

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

HEALTH CARE REVENUE FUND

Years Ended September 30, 2015 and 2014
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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 Health Care Revenue Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2015 and 2014, 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

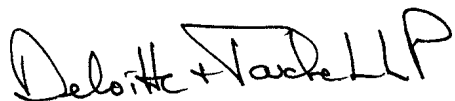
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Care Revenue Fund as of September 30, 2015 and 2014, and the results of its operations for the years then ended in accordance with accounting principles generally 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 Health Care Revenue 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 July 15, 2016, on our consideration of the Health Care Revenue 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Care Revenue Fund's internal control over financial reporting and compliance.

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

July 15, 2016

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash	\$ 1,689,850	\$ 3,722,067
Receivables:		
Patients	5,859,027	5,785,422
Affiliates	4,117,440	1,695,931
Employees	51,091	20,525
Other	<u>11,078</u>	<u>36,402</u>
	10,038,636	7,538,280
Less allowance for doubtful accounts	<u>(5,859,027)</u>	<u>(5,785,422)</u>
	4,179,609	1,752,858
Prepayment	<u>84,550</u>	<u>19,720</u>
	<u>\$ 5,954,009</u>	<u>\$ 5,494,645</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 342,366	\$ 258,706
Other liabilities and accruals	67,258	87,408
Payable to affiliates	<u>15,320</u>	<u>47,776</u>
Total liabilities	<u>424,944</u>	<u>393,890</u>
Contingency		
Fund balance:		
Non-spendable:		
Inventory and prepaid amounts	84,550	19,720
Committed for:		
Health services	<u>5,444,515</u>	<u>5,081,035</u>
Total fund balance	<u>5,529,065</u>	<u>5,100,755</u>
Total liabilities and fund balance	<u>\$ 5,954,009</u>	<u>\$ 5,494,645</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance
September 30, 2015 and 2014

	2015	2014
Revenues:		
Hospital charges	\$ 396,763	\$ 351,818
Grants	386,951	285,637
Other	13,562	21,333
Total revenues	797,276	658,788
Expenditures:		
Pharmaceutical	1,680,053	1,122,144
Medical supplies	1,437,035	636,944
Hospital equipment	252,981	122,634
Grants and subsidies	44,051	62,287
Professional and consulting fees	42,316	54,795
Freight and delivery	6,150	7,635
Administrative:		
Salaries and wages	203,270	220,676
Travel	63,975	95,022
Training	56,932	72,841
Bad debt	1,004	27,676
Supplies	5,345	15,433
Office equipment	14,664	12,647
Communications	2,966	600
Other administrative costs	55,434	55,346
Total expenditures	3,866,176	2,506,680
Deficiency of revenues under expenditures	(3,068,900)	(1,847,892)
Other financing sources (uses):		
Contributions from RepMar's Health Fund	3,497,210	3,517,500
Contributions to RepMar's General Fund	-	(29,854)
Total other financing sources (uses), net	3,497,210	3,487,646
Net change in fund balance	428,310	1,639,754
Fund balance at beginning of year	5,100,755	3,461,001
Fund balance at end of year	\$ 5,529,065	\$ 5,100,755

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2015 and 2014

(1) Reporting Entity

The Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Care Revenue Fund Act of 2001. Administration, control and management of the Fund were transferred from the Marshall Islands Social Security Administration (MISSA) to RepMar's Ministry of Health (MOH). The Fund's enabling legislation also requires that 55% of contributions collected by the Basic Health Benefits Plan be transferred, on a quarterly basis, to the Fund. The 55% distribution should be made after deducting the 10% costs associated with the administration of MOH Health Fund. The Fund was established to use funds, provided through appropriation by the Nitijela of RepMar and revenue received from hospital charges and other health care charges collected by MOH, for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services.

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.

(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 in 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

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 revenue received from hospital charges and other health care charges collected by the Ministry of Health as well as grants, gifts and donations.

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, 2015 and 2014, the carrying amounts of the Fund's total cash were \$1,689,850 and \$3,722,067, respectively, and the corresponding bank balances were \$1,745,533 and \$3,778,925, respectively. Of the bank balances, \$1,534,717 and \$3,604,950, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$210,816 and \$173,975, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2015 and 2014, 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Receivables

Receivables include amounts due from hospital patients, affiliates, employees, and other sources. These receivables are uncollateralized and non-interest bearing.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Bad debts are written-off against the reserve on the specific identified method.

Prepayment

Certain payments made to vendors or persons for services reflect costs applicable to future accounting period 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.

