

**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, 2013 AND 2012**

# HEALTH CARE REVENUE FUND

Years Ended September 30, 2013 and 2012  
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## **INDEPENDENT AUDITORS' REPORT**

Honorable Phillip Muller  
Minister of Health  
Republic of the Marshall Islands:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Health Care Revenue Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balance for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

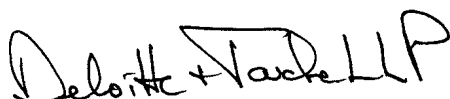
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Care Revenue Fund as of September 30, 2013 and 2012, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter - Reporting Entity***

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.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2014, on our consideration of the Health Care Revenue 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Care Revenue Fund's internal control over financial reporting and compliance.

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

June 3, 2014

# HEALTH CARE REVENUE FUND

Balance Sheets  
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash	\$ 2,302,963	\$ 3,073,589
Receivables:		
Affiliates	1,322,972	931,572
Employees	15,233	8,179
Other	<u>32,149</u>	<u>40,877</u>
	1,370,354	980,628
Less allowance for doubtful accounts	<u>(23,009)</u>	<u>(23,009)</u>
	1,347,345	957,619
Prepayment	<u>4,613</u>	<u>15,557</u>
	<u>\$ 3,654,921</u>	<u>\$ 4,046,765</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 72,496	\$ 290,098
Other liabilities and accruals	107,542	127,607
Payable to affiliates	<u>13,882</u>	<u>47,707</u>
Total liabilities	<u>193,920</u>	<u>465,412</u>
Contingency		
Fund balance:		
Non-spendable:		
Inventory and prepaid amounts	4,613	15,557
Committed for:		
Health services	<u>3,456,388</u>	<u>3,565,796</u>
Total fund balance	<u>3,461,001</u>	<u>3,581,353</u>
Total liabilities and fund balance	<u>\$ 3,654,921</u>	<u>\$ 4,046,765</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Grants	\$ 692,968	\$ 527,407
Hospital charges	333,361	310,205
Other	<u>54,798</u>	<u>88,764</u>
Total revenues	<u>1,081,127</u>	<u>926,376</u>
Expenditures:		
Pharmaceutical	1,986,868	1,699,567
Medical supplies	1,507,668	1,317,244
Hospital equipment	297,882	307,604
Professional and consulting fees	128,754	69,941
Grants and subsidies	40,144	46,880
Freight and delivery	7,779	11,351
Administrative:		
Salaries and wages	227,438	249,333
Training	92,541	94,458
Travel	42,199	168,416
Supplies	13,971	17,225
Office equipment	5,908	42,527
Communications	2,578	2,255
Other administrative costs	<u>35,398</u>	<u>169,437</u>
Total expenditures	<u>4,389,128</u>	<u>4,196,238</u>
Deficiency of revenues under expenditures	(3,308,001)	(3,269,862)
Other financing sources:		
Contributions from RepMar's Health Fund	<u>3,187,649</u>	<u>3,568,038</u>
Net change in fund balance	(120,352)	298,176
Fund balance at beginning of year	<u>3,581,353</u>	<u>3,283,177</u>
Fund balance at end of year	<u>\$ 3,461,001</u>	<u>\$ 3,581,353</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2013 and 2012

### (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 were 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 55% distribution should be made after deducting the 10% costs associated with the administration of MOH Health 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, 2013 and 2012

### (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, 2013 and 2012, the carrying amounts of the Fund’s cash were \$2,302,963 and \$3,073,589, respectively, and the corresponding bank balances were \$2,411,135 and \$3,104,186, respectively. Of the bank balances, \$2,266,977 and \$3,003,781, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, 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 uncollateralized and 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, 2013 and 2012

### (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, 2013 and 2012

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

#### New Accounting Standards

During the year ended September 30, 2013, the Fund implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of these statements did not have a material effect on the accompanying financial statements.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2013 and 2012

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

#### New Accounting Standards, Continued

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.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Fund.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. 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.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2013 and 2012

### (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.

Receivables from and payables to affiliates as of September 30, 2013 and 2012, are as follows:

	2013		2012	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 1,301,402	\$ -	\$ 910,976	\$ -
General Fund	21,570	5,486	20,596	25,654
Other	<u>-</u>	<u>8,396</u>	<u>-</u>	<u>22,053</u>
	\$ <u>1,322,972</u>	\$ <u>13,882</u>	\$ <u>931,572</u>	\$ <u>47,707</u>

Contributions from RepMar's Health Fund during the years ended September 30, 2013 and 2012 were \$3,187,649 and \$3,568,038, 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, 2013 and 2012, respectively.

