

June 8, 2009

Ms. Justina Langidrik
Secretary of Health
Republic of the Marshall Islands

Dear Ms. Langidrik:

In planning and performing our audit of the financial statements of the Health Care Revenue Fund (the Fund) as of and for the year ended September 30, 2008 (on which we have issued our report dated June 8, 2009), 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, we considered the Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Fund's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Amenta Matthew, Minister of Health, also dated June 8, 2009, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

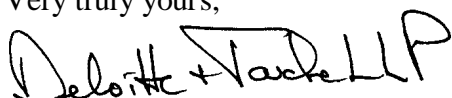
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving Fund’s internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

(1) Travel Advances

In accordance with RepMar travel rules and regulations, travelers are required to submit within fifteen days of the end of travel, a travel voucher claim (TVC) to liquidate travel advances. Failure to submit a TVC within the required period results in a payroll deduction.

Travel advances as of September 30, 2008 include twenty-five advances that have been outstanding for over fifteen days, including twelve that have been outstanding in excess of a year. We recommend that management ensure compliance with established travel policies. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2006 and 2007.

(2) Travel Advances

At September 30, 2008, travel advance general ledger accounts (A/c #s 2010 and 2011) included credit balances of \$1,260, representing possible overpayments to employees. We recommend that travel advance general ledger accounts are periodically reconciled.

(3) Receivables

At September 30, 2008, a receivable from RepMar of \$20,508 has been outstanding for several years. As of June 8, 2009, this amount has not been billed or collected. We recommend that management pursue collection of this receivable. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2003 through 2007.

(4) Allowance for Doubtful Accounts

Management does not periodically examine receivable accounts to determine collectability and to assess the required allowance. We recommend that management pursue collection of receivables and ensure adequacy of the allowance for doubtful accounts.

(5) Deferred Revenue

At September 30, 2008, the Fund recorded deferred revenues (A/c # 5051) which dates as far back as fiscal year 2004. We recommend that management determine the nature of this account.

(6) Account Reconciliations

Reconciliations performed of the Fund’s Bank of Guam cash account, including requisite journal vouchers, are not independently reviewed. Furthermore, reconciliations of subsidiary ledgers are only performed as part of year-end closing; such are also not independently reviewed. We recommend that management establish policies and procedures to ensure that account reconciliations are performed on a periodic basis and are reviewed by management personnel other than the preparer. This matter was discussed in our previous letter for the audit of the Fund for fiscal year 2007.

SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Import Tax

Section 308 of the Health Care Revenue Fund Act of 1989 indicates that the Fund and related transactions are not subject to any tax, rate, charge or impost under any other law. During fiscal year 2008, the Fund paid import taxes of \$56,598 for various medical and pharmaceutical supplies purchased in the prior year. We recommend that management consult with legal counsel and reassess whether the Fund is subject to import tax. This matter was discussed in our previous letter for the audit of the Fund for fiscal year 2007.

(2) Contract Agreement

During the year ended September 30, 2008, the Fund deposited \$25,000 with an off-island vendor, based on terms of a contract dated February 27, 1998 executed by the vendor and the Marshall Islands Social Security Administration, the Fund's previous administrator. We recommend that management take steps to have this contract updated to reflect the Ministry of Health as the Fund's administrator.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Fund's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.