Fund Balance

Governmental fund balances are classified as follows:

- 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.
- 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Taxes

The Government of RepMar imposes a 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, 2015, the Fund implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued 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. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued 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). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the 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 June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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 Marshall Islands Health Fund (the Health Fund) is a governmental fund of RepMar established by the Nitijela to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, as an approved off-island medical referral, or as emergency off-island medical care. The Health Fund includes the operations of the Basic Health Benefits Plan, which provides a substantial portion of the Fund's funding.

Receivables from and payables to affiliates as of September 30, 2015 and 2014, are as follows:

	2015		2014	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 4,097,440	\$ -	\$ 1,695,931	\$ -
General Fund	20,000	6,084	-	40,344
Other	<u>-</u>	<u>9,236</u>	<u>-</u>	<u>7,432</u>
	<u>\$ 4,117,440</u>	<u>\$ 15,320</u>	<u>\$ 1,695,931</u>	<u>\$ 47,776</u>

Contributions from RepMar's Health Fund during the years ended September 30, 2015 and 2014 were \$3,497,210 and \$3,517,500, respectively, representing 55% of collections of the Basic Health Benefits Plan. Receivables from RepMar's Health Fund primarily represent 55% of contributions to the Basic Health Benefits Plan not transferred by the Health Fund at September 30, 2015 and 2014, respectively.

During the year ended September 30, 2014, the Fund transferred \$29,854 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.

During the year ended September 30, 2014, the Fund purchased pharmaceuticals, medical supplies and equipment in the amount of \$431,936 from a related party.

(5) Contingency

The Fund receives substantially all of its funding from RepMar through collections of the Health 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 Kalani Kaneko
Minister of Health
Republic of the Marshall Islands:

We have audited, in accordance with the 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 Health Care Revenue Fund, which comprise the balance sheet as of September 30, 2015, 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 July 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Care Revenue 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 Health Care Revenue Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Care Revenue 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

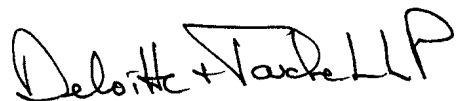
As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2015-001 and 2015-002.

Health Care Revenue Fund's Responses to Findings

Health Care Revenue Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Health Care Revenue 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.

July 15, 2016

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses Year Ended September 30, 2015

Finding No. 2015-001

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- (a) Section 116 - subject to the regulations of the Policy Office, the Chief Procurement Officer may delegate authority to designees or to any department, agency, or official.
- (b) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (c) 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.
- (d) 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.
- (e) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.
- (f) Section 130 - adequate notice of the need for such services shall be given by the Purchasing Agency through a Request for Proposals. The Request for Proposals shall describe the Services required, list and type of information and data required of each offeror, and state the relative importance of particular qualifications.

Condition: We noted the following items where supporting documentation was inadequate to evidence compliance with the procurement process set forth in the criteria:

Medical Supplies

- (i) As per examination of medical supplies, PO no. 8568 is the amount of \$9,292 did not obtain a minimum of 3 quotations as required by RepMar's Procurement code.

Section 127 - if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

The above purchases appear non-compliant with RepMar's Procurement Code.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-001

Local Noncompliance, Continued

Per examination of Purchases Orders (PO), the following were classified as "emergency" and/or "sole source" purchases.

- (i) PO #8120 for \$38,700 was described as an "emergency" purchase of pharmaceutical supplies. The bidding process was waived due to the urgency of the needs of TB medication and the uncertainty of the bid process.

PO no. 8374, in the amount of \$605,685 was described as "Emergency" and "Sole Source" purchase of medical supplies. The purchase pertains to one month supply of medical supplies for "*daily use at the Hospital*". According to the RMI Bid Committee Review, given that this is an emergency procurement, requests for quotes can be obtained through emails and other means. The vendor was selected due to the fact that they are the only one who provided a quotation.

In addition, related dates as follow do not support the purchase as "emergency" considering the time elapsed from the date of the request to the date of the item receipt.

