

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

HEALTH CARE REVENUE 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 Health Care Revenue 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

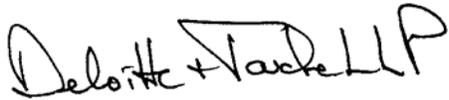
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Care Revenue Fund as of September 30, 2017 and 2016, and the results of its operations for the years then ended in accordance with accounting principles generally 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 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 June 29, 2018, 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 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 Health Care Revenue 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 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.

June 29, 2018

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash	\$ 3,767,984	\$ 2,503,360
Receivables:		
Patients	5,998,010	5,931,943
Affiliates	21,000	3,632,944
Employees	43,422	26,054
Other	<u>28,513</u>	<u>25,298</u>
	6,090,945	9,616,239
Less allowance for doubtful accounts	<u>(5,998,010)</u>	<u>(5,931,943)</u>
	92,935	3,684,296
Prepayments	<u>65,829</u>	<u>96,344</u>
Total assets	<u>\$ 3,926,748</u>	<u>\$ 6,284,000</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 240,282	\$ 338,626
Other liabilities and accruals	142,356	126,510
Payable to affiliates	<u>13,437</u>	<u>28,846</u>
Total liabilities	<u>396,075</u>	<u>493,982</u>
Contingency		
Fund balance:		
Non-spendable:		
Inventory and prepaid amounts	65,829	96,344
Committed for:		
Health services	<u>3,464,844</u>	<u>5,693,674</u>
Total fund balance	<u>3,530,673</u>	<u>5,790,018</u>
Total liabilities and fund balance	<u>\$ 3,926,748</u>	<u>\$ 6,284,000</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

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

	2017	2016
Revenues:		
Grants	\$ 430,579	\$ 337,289
Hospital charges	380,480	392,237
Other	22,718	21,353
Total revenues	833,777	750,879
Expenditures:		
Pharmaceutical	961,542	1,805,571
Medical and laboratory supplies	896,698	1,396,609
Hospital equipment	283,474	155,991
Professional and consulting fees	56,944	10,214
Freight and delivery	13,553	19,265
Grants and subsidies	-	52,640
Administrative:		
Salaries and wages	170,342	186,651
Travel	146,963	86,407
Laboratory fees	85,779	58,026
Training	31,835	67,059
Supplies	10,254	2,697
Communications	2,446	2,845
Other administrative costs	57,784	63,523
Total expenditures	2,717,614	3,907,498
Deficiency of revenues under expenditures	(1,883,837)	(3,156,619)
Other financing sources (uses):		
Contributions from the Marshall Islands Health Fund	-	3,450,506
Contributions to the Marshall Islands Health Fund	(375,508)	-
Contributions to RepMar's General Fund	-	(32,934)
Total other financing sources (uses), net	(375,508)	3,417,572
Net change in fund balance	(2,259,345)	260,953
Fund balance at beginning of year	5,790,018	5,529,065
Fund balance at end of year	\$ 3,530,673	\$ 5,790,018

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016

(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, 2017 and 2016, the carrying amounts of the Fund's total cash were \$3,767,984 and \$2,503,360, respectively, and the corresponding bank balances were \$3,866,763 and \$2,548,625, respectively. Of the bank balances, \$3,591,480 and \$2,300,516, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$275,283 and \$248,109, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, 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

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 identification method.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Prepayments

Certain payments made 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.

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.
- 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.

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. Any unused portion of the rest of the grants received have been included in the restricted portion/committed for fund balance.

A formal minimum fund balance policy has not been adopted.

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 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.

Reclassifications

Certain balances in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

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).
- 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addresses 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 does not believe that 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, are as follows:

	2017		2016	
	Receivables	Payables	Receivables	Payables
RepMar:				
Health Fund	\$ -	\$ -	\$ 3,612,944	\$ -
General Fund	21,000	4,969	20,000	6,499
Other	-	8,468	-	22,347
	\$ 21,000	\$ 13,437	\$ 3,632,944	\$ 28,846

Contributions from RepMar's Health Fund during the years ended September 30, 2017 and 2016 were \$3,569,897 and \$3,450,506, respectively, representing the 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, 2017 and 2016, respectively.

During the year ended September 30, 2017, the Fund made contributions to RepMar's Health Fund in the amount of \$3,945,405 as a permanent transfer since collection of the 55% share of the Basic Health Benefits Plan is not expected within a reasonable time. Contributions to RepMar's Health Fund amounted to \$375,508, net of contributions from RepMar's Health Fund of \$3,569,897.

