

Management Letter

Marshall Islands Postal Service Authority

(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2024



**Shape the future
with confidence**

May 20, 2026

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 Marshall Islands Postal Service Authority (MIPSA) as of and for the year ended September 30, 2024 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 MIPSA's internal control. Accordingly, we do not express an opinion on the effectiveness of 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:

Bank Fund Transfers

Condition: During our testing of bank reconciliations, we noted one instance in which a bank fund transfer in the amount of \$28,762 was recorded in the accounting records prior to the actual processing and issuance of the related check (Check # 2519). Recording disbursements before checks are processed and released may result in cash balances and related liabilities being misstated and may impact the accuracy of bank reconciliations and financial reporting.

Recommendation: We recommend management establish and implement procedures to ensure cash disbursement transactions are recorded only after checks have been processed and issued. Management should also perform periodic supervisory reviews of disbursement activity and related bank reconciliations to verify transactions are recorded in the proper accounting period.

Royalty Receivables

Condition: During our testing of royalty receivables, we noted one instance in which a \$6,000 collection was recorded as royalty revenue rather than as reduction of the related philatelic agency's accounts receivable balance. As a result, accounts receivable and revenue balances were not accurately stated in the accounting records and financial statements. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management strengthen review and reconciliation procedures over cash receipt processing to ensure customer collections are properly applied against outstanding accounts receivable balances. Management should also consider providing additional training to accounting personnel regarding the appropriate accounting treatment for revenue recognition and receivable collections.

Stamp Inventory

Condition: During our testing of MIPSAs stamp inventory, we noted that bulk purchases of postage stamps were recorded entirely as an expense at the time of purchase rather than being accounted for as an inventory or prepaid asset until the stamps were used. At September 30, 2024, MIPSAs maintained unsold inventory of 151,354 stamps, representing a cost of \$3,784. As a result, expense and asset balances were not accurately stated in the accounting records and financial statements. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend management establish procedures to account for significant bulk purchases of postage stamps as a prepaid or inventory asset and recognize expense as the stamps are used. Management should also maintain periodic inventory counts or usage logs to support the recorded balances and ensure accurate financial reporting.

Capital Assets

Condition: During our testing of non-payroll expenses, we noted one instance in which freight and shipping costs of \$4,971 directly associated with the acquisition of a mail truck for Ebeye were expended rather than capitalized as part of the related asset cost. As a result, capital asset balances and current period freight expenses were not accurately stated. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management establish and implement procedures to ensure all costs directly attributable to acquiring and placing fixed assets into service, including freight and shipping costs, are properly identified and capitalized in accordance with applicable accounting standards. Management should also consider providing additional training and supervisory review over capital asset accounting.

Accounts Payable

Condition: During our testing of accounts payable, we noted two instances in which payments made to vendors for previously recorded obligations totaling \$8,604 were recognized as current period expenses rather than as reductions of the related accounts payable balances. As a result, accounts payable and expense balances were not accurately stated in the accounting records and financial statements. An audit adjustment was proposed to correct this misstatement.

Recommendation: We recommend management strengthen review and reconciliation procedures over accounts payable and cash disbursement processing to ensure payments are properly applied against outstanding accounts payable balances when applicable. Management should also consider providing additional training to accounting personnel regarding the proper accounting treatment for liabilities and expense recognition.

Withholding Tax Remittances

Condition: During our search for unrecorded liabilities testing, we noted MIPSAs filed and paid income taxes withheld for payroll period ending June 2024, July 2024 and August 2024 in a manner inconsistent with the Income Tax Act of 1989, which is 14 days after the month end. Such were filed and paid on October 14, 2024. Furthermore, no liability associated with these pay periods aggregating \$16,627 was recognized by MIPSAs at September 30, 2024. As a result, payroll expenses and related payroll liabilities were not accurately reflected in the accounting records and financial statements.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act 1989. Furthermore, we recommend management establish and implement procedures to ensure payroll expenses are recorded at gross earnings, with all applicable withholding taxes and employee deductions separately recorded as liabilities. Management should also strengthen supervisory review procedures over payroll processing and related journal entries.

Social Security and Health Fund Contributions

Condition: For the year ended September 30, 2024, MIPSAs filed and paid Social Security and Health Fund Contributions for quarters ended March 31, 2024, June 30, 2024 and September 30, 2024, in a manner inconsistent with the Social Security Act of 1990, which is 10 days after quarter end. Such were filed and paid either 1 or 2 days after the due date resulting in nominal penalty and interest charges.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with the Social Security Act 1990.

Postal Rental Fee

Condition: During our testing of postal box revenues, we noted instances in which 39 active customers were not billed for postal box rental charges totaling \$876. As a result, revenue and asset balances were not accurately stated in the accounting records and financial statements. As this amount was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend management strengthen review and reconciliation procedures over postal box rental billings processing to ensure all active customers are identified and billed accurately and on a timely basis in accordance with approved tariff rates. Periodic reconciliation of active customer listings with billing records should be performed and reviewed by management to ensure completeness of revenue recognition.

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 MIPSAs 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