PO No.	PO date	Invoice No.	Date received
8374	12/24/2014	2-37826	02/10/15
8374	12/24/2014	1-37700	01/19/15
8374	12/24/2014	1-37702	01/19/15
8374	12/24/2014	7-38714	08/05/15
8374	12/24/2014	1-37740	01/26/15
8374	12/24/2014	1-37770	01/30/15
8374	12/24/2014	1-37783	02/10/15
8374	12/24/2014	1-37799	02/06/15
8374	12/24/2014	2-37826	02/10/15
8374	12/24/2014	1-37648	01/14/15
8374	12/24/2014	1-37683	03/05/15
8374	12/24/2014	1-37680	01/15/15
8374	12/24/2014	1-37713	03/17/15
8374	12/24/2014	2-37831	03/30/15
8374	12/24/2014	1-37730	05/12/15
8374	12/24/2014	2-37862	02/16/15
8374	12/24/2014	7-38631	07/01/15
8374	12/24/2014	1-37980	01/15/15

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-001

Local Noncompliance, Continued

The above transactions appear to be non-compliant with the RepMar Procurement Code.

According to RepMar Procurement Code, "emergency" procurement shall be made when there exists a threat to public health, welfare, or a safety under emergency conditions. The above condition does not constitute an emergency condition but lacks proper inventory planning of the determination of the level of needed medical supplies since those purchases are for daily use and such level of usage can be budgeted or projected.

- (ii) A purchase requisition or purchase order was not prepared for invoice no. 0255255-IN, but the items were received and payment was approved. This purchase appear to be non-compliant with the RepMar Procurement Code. Per the Procurement Code, adequate notice of the need for such services shall be given by the Purchasing Agency through a Request for Proposals.
- (iii) Payment for invoice no. MP-01219 (PO no. 8272) was described as "emergency and sole source" purchase of medical equipment. A single quote was obtained from one vendor indicating an urgent request for hospital beds. However, related dates as follow do not support the purchase as an emergency considering the time elapsed from the date of the request to the date of the item receipt.

PR date	06/27/14
PO date (8272)	08/15/14
Invoice date	12/23/14
Date received	01/05/15

Valid support for the purchase to be considered an "emergency" does not appear to exist considering the delivery time compared with the date of the PO. The above transaction appears non-compliant with RepMar's Procurement Code.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-001

Local Noncompliance, Continued

Pharmaceutical Supplies

- (i) Document no. 13818 dated 04/29/15 in the amount of \$2,540 pertains to the purchase of "urgent" medicines (Humin Insulin) needed at the pharmacy and vendor was selected because stock was ready for immediate delivery. However, a signed PO and quotations from the chosen vendor and from other vendors were on file.

The above purchases appear non-compliant with RepMar's Procurement Code.

- (ii) PO no. 8365 dated 12/24/14 represented a single purchase of \$479,006. Competitive bidding is necessary since it exceeded the \$25,000 threshold. However, no bid process occurred because the request was for a one month supply of all "emergency" and fast moving pharmaceuticals needed for daily dispensing to patients.

The vendor was chosen based on item availability and delivery timeframe. According to RepMar Procurement Code, "emergency" procurement shall be made when there exists a threat to public health, welfare, or safety under emergency conditions.

The above condition does not constitute an emergency condition, but is indicate of a lack of proper inventory planning on determination of the level of pharmaceutical supplies. This transaction appears non-compliant with RepMar's Procurement Code.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code and Ministry of Finance's policies. Also, lack of proper inventory planning in the determination of needed pharmaceutical supplies, medical supplies and medical equipment caused purchases to be classified as "emergency".

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

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the Fund for fiscal years 2005 through 2014.

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

Auditee Response and Corrective Action Plan: The Ministry agrees with the finding. Corrective Action Plan is to revisit SOPs for the procurement and payment processes to ensure required documents are filed and maintained accordingly. Furthermore, the Ministry will ensure the mandatory involvement of the Finance Department in the national bid process. This will improve compliancy on the procurement and payment process.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No. 2015-002

Due From Health Fund

Criteria: Section 304 of the Health Care Revenue Fund Act of 1989 states that payments may be made out of the Fund only for:

- a. the purchase of drugs, medical and dental supplies and equipment of any description; and
- b. the provision and administration of other health services.

Condition: During the year ended September 30, 2015, the Fund made the following payments for the purpose of replenishing the Third Party Administrator revolving fund administered by the Health Fund:

<u>Date</u>	<u>Check #</u>	<u>Amount</u>
10/08/14	13132	\$ 200,000
12/17/14	13357	200,000
01/07/15	13420	<u>150,000</u>
		<u>\$ 550,000</u>

These payments do not appear to comply with Section 304 of the Health Care Revenue Fund Act.

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

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

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

Auditee Response and Corrective Action Plan: The Ministry agrees with the finding. The Ministry will seek the legal opinion from the Office of the Attorney General regarding transfer of cash from the HCRF to the Health Fund as "loan" if and when there is insufficient fund in the HF bank account.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2015

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