

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Minister Alvin Jacklick
Ministry of Health
Republic of the Marshall Islands:

We have audited the financial statements of the Health Care Revenue Fund, a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2004, and have issued our report thereon dated March 31, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Care Revenue Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Health Care Revenue Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings (pages 3 and 4) as items 2004-1 and 2004-2.

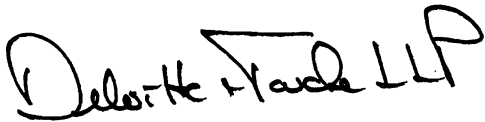
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the Health Care Revenue Fund in a separate letter dated March 31, 2006.

This report is intended solely for the information and use of the Ministry of Health, RepMar management, federal awarding agencies, and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, stylized font.

March 31, 2006

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

Schedule of Findings
Year Ended September 30, 2004

Cash Receipts/Revenue

Finding No. 2004-1

Criteria: Cash collections should be deposited intact in a timely manner.

Condition: During our testing of cash receipts, we noted that cash collections were not deposited intact in a timely manner. Following is a list of variances between cash receipts and deposits:

<u>CR Date</u>	<u>Deposit Date</u>	<u>Days Late</u>	<u>Total Receipts</u>	<u>Total Deposit</u>	<u>Overage (Shortage)</u>	<u>Payment Date</u>
5/5/04 to 5/10/04	05/11/04	5	67,079	66,810	(269)	No pmt as of 8/30/05
08/04/04	08/04/04	0	3,045	3,015	(30)	
09/08/04	09/10/04	2	796	812	16	
09/30/04	10/04/04	4	730	727	(3)	
1/1/04 to 1/5/04	01/07/04	6	3,003	2,780	(223)	1/29/04
1/6/04 to 1/11/04	01/14/04	8	3,984	3,757	(227)	2/2/04
1/12/04 to 1/13/04	01/15/04	3	2,645	2,635	(10)	
1/30/04 to 1/31/04	02/03/04	4	1,153	1,148	(5)	
11/10/03 to 11/11/03	11/13/03	3	14,679	14,674	(5)	
11/12/03 to 11/14/03	11/18/03	6	2,075	2,055	(20)	
Total					<u>(776)</u>	

Cause: The cause of the above condition is the lack of policies requiring that collections be deposited on a daily basis.

Effect: The effect of the above condition is the mishandling of public funds.

Recommendation: We recommend for management to review cash collections on a daily basis to ensure that they are deposited intact in a timely manner.

Auditee Response: We agree with the finding. A copy of the daily deposit slip will be provided to both the Assistant Secretary for AP & F and the Secretary's offices to ensure enforcement of policies regarding collections. As a matter of fact, all cash shortages are recorded in our books as accounts receivable and should be collected immediately by responsible staff from a concerned individual.

As part of our corrective action, we will revisit our policies and regulations to improve procedures regarding cash collections and other related issues.

**REPUBLIC OF THE MARSHALL ISLANDS
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Schedule of Findings, Continued
Year Ended September 30, 2004

Accounts Receivable - Other

Finding No. 2004-2

Criteria: Cash should be disbursed for actual invoice amount.

Condition: At September 30, 2004, the Health Care Revenue Fund recorded a total of \$15,690 in other receivable from a vendor. We were informed that this represents fifty percent deposit for PO#1147. We also noted that check # 1645 was paid to the same vendor for the same purchase order, however, we noted that the amount paid was for one hundred percent of the purchase price. We were informed that no refund has been received from the vendor as of August 29, 2005.

Cause: The cause of the above condition is the lack of review of purchases to ensure that overpayment does not occur.

Effect: The effect of the above condition is the overpayment of invoices.

Recommendation: We recommend for management to ensure that no overpayment occurs.

Auditee Response: We agree with the finding. As of now, management has implemented a way to ensure prepayment purchases (PO's) are easily identified to any to prevent overpayment.

As for the overpayment amount, management will off-set future billings against this receivable.

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Unresolved Prior Year Findings
Year Ended September 30, 2004

There are no unresolved findings from prior year audits of the Health Care Revenue Fund.