

July 7, 2008

CONFIDENTIAL

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, 2007, on which we have issued our report dated July 7, 2008, we developed the following recommendations concerning certain matters related to the Fund's internal control. Our principal recommendations are summarized below:

(1) Account Reconciliations

Reconciliations are performed for the following: accounts payable, travel advances, deposits to the third party administrator, and bank accounts. However no independent review occurs for these account reconciliations. We recommend that management establish policies and procedures to ensure that account reconciliations are reviewed by someone other than the preparer. We also recommend that reconciliations of accounts payable, travel advances and deposits to the third party administrator be performed on a quarterly basis.

(2) Expenditures

Unbilled but incurred off-island health care expenditures should be estimated and be reflected in the financial statements. Currently, the Fund does not reserve for nor accrue such expenditures. Rather, the Fund relies on after the fact reporting by healthcare providers in order to record these accruals. Due to the fact that hospital billings are not received by the Fund in a timely manner, management should develop a method of estimating and providing for unbilled but incurred health care expenditures. We recommended the same in our prior year letter for the audits of fiscal year 2005 and 2006.

(3) Expenditures

As part of the services provided by the third party administrator (TPA), the medical director of the TPA is tasked to see to it that medical charts are checked and that medical procedures and treatment protocols are reviewed. The TPA is also responsible for claims processing, review and payment to the health care providers. We recommend that management ensure that the TPA has adequate internal control policies and procedures to ascertain that such services are adequately provided.

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(4) Outer Island Medical Services

Section 211(2)(a) of the Marshall Islands Health Fund Act requires that a sum equal to ten percent (10%) of the remaining fifty-five per cent (55%) 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 Health Fund. To better monitor funds for outer islands medical services and to be able to determine balances or deficiencies of fund allocation, management should establish policies and procedures to ensure that these funds are accounted for separately from other Fund expenditures. We recommended the same in our prior year letter dated May 18, 2006.

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We have also communicated matters noted during our audit of the financial statements of the Fund for the year ended September 30, 2007, which we considered to be significant deficiencies in our report dated July 7, 2008.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,


