

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

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

# HEALTH CARE REVENUE FUND

Years Ended September 30, 2012 and 2011  
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## **INDEPENDENT AUDITORS' REPORT**

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

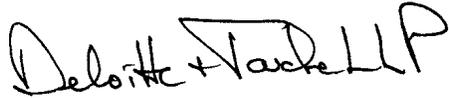
We have audited the accompanying balance sheets of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2012 and 2011, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013 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 + Touche LLP". The signature is written in a cursive, stylized font.

May 31, 2013

**HEALTH CARE REVENUE FUND**

Balance Sheets  
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash	\$ 3,073,589	\$ 2,457,088
Receivables:		
Affiliates	931,572	1,075,000
Employees	8,179	6,709
Other	40,877	11,629
	<u>980,628</u>	<u>1,093,338</u>
Less allowance for doubtful accounts	<u>(23,009)</u>	<u>(23,009)</u>
	957,619	1,070,329
Prepayment	<u>15,557</u>	<u>155,813</u>
	<u>\$ 4,046,765</u>	<u>\$ 3,683,230</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 290,098	\$ 155,588
Other liabilities and accruals	127,607	202,540
Payable to affiliates	47,707	41,925
Total liabilities	<u>465,412</u>	<u>400,053</u>
Fund balance:		
Non-spendable:		
Inventory and Prepaid amounts	15,557	155,813
Committed for:		
Health services	<u>3,565,796</u>	<u>3,127,364</u>
Total fund balance	<u>3,581,353</u>	<u>3,283,177</u>
Total liabilities and fund balance	<u>\$ 4,046,765</u>	<u>\$ 3,683,230</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Grants	\$ 527,407	\$ 522,114
Hospital charges	310,205	287,248
Other	88,764	92,523
	<u>926,376</u>	<u>901,885</u>
Total revenues	<u>926,376</u>	<u>901,885</u>
Expenditures:		
Pharmaceutical	1,699,567	1,371,650
Medical supplies	1,317,244	1,196,723
Hospital equipment	307,604	29,287
Professional and consulting fees	69,941	57,160
Grants and subsidies	46,880	45,465
Freight and delivery	11,351	33,405
Bad debt	-	25,000
Administrative:		
Salaries and wages	249,333	215,419
Travel	168,416	59,453
Training	94,458	59,707
Office equipment	42,527	48,001
Supplies	17,225	24,188
Communications	2,255	21,913
Other administrative expenses	169,437	81,499
	<u>4,196,238</u>	<u>3,268,870</u>
Total expenditures	<u>4,196,238</u>	<u>3,268,870</u>
Deficiency of revenues under expenditures	(3,269,862)	(2,366,985)
Other financing sources:		
Contributions from RepMar's Health Fund	<u>3,568,038</u>	<u>3,601,831</u>
	298,176	1,234,846
Net change in fund balance	298,176	1,234,846
Fund balance at beginning of year	<u>3,283,177</u>	<u>2,048,331</u>
Fund balance at end of year	<u>\$ 3,581,353</u>	<u>\$ 3,283,177</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2012 and 2011

### (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, 2012 and 2011

### (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, 2012 and 2011, the carrying amounts of the Fund’s cash were \$3,073,589 and \$2,457,088, respectively, and the corresponding bank balances were \$3,104,186 and \$2,505,425, respectively. Of the bank balances, \$3,003,781 and \$2,431,867, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, 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, 2012 and 2011

### (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

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, 2012 and 2011

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During the year ended September 30, 2012, the Fund implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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.

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.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2012 and 2011

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

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 has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements 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, 2012 and 2011

### (4) Related Party Transactions, Continued

Receivables from and payables to affiliates as of September 30, 2012 and 2011, are as follows:

	2012		2011	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 910,976	\$ -	\$ 801,851	\$ -
General Fund	20,596	25,654	273,149	21,282
Other	-	22,053	-	20,643
	\$ 931,572	\$ 47,707	\$ 1,075,000	\$ 41,925

Contributions from RepMar's Health Fund during the years ended September 30, 2012 and 2011 were \$3,568,038 and \$3,601,831, 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, 2012 and 2011, respectively.

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

	2012		2011	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
General Fund:				
Reimbursement for utility costs	\$ -	\$ -	\$ 252,641	\$ -
Other	20,596	25,654	20,508	21,282
	\$ 20,596	\$ 25,564	\$ 273,149	\$ 21,282

### (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, 2012, and have issued our report thereon dated May 31, 2013. 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**

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 19), 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 2012-4 to be material weaknesses.

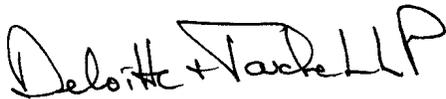
## Compliance and Other Matters

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 items 2012-1 through 2012-3.

We also noted certain matters that we reported to management of the Fund in a separate letter dated May 31, 2013.

