

April 29, 2010

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 Marshall Islands Health Fund (the Fund) as of and for the year ended September 30, 2009 (on which we have issued our report dated April 29, 2010), 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, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Amenta Matthew, Minister of Health, also dated April 29, 2010, 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.

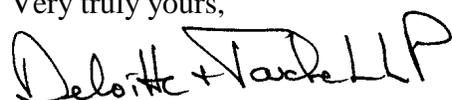
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

We identified, and have included below, control deficiencies involving the Fund’s internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

(1) Cash

At September 30, 2009, the Bank of Marshall Islands bank account had reconciling items of \$6,656 from December 2008 through September 2009 pertaining to undeposited collections which were only deposited in December 2009. We recommend proper monitoring and timely deposit of cash.

(2) Cash

The Fund has petty cash of \$100 in Majuro and \$200 in Honolulu but these are not recorded or reconciled. We recommend that management ensure that the petty cash fund is recorded and periodically reconciled.

(3) Revolving Fund

Deposits with the Third Party Administrator (TPA) were not reconciled during the fiscal year 2009. We recommend that reconciliations of deposits with the TPA be performed regularly and that supporting documentation be maintained. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2005 through 2008.

(4) Expenditures

Currently, the Fund does not reserve for or accrue unbilled but incurred off-island health care expenditures. Rather, the Fund relies on after-the-fact reporting by health care providers to record these expenditures. Since hospital billings are not timely received, we recommend that management establish a method of estimating and providing for unbilled but incurred health care expenditures. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2005 through 2008.

(5) Expenditures

As part of services provided by the TPA, the TPA medical director is tasked with ensuring that medical charts are checked and that medical procedures and treatment protocols are reviewed. The TPA is also responsible for processing and reviewing claims and paying health care providers. We recommend that management ensure that the TPA has adequate policies and procedures in place to ensure that such services are adequately provided. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2007 and 2008.

(6) Account Reconciliation

During the year, we noted delays in transaction posting, late preparation of bank reconciliations, unusual debit/credit balances exist, journal entries are not reviewed, and discrepancies in GL/SL balances. We recommend that management establish policies and procedures to ensure that account reconciliations are performed timely and regularly. Further, an appropriate independent review by management personnel other than the preparer should also be implemented. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2007 and 2008.

(7) Closing of books

The preliminary opening fund balance is not reconciled to prior year audited accounts. Prior year adjustments were not booked accordingly which further resulted to misstatements in the preliminary amounts in the balance sheet accounts. We recommend that appropriate financial closing and reconciliation procedures, including related reversal of closing balances in subsequent period, be implemented.

(8) RMI Withholding Tax

The Fund did not remit the taxes withheld from May 2009. We recommend that timely remittance of taxes withheld to regulatory authorities be done.

(9) Health Plan Withholding

As of September 30, 2009, unremitted health plan withholding for the Fund's employee amounted to \$9,220. We recommend that the GL account # 5035 be reviewed for proper disposition of supposed health plan contributions withheld from its employee.

(10) Cash

The Fund has outstanding bank accounts maintained by its previous TPA, Medpharm Phil., Inc., with a total balance of \$27,824. The services of Medpharm have been terminated in 2007 but the Fund has not collected its outstanding cash balance due to lack of proper directive to recover the funds. We recommend that proper action be taken to have the accounts closed to receive remaining cash balance.

11) Invoice and medical referral supports

Of fourteen expenditures tested, a supporting referral form for check # 06593 was not available. We recommend appropriate documentation be on file to support Fund expenses.

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) Outer Island Medical Services

Section 211(2)(a) of the Marshall Islands Health Fund Act, as amended, requires that a sum equal to two and one half percent (2.5%) of the remaining forty-five per cent (45%) shall be transferred to the Ministry of Health Services, on a quarterly basis, to support domestic medical referrals.

Currently, the allocation for outer island medical services is recorded and accounted for together with other expenditures in the Basic Health Program within the Fund. To better monitor funds for outer islands medical services, including determining balances or deficiencies of fund allocation, we recommend that management establish policies and procedures to ensure that these funds are accounted for separately from other Fund expenditures. This matter was discussed in our previous letters for the audits of the Fund for fiscal years 2005 through 2008.

(2) Transfers to RepMar's Health Care Revenue Fund

The Marshall Islands Health Fund Act, Section 211(1), states that the Fund shall transfer to the Health Care Revenue Fund, fifty-five (55%) of total quarterly contributions collected. Fund transfers to the Health Care Revenue Fund has been made on a basis of net receipts rather than of contributions collected. We recommend that management consult with legal counsel and ascertain whether such transfers should be on a net receipts or contributions collected basis.

(3) Employee Turnover

During the year, several employees left, including the previous Chief Accountant, who was only replaced on November 2009. With this, there has been no proper transition of designated tasks. During the audit, there have been occasions wherein employees are either unaware of the nature of transactions or are not updated of the current status of company accounts. Thus we recommend that proper documentation be maintained, ensure transaction accountability and proper turnover of designated roles and responsibilities.

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.