

MARSHALL ISLANDS HEALTH FUND
(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2017 and 2016
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INDEPENDENT AUDITORS' REPORT

Honorable Kalani Kaneko
Minister of Health
Republic of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Health Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2017 and 2016, 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 Marshall Islands Health Fund as of September 30, 2017 and 2016, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

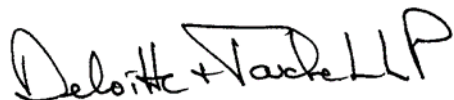
Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Health 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of the Marshall Islands Health 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 solely 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 the effectiveness of the Marshall Islands Health Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall Islands Health Fund's internal control over financial reporting and compliance.



June 29, 2018

MARSHALL ISLANDS HEALTH FUND

Balance Sheets
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 166,030	\$ 782,858
Receivables:		
Contributions	1,984,494	1,735,969
Affiliates	1,819,085	1,648,629
Employees	19,766	52,474
Due from Third Party Administrator	<u>38,650</u>	<u>38,650</u>
	<u>3,861,995</u>	<u>3,475,722</u>
Prepayments	130,496	130,496
Other assets	<u>350,000</u>	<u>350,000</u>
Total assets	<u>\$ 4,508,521</u>	<u>\$ 4,739,076</u>
 <u>LIABILITIES AND FUND BALANCE</u> 		
Liabilities:		
Accounts payable	\$ 109,112	\$ 300,033
Medical claims payable	1,572,392	687,803
Payable to affiliates	<u>6,127</u>	<u>3,617,280</u>
Total liabilities	<u>1,687,631</u>	<u>4,605,116</u>
Contingencies		
Fund balance:		
Non-spendable:		
Prepaid amounts	130,496	130,496
Committed for:		
Health services	<u>2,690,394</u>	<u>3,464</u>
Total fund balance	<u>2,820,890</u>	<u>133,960</u>
Total liabilities and fund balance	<u>\$ 4,508,521</u>	<u>\$ 4,739,076</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2017 and 2016

	2017	2016
Revenues:		
Basic Health Fund collections	\$ 7,468,520	\$ 7,041,401
Supplemental Health Fund collections	672,911	642,824
Other	1,813	4,479
Total revenues	8,143,244	7,688,704
Expenditures:		
Off-island care	3,876,947	4,046,288
Off-island travel	779,156	843,397
Other medical charges	182,525	231,456
Professional and consulting fees	162,145	142,520
On-island care	143,714	143,583
Administrative:		
Salaries and wages	240,266	237,000
Collection fees	200,000	200,000
Travel	64,887	24,769
Repairs and maintenance	51,020	19,385
Utilities	38,128	54,897
Communications	21,876	15,001
POL	11,112	7,726
Insurance	4,430	25,279
Other administrative charges	55,616	67,940
Total expenditures	5,831,822	6,059,241
Excess of revenues over expenditures	2,311,422	1,629,463
Other financing sources (uses), net:		
Transfers in from the Health Care Revenue Fund	375,508	-
Contributions from RepMar's General Fund	-	1,805,440
Contributions to the Health Care Revenue Fund	-	(3,450,506)
Contributions to RepMar's General Fund	-	(26,946)
Total other financing sources (uses), net	375,508	(1,672,012)
Net change in fund balance	2,686,930	(42,549)
Fund balance at beginning of year	133,960	176,509
Fund balance at end of year	\$ 2,820,890	\$ 133,960

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2017 and 2016

(1) Reporting Entity

The Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Fund Act of 2002. The Fund was established to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, or as an approved off-island medical referral, or as emergency off-island medical care.

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 and is governed by a seven-member Board.

(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 on 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.

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 quarterly contributions from employers and employees as well as premiums for health benefit plans collected by the Ministry of Health.

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.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

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, 2017 and 2016, the carrying amounts of the Fund's total cash were \$166,030 and \$782,858, respectively, and the corresponding bank balances were \$229,950 and \$825,999, respectively. Of the bank balances, \$223,760 and \$807,212, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$223,760 and \$250,000, respectively, were FDIC insured. Bank deposits of \$6,190 and \$18,787, respectively, are maintained in financial institutions not subject to depository insurance. 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 are primarily due from the Marshall Islands Social Security Administration (MISSA), which collects contributions from employers located within the Republic of the Marshall Islands for the benefit of the Fund for a fixed fee of \$200,000 per year effective from October 1, 2009. These receivables are uncollateralized and non-interest bearing. The Fund has not recorded an allowance for doubtful accounts.

Prepayments

Certain payments to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

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.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Fund Balance

Fund balance classifications are based on the extent to which the Fund is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- 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.
- 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 gross receipts tax of 3% on revenues. The Fund is specifically exempt from this tax.

Estimates

The preparation of financial statements in accordance 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.