During the year ended September 30, 2016, the Fund transferred \$32,934 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.

(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.

(6) Subsequent Event

On October 4, 2017, the Fund made payments in the amount of \$770,000 for the purpose of replenishing the Third Party Administrator revolving fund administered by the Health 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 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, 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 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

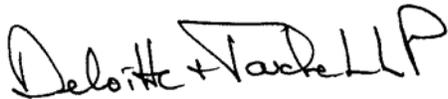
As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2017-001 through 2017-003.

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.



June 29, 2018

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No. 2017-001

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 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 date required for 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:

Pharmaceutical Supplies

The following purchases and payments appear to represent the potential split of purchase orders:

- a. Two series of processed Purchase Orders (PO) had the same vendor, for purchases of pharmaceutical supplies from outer islands, as follows:

<u>PO Date</u>	<u>PO nos.</u>	<u>Amount</u>
12/27/16	9296	\$ 9,590
12/29/16	9299	<u>21,465</u>
		\$ <u>31,055</u>

HEALTH CARE REVENUE FUND

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

Finding No. 2017-001, Continued

Local Noncompliance, Continued

- b. PO no. 9660, dated 09/04/17 amounting to \$24,787 was processed with various price vendor quotations and a price comparison sheet showing lowest bidder per item selected. One item (Erythromycin 500 mg tablet) was awarded to the second lowest bidder. Please see price comparison below:

Second lowest bidder	\$ 2,636
Lowest bidder	<u>\$ 1,675</u>
Difference	\$ 961 (57% higher than lowest bidder)

Had that item been awarded to the lowest bidder, total amount of processed PO would have been \$26,462, which is above the \$25,000 threshold that requires formal competitive bidding processes. This PO exhibits the characteristic of intentionally being split. We conclude that these purchases are non-compliant with the RepMar Procurement code.

- c. Two check payments had the same vendor for consultancy fee.

<u>Check no.</u>	<u>Date</u>	<u>Amount</u>
16312	01/10/17	\$ 13,000
17052	06/23/17	<u>12,220</u>
		\$ <u>25,220</u>

The total consultancy fee based on the signed contract with the vendor was \$26,000 and was paid net of tax. However, there is no documentation evidencing transaction is in compliance with RepMar Procurement Code.

Monitoring of purchase orders

The following purchases of various items were served and delivered more than 90 days from PO date:

<u>GL Account</u>	<u>PO Date</u>	<u>PO nos.</u>	<u>Items received</u>	<u>Amount</u>
Pharmaceutical	04/21/17	9494	12/23/17	\$ 8,976
Pharmaceutical	06/27/16	9105	12/15/16	\$ 5,568
Pharmaceutical	06/27/16	9105	12/14/16	\$ 22,750
Pharmaceutical	06/27/16	9105	10/21/16	\$ 19,670
Medical supplies	06/21/16	9093	12/15/16	\$ 1,367
Medical supplies	06/30/17	9569	11/24/17	\$ 7,583

As per Ministry of Health's policy and as per contract signed with the selected vendors, "all unserved items after 90 days will be cancelled. If supplier fails to deliver the goods as per agreed schedule, penalty will be imposed by the Customer. Penalty shall be waived only when the supplier is able to justify the cause of delay".

HEALTH CARE REVENUE FUND

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

Finding No. 2017-001, Continued

Local Noncompliance, Continued

Laboratory fees

Payments were made to the selected vendor for laboratory services. However, various quotations from other vendors were not on file. Further, there is no justification for how the vendor was selected. Please see details below:

<u>Check no.</u>	<u>Date</u>	<u>Amount</u>
16718	04/12/17	\$ 22,626
16793	04/27/17	<u>31,979</u>
		\$ <u>54,605</u>

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.

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code and Ministry of Finance's 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 2016.

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. We recommend management establish internal control policies and procedures to monitor delivery of purchases as per agreed schedule.

Auditee Response and Corrective Action Plan:

LOCAL NONCOMPLIANCE

PHARMACEUTICALS

- A. The Ministry agrees with the finding and acknowledges that it appears to represent a potential split of purchase orders. As a corrective action, the Ministry plans to implement bulk order purchase for the Outer Islands Department. Beginning in FY2015, the Ministry began bulk order purchase for Majuro & Ebeye with one month order, three month order, and now a six month order with plans to do the same for Outer Islands Department.

