

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

HEALTH CARE REVENUE FUND

Years Ended September 30, 2011 and 2010
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INDEPENDENT AUDITORS' REPORT

Honorable David Kabua
Minister of Health
Republic of the Marshall Islands:

We have audited the accompanying balance sheets of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2011 and 2010, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

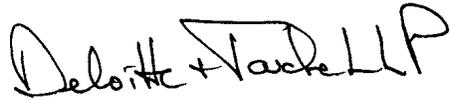
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Health Care Revenue Fund and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Health Care Revenue Fund, a governmental fund of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and the results of that fund's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the Fund adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2012 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 purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

July 3, 2012

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash	\$ 2,457,088	\$ 1,861,427
Receivables:		
Affiliates	1,075,000	938,591
Employees	6,709	17,632
Other	11,629	34,055
	<u>1,093,338</u>	<u>990,278</u>
Less allowance for doubtful accounts	<u>(23,009)</u>	<u>(23,009)</u>
	1,070,329	967,269
Prepayment	<u>155,813</u>	<u>31,874</u>
	<u>\$ 3,683,230</u>	<u>\$ 2,860,570</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 155,588	\$ 263,626
Other liabilities and accruals	202,540	209,833
Payable to affiliates	41,925	338,780
Total liabilities	<u>400,053</u>	<u>812,239</u>
Fund balance:		
Non-spendable:		
Prepaid amounts	155,813	31,874
Committed for:		
Health services	<u>3,127,364</u>	<u>2,016,457</u>
Total fund balance	<u>3,283,177</u>	<u>2,048,331</u>
Total liabilities and fund balance	<u>\$ 3,683,230</u>	<u>\$ 2,860,570</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Grants	\$ 522,114	\$ 712,106
Hospital charges	287,248	252,763
Other	92,523	42,456
Total revenues	<u>901,885</u>	<u>1,007,325</u>
Expenditures:		
Pharmaceutical	1,371,650	1,447,158
Medical supplies	1,196,723	1,038,638
Professional and consulting fees	57,160	104,842
Grants and subsidies	45,465	-
Freight and delivery	33,405	76,878
Hospital equipment	29,287	85,912
Bad debt	25,000	-
Administrative:		
Salaries and wages	215,419	204,808
Training	59,707	124,002
Travel	59,453	81,697
Office equipment	48,001	13,016
Supplies	24,188	23,758
Communications	21,913	32,022
Other administrative expenses	81,499	84,159
Total expenditures	<u>3,268,870</u>	<u>3,316,890</u>
Deficiency of revenues under expenditures	(2,366,985)	(2,309,565)
Other financing sources:		
Contributions from RepMar's Health Fund	<u>3,601,831</u>	<u>3,715,375</u>
Net change in fund balance	1,234,846	1,405,810
Fund balance at beginning of year	<u>2,048,331</u>	<u>642,521</u>
Fund balance at end of year	<u><u>\$ 3,283,177</u></u>	<u><u>\$ 2,048,331</u></u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2011 and 2010

(1) Reporting Entity

The Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Care Revenue Fund Act of 2001. Administration, control and management of the Fund was transferred from the Marshall Islands Social Security Administration (MISSA) to RepMar's Ministry of Health (MOH). The Fund's enabling legislation also requires that 55% of contributions collected by the Basic Health Benefits Plan be transferred to the Fund. The Fund was established to use funds, provided through appropriation by the Nitijela of RepMar and revenue received from hospital charges and other health care charges collected by MOH, for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services.

The accompanying financial statements relate solely to those accounting records maintained by the Fund, and do not incorporate any accounts related to RepMar's Ministry of Health or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. The Fund is considered to be a blended component unit (governmental fund type-special revenue fund) of RepMar.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below:

Measurement Focus and Basis of Accounting

The Fund reports its financial position and the results of operations in one governmental fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred. Significant revenues susceptible to accrual include revenue received from hospital charges and other health care charges collected by the Ministry of Health as well as grants, gifts and donations.

Budget

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with GAAP. Accordingly, a budget to actual presentation is not required or presented.

Cash

The deposit and investment policies of the Fund are governed by 3 MIRC 7, *Investments of Public Funds*, and 11 MIRC 1, *Financial Management*. Custodial credit risk is the risk that in the event of a bank failure, the Fund’s deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government’s name. The Fund does not have a deposit policy for custodial credit risk.

