

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, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2009, and have issued our report thereon dated April 30, 2010. 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 2009-1 through 2009-6 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.

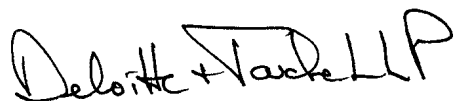
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Responses as item 2009-7.

We also noted certain matters that we reported to management of the Fund in a separate letter dated April 30, 2010.

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.

April 30, 2010

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses Year Ended September 30, 2009

Finding No. 2009-1

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 \$24,246. Accordingly, an 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. 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.

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.

Prior Year Status: The lack of internal control over cash was reported as a finding in the audit of the Fund for fiscal year 2008.

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 manner. Furthermore, we 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 management will establish internal control policies and guidelines to ensure that monthly bank reconciliations are performed and reviewed in a timely manner. Furthermore, deposits and recording of Ebeye collections will be strictly monitored and coordinated with Ebeye personnel for timely submission of reports to Majuro for data entry into the MIP accounting system.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2009

Finding No. 2009-2

Due from/to RepMar's Health Fund

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

Condition: The preliminary balance of outstanding receivables with the Health Fund was not reconciled. As a result of the performance of alternative audit procedures, we proposed audit adjustments, totaling \$265,523, to increase the recorded receivable balance. We also noted that there have been delays in the receipt of the Fund's share of collections received from the Marshall Islands Social Security Administration. Furthermore, the outstanding payable to the Health Fund of \$42,409 has remained outstanding since fiscal year 2005.

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.

Prior Year Status: The lack of internal control over related party monitoring was reported as a finding in the audit of the Fund for fiscal year 2008.

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. The Chief Accountant 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, 2009

Finding No. 2009-3

Prepayments/Purchases

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

Condition: Prepayments of \$126,274 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.

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.

Prior Year Status: The lack of internal control over purchases and prepayment monitoring was reported as a finding in the audit of the Fund for fiscal year 2008.

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. The accounts receivable staff will ensure that timely monitoring, reconciliation and liquidation of prepayment is properly implemented and will coordinate with the supply and procurement office for the timely completion and submission of the receiving reports. The management will review its policies and procedures on prepayments.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2009

Finding No. 2009-4

Payable to RepMar

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

Condition: At September 30, 2009, the Fund recorded a payable to RepMar's General Fund of \$238,716 which 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. The accounts payable staff will ensure that payables are paid in a timely manner and that previous years' transactions are reviewed for proper reconciliation.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2009

Finding No. 2009-5

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. Based on vendor confirmation replies received, there were unrecorded invoices which the Fund claims to have not received and thus, no payment will be made. Furthermore, based on testing of pharmaceutical supplies purchased, we noted a time lag of 3 to 7 months between the purchase order/requisition date, invoice statement date and/or payment date.

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 and possible understatement of recorded liabilities.

Prior Year Status: The lack of internal control over purchase monitoring was reported as a finding in the audit of the Fund for fiscal year 2008.

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. Proper documentation of reconciliation should be implemented to clear disputed claims by the vendors.

Auditee Response and Corrective Action Plan: We agree with the finding. Management shall ensure that there is strict compliance and adherence to the policies and procedures on monitoring of purchase orders. Sufficient time is allowed for processing of payments to reconcile with the records. As part of our corrective action plan, no payment shall be made unless there is valid supporting documentation.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2009

Finding No. 2009-6

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>GL Account Name</u>	<u>Amount</u>
06948	005568	Medical supplies	\$ 8,820
07104	005636	Medical supplies	10,768
07343	005720	Medical supplies	19,452

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.

Prior Year Status: The lack of internal control over purchase requisition procedures was reported as a finding in the audit of the Fund for fiscal year 2008.

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, 2009

Finding No. 2009-7

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 promulgated by RepMar's Policy Office. 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. RepMar's Ministry of Finance has previously declared that 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: We noted the following items where supporting documentation was inadequate to evidence the procurement process.

<u>Check #</u>	<u>PO #</u>	<u>GL Account Name</u>	<u>Amount</u>
06738	005377	Pharmaceuticals	\$ 17,661
07122	004844	Pharmaceuticals	\$ 1,728
06646	005378	Pharmaceuticals	\$ 8,169
07489	005536	Medical supplies	\$ 7,024
06673	005360	Medical supplies	\$ 15,966
07305	005506	Medical supplies	\$ 7,301

Furthermore, the following items were noted to have used old price quotations dated from fiscal years 2006 to 2008. Although some price quotations were dated in fiscal year 2009, we noted a time difference of 4 to 8 months between the quotation and the purchase requisition/order date.

<u>Check #</u>	<u>PO #</u>	<u>GL Account Name</u>	<u>Amount</u>
07484	005683	Pharmaceuticals	\$ 11,714
07412	005682	Pharmaceuticals	\$ 16,452
07214	005628	Pharmaceuticals	\$ 13,055
06819	005469	Pharmaceuticals	\$ 7,246
07179	005625	Pharmaceuticals	\$ 5,373
07267	005668	Pharmaceuticals	\$ 1,584
07230	005411	Pharmaceuticals	\$ 3,359

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2009

Finding No. 2009-7, Continued

Local Noncompliance, Continued

Condition, Continued

<u>Check #</u>	<u>PO #</u>	<u>GL Account Name</u>	<u>Amount</u>
06941	005527	Pharmaceuticals	\$ 3,733
07178	005558	Medical supplies	\$ 6,225
07415	005653	Medical supplies	\$ 6,600
06977	005480	Medical supplies	\$ 8,249
06978	005511	Medical supplies	\$ 1,383
07044	005511	Medical supplies	\$ 6,791
07546	005685	Medical supplies	\$ 13,783
07074	005432	Medical supplies	\$ 4,208
07259	005638	Medical supplies	\$ 13,457
07326	005722	Medical supplies	\$ 19,376
07323	005640	Medical supplies	\$ 14,830
06779	005354	Medical supplies	\$ 6,713
06941	005507	Medical supplies	\$ 14,560
07180	005586	Medical supplies	\$ 7,820

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. Updated price quotations should be obtained to ensure that the most cost beneficial supplies are procured by the Fund. Further, appropriate guidelines should be set to define what constitute a valid price quotation. Should old quotes be used but such would represent the latest available price list, proper documentation should be maintained to specify such information.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the Fund for fiscal years 2005 through 2008.

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.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2009

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