Furthermore, the Ministry would like to reiterate its recommendation in FY2014 to revisit the small purchase amount of \$25,000 stated in the Procurement Code of 1988 and revise to a larger amount as prices of pharmaceuticals and medical supplies have increased since then.

- B. The Ministry does not agree with the finding – second lowest bidder was chosen due to the fact that the lowest bidder was initially awarded the bid on same item in a prior purchase order (#009545), however vendor did not deliver item in a timely manner, therefore award was given to the second lowest bidder.

HEALTH CARE REVENUE FUND

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

Finding No. 2017-001, Continued

Local Noncompliance, Continued

- C. The Ministry agrees with the finding and acknowledges this oversight of not going through the proper procurement process of competitive sealed bids for goods and/or services above the \$25,000 threshold. As a corrective action, the Ministry will ensure that it is abiding by the Procurement Code of RMI and its own internal policies and procedures.

MONITORING OF PURCHASE ORDERS

The Ministry agrees with the finding on delivery of goods beyond the 90 day delivery policy set forth by the Ministry. This is one of the main responsibilities of the HCRF Accounts Payable staff, a post that has been vacant since early 2017. As a corrective action, the Ministry plans to fully enforce its liquidation process on purchase orders/contracts unserved on the 91st day.

LABORATORY FEES

The Ministry acknowledges the finding and as a corrective action the Finance Department in coordination with Majuro Lab Department and Honolulu Medical Referral Office, will go through the process bid process to ensure fair bidding.

Auditor Response: We reiterate our recommendation where in management establishes internal control policies and procedures demonstrating compliance with RepMar's Procurement Code.

HEALTH CARE REVENUE FUND

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

Finding No. 2017-002

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 all significant general ledger accounts.

Condition: The Fund did not close fiscal year September 30, 2017 financial information (trial balance, subsidiary and general ledgers) until May 18, 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 were not processed and timely updated as evidenced by the following:

- a. Bank reconciliations were not prepared and independently reviewed in a timely manner. The September 30, 2017 reconciliations were completed in May 2018.
- b. The schedule of transfer of the 55% share of the Fund on basic health tax collection was not prepared, reconciled and reviewed on a timely manner. Such resulted in audit adjustments of the following accounts:
 - i. Contributions from Marshall Islands Health Fund of \$2,018,808
 - ii. Due from Marshall Islands Health Fund of \$2,018,808
- c. Beginning net fund balance did not agree to the prior year audited ending net fund balance resulting in an unreconciled variance of \$30,624.

The above were corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of timely closing at year end and the absence of timely reviews and reconciliations of all significant general ledger accounts.

Effect: Trial balance and general ledger were not timely provided for audit purposes.

Recommendation: We recommend management to implement internal control procedures to facilitate more 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 Care Revenue and other grants administered by the Ministry. With the new Chief Accountant in place since October 2017 and the 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.

HEALTH CARE REVENUE FUND

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

Finding No. 2017-003

Health Care Revenue Fund Act (HCRF) (Public Health Safety and Welfare)

Criteria: Marshall Islands Revised Code (MIRC) states the following:

- (a) 7 MIRC Chapter 3, governs the activities of the HCRF. Section 304 legislates payments authorized by the law to be made from HCRF. Payment may be made out of the Fund only for:
- a. The purchase of drugs, medical and dental supplies and equipment of any description;
 - b. The provision and administration of other health services.

Condition: On October 4, 2017, HCRF transferred \$770,000 to the Marshall Islands Health Fund to replenish the fund shortage of Third Party Administration revolving funds. The transfer of \$770,000 does not comply with Section 304.

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

Effect: The effect of the above condition is noncompliance with Health Care Revenue Fund Act (Public Health Safety and Welfare).

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with Health Care Revenue Fund Act (Public Health Safety and Welfare).

Auditee Response and Corrective Action Plan: The Ministry acknowledges the finding and would like to note that in FY2018, took steps to correct this by amending the Health Fund Act in which it allowed the Health Services Board to modify the division percentage of funds for both Health Fund and HCRF in the event that division is not sufficient for respective purposes. This will decrease the transferring of funds from HCRF to Health Fund in order to support off island referral program.

HEALTH CARE REVENUE 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.