

**MARSHALL ISLANDS HEALTH 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, 2012 AND 2011**

# MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2012 and 2011  
Table of Contents

	<u>Page No.</u>
I. BASIC FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Balance Sheet	3
Statements of Revenues, Expenditures and Changes in Fund Balances	4
Notes to Financial Statements	5
II. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	10
Unresolved Prior Year Findings	17

## **INDEPENDENT AUDITORS' REPORT**

Honorable David Kabua  
Minister of Health  
Republic of the Marshall Islands:

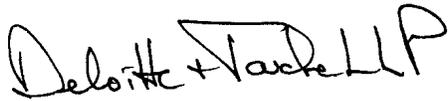
We have audited the accompanying balance sheets of the Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of September 30, 2012 and 2011 and the related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes consideration of 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Marshall Islands Health Fund, a governmental fund of the Republic of the Marshall Islands, as of September 30, 2012 and 2011, and the results of that fund's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2013, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

May 8, 2013

## MARSHALL ISLANDS HEALTH FUND

Balance Sheets  
September 30, 2012 and 2011

	<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Cash		\$ 369,180	\$ 847,925
Receivables:			
Contributions		1,277,035	1,231,014
Affiliate		1,560,772	1,409,802
Employees		14,053	6,652
		<u>2,851,860</u>	<u>2,647,468</u>
Prepayments		<u>46,250</u>	<u>44,750</u>
		<u>\$ 3,267,290</u>	<u>\$ 3,540,143</u>
 <u>LIABILITIES AND FUND BALANCE</u> 			
Liabilities:			
Accounts payable		\$ 532,668	\$ 837,506
Payable to affiliates		<u>927,829</u>	<u>816,972</u>
Total liabilities		<u>1,460,497</u>	<u>1,654,478</u>
Contingency			
Fund balance:			
Non-spendable:			
Prepaid amounts		46,250	44,750
Committed for:			
Health services		<u>1,760,543</u>	<u>1,840,915</u>
		<u>1,806,793</u>	<u>1,885,665</u>
Total liabilities and fund balance		<u>\$ 3,267,290</u>	<u>\$ 3,540,143</u>

See accompanying notes to financial statements.

## MARSHALL ISLANDS HEALTH FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2012 and 2011

	2012	2011
Revenues:		
Basic Health Fund collections	\$ 6,544,698	\$ 6,556,447
Supplemental Health Fund collections	592,144	610,488
Other	449	25,256
Total revenues	7,137,291	7,192,191
Expenditures:		
Off-island care	2,013,336	2,046,157
Off-island travel	500,396	609,598
Other medical charges	161,202	201,682
Professional and consulting fees	183,500	179,000
Administrative:		
Salaries and wages	293,696	302,933
Collection fees	200,000	200,000
Travel	78,733	73,211
Utilities	36,450	40,046
Professional fees	35,426	20,000
POL	30,760	15,565
Communications	12,471	12,846
Insurance	11,919	12,061
Repairs and maintenance	7,579	10,199
Other administrative charges	82,657	26,635
Total expenditures	3,648,125	3,749,933
Excess of revenues over expenditures	3,489,166	3,442,258
Other financing uses:		
Contributions to RepMar's Health Care Revenue Fund	(3,568,038)	(3,601,831)
Net change in fund balance	(78,872)	(159,573)
Fund balance at beginning of year	1,885,665	2,045,238
Fund balance at end of year	\$ 1,806,793	\$ 1,885,665

See accompanying notes to financial statements.

# MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2012 and 2011

## (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.

# MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

### 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, 2012 and 2011, the carrying amounts of the Fund's total cash were \$369,180 and \$847,925, respectively, and the corresponding bank balances were \$529,700 and \$808,204, respectively. Of the bank balances, \$519,344 and \$782,433, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, 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

Contributions receivable are 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.

### 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

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.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### Fund Balance, Continued

- 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 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.

#### New Accounting Standards

During the year ended September 30, 2012, the Fund implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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 provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In April 2012, GASB issued 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. 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 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.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

#### New Accounting Standards, Continued

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.