### (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 Phillip Muller  
Minister of Health  
Republic of the Marshall Islands:

We have audited, in accordance with the 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, the financial statements of the Health Care Revenue Fund, which comprise the balance sheet as of September 30, 2013, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 3, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Care Revenue Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Health Care Revenue Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Care Revenue Fund's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

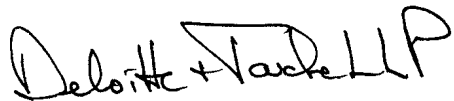
As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2013-1.

## **Health Care Revenue Fund's Responses to Findings**

The Health Care Revenue Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Health Care Revenue Fund's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

June 3, 2014

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses  
Year Ended September 30, 2013

Finding No. 2013-1

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:

Per examination of medical and pharmaceutical supplies, we noted the following purchases and payments that appear to represent the potential split of purchase orders:

- (i) PO#7422 and PO#7423 had the same date and description, as follows:

<b>PR Date</b>	<b>PO Date</b>	<b>PO#</b>	<b>Amount</b>
29-Nov-12	12-Dec-12	7422	\$ 21,960
29-Nov-12	12-Dec-12	7423	<u>7,962</u>
			\$ <u>29,922</u>

- (ii) A similar case was noted for PO #s7445 - 7449.

<b>PR Date</b>	<b>PO Date</b>	<b>PO#</b>	<b>Amount</b>
5-Nov-12	14-Dec-12	7445	\$ 17,402
5-Nov-12	14-Dec-12	7446	22,925
5-Nov-12	14-Dec-12	7447	20,613
5-Nov-12	14-Dec-12	7448	18,579
5-Nov-12	14-Dec-12	7449	<u>22847</u>
			\$ <u>102,367</u>

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-1

Local Noncompliance, Continued

(iii) The same appears consistent with the following:

<u>PR Date</u>	<u>PO Number</u>	<u>Amount</u>
6-Feb-13	7514	\$ 24,250
6-Feb-13	7515	<u>15,212</u>
		\$ <u>39,461</u>

(iv) A similar situation was noted for PO #s7431 - 7440.

<u>PR Date</u>	<u>PO Date</u>	<u>PO#</u>	<u>Amount</u>
5-Nov-12	13-Dec-12	7431	\$ 22,789
5-Nov-12	13-Dec-12	7432	22,913
5-Nov-12	13-Dec-12	7433	22,726
5-Nov-12	13-Dec-12	7434	22,772
5-Nov-12	13-Dec-12	7435	22,377
5-Nov-12	13-Dec-12	7436	22,888
5-Nov-12	13-Dec-12	7437	22,504
5-Nov-12	13-Dec-12	7438	16,547
5-Nov-12	13-Dec-12	7439	22,770
5-Nov-12	13-Dec-12	7440	<u>22,665</u>
			\$ <u>175,251</u>

Per the Procurement Code, any purchase exceeding \$25,000 should undergo formal bidding processes. The above purchases appeared to exhibit characteristic of intentionally being split. We conclude that these purchases appear to be non-compliant with the RepMar Procurement Code.



**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-1

Local Noncompliance, Continued

Per examination of Purchases Orders (PO), we noted the following that were classified as "emergency" and/or "sole source" purchases.

- (i) PO #7512 was described as an Emergency Purchase of pharmaceutical supplies. The minimum 3-vendor quotation requirement was waived by the requestor. In addition, the waiver stated that the local vendor chosen could deliver the items requested upon receipt of the PO. However, delivery of the items arrived in installments and the first delivery occurred almost three months after the PO date.