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

May 31, 2013

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses  
Year Ended September 30, 2012

Finding No. 2012-1

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.
- (d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file

Condition: We noted the following items where supporting documentation was inadequate to evidence compliance with the procurement process set forth in the criteria:

- a) PO# 7059, amounting to \$24,990 was processed without a price vendor quotation. The air waybill addressed to Majuro Hospital, signifying shipment of the items, was dated May 4, 2012 which precedes the purchase requisition and purchase order dated May 7, 2012 and May 10, 2012, respectively.

PO# 7108 dated May 18, 2012 in the amount of \$24,990 indicated an air waybill dated May 11, 2012 intended for a May 14, 2012 flight addressed to Majuro Hospital. The price quotation was dated May 16, 2012, which was after the air waybill date.

It appears that the requestor already selected a vendor and procured the goods prior to processing the required procurement documentation.

- b) The following purchase orders did not evidence selection of the lowest bidder (price quotes):

PO No.	GL Account	Amount
7167	Pharmaceuticals	\$ 4,256
6758	Pharmaceuticals	\$16,679
6760	Pharmaceuticals	\$16,002

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2012

Finding No. 2012-1

Local Noncompliance, Continued

There is no justification on file why the lowest bidder was not selected. It appears that competitive selection processes were not followed as required by RepMar's Procurement Code.

- c) During examination of medical supplies, we noted the following purchases and payments:

PO No.	GL Account Name	PO Amount
6828	Medical Supplies	\$ 18,350
6829	Medical Supplies	\$ 14,662
6830	Medical Supplies	\$ 9,214
6845	Pharmaceutical	\$ 21,634
6846	Pharmaceutical	\$ 22,978
6975	Pharmaceutical	\$ 22,467
6976	Pharmaceutical	\$ 22,615
6977	Pharmaceutical	\$ 22,487
6978	Pharmaceutical	\$ 22,197

Items included under the PO's were of a similar nature. In addition, justifications were similar, were proposed by the same requestor, and PR's and PO's were processed on the same date. It appears that the listed PO's were artificially divided to constitute small purchases.

- d) Per examination of Purchases Orders (PO), we noted the following that were classified as "emergency".

PO No.	PO Date	GL Account	Receiving Date	Amount
6707	11/14/2011	Medical Supplies	1/30/2012	\$ 19,917
6708	11/14/2011	Medical Supplies	1/30/2012	\$ 9,323
6709	11/14/2011	Medical Supplies	1/30/2012	\$ 8,113

Transactions presented are not documented by written justification why "sole source" procurement was utilized.

- e) The following PO was "sole source" and an "emergency" purchase.

PO No.	PO Date	GL Account Name	Receiving Date	Amount
7031	5/2/2012	Medical Equipment	7/10/2012	\$24,850

The supplier indicated that the expected delivery date was to be 8 to 12 weeks.

The Procurement Code states, "emergency procurement shall be made with such competition as is practicable under the circumstances." In this instance, it appears practicable that additional quotations would be sought from other suppliers and the represented emergency was not defined.

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2012

Finding No. 2012-1

Local Noncompliance, Continued

f) We noted the following "emergency" purchases.

PO No.	GL Account Name	Justification	Amount
7029	Medical Supplies	Out of stock	\$ 19,700
7058	Medical Supplies	Out of stock	\$ 16,374
7224	Pharmaceutical	Out of stock	\$ 24,599
7249	Pharmaceutical	Out of stock	\$ 24,599
7107	Medical Equipment	Due to lack of preventive maintenance	\$ 12,289

While management considers the items to be critical, it appears that the Fund has weak inventory planning that resulted in out-of-stock conditions and non-performance of preventive maintenance. If such are critical items, such should be monitored and maintained to meet patient's immediate needs.

g) Per examination of a PO for \$1,347 (PO#7206), we noted two quotations. Additional attachment is a list of medical supplies on stock and does not include the requested item. It appears that there is non-compliance under Ministry of Finance's policies.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code and Ministry of Finance's policies.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code and Ministry of Finance's policies.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code and Ministry of Finance's policies.

Auditee Response and Corrective Action Plan:

- I. May 4<sup>th</sup> of 2012, Friday in Majuro, Oxygen machine was not functioning and PII-Majuro was not able to provide oxygen filled cylinder. Thus, it posed threat to admitted patients who needed oxygen right away. An on-island vendor had stock items and they were ready for immediate delivery.
- II. We aim to establish a fair and efficient procurement system. 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 three vendors. These emails were attached to the purchase request. Based on experience, some of the vendor submitted quotes of drugs made in USA and USFDA approved but when they delivered, they served drugs made in India. Some vendor also had no pharmaceutical license to import and export US made drugs. And some vendor delivered nearly expired drugs. Moving forward the Ministry will enhance proper documentation on the justifications reflected in the purchase request.

