

May 31, 2013

Ms. Justina Langidrik
Secretary of Health
Republic of the Marshall Islands

Dear Ms. Langidrik:

In planning and performing our audit of the financial statements of the Health Care Revenue Fund (the Fund) as of and for the year ended September 30, 2012 (on which we have issued our report dated May 10, 2013), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Fund's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Honorable David Kabua, Minister of Health, also 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 definition of a deficiency is also set forth in the attached Appendix I.

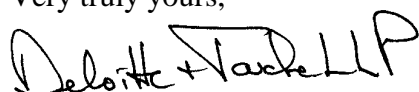
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Ministry of Health, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Fund's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

(1) Travel Advances

In accordance with RepMar travel rules and regulations, travelers are required to submit within fifteen days of the end of travel, a travel voucher claim (TVC) to liquidate travel advances. Failure to submit a TVC within the required period results in a payroll deduction.

As of September 30, 2012, the Fund recorded \$8,179 of travel advances, all of which have exceeded the 15 day requirement with 61% of the advances outstanding for over a year. We recommend that management take reasonable steps to comply with established travel policies. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2006 through 2011.

(2) Receivables

At September 30, 2012, receivables of \$20,596 from RepMar have been outstanding for several years. We recommend that management determine resolution of the outstanding receivable due from RepMar. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2003 through 2011.

(3) Allowance for Doubtful Accounts

During fiscal year 2012, the Fund recorded \$130,241 of bad debts for hospital user fees uncollected as of September 30, 2012. This amount was netted against hospital user charges. Historically, the Fund has not made substantial collection of receivables from hospital users, and a 100% allowance has been provided. However, management does not periodically examine receivables to determine collectability and to assess required allowances. We recommend that management pursue collection of receivables and determine the adequacy of the allowance for doubtful accounts. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2010 and 2011.

(4) Withholding Tax

During tests of FY12 expenditures, we noted withholding taxes of \$2,019 that have not yet been remitted for almost a year. We recommend management timely remit taxes.

(5) Disbursement Process

An air waybill for PO#6181 of \$769 was paid in the amount of \$779, resulting in an overpayment of \$10. We recommend management establish adequate internal controls and review documents prior to payment.

(6) Prepayments

During our examination of prepayments, we noted a year-end adjustment relating to received items from September to November 2011 under prepaid purchase orders. The adjustment was in the amount of \$87,914. It appears that the Fund has weak monitoring over prepayments considering that items were received almost a year before the adjustment.

In addition, we noted that a cash refund was received from a vendor relative to incomplete delivery of prepaid purchase orders. It appears that there are weak assessments over the vendor selection process, that particularly on vendor capabilities to respond to complete and timely deliveries. We recommend that management implement vendor selection processes that allow the selection committee to choose vendors who can deliver in a complete and timely manner.

(7) Delegation of Authority

Check # 10883 for \$18,450 was transferred to another fund without the signature of the Secretary of Health. While the Fund's policy requires two signatories, the letter of request for fund transfer was only signed by the Assistant Secretary.

We recommend management comply with existing policy.

(8) Accruals

A \$40,466 vendor payable has been outstanding beyond a year without support documents. This balance accumulated from 2007 to 2011. It appears there is weak monitoring of accruals and an absence of required supporting documents.

In addition, another \$33,950 liability has been outstanding for several years. It appears that the Fund lacks a standard reconciliation process that causes the long outstanding balances.

We recommend management enhance control over monitoring accruals.

(9) Salaries

There were several employees whose employment contracts were not updated and maintained on file. We recommend management timely update and maintain personnel files.

(10) Bank Reconciliation

Per examination of monthly bank reconciliations, no signature on evidenced the review process. We recommend management perform independent review of bank reconciliations other than the preparer.

SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Progress Reports

Based on terms and conditions of the Secretariat of the Pacific Community (SPC) funded TB and HIV Program Grant Agreements, periodic reports shall be submitted not later than 25 days after the end of each reporting period indicating progress towards Program objectives and targets. However, such reports were not available. We recommend completion and filing of progress reports to document monitoring of program implementation results. The matter has been discussed in our previous letter for the audit of the Fund for fiscal year 2011.

(2) Grant Agreements

The Fund overspent \$20,000 for its TB Program which caused a borrowing of funds to accommodate the TB Program expenditures. The agreement relating to the reimbursement was not locatable. We recommend that copies of agreements be maintained on file.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Fund's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.