### (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) 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 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, 2012 and 2011, are as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Care Revenue Fund	\$ -	\$ 910,976	\$ -	\$ 801,851
General Fund	12,606	3,604	3,606	1,729
MISSA	<u>1,548,166</u>	<u>13,249</u>	<u>1,406,196</u>	<u>13,392</u>
	<u>\$ 1,560,772</u>	<u>\$ 927,829</u>	<u>\$ 1,409,802</u>	<u>\$ 816,972</u>

Receivable from MISSA represents contributions collected by MISSA unremitted to the Fund at September 30, 2012 and 2011.

Contributions to RepMar's Health Care Revenue Fund during the years ended September 30, 2012 and 2011 were \$3,568,038 and \$3,601,831, respectively, representing 55% of collections of the Basic Health Benefits Plan. Payable to RepMar's Health Care Revenue Fund represents unremitted contributions at September 30, 2012 and 2011.

### (5) 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, 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 David Kabua  
Minister of Health  
Republic of the Marshall Islands:

We have audited the financial statements of the Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2012, and have issued our report thereon dated May 8, 2013. Our report includes an explanatory paragraph that the financial statements of the Fund are not intended to present the financial position and results of operations of RepMar and a reference for the adoption of a new accounting standard. We conducted our audit 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.

**Internal Control Over Financial Reporting**

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 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 that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 12 through 16), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2012-1 to be material weaknesses.

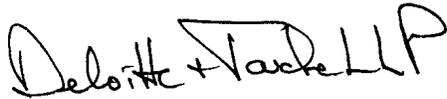
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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 2012-2 through 2012-4.

We also noted certain matters that we reported to management of the Fund in a separate letter dated May 8, 2013.

The Fund's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Ministry of Health and RepMar management and is not intended to be and should not be used by anyone other than these specified parties.

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

May 8, 2013

## MARSHALL ISLANDS HEALTH FUND

### Schedule of Findings and Responses Year Ended September 30, 2012

#### Finding 2012-1

##### Bank Reconciliation

Criteria: Management is responsible for adequate internal controls requiring that cash collections be timely deposited and that bank reconciling items are accurately identified and resolved.

Condition: Tests of bank reconciling items indicated that there were unrecorded deposits due to unmatched cash collections and deposits. For the BOMI-Ebeye bank account, total fiscal year cash collections were \$2,768; however, only \$2,043 was deposited resulting in a shortage of \$725.

Cause: The cause of the above condition was due to a delay in the submission of receipts. There was also a delay of the bank reconciliation review process.

Effect: The above condition is a potential misstatement of cash.

Recommendation: We recommend management implement adequate internal controls over cash collections and deposits and perform timely bank reconciliations to address immediate resolution of reconciling items as variances occur.

Auditee Response and Corrective Action Plan: Bank reconciliations were done monthly and reviewed by superior. Warnings were issued and done the one on one discussion with the assigned staff of Referral department in Ebeye. Salaries are withheld to pay discrepancies. It was recommended that she will provide daily deposit report to referral department in Majuro and provide timely receipts for recording.

## MARSHALL ISLANDS HEALTH FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding 2012-2

##### 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.

Condition: We noted the following items where supporting documentation was inadequate to evidence a procurement process compliant with RepMar's Procurement Code:

Replenishment No.	Date	Description	Amount
2011-025	8/23/2011	1 unit cellphone	\$ 697
2011-025	9/1/2011	2 units cellphone	1,398
2012 -005	11/17/2011	2 units cellphone	1,359
2012 -005	12/15/2011	4 units cellphone	2,673
2012-013	3/23/2012	3 units cellphone	1,895

It is noted that per Revised Memorandum dated December 1, 2009, with subject - Submission of Purchase Requisitions: *General Fund, Federal Grants, Compact Fund, and Other Funds*, purchase costs within \$500 to \$25,000 under Other Funds are required to have at least 3 vendor price quotations.

