Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 3, 2014

Ms. Julia Alfred
Secretary of Health
Republic of the Marshall Islands

Dear Ms. Alfred:

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, 2013 (on which we have issued our report dated June 3, 2014), 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, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Phillip Muller, Minister of Health, also dated June 3, 2014, 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,

Deloitte & Touche LLP

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Fund's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

(1) Travel Advances

As of September 30, 2013, the Fund recorded $15,233 of travel advances, 43% of which ($6,513) were 180 days past due. Per RepMar policy, travel advances should be liquidated within 15 days from the date of travel. All outstanding travel advances exceeded the 15-day requirement. We recommend that management take reasonable steps to comply with established travel policies. This matter was discussed in our previous audits for fiscal years 2006 through 2012.

(2) Receivables

Receivables of $20,596 from RepMar Finance have remained outstanding for several years. We recommend that management assess the collectibility of this amount and whether it be appropriate to write-off the entire amount if deemed uncollectible. This matter was discussed in our previous audits for fiscal years 2003 through 2012.

(3) Allowance for Doubtful Accounts

As of September 30, 2013, the Fund recorded an allowance for Hospital user fee receivables of $5,687,892, which related to services dating back as far as FY 2002. We recommend that management continue to pursue collection of long outstanding receivables. This matter was discussed in our previous audits for fiscal years 2010 through 2012.

(4) Accruals

An accrual of $11,830 has been outstanding since 2011 and could not be reversed due to lack of sufficient evidence.

We recommend that management timely review and reconcile long outstanding accruals.

(5) Salaries

An original employment contract was not on file. This matter was raised in prior year audits and we continue to recommend that management maintain updated personnel files.

(6) Bank Reconciliation

Only one bank account reflected a reviewer's signature on bank reconciliation. All bank reconciliations should be reviewed by someone other than the preparer.

(7) Price Quotation Validity

No vendor signature was on a price quotation. We recommend that management document the validity of vendor quotes.

(8) Delegation of Authority

PO#7308 did not reflect authorized signatures. We recommend that management subject all purchase orders to established review processes.

SECTION I –DEFICIENCIES, CONTINUED

(9) Reimbursement of Grants

During FY 2013, the Fund returned grant funds relating to the Pacific Islands HIV and STI Respond Fund; however, the Fund's records indicated that this grant incurred a deficit. We recommend that management determine the ultimate financial status of grant funds prior to reimbursement and thus avoid the returning of grant funds that have, in fact, been spent.

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) Adequacy of Documents

Certain documentation could not be provided us.

PO#7538, Checks #11865, 11922, and 11993
POs #7535, Check #10914
Check#01887

Documentation should be on file in support of all recorded financial statement transactions.

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.