

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, 2010

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, 2010, and have issued our report thereon dated June 23, 2011. Our report includes an explanatory paragraph that the financial statements of the Fund are not intended to present the financial position and results of operations of RepMar. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 through 8), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2010-1 through 2010-4 to be material weaknesses.

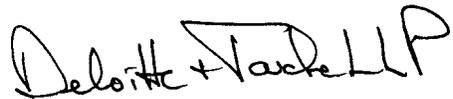
Compliance and Other Matters

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 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 2010-5.

We also noted certain matters that we reported to management of the Fund in a separate letter dated June 23, 2011.

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 23, 2011

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses
Year Ended September 30, 2010

Finding No. 2010-1

Cash

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

Condition: Bank reconciliations were not performed timely for the Bank of Marshall Islands account. 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 timely sent to Majuro. The extent of recording by accounting is a spreadsheet maintained by the cashier supervisor; however, this data is not entered into the MIP system. We also noted that patient charges at Ebeye hospital are not entered into the MIP 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 being undetected.

Prior Year Status: The lack of internal control over cash was reported as a finding in the audits of the Fund for fiscal years 2008 and 2009.

Recommendation: We recommend that management establish internal control policies and procedures requiring that monthly bank reconciliations are timely performed and reviewed. Furthermore, we recommend that internal control policies and procedures be established over Ebeye hospital collections and charges.

Auditee Response and Corrective Action Plan: The management ensures that established internal control policies and guidelines for deposits and recording of Ebeye collections are strictly monitored by Ebeye and Majuro personnel. Furthermore, the bank reconciliation will be prepared in a timely manner.

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Schedule of Findings and Responses, Continued Year Ended September 30, 2010

Finding No. 2010-2

Prepayments/Purchases

Criteria: Expenditures should be adequately supported by approved purchase requisitions/orders, receiving reports and vendor invoices.

Condition: The following exceptions were noted.

- Prepayments of \$114,203 were not timely liquidated due to incomplete receiving reports and lack of vendor invoices. An audit adjustment was proposed to liquidate these prepayments and to record related expenditures.
- No purchase orders were completed for the following items.

<u>Check #</u>	<u>GL Account Name</u>	<u>Amount</u>
7735	Medical supplies	\$ 3,760
8230	Medical supplies	\$ 23,005

- The purchase description of PO # 5888 for \$13,258 is 'Open PO' and does not indicate the specific items ordered.
- PO # 5833 of \$4,670 for medical supplies purchased was not stamped received while the purchase requisition for PO # 6001 was not dated.
- Supporting invoice and check payment for freight charges of \$846 were not on file.

Cause: The cause of the above condition is the lack of timely monitoring and reconciliation of prepayments and the lack of proper control procedures on documentation, review, approval, monitoring and filing of purchase related supporting documents.

Effect: Unliquidated prepayments will result in an understatement of expenditures. Lack of completion of purchase orders, inadequate descriptions, undated purchase orders and missing supporting invoices will raise concerns on proper approval and validity of recorded expenditures.

Prior Year Status: The lack of internal control over purchases and prepayment monitoring was reported as a finding in the audits of the Fund for fiscal years 2008 and 2009.

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

Auditee Response and Corrective Action Plan: For FY 2011, the management has enforced its policies and procedures regarding this finding to ensure proper monitoring and reconciliation of prepayments. As corrective plan, the management will no longer make any pre-payments unless items ordered are urgently needed. Request for pre-payment with supporting documents must be submitted to the Chief Accountant to be endorsed by the Secretary of Health for final approval.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2010

Finding No. 2010-3

Payable to RepMar

Criteria: Payable to affiliates should be timely paid.

Condition: At September 30, 2010, the Fund recorded a payable to RepMar's General Fund of \$254,953 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 require that liability accounts are reconciled and paid in a timely manner.

Auditee Response and Corrective Action Plan: Since this account covers previous year's transactions, the Ministry will reconcile with the RepMar's General Fund and payment will be made accordingly.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2010

Finding No. 2010-4

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 represents it did not receive and thus, no payment was made. In addition, we noted a double billing by a vendor of \$3,486 for PO#5820 (wherein the first billing was paid per check#7841 and the second billing was accrued at year-end) which went undetected due to lack of proper & timely purchase monitoring and vendor reconciliation. Furthermore, based on testing of pharmaceutical and medical supplies purchased, we noted a time lag of 1 to 10 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 timely reconciliation of vendor invoices and/or statements.

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

Prior Year Status: The lack of internal control over purchase monitoring was reported as a finding in the audits of the Fund for fiscal years 2008 and 2009.

Recommendation: We recommend that management require that unfilled POs are scrutinized and investigated prior to cancellation and that vendor invoices and/or statements are timely reconciled. Reconciliations should be occur to clear disputed vendor claims.

Auditee Response and Corrective Action Plan: The management will review its policies and procedures on monitoring of Purchase Orders. As part of our corrective action plan, management will assign additional accounting staff to reconcile, monitor and update the status of POs.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2010

Finding No. 2010-5

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>
7842	5823	Pharmaceuticals	\$ 3,409
7862	5889	Pharmaceuticals	17,598
8142	5939	Pharmaceuticals	5,513
8142	5957	Pharmaceuticals	16,919
8226	5955	Pharmaceuticals	14,807
8292	5953	Pharmaceuticals	2,238
8347	6096	Pharmaceuticals	895
8380	5953	Pharmaceuticals	2,238
8308	6095	Pharmaceuticals	1,015
8563	5987	Pharmaceuticals	178
7738	5833	Medical supplies	4,670
7803	5911	Medical supplies	19,344
7852	5931	Medical supplies	24,150
8304	6094	Medical supplies	15,870
7596	5484	Contractual services	2,938

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2010

Finding No. 2010-5, Continued

Local Noncompliance, Continued

Condition, Continued

Furthermore, the following items were noted to have used price quotations dated from 2008. Although some price quotations were dated in fiscal year 2010, we noted a time difference of 1 to 6 months between the quotation and the purchase requisition/order date.

<u>PO #</u>	<u>GL Account Name</u>	<u>Amount</u>
5392	Pharmaceuticals	\$ 1,650
5767	Pharmaceuticals	3,750
5772	Pharmaceuticals	15,700
5795/5796/5798	Pharmaceuticals	65,134
6073	Pharmaceuticals	3,498
5831	Pharmaceuticals	17,525
5813	Pharmaceuticals	10,434
5989	Medical supplies	6,094
5743	Medical supplies	16,294
5846	Medical supplies	15,870
5853	Medical supplies	14,785
5938	Medical supplies	15,870
5961	Medical supplies	14,983
5944	Medical supplies	5,894
5944	Medical supplies	4,883
5929	Medical supplies	7,798
5880	Medical supplies	13,424

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 requiring compliance with RepMar's Procurement Code. Updated price quotations should be obtained requiring that the most cost beneficial supplies are procured. Further, appropriate guidelines should be set to define what constitute a valid price quotation. Should old quotes be used, documentation should be maintained to specify why such information is appropriate.

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 2009.

Auditee Response and Corrective Action Plan: The management has established additional internal control policies and procedures to ensure the strict adherence to RepMar's procurement code. As corrective plan, all purchase requests must have updated three price quotes with signatory from the vendors.

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Unresolved Prior Year Findings
Year Ended September 30, 2010

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (pages 3 through 8).