For the purposes of the balance sheets, cash is defined as cash in checking and savings accounts. As of September 30, 2011 and 2010, the carrying amounts of the Fund’s cash were \$2,457,088 and \$1,861,427, respectively, and the corresponding bank balances were \$2,505,425 and \$1,958,576, respectively. Of the bank balances, \$2,431,867 and \$1,915,779, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$250,000 were FDIC insured. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

Receivables include amounts due from affiliates, employees, and other sources. These receivables are not collateralized and are non-interest bearing.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

Prepayment

Certain payments made to vendors or persons for services reflect costs applicable to future accounting period and are recorded as prepaid expenses in the financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The Fund recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the balance sheet unless such leave is expected to be liquidated with expendable available financial resources, at which time expenditures and related fund liabilities would be recognized.

Fund Balance

During fiscal year 2011, the Fund implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB Statement No. 54, governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

Taxes

The Government of RepMar imposes a gross receipts tax of 3% on revenues. The Fund is specifically exempt from this tax.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2011, the Fund implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

(3) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(4) Related Party Transactions

The Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Marshall Islands Health Fund (the Health Fund) is a governmental fund of RepMar established by the Nitijela to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, as an approved off-island medical referral, or as emergency off-island medical care. The Health Fund includes the operations of the Basic Health Benefits Plan, which provides a substantial portion of the Fund's funding.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2011 and 2010

(4) Related Party Transactions, Continued

Receivables from and payables to affiliates as of September 30, 2011 and 2010, are as follows:

	2011		2010	
	Receivables	Payables	Receivables	Payables
RepMar:				
Health Fund	\$ 801,851	\$ -	\$ 918,083	\$ -
General Fund	273,149	21,282	20,508	301,204
Federal Grants	-	-	-	16,263
Other	-	20,643	-	21,313
	\$ 1,075,000	\$ 41,925	\$ 938,591	\$ 338,780

Contributions from RepMar's Health Fund during the years ended September 30, 2011 and 2010 were \$3,601,831 and \$3,715,375, respectively, representing 55% of collections of the Basic Health Benefits Plan. Receivables from RepMar's Health Fund represent 55% of contributions to the Basic Health Benefits Plan not transferred by the Health Fund at September 30, 2011 and 2010, respectively.

Receivables from and payables to RepMar's General Fund are summarized as follows:

	2011		2010	
	Receivables	Payables	Receivables	Payables
General Fund:				
Reimbursement for utility costs	\$ 252,641	\$ -	\$ -	\$ -
Asian Development Bank 1316 impres balance	-	-	-	56,936
Pacific Health Research Institute deposit	-	-	-	161,220
Comprehensive Health Services	-	-	-	60,985
Other	20,508	21,282	20,508	22,063
	\$ 273,149	\$ 21,282	\$ 20,508	\$ 301,204

(5) Contingency

The Fund receives substantially all of its funding from RepMar through collections of the Health Fund's Basic Health Benefits Plan. A significant reduction in the level of this funding, if this were to occur, may have an effect on the Fund's programs and activities.

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 David Kabua
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, 2011, and have issued our report thereon dated July 3, 2012. 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 and a reference for the adoption of a new accounting standard. 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

Management of the Fund is responsible for establishing and maintaining effective 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 13 through 17), 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 a 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 item 2011-3 to be material weaknesses.

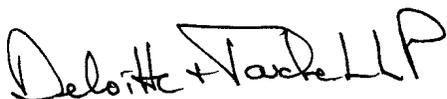
Compliance and Other Matters

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 items 2011-1 and 2011-2.

We also noted certain matters that we reported to management of the Fund in a separate letter dated July 3, 2012.

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

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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

July 3, 2012

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses Year Ended September 30, 2011

Finding No. 2011-1

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; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. 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 compliant to RepMar's Procurement Code:

- a) One or two price quotes were obtained to purchase the following items. Therefore, noncompliance has occurred with Ministry of Finance's policies.