<b>PO #</b>	<b>Date items were received</b>	<b>Amount</b>	
7512	27-May-13	\$ 1,634	8%
7512	28-May-13	3,857	20%
7512	14-Jun-13	1,740	9%
7512	19-Jun-13	11,844	60%
7512	6-Aug-13	<u>622</u>	3%
		\$ <u>19,698</u>	

- (ii) The same was noted for the purchase of medical supplies related to MP-00954 which was noted to be an "emergency" purchase. A deadline was set in the request from vendors because of the presence of a "Public Health Threat." However, the items were delivered in installments over a period longer than four weeks from the PO date:

<b>PR Date</b>	<b>PO Date</b>	<b>Invoice Date</b>	<b>Amount</b>
31-Jul-13	9-Aug-13	2-Sep-13	\$ 9,159
		11-Nov-13	1,345
		22-Nov-13	<u>1,345</u>
			\$ <u>11,850</u>

Valid support for the purchase to be considered an "emergency" does not appear to exist considering the delivery time compared with the date of the PO.

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-1

Local Noncompliance, Continued

- (iii) An emergency PO was noted in #7508 which was classified as an "Urgent" purchase from a "Sole Source" vendor. Email communication stated that the vendor is the only one on-island who has a qualified Bio-Medical Engineer who could offer less turnaround time for set up. The communication also stated that the item was ready to be delivered upon receipt of the PO; however, per the quotation, actual delivery was to be within 8 to 12 weeks. Related dates as follow does not support the purchase as an "emergency" considering the times lapsed from request to item receipt.

PR date	6-Feb-13
PO date (007508)	20-Feb-13
ETD of item from Guam	10-Apr-13
ETD of item in Majuro	18-Apr-13
Invoice Date	7-May-13

- (iv) Another "emergency" and "sole source" purchase was noted in PO #7639 and PO #7500 which was classified as an "emergency" purchase which applied "sole source" service. A price quotation indicated that expected delivery date was within 8 to 12 weeks. Noting the expected delivery date, the requestor pursued sole source and failed to seek additional quotations from other suppliers. The request was for six (6) emergency incubators. However, the request was separated into two (2) POs with the following dates:

<b>First request:</b>	<b>PR date</b>	<b>5-Nov-12</b>	<b>Second request:</b>	<b>PR date</b>	<b>21-Dec-12</b>
PO date (007369)		9-Nov-12	PO date (007500)		7-Feb-13
Delivery:			Delivery:		
1st Invoice (1)		19-Nov-12	1st Invoice (1)		11-Apr-13
2nd Invoice (1)		17-Dec-12	2nd Invoice (1)		26-Apr-13
3rd Invoice (2)		10-Jan-13			

Per email the vendor stated that the items were on stock in Majuro and were ready for delivery. However, per discussion with Donna Gianan, the Chief Accountant, it was confirmed that the vendor advised that the items were not actually in Majuro. The Procurement Code states, "emergency procurement shall be made with such competition as is practicable under the circumstances."

The above transaction appears to be non-compliant with the RepMar Procurement Code.

**HEALTH CARE REVENUE FUND**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-1

Local Noncompliance, Continued

- (v) PO#7690 was also noted to be non-compliant with the RepMar Procurement Code. Justification was an "emergency" purchase for the drought in outer islands. A single quote from a sole vendor was on file stating that the items can be delivered immediately. However, deliveries were actually made in installments and the first delivery was on 8/8/2013, approximately 2 months after the PO date:

<u>Invoice #</u>	<u>Delivery date</u>	<u>Amount</u>
S13-0329	8-Aug-13	\$ 2,232
S13-0470	19-Aug-13	13,950
S13-0499	16-Sep-13	<u>1,953</u>
		\$ <u>18,135</u>

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.

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 2012.

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: We agree with the findings. Currently, the Ministry is working on bidding process for medical supplies and pharmaceuticals within this fiscal year (FY2014). Also, the inventory system is now established and should be in use within this fiscal year as well.

## **HEALTH CARE REVENUE FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2013

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