

HEALTH CARE REVENUE FUND

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

YEAR ENDED SEPTEMBER 30, 2005

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 (the Fund), a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2005, and have issued our report thereon dated May 18, 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 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 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 as items 2005-1 through 2005-4.

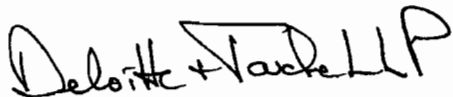
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 items 2005-1, 2005-2 and 2005-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-5.

We also noted certain additional matters that we reported to management of the Fund in a separate letter dated May 18, 2006.

This report is intended solely for the information and use of the Ministry of Health and RepMar management 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.

May 18, 2006

HEALTH CARE REVENUE FUND

Schedule of Findings
Year Ended September 30, 2005

Cash Receipts/Revenue

Finding No. 2005-1

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

Condition: Cash collections were not deposited intact and in a timely manner. The following lists 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> |
|----------------|---------------------|------------------|-----------------------|----------------------|---------------------------|
| 11/29/04 | 12/2/04 | 2 | 2,041.50 | 2,041.95 | 0.45 |
| 2/17/05 | 2/22/05 | 4 | 719.20 | 689.20 | (30.00) |
| 5/5/05 | 5/10/05 | 4 | 1,1791.40 | 1,786.55 | (4.85) |
| 6/27/05 | 6/28/05 | 0 | 1,151.28 | 1,156.98 | 5.70 |
| 09/13/05 | 9/14/05 | 0 | 683.00 | 659.00 | (24.00) |
| 10/28/04 | 11/01/04 | 3 | 697.00 | 697.00 | 0.00 |
| 10/19/04 | 10/22/04 | 2 | 1,640.50 | 1,640.50 | 0.00 |
| 12/21/04 | 12/21/04 | 5 | 727.50 | 727.50 | 0.00 |
| 02/24/05 | 03/02/05 | 5 | 717.00 | 717.00 | 0.00 |

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

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

Prior Year Status: The lack of policies and procedures requiring that collections be deposited intact on a daily basis was reported as a finding in the audit of fiscal year 2004.

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

Audited Response and Corrective: As stated in our 2004 audit response and corrective action, a copy of the deposit slip, deposit - cash entry recon and cash count reconciliation prepared by the Cashier Supervisor and verified by the Deputy Chief Accountant will be provided to both the Assistant Secretary for Administration, Personnel and Finance and the Secretary's office to ensure enforcement and compliance of policies regarding cash collections. As for the cash shortages, they are recorded as accounts receivable for concerned individual and should be collected immediately by the responsible staff. Because of the fact that both audits for 2004 and 2005 were conducted simultaneously this year, it would seem that management is not aware of this issue, and has not taken any step to resolve it.

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

HEALTH CARE REVENUE FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Cash Receipts/Revenue

Finding No. 2005-2

Criteria: Cash receipts and other supporting documentation should be kept intact on file to support the validity of transactions

Condition: Copies of cash receipt #s 345557 and 343351 were not made available.

Cause: The cause of the above condition is the lack of policies and procedures governing proper maintenance of receipt files.

Effect: The effect of the above condition is unsupported revenue transactions.

Recommendation: We recommend that management ensure that cash receipt files are kept intact.

Auditee Response and Corrective Action: We are in agreement with this finding. Recently, management purchased a container to be used as storage area for essential documentation. It will help care for important supporting document.

As part of our corrective action, management plans to purchase genuine storage boxes for these documents to help safeguard during the required period for audit.

Accounts Receivable - Other

Finding No. 2005-3

Criteria: Cash should be disbursed for actual invoice amounts.

Condition: At September 30, 2004, the Fund recorded a receivable from a vendor in the amount of \$15,690 representing an overpayment on PO#1147. However, as of May 18, 2006, the Fund has not been refunded this amount from the vendor.

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

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

Prior Year Status: The lack of review of purchases to ensure overpayments do not occur was reported as a finding in the fiscal year 2004 audit.

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

Auditee Response and Corrective Action: We agree with this finding. Management has implemented a way to ensure prepayment purchases (PO's) are easily identified to anyone to prevent overpayment. Again, the fact that both audits for 2004 and 2005 were conducted at the same would make it seem like management has not taken any step to rectify this issue. As part of our corrective action, overpayment amount will be used to off-set future billings.

HEALTH CARE REVENUE FUND

Schedule of Findings, Continued
Year Ended September 30, 2005

Prepayment/Purchases

Finding No. 2005-4

Criteria: Expenditures must be properly supported by receiving reports and vendor invoices.

Condition: Prepayment # P-00095 paid through check #2393 amounting to \$37,605 was not liquidated in a timely manner due to incomplete supporting invoices.

Cause: The cause of the above condition is a lack of policies and procedures in monitoring and reconciling prepayments.

Effect: The effect of the above condition is an understatement of expenditures.

Recommendation: We recommend that management ensure that prepayments are properly monitored and reconciled on a regular basis to ensure completion of delivery and timely liquidation.

Auditee Response and Corrective Action: We agree with this finding. Staff will follow the proper procedures for the liquidation process including the attachment of relevant documents to check written for payment.

As part of our corrective action, the Deputy Chief Accountant will be responsible for the reconciliation of the prepayment account.

Local Non-compliance

Finding No. 2005-5

Criteria: Purchase of goods or services should occur after obtaining proper authorizations.

Condition: Check #2375 was paid to a consultant whose services were received prior to acquiring proper authorization. Services were rendered from September to October 2004 while the purchase order was processed only on February 22, 2005. Check #3620 was paid on December 20, 2005 for a purchase of medical supplies received on March 18, 2005 but was only authorized through a purchase order dated December 14, 2005.

Cause: The cause of the above condition is lack of management's adherence to controls set per local policies and procedures.

Effect: The effect of the above condition is noncompliance with the RepMar Procurement Code.

Recommendation: We recommend that management ensure compliance with the RepMar Procurement Code.

Auditee Response and Corrective Action: Yes, we agree with this finding. Management will ensure strict compliance with the Repmar Procurement Code.