Management Letter

Federated States of Micronesia
Social Security Administration

(A Component Unit of the Federated States of Micronesia National Government)

Year ended December 31, 2025



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November 20, 2026

Leon Panuelo, Jr.
Administrator
FSM Social Security Administration
PO Box L
Kolonia, Pohnpei FM 96941

Dear Mr. Panuelo,

In planning and performing our audit of the financial statements of Federated States of Micronesia (FSM) Social Security Administration (the Administration) as of and for the year ended December 31, 2025 (referred to as the "financial statements"), 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*, 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 Administration's internal control. Accordingly, we do not express an opinion on the effectiveness of the Administration'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 control deficiency:

Contribution Revenue Accrual

Observation:

The Administration's practice is to accrue contributions for the current fiscal year ended December 31 that were subsequently collected from January through March of the following year.

Furthermore, the Administration manually reconciles bi-weekly contributions of primary government entities (FSM National Government, Pohnpei State Government, Chuuk State Government, Yap State Government and Kosrae State Government) on a quarterly basis.

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During our audit of contributions, we noted a sample recorded in 2025 that pertained to 2024 contributions that was not properly accrued as of December 31, 2024. The sample that was collected on January 9, 2025 was incorrectly tagged in the system as a 1st quarter of 2025 contribution or End of Quarter date of March 31, 2025. The error was identified and corrected during the 1st quarter of 2025 reconciliation around April 2025. As the correction occurred after the FY2024 books had been closed, the contribution was not included in the FY2024 accrual.

Recommendation:

We recommend that the Administration enhance its policies and procedures to ensure that bi-weekly government contributions are monitored and tagged in the correct quarter and that quarterly reconciliations of contributions are performed on a timely manner such as within the month of following the applicable quarterly return period (e.g. January for 4th quarter returns).

Furthermore, we recommend that the Administration improve their financial statement closing process and procedures including a review of contributions received subsequent to quarter-end to ensure contribution accruals are properly recorded in the appropriate reporting period.

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This communication is intended solely for the information and use of management 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.

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