

April 30, 2010

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, 2009 (on which we have issued our report dated April 30, 2010), 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, 2009 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 April 30, 2010, 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.

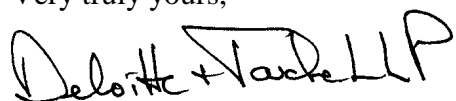
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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 the 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 the Fund's internal control over financial reporting as of September 30, 2009 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.

As of September 30, 2009, 87% of the total travel advances have been outstanding for over fifteen days with 69% of the total advances outstanding for over 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 through 2008.

(2) Travel Advances

At September 30, 2009, the travel advance general ledger accounts (A/c #s 2010 and 2011) included credit balances of \$1,938, representing possible overpayments to employees. We recommend that the travel advance accounts be periodically reconciled.

(3) Receivables

At September 30, 2009, a receivable from RepMar of \$20,508 has been outstanding for several years. 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 2008.

(4) Allowance for Doubtful Accounts

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

(5) Closing of Books

The preliminary opening fund balance was not reconciled to prior year audited accounts. Prior year adjustments were not recorded which further resulted in misstatements of the preliminary balance sheet accounts. We recommend that appropriate financial closing and reconciliation procedures, including related reversal of closing balances of the subsequent period, be implemented.

(6) Account Reconciliations

During the year, we noted delays in transaction posting, late preparation of bank reconciliations, the existing of unusual debit/credit balances, journal entries not being reviewed, and discrepancies in general ledger and subsidiary ledger balances. We recommend that management establish policies and procedures to ensure that account reconciliations are performed timely and regularly. Further, an appropriate independent review by management personnel other than the preparer should also be implemented. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2007 and 2008.

(7) RMI Withholding Tax

The Fund did not remit taxes withheld from May 2009. We recommend that timely remittance of withheld taxes occurs.

SECTION I –DEFICIENCIES, CONTINUED

(8) Payables

At September 30, 2009, the Fund recorded payables to affiliates of \$312,097 and other payables of \$7,616 which remain unpaid for over a year. We recommend that the balances be evaluated for appropriate resolution.

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) Contract Agreement

The Fund has a deposit of \$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.

(2) Office Memo and Supporting Agreement

Based on negotiations with vendors of pharmaceutical and medical supplies, it was agreed that a separate billing will not be made for freight and handling. A memorandum was said to be issued to notify concerned parties. However, no copy of such can be provided. Further, per expense tests, laboratory equipment repair was performed by a previous vendor and no price quotations were obtained. The service was said to be part of the repair services offered by the vendor for the purchased equipment. However, the after service agreement could not be provided. We recommend filing of significant memos and agreements to support transaction authorization and approval.

(3) Employee Turnover

During the year, several employees left, including the previous Chief Accountant who was only replaced on November 2009. With this, there has been no proper transition of designated tasks. During the audit, there have been occasions wherein employees are either unaware of the nature of transactions or are not updated as to the current status of accounts. Thus, we recommend that to the extent possible, appropriate turnover of designated roles and responsibilities occurs.

(4) Vendor Database

Based on vendor confirmation testing, we encountered difficulty in obtaining confirmation responses due to insufficient contact information. We recommend that a vendor contact database be maintained and be updated to facilitate purchase monitoring and vendor account reconciliation.

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.