For replenishment # 2011-025 dated August 23, 2011, only one price quotation was attached to the invoices and sales receipts. No signed purchase requisition and purchase order supported this transaction. The transactions were included in replenishment requests of the third party administrator.

For replenishment # 2011-025 dated September 1, 2011, only one price quotation was attached to the invoice and sales receipt. The price quotation appears irrelevant as such pertains to a postpaid plan whose service is unavailable in the RMI. No signed purchase requisition and purchase order involving this transaction was noted. This transaction was included in the replenishment request of the third party administrator.

## MARSHALL ISLANDS HEALTH FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding 2012-2, Continued

#### Local Noncompliance, Continued

#### Condition, Continued:

For replenishment # 2012-005 dated November 17, 2011 and December 15, 2011, no price quotations were attached to the invoices and receipt. No signed purchase requisition and purchase order supporting this transaction could be located. The transaction was included with the replenishment request of the third party administrator.

For replenishment # 2012-013, dated March 23, 2012, two (2) price quotations were available and were obtained from internet trading sites. No signed purchase requisition and purchase order supporting this transaction were located. The transaction was included with the replenishment request of the third party administrator.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and thus ensuring compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: Means of communication using smartphone is needed during Majuro's Dengue Outbreak. These are needed to check emails in a timely manner and respond accordingly. There are no cheap smartphones on-island and no administration office in Manila. The Ministry ensures that Procurement Policies are strictly followed going forward.

## MARSHALL ISLANDS HEALTH FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding 2012-3

##### Local Noncompliance

Criteria: In accordance with Section 211 of the Marshall Islands Health Fund Act of 2002, the Health Fund shall transfer 2.5% and 7.5% out of the 45% Basic Health Fund collection, for domestic medical referral and outer island primary health care, respectively. The remainder of the Fund shall be utilized for (i) the payment of benefits; (ii) the repayment of any legitimate loans; (iii) the costs and expenses of the administration of the Fund under this Act; and (iv) for improving primary health care.

Condition: During fiscal year 2012, the Fund's expenditures for domestic referral exceeded mandated funding by \$79,232.

Cause: The cause of the above condition is an apparent increase of domestic medical referral activities leading to higher expenses.

Effect: The effect of the above condition is noncompliance with the Marshall Islands Health Fund Act of 2002.

Prior Year Status: The lack of compliance with Section 211 of the Marshall Islands Health Fund Act of 2002 was reported as a finding in the audit of the Fund for fiscal year 2011.

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

Auditee Response and Corrective Action Plan: MoH have a mandate to serve and not to turn away patients that are in need of medical care. The capability of outer-island dispensaries are not sufficient to provide care needed for the patients. We are currently working on amendment of this act. Patients are dying off-island and they need to be diagnosed right away.

## MARSHALL ISLANDS HEALTH FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

#### Finding 2012-4

##### Local Noncompliance

Criteria: In accordance with Marshall Islands Health Fund Act, Section 211(4), except with the approval of the Nitijela, the budget for the costs of administration of this Act for any fiscal year shall not exceed 10% of the estimated income from contributions, premiums, government subsidies, penalties, interest, dividends and any other income from the investment of the Health Fund for that fiscal year.

Condition: Administration expense appears to be 11.06% which is above the mandated requirement stated in the Act. The Fund's 2012 administration expense exceeded the statutory requirement by \$76,007.

Cause: The cause of the above condition is lack of adequate internal control policies to comply with criteria.

Effect: The effect of the above condition is noncompliance with the criteria.

Recommendation: We recommend that management adopt adequate internal control policies and procedures requiring compliance with the applicable sections of the Marshall Islands Health Fund Act.

Auditee Response and Corrective Action Plan: The difference in amount is due to the required Section 7 Appropriation Act of which MoH will pay 8% (eight percent). This is the first ever required payment. If MoH will not pay this, still a finding of not compliant. MoH will closely monitor not to exceed 10% next year.

**MARSHALL ISLANDS HEALTH FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2012

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (pages 12 through 16).