New Accounting Standards

During the year ended September 30, 2017, the Fund implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits. The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

(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) Other Assets

In 2015, the Fund made a deposit of \$350,000 with Medpharm Philippines as the Third Party Administrator (TPA) to provide administrative and logistical services for the Ministry of Health medical referral program.

(5) Related Party Transactions

The Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Health Care Revenue Fund (HCRF) is a governmental fund of RepMar established by the Nitijela for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services. Receivables from and payables to affiliates as of September 30, 2017 and 2016, are as follows:

	2017		2016	
	Receivables	Payables	Receivables	Payables
RepMar:				
HCRF	\$ -	\$ -	\$ -	\$ 3,612,944
General Fund	26,682	-	25,606	-
MISSA	<u>1,792,403</u>	<u>6,127</u>	<u>1,623,023</u>	<u>4,336</u>
	<u>\$ 1,819,085</u>	<u>\$ 6,127</u>	<u>\$ 1,648,629</u>	<u>\$ 3,617,280</u>

Receivables from MISSA represent contributions collected by MISSA unremitted to the Fund at September 30, 2017 and 2016. Additionally, contributions receivable of \$1,819,085 (September 30, 2017) and \$1,648,629 (September 30, 2016) are also due from MISSA and represent collections received by MISSA and due to HCRF for the period from October 1 through December 31 of the succeeding fiscal year.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2017 and 2016

(5) Related Party Transactions, Continued

Contributions to RepMar's HCRF during the year ended September 30, 2016 were \$3,450,506 representing 55% of collections of the Basic Health Benefits Plan. Payable to RepMar's HCRF represents unremitted contributions at September 30, 2016. No contributions to RepMar's HCRF occurred during the year ended September 30, 2017 due to a determination by RepMar's HCRF management that the repayment of an interfund receivable due from the Fund was not expected to occur within a reasonable time. This determination resulted in the recognition by the Fund of a transfer in from RepMar's HCRF of \$375,508 to fund operations of the Fund.

During the year ended September 30, 2016, the Fund received \$1,805,440 from RepMar to provide financial support for off-island referrals.

During the year ended September 30, 2016, the Fund transferred \$26,946 to the General Fund in accordance with Public Law 2013-20 for the purpose of funding the operations of the Office of the Auditor General.

(6) Contingency

The Fund receives substantially all of its funding from MISSA through collections of the Fund's Basic Health Benefits Plan. A significant reduction in the level of this funding, that may ultimately require additional contributions from RepMar, if this were to occur, may have an effect on the Fund's programs and activities.

(7) Subsequent Events

On October 4, 2017, the Fund borrowed \$770,000 from RepMar's HCRF for the purpose of replenishing the TPA revolving fund.

On February 26, 2018, the Nitijela enacted the Health Fund (Amendment) Act 2018 authorizing the Health Services Board to modify the 55%/45% split, as necessary, between the Fund and the Health Care Revenue Fund.

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 Kalani Kaneko
Minister of Health
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the Marshall Islands Health Fund, which comprise the balance sheet as of September 30, 2017, 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 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marshall Islands Health 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 Marshall Islands Health Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall Islands Health 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be material weakness as item 2017-001.

Compliance and Other Matters

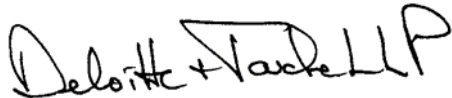
As part of obtaining reasonable assurance about whether the Marshall Islands Health Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 items 2017-002 through 2017-004.

The Marshall Islands Health Fund's Responses to Findings

The Marshall Islands Health Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Marshall Islands Health 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

June 29, 2018

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No. 2017-001

Timely Financial Reporting

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of significant accounts.

Condition: The Fund did not close fiscal year September 30, 2017 financial information (trial balance, subsidiary and general ledgers) until May 8, 2018. Further, the Fund does not have an established set of policies, procedures and controls in place to timely prepare and review reconciliations and reports. During the year ended September 30, 2017, various accounting records did not appear to have been timely processed and updated as evidenced by the following:

The MISSA collection summary schedules were not timely prepared and independently reviewed. The September 30, 2017 general ledger reconciliations were not completed until May 2018 and included the following discrepancies:

- a. Variances existed between the confirmation, the MISSA collection summary schedule and the general ledger in the following:
 - i. MISSA administrative charge of \$200,000
 - ii. Due from MISSA of \$1,792,403
 - iii. Contributions receivable of \$798,525
- b. Variances existed between the MISSA collection summary schedule and the general ledger in the following:
 - i. Basic Health Fund collections of \$2,956,103
 - ii. Due to Health Care Revenue Fund of \$1,159,502
 - iii. Contributions to Health Care Revenue Fund of \$1,254,371
 - iv. Due to outer island fund of \$94,868

Beginning fund balance did not agree with the prior year audited ending fund balance resulting in an unreconciled variance of \$1,844.

The above were corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of timely year end closing and the absence of timely reconciliation and review of significant accounts.

Effect: The effect of the above condition is the trial balance and general ledger were not timely provided for audit purposes.

Recommendation: We recommend management implement internal control procedures to facilitate timely and accurate general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: The Ministry notes the recommendations and acknowledges the untimeliness of financial reporting and the delay in closing out the fiscal year 2017. In 2017, the Finance Department lost six staff including two key staff, the Chief Accountant & Deputy Chief Accountant. These two staffs are responsible for preparing financial documents for Health Fund and other grants administered by the Ministry. With the new Chief Accountant in place and hiring of an Accounting Admin Officer to assist with the filing of documents, the overall reporting and timely submission of reports will be improved. Furthermore, the Ministry, specifically the Finance Department plans to fully implement its revised set of financial policies, procedures, and controls in September 2018.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No. 2017-002

Due to Health Care Revenue Fund

Criteria: Section 211 of the Marshall Islands Health Fund Act of 2002 states that the Health Fund shall transfer to the Health Care Revenue Fund, on a quarterly basis, a sum equal to 55% of the total quarterly contributions collected by the Health Fund.

Condition: During the year ended September 30, 2017, the Health Fund recorded a \$3,945,405 payable to the Health Care Revenue Fund, representing unremitted collections from the previous year.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring compliance with the Marshall Islands Health Fund Act.

Effect: The effect of the above condition is potential noncompliance with the Marshall Islands Health Fund Act.

Prior Year Status: The lack of compliance with the Marshall Islands Health Fund Act regarding quarterly transfers to the Health Care Revenue Fund was reported as a finding in the audits of the Fund for fiscal years 2015 and 2016.

Recommendation: We recommend management establish adequate internal control policies and procedures requiring compliance with the Marshall Islands Health Fund Act.

Auditee Response and Corrective Action Plan: The Ministry would like to note that quarterly transfers from Health Fund to Health Care Revenue Fund (HCRF) were done in a timely manner in accordance with the Health Fund Act of 2002, however, acknowledges the current payable record of \$3,945,405. This has mainly been the result of cash flow issues and transferring of funds from HCRF to Health Fund to support off island basic referral activities for the Ministry.

Furthermore, in February 2018, amendment to the Health Fund Act authorizes the Health Services Board to modify the manner of payments for both funds in the event that the shares for both funds are not sufficient for their respective purposes.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No. 2017-003

Supplemental Health Plan

Criteria: The Supplemental Health Plan states that enrollment must be maintained for an entire year in order to be eligible for the Plan to pay for medical services. If the patient did not continue the enrollment in the Plan for an entire year after receiving medical care, the Plan reserves the right to deny payments to providers on their behalf. The patient will be responsible for paying 100% of the medical bills with the providers.

Condition: During the year ended September 30, 2017, the supplemental health plan claims from approved health service providers included three patients, which were not included in the List of Active Supplemental Health Plan Members as of September 30, 2017.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring compliance with the Supplemental Health Plan.

Effect: The effect of the above condition is potential noncompliance with the Supplemental Health Plan.

Recommendation: We recommend management establish adequate internal control policies and procedures requiring compliance with the Supplemental Health Plan.

Auditee Response and Corrective Action Plan: The Ministry acknowledges the finding and is working with the Medical Referral Program to revise its policies and improve monitoring of member enrollment in the Plan for an entire year after receiving medical care and to enforce policy nonpayment on medical bills for noncompliant members.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No. 2017-004

Audit of Third Party Administrator (TPA)

Criteria: Timely review and verification of accuracy and completeness of replenishments requests submitted by the TPA should be facilitated by internal control structure conducive to the preparation and independent review of these expenses.

Condition: No independent review of TPA replenishment forms occurs and no independent audit of the TPA occurs. Of the total amount of \$3.88 million for off-island care expenses related to referred patients, 69% or \$2.67 million pertain to expenses reimbursed to TPA for referred patients in the Philippines during the year ended September 30, 2017.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring timely review and verification of replenishments submitted by the TPA and related charges billed by the hospital/practitioners.

Effect: The effect of the above condition is a potential misstatement of expenses incurred related to referred patients.

Recommendation: We recommend that management verify that an independent review of files submitted by the TPA occurs to verify accuracy, completeness, and validity of requests. Further, we recommend that someone with medical expertise be designated to review the validity of medical procedures and related charges billed by the hospitals/practitioners.

Auditee Response and Corrective Action Plan: The Ministry acknowledges the finding and plans to hire a staff to focus on monitoring and verifying accuracy and completeness of replenishments request submitted by the TPA and ensure activities implemented are in accordance with contract between the Ministry and the TPA.

In addition, the Ministry plans to conduct an annual audit through an external firm.

MARSHALL ISLANDS HEALTH FUND

Unresolved Prior Year Findings
Year Ended September 30, 2017

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report.