<u>Check#</u>	<u>PO#</u>	<u>GL Account Name</u>	<u>Amount</u>
8941	6157	Medical Supplies	\$ 7,360
9207	6470	Medical Supplies	\$ 1,412
Credit Memo	6206	Medical Supplies	\$11,849
8839	6313	Pharmaceutical	\$39,361
8484	6139	Pharmaceutical	\$ 2,360
8556	5882	Pharmaceutical	\$ 6,740
8650	6011	Medical Supplies	\$10,443
9353	6532, 6533, 6534	Prepayment	\$ 7,557

- b) Vendors selected for the following expenditures were not the lowest bidders (price quotes). In addition, for vendor invoices paid through check# 8877, unit prices on the invoice did not agree to quoted prices.

<u>Check#</u>	<u>PO#</u>	<u>GL Account Name</u>	<u>Amount</u>
9294	6453	Pharmaceutical	\$ 9,785
8875	6309	Pharmaceutical	\$ 1,284
8791	6231	Medical Supplies	\$ 2,520
8876	6282	Pharmaceutical	\$17,500
9152	6320	Pharmaceutical	\$ 1,232
8877	6327	Pharmaceutical	\$ 2,880

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2011

Finding No. 2011-1

Local Noncompliance, Continued

- c) It appears that the following purchases may have been artificially divided to constitute small purchases.

<u>Check#</u>	<u>GL Account Name</u>	<u>Amount</u>	<u>PO#</u>	<u>PO Amount</u>	<u>PO Date</u>	<u>Other PO#s</u>	<u>PO's Total Amount</u>
8941	Medical Supplies	\$ 7,360	6157	\$16,710	10/21/2010	6158	\$ 33,166
9294	Pharmaceutical	\$ 9,785	6453	16,402	5/6/2011	6448, 6449, 6450, 6452,	\$ 84,999
8986	Pharmaceutical	\$ 703	6384	14,423	2/16/2011	6375, 6377, 6379, 6380, 6381	\$ 77,661
9152	Pharmaceutical	\$ 1,232	6320	18,184	12/21/2010	6306, 6318, 6319, 6321, 6328, 6329, 6330	\$113,447
8972	Medical Supplies	\$12,417	6238	24,211	11/25/2010	6234, 6236, 6254, 6258	\$116,488
8983	Medical Supplies	\$10,838	6238	24,211	11/25/2010	6234, 6236, 6254, 6258	\$116,488
8937	Medical Supplies	\$ 3,095	6416	9,849	3/22/2011	6414, 6415, 6417, 6418, 6419, 6420	\$104,419
8952	Pharmaceutical	\$ 4,164	6324	8,696	12/21/2010	6303, 6304, 6312, 6322, 6323, 6324	\$ 59,512
9178	Prepayment	\$20,533	6247	\$20,532	11/25/2010	6245, 6246, 6248, 6249, 6250, 6252	\$155,865
9178	Prepayment	\$18,900	6414	18,900	3/22/2011	6415, 6416, 6417, 6418, 6419, 6420	\$104,419

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and thus ensuring 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.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2011

Finding No. 2011-1

Local Noncompliance, Continued

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 2010.

Auditee Response and Corrective Action Plan:

- a.) The Ministry aims to establish a fair and efficient procurement system. The vendors should show willingness to provide quality, quantity and timely delivery of items and services. Procurement planning is very important to prevent future problems such as over purchasing, stock out, over-stocking and emergency purchases. Procurement team sent quote emails to more than two vendors but some were not responding. As per memorandum Revised dated December 01, 2009, if the vendor cannot provide quotation, we require a written response from them stating their position. This is strictly implemented going forward.
- b.) Respective MOH Doctors have specific choice of brand depends on the condition of the patient and best interest of the public. There were quality issues to quotations "counterfeit drugs from China and Philippines" submitted by the vendor most of which are not internationally approved. As per memorandum revised dated December 01, 2009, if the vendor with the lowest price was not selected, a justification will be provided signed by the Secretary. This is strictly implemented going forward.

Additionally, by looking at the supporting quote taken and how it was presented comparing to what is required and to the Invoice document, there was a "UNIT OF MEASURE PRICING" such as we require "per case" quotation but some vendor quote "as per box".

