: During the year ended September 30, 2022, MIPSA erroneously recorded a reduction in bad debt expense of $39,664 as postal box revenue and unearned amounts of $3,000 as postal box revenue. Furthermore, MIPSA did not determine the adequacy of the allowance for uncollectible accounts relating to postal box receivables. Audit adjustments were proposed to correct the $39,664 error, to recognize $3,000 as unearned revenue, and to increase the allowance for uncollectible accounts by $12,746.

Recommendation: We recommend management establish internal control policies and procedures requiring the proper recognition of postal box revenue and determining the adequacy of the allowance for uncollectible accounts.

Royalty Revenue

Condition: MIPSA has entered into a stamp and philatelic center agreement with Inter-Governmental Philatelic Corporation (IGPC) to assist MIPSA in the design, production, sale and distribution of new postage stamps throughout the world. In return, MIPSA would be the recipient of annual royalties of $24,000. As of September 30, 2022, MIPSA has not timely collected royalty payments from IGPC resulting in a $48,000 receivable with a corresponding allowance for doubtful accounts of $31,805.

Recommendation: We recommend management establish internal control policies and procedures requiring the timely collection of royalty payments from IGPC.

Board Minutes of Meetings

Condition: Complete minutes of meetings of the Board of Directors were not provided during the period under audit. The following minutes of meetings were provided:

- December 20, 2021
- August 17, 2023
- November 16, 2023
- February 15, 2024

Recommendation: We recommend management establish internal control policies and procedures for the retention and disposal of Board minutes by the Secretary in accordance with legal and regulatory requirements.

Board Sitting Fees

Condition: During the year ended September 30, 2022, MIPSA paid sitting fees of $6,138 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 MIPSA.

Recommendation: 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.

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This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MIPSA for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP