

HEALTH CARE REVENUE FUND
(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

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 Amenta Matthew
Minister of Health
Republic of the Marshall Islands:

We have audited the financial statements of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2008, and have issued our report thereon dated June 8, 2009. 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 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting. Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 10) as items 2008-1 through 2008-6 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

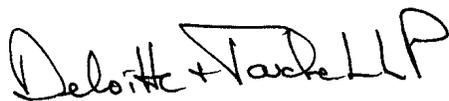
Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as item 2008-7.

We also noted certain matters that we reported to management of the Fund in a separate letter dated June 8, 2009.

The Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Fund's responses and, accordingly, we express no opinion on them.

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.

June 8, 2009

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses
Year Ended September 30, 2008

Finding No. 2008-1

Cash

Criteria: Monthly bank reconciliations should be performed in a timely fashion and be independently reviewed for accuracy.

Condition: Bank reconciliations were not performed during the fiscal year for the Bank of Marshall Islands account, resulting in unrecorded collections for the Ebeye hospital of \$38,997. An audit adjustment was proposed to record this amount. Furthermore, we noted that the Ebeye hospital's daily collections and deposits are not monitored by accounting personnel in Majuro, and associated cash receipts, daily cashier reports, and deposit slips are not sent to Majuro in a timely fashion. For instance, we noted that June and July 2008 documents were received by accounting on February 12, 2009. The extent of recording done by accounting is a spreadsheet maintained by the cashier supervisor; however, this data is not entered into the MIP accounting system. We also noted that patient charges at Ebeye hospital are not entered into the MIP accounting system, as is the case for Majuro hospital charges.

Management only learned of this condition when it was brought to their attention during the audit.

Cause: The cause of the above condition is the lack of established policies and procedures requiring the performance of monthly bank reconciliations and supervisory review. Furthermore, there is a lack of established policies and procedures pertaining to Ebeye hospital collections and charges.

Effect: The effect of the above condition is the possibility of misstatements and misappropriation of cash going undetected.

Recommendation: We recommend that management establish internal control policies and procedures to ensure that monthly bank reconciliations are performed and are independently reviewed in a timely fashion. Further, we also recommend that internal control policies and procedures be established pertaining to Ebeye hospital collections and charges.

Auditee Response and Corrective Action Plan: We agree with the finding. The treasury supervisor will perform monthly bank account reconciliation to ensure that cash and receipts are balanced. Furthermore, the Director for Support Services at KAHCS will ensure that daily deposit and cash receipts are provided to Majuro for data entry into the MIP accounting system.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2008

Finding No. 2008-2

Due from/to RepMar's Health Fund

Criteria: Receivables from and payables to affiliate balances should be collected/paid in a timely manner.

Condition: At September 30, 2008, the Fund recorded a receivable from RepMar's Health Fund of \$852,794, which included \$126,581 dating to fiscal year 2005 that has not been collected. A corresponding liability was also recorded by the Health Fund. Furthermore, a payable to the Health Fund of \$43,829 at September 30, 2008 included \$42,409 that remained unpaid for over a year.

Cause: The cause of the above condition is the lack of periodic reconciliation of the interfund balances with the Health Fund.

Effect: The cause of the above condition is possible misstatements of interfund balances with the Health Fund.

Recommendation: We recommend that management ensure that the interfund balances with the Health Fund are periodically reconciled.

Auditee Response and Corrective Action Plan: We agree with the finding. Both accounts payable and receivable accountants will ensure that the recommendation is implemented and accounts are periodically reconciled.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-3

Prepayments/Purchases

Criteria: Expenditures should be adequately supported by receiving reports and vendor invoices.

Condition: Prepayments of \$96,932 were not liquidated in a timely manner due to incomplete receiving reports and lack of vendor invoices. An audit adjustment was proposed to liquidate these prepayments and to record related expenditures. Furthermore, one prepayment (check #6095) of \$6,644 was not supported by a vendor invoice.

Cause: The cause of the above condition is the lack of timely monitoring and reconciliation of prepayments.

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

Recommendation: We recommend that management ensure timely monitoring, reconciliation, and liquidation of prepayments, including timely completion and submission of receiving reports to the accounting department.

Auditee Response and Corrective Action Plan: We agree with the finding. Effective immediately, the accounts receivable accountant will ensure that timely monitoring, reconciliation, and liquidation of prepayment is implemented, including timely completion and submission of receiving report to the accounting department. In addition, management may revisit its prepayment policies and procedures.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-4

Payable to RepMar

Criteria: Payable to affiliates should be paid in a timely manner.

Condition: At September 30, 2008, the Fund recorded a payable to RepMar's General Fund of \$240,136, which included \$167,111 that has remained unpaid for over a year.