- c.) No excuses or no contest to the finding. Steps to remedy the finding have to be taken based on what the RMI Procurement Code currently and vaguely dictates. However, suggestions for amendments and/or exceptions for guidelines pertaining to this part of the finding should be considered, because "splitting" especially in terms other aspects of selecting "essential medical products" as opposed to just basing it on "the lowest bidder" is necessary because of the dynamics we have to deal with when procuring medical supply products. (i.e. - quality, end-user (medical staff) specific preferences based on their experience, quality associated quantity Vs. cost, "sterile" packing preferences by quantities preferred by end-users and outpatient purchases as specified by doctor prescriptions, etc.)

Corrective action plan is already in effect. The current steps adopted at the beginning of calendar year 2012 by Majuro Hospital medical supply procurement office as to the formatting of solicitation requests by breaking down into "batches" extensive lists of items solicited for price quotes from respective vendors.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2011

Finding No. 2011-2

Local Noncompliance

Criteria: In accordance with Section 146 of RepMar's Financial Management Act, checks for vendors located in the Republic of the Marshall Islands shall be made only after an invoice and purchase order have been presented. The original invoice shall be certified by the procurement office that all materials, supplies, and incidentals have been received and in good order and condition. In addition, prepayment may be made to vendors located outside RepMar, under extraordinary circumstances provided that (a) a written request for prepayment was made prior to the issuance of the purchase order; (b) justification for prepayment, in writing, was provided to show that such prepayment was necessary in order to obtain the required goods or derive a substantial savings in cost; and (c) it is determined that based on request and justification, a prepayment was necessary to obtain the required goods or derive a substantial savings in cost.

Condition: During the year ended September 30, 2011, the Fund entered into a promissory note agreement with and made a payment to a local vendor (check# 9178 dated June 17, 2011) for \$201,519 for twenty-seven (27) unfilled or partially filled purchase orders dated between October 2010 and May 2011. It appears that such payment did not comply with requirements pertaining to payments to local vendors. In addition, the prepayment did not meet condition letter (a) in the above-mentioned criteria.

Cause: The cause of the above condition is apparent financial problems experienced by the vendor requiring prepayment by the Fund for pharmaceuticals and medical supplies.

Effect: The effect of the above condition is noncompliance with the Financial Management Act.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with the applicable sections of the Financial Management Act.

Auditee Response and Corrective Action Plan:

The Ministry has developed stricter additional policies on prepayments. The Ministry will no longer make any pre-payments for medical supplies and pharmaceuticals unless items ordered are urgently needed based on life or death situation. Only fifty (50%) percent is the maximum allowed for any prepayment. The delivery of the items is within 60 days period, and in failure to do so, the amount of the liquidated damages shall be at least equal to one-tenth of one percent (0.1%) of the cost of the undelivered items for every day of delay. The vendor should submit a guarantee letter/commitment letter to protect the Ministry from the possibility of not receiving goods, supplies and materials for which it has already been 50% paid. All items received should be verified and checked by the Division of Supply and Procurement and submit to the Accounting Office with complete supporting documents for payment. The Accounting Office will update, record and reconcile the liquidation of prepayments.

In compliance with Section 146 (2)(a) of RepMar's Financial Management Act, the Ministry will require vendor a written request of prepayment attached to the submitted quotation.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2011

Finding No. 2011-3

Journal Entries

Criteria: Adequate accounting controls necessitate that journal entries and recorded adjustments be appropriately approved and documented. Furthermore, an independent review of journal vouchers should occur.

Condition: We noted that there is a lack of review of journal entries prior to the journal entries being entered into the system, or verification of journal entries after they have been entered. Additionally, we encountered journal entries for which supporting documentation was difficult to find or unavailable.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures over processing of journal entries.

Effect: The effect of the above condition is a potential that unauthorized journal entries may lead to misstatements of general ledger accounts.

Recommendation: We recommend that management adopt policies and procedures so that only authorized journal entries are posted to the general ledger.

Auditee Response and Corrective Action Plan:

The Ministry ensures that established internal control policies for the preparation of journal vouchers are strictly followed. There shall be an independent review for all journal vouchers to ensure they are correct, approved and properly documented. Going forward, all Journal Vouchers prepared by the Chief Accountant will be reviewed by Up-line personnel for posting. This is strictly followed and implemented.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2011

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (pages 13 through 17).