

Management Letter

Marshall Islands Social Security Administration
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2022



May 6, 2025

Management and the Board of Directors
Marshall Islands Social Security Administration

In planning and performing our audit of the financial statements of the fiduciary activities of Marshall Islands Social Security Administration (MISSA) a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 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 (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of MISSA'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:

Unclaimed Benefit Payments

Condition: We noted that certain benefit payments disbursed to members or beneficiaries dating as far back as 2009 totaling \$39,716 were returned as undeliverable or unclaimed. These amounts have remained unresolved and continue to be carried on MISSA's records.

Recommendation: We recommend that management perform a comprehensive review of all returned benefit payments and assess their eligibility for escheatment in accordance with applicable unclaimed property regulations. Where possible, efforts should be made to contact the intended recipients. Additionally, management should consider implementing enhanced tracking and follow-up procedures to promptly resolve returned payments in the future.

Long Outstanding Receivables

Condition: Receivables relating to contributions, Court judgments and promissory notes amounting to \$4,769,715, \$3,269,789 and \$1,928,793, respectively, included amounts deemed uncollectable as of September 30, 2022, resulting in a combined allowance for uncollectable accounts of \$5,579,463, which represents 56% of total receivables. Of the total deemed uncollectable, \$4,312,237 represented receivables aged more than five years dating back since.

Recommendation: We recommend management establish internal control policies and procedures requiring regular assessment of the collectability of accounts receivable. Furthermore, we recommend management establish a written policy governing receivable collections and write-offs.

Revenue Collections

Condition: During the year ended September 30, 2022, MISSA collections for 2022 per the collection report amounted to \$22,110,708 whereas the corresponding general ledger balance amounted to \$21,956,134. An unreconciled difference of \$154,574 resulted, which was considered immaterial to the financial statements. Furthermore, 2022 social security contributions amounting to \$236,440 were incorrectly recorded as health fund contributions while 2022 health fund contributions amounting to \$43,269 were incorrectly recorded as social security contributions. An audit adjustment was proposed to correct the net understatement of \$193,171 in social security contributions.

Recommendation: We recommend management establish internal control policies and procedures requiring timely reconciliation and recording of MISSA collections between social security contributions and health fund contributions.

Retirement Savings Plan

Condition: During the year ended September 30, 2022, MISSA made contributions of \$23,462 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.

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 the matching employer contributions.

Board Sitting Fees

Condition: During the year ended September 30, 2022, MISSA paid sitting fees of \$49,050 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.

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.

This communication is intended solely for the information and use of management and the Board of Directors of MISSA, 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 would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young