

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

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Amenta Matthew
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, 2008, and have issued our report thereon dated June 8, 2009. 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

In planning and performing our audit, we considered 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 5) as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

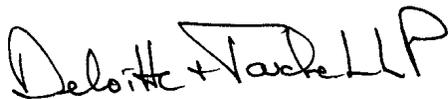
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2008-3.

We also noted certain matters that we reported to management of the Fund in a separate letter dated June 8, 2009.

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

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.

June 8, 2009

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses Year Ended September 30, 2008

Expenditures

Finding No. 2008-1

Criteria: Expenditures should be supported by valid invoices, contracts, approved travel request forms, and other relevant documentation.

Condition: Of thirty-two off-island care expenditures tested, supporting invoices for four (JV #s 07HF-AA-AJE#4 and 07-12-051 and check #s 5501 and 6445) were not available.

Cause: The cause of the above condition is a lack of adequate policies and procedures to ensure that expenditures are adequately supported by a valid vendor invoice, contract or other relevant documentation.

Effect: The effect of the above condition is inadequate documentation demonstrating appropriate use of public funds.

Recommendation: We recommend that management establish policies and procedures to ensure that disbursements are made only for valid vendor invoices, contracts and other relevant documentation.

Prior Year Status: Lack of adequate policies and procedures to ensure that expenditures are adequately supported by a vendor invoice or other relevant documentation was reported as a finding in the audit of the Fund for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: We agree with the finding. The accounts payable accountant will ensure that every disbursement made is adequately supported by vendor invoice and other relevant documentation.

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Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Finding No. 2008-2

Due from/to RepMar's Health Care Revenue Fund

Criteria: Receivables from and payables to affiliates should be collected/paid in a timely manner.

Condition: At September 30, 2008, the Fund recorded a payable to RepMar's Health Care Revenue Fund (HCRF) of \$852,794, which included \$126,581 dating to fiscal year 2005. A corresponding receivable was also recorded by HCRF. Furthermore, a receivable from HCRF of \$42,409 at September 30, 2008 remained uncollected for over a year.

Public Law 2007-93 increased the percentage transferred to HCRF from 45% to 55%; total transfers to HCRF during fiscal year 2008 were understated by \$44,999 due to calculation errors. An audit adjustment was proposed to record a related payable to HCRF.

Cause: The cause of the above condition is the lack of periodic reconciliation of due from/to HCRF accounts.

Effect: The cause of the above condition is a possible misstatement of due from/to HCRF accounts.

Recommendation: We recommend that management ensure that due from/to HCRF accounts are periodically reconciled.

Auditee Response and Corrective Action Plan: We agree with the finding. The Director for the Medical Referral Office will ensure that quarterly payment received from MISSA is immediately transferred to the HCRF. A copy of official receipt and other relevant documentation will be provided to both the accounts receivable accountant and the treasury supervisor.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2008

Local noncompliance

Finding No. 2008-3

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

Condition: Total revenues of the Fund for the year ended September 30, 2008, amounted to \$6,902,608. Thus, administrative expenditures should not exceed \$690,261. However, administrative expenditures were \$743,341, which exceeded the allowable limit by \$53,080.

Cause: The cause of this condition is a lack of adequate policies and procedures to ensure compliance with the provisions of the Marshall Islands Health Fund Act.

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

Recommendation: We recommend that management establish policies and procedures to ensure compliance with provisions of the Marshall Islands Health Fund Act.

Prior Year Status: Noncompliance with provisions of the Marshall Islands Health Fund Act was reported as a finding in the audit of the Fund for fiscal year 2007.

Auditee Response and Corrective Action Plan: We agree with the finding. The Assistant Secretary for the Medical Referral Office will obtain monthly budget status report to monitor and ensure the administrative expenditures are in compliance with the Act.

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Unresolved Prior Year Findings
Year Ended September 30, 2008

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 through 5).