## HEALTH CARE REVENUE FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding No. 2012-1

#### Local Noncompliance, Continued

#### Auditee Response and Corrective Action Plan, Continued:

- III. Splitting of request quarterly will be an on-going finding. Suggestion for amendments of the procurement threshold amounting from usd25,000 to a higher amount or exception for guidelines pertaining to this part of the finding should be considered. The price in the market is not stable and we are all aware that all suppliers are persistent in high medical prices. There should be favorable balance between RMI procurement code and usage rate or demand of medicines in the hospital.
- IV. The Ministry will continue to strengthen its procurement policy. It is noted based on procurement code # 128 that justification letter should be attach for sole source of the required supply.
- V. May 2, 2012, Majuro Hospital did not have Bio-med engineer to check the Booster Pump. We have an on-island vendor who had its own Bio-med engineer who assisted to install the equipment with warranty and will provide service after sale. The procurement code #129 for emergency states that procurement should be done with such competition among all certified vendor. There was no documented law and policy which clearly states if there is an emergency request, all/some procurement code will be null and void. Going forward, procurement department will take note of this and be compliant to RepMar's Procurement code.
- VI. The Ministry will fully enhance Inventory control to avoid emergency request due to out-of-stock and lack of maintenance in Pharmacy department. An additional full time staff to monitor is needed.
  - The Ministry partially established the inventory module to resolve and do-away emergency request due to out-of-stock and lack of inventory maintenance. We established only the inventory general ledger account but not yet the whole issuance process. Going forward the Ministry will properly enhance the receiving and issuance of medicines using the inventory system.
- VII. Going forward, requestor will attach a formal quote from the vendor to all purchase request and not inventory listing.

## HEALTH CARE REVENUE FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding No. 2012-2

#### Local Noncompliance

Criteria: Adequate controls and review are required prior to processing purchase orders.

Condition: Per examination of medical equipment purchased during FY12, we noted the following details:

<u>PO No.</u>	<u>GL Account</u>	<u>Justification</u>	<u>Receiving Date</u>	<u>Amount</u>	<u>Classification</u>
7032	Medical Supplies	To repair steam sterilizer for OR supplies	May 7, 2012	\$ 2,097	Emergency Purchase

During the conduct of the test for physical existence of FY12 medical equipment purchased, we noted that the above item could not be located. Per discussion with the Central Sterile Supply Department (CSSD) Supervisor, the items were returned to the vendor on December 2012. The ordered items were not applicable to the equipment as it was repaired and modified several times. The purchase order was paid upon invoice receipt on May 10, 2012.

It appears that there is inefficiency as to processing purchase requests such that the requestor lacks sufficient information that caused the ordered item to be returned. It also appears that there is weak internal control over the receiving process as it took almost seven months to report that the items ordered were not suitable and could not be used. In addition, it also appears that there is lack of adequate review prior to processing Purchase Requests.

Cause: Lack of adequate internal control policies relative to review of purchase requests prior to processing.

Effect: The effect of the transaction above causes a loss to the Fund and contributes to the inefficiency of hospital operations.

Recommendation: We recommend that management adopt adequate internal control policies relative to processing purchase requests.

Auditee Response and Corrective Action Plan: The Ministry will implement efficiency as to the process of purchase request such that the requestor should provide enough information to purchase a spare part. Upon receipt of the items end-user will check the items if it will fit to the machine. Thus, after receipt of the item in good condition, forward the invoice to accounting for payment.

## HEALTH CARE REVENUE FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding No. 2012-3

##### Local Noncompliance

Criteria: Section 304 of the Health Care Revenue Fund Act states that the total amount of funds expended in any financial year relating to the provision and administration of other health services shall, excluding sums received and expended for specific purposes, not exceed five percent (5%) of the sums expended from the Fund.

Condition: Total administrative expenditures unrelated to specific purposes aggregated \$226,049 or 6.73% of FY12 total administrative expenditures of \$3,359,835.

Cause: The cause of the above condition is increase in Fund expenditures.

Effect: The effect of the above condition is potential non-compliance with the existing Health Care Revenue Fund Act.

Recommendation: We recommend management establish adequate internal control policies to facilitate compliance with Section 304 of the Health Care Revenue Fund Act.

Auditee Response and Corrective Action Plan: The difference in amount is due to the required section 7 Appropriation Act of which MoH will pay 8% (eight percent). This is the first ever required payment. If the Ministry did not pay for the dues as per appropriation act, it still would have been a finding for non-compliance. The Ministry will closely monitor not to exceed 5% next year.

## HEALTH CARE REVENUE FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding No. 2012-4

##### Inventory Issuances

Criteria: Adequate control and monitoring necessitate that inventory issuances be properly monitored and authorized.

Condition: Issuance sheets were not pre-numbered or uniform. Approved requisition forms were not available to support issuances. Several issuance sheets did not contain signatures of issuer and receiver. In addition, no periodic summary of issuances was reported. Thus, recording of issuances to the accounting system is not timely performed.

Cause: The cause of this condition is lack of adequate internal control policies over monitoring inventory issuances.

Effect: Invalid and unauthorized issuances may result.

Recommendation: We recommend that management adopt policies and procedures over monitoring inventory issuances.

Auditee Response and Corrective Action Plan: The Ministry partially established the inventory module to resolve and do-away emergency request due to out-of-stock and lack of inventory maintenance. We established only the inventory general ledger account but not yet the whole issuance process. Copies of Issuance slip standard template were being provided to Supply department for implementation. Every batch of medicine released will have a corresponding slip going forward.

## **HEALTH CARE REVENUE FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2012

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (pages 13 through 19).