Cause: The cause of the above condition is the lack of review and reconciliation of amounts payable to RepMar's General Fund.

Effect: The effect of the above is nonpayment of amounts owed.

Recommendation: We recommend that management ensure that liability accounts are reconciled and paid in a timely manner.

Auditee Response and Corrective Action Plan: We agree with the finding. Effective immediately, the accounts payable accountant will ensure that liability accounts are reconciled and paid in a timely manner. Quarterly report will be submitted to the Assistant Secretary for Administration, Personnel and Finance as monitoring tool.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-5

Purchase Orders

Criteria: Unfilled purchase orders (PO) should be periodically scrutinized for validity and liquidation. The Fund's policy is to liquidate/cancel unfilled purchase orders after three months (90 days).

Condition: We noted and confirmed with management that unfilled POs are automatically cancelled after three months without investigation to determine whether cancellation should occur. Consequently, vendor invoices for such POs can remain unrecorded and outstanding for extended periods without management's knowledge due to delays by procurement and receiving personnel in forwarding invoices to accounting. Reconciliation procedures performed by management in response to audit inquiries revealed additional unrecorded expenditures of \$180,163, which were recorded via proposed audit adjustments. An unreconciled balance of \$46,618 was not considered material to the financial statements; therefore, no audit adjustment was proposed.

Cause: The cause of the above condition is the lack of adequate review and investigation of unfilled POs and the lack of reconciliation of vendor invoices and/or statements in a timely manner.

Effect: The effect of the above condition is a misstatement of expenditures.

Recommendation: We recommend that management ensure that unfilled POs are scrutinized and investigated prior to cancellation and that vendor invoices and/or statements are reconciled in a timely manner.

Auditee Response and Corrective Action Plan: The Material and Inventory Manager will follow up on all open purchase orders that have exceeded the 90 day period to ensure that valid purchase order are not cancelled. And to ensure that invoice and receiving report are submitted to the accounting department in a timely manner for payment. Quarterly open purchase order report will be provided to the Assistant Secretary for Administration, Personnel and Finance for review and further action.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-6

Purchase Orders

Criteria: Purchases of goods or services should occur after obtaining requisite authorization.

Condition: We noted three instances where purchases occurred prior to obtaining authorizations through purchase requisitions and purchase orders, as follows:

<u>Check #</u>	<u>PO #</u>	<u>G/L Account Name</u>	<u>Amount</u>
5624	4938	Pharmaceuticals	\$ 16,000
5783	4848	Medical supplies	\$ 19,652
6709		Medical supplies	\$ 9,840

Cause: The cause of the above condition is the lack of management adherence to established policies and procedures.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code and established policies and procedures.

Recommendation: We recommend that management ensure compliance with RepMar's Procurement Code and established policies and procedures.

Auditee Response and Corrective Action Plan: Management shall ensure that there is strict adherence to established policies and procedures to prevent noncompliance in the future. All Assistant Secretaries shall be responsible for their staffs to adhere to the established policies and procedures.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-7

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$3,472,839 in non-payroll expenditures, 103 items, totaling \$792,483 were tested. We noted the following items where supporting documentation was inadequate to evidence the procurement process:

<u>Check #</u>	<u>PO #</u>	<u>G/L Account Name</u>	<u>Amount</u>
5241/5794	4693	Medical equipment	\$ 115,000
5687	4934	Pharmaceuticals	\$ 16,966
5783	4848	Medical supplies	\$ 19,652
5843	4880	Medical supplies	\$ 8,316
5887	5086	Medical supplies	\$ 500
5927		Contractual services	\$ 6,075
5977		Contractual services	\$ 6,236
6320	5045	Pharmaceuticals	\$ 8,882
6469	4775	Pharmaceuticals	\$ 4,050
6000		Medical supplies	\$ 180
6049		Medical supplies	\$ 3,136
6200	5235	Contractual services	\$ 7,690
6210		Travel domestic – airfare	\$ 480
6220		Travel international – airfare	\$ 13,935
6260	5180	Medical supplies	\$ 16,037
6434		Contractual services	\$ 9,643
6522	5319	Medical supplies	\$ 2,839
6635	5306	Medical supplies	\$ 814
6709		Medical supplies	\$ 9,840
6766	5089	Pharmaceuticals	\$ 23,500

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-7, Continued

Local Noncompliance, Continued

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

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

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure compliance with RepMar's Procurement Code.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the Fund for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: Management shall make it a policy for all high level administrators in the Ministry responsible for initiating purchase requisitions to be well versed in the RMI procurement code to ensure compliance.

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Unresolved Prior Year Findings
Year Ended September 30, 2008

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (pages 3 through 10).