

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

HEALTH CARE REVENUE FUND

Years Ended September 30, 2018 and 2017
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INDEPENDENT AUDITORS' REPORT

Honorable Kalani Kaneko
Minister of Health and Human Services
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, 2018 and 2017, 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

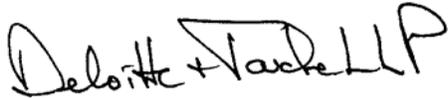
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Care Revenue Fund as of September 30, 2018 and 2017, and the results of its operations for the years then ended in accordance with accounting principles generally 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 14, 2019, 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 14, 2019

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash	\$ 1,547,347	\$ 3,767,984
Receivables:		
Patients	6,091,313	5,998,010
Affiliates	59,431	21,000
Employees	60,826	43,422
Other	<u>44,815</u>	<u>28,513</u>
	6,256,385	6,090,945
Less allowance for doubtful accounts	<u>(6,196,954)</u>	<u>(5,998,010)</u>
	59,431	92,935
Prepayments	<u>54,634</u>	<u>65,829</u>
Total assets	<u>\$ 1,661,412</u>	<u>\$ 3,926,748</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 249,161	\$ 240,282
Other liabilities and accruals	51,322	142,356
Payable to affiliates	<u>17,845</u>	<u>13,437</u>
Total liabilities	<u>318,328</u>	<u>396,075</u>
Contingency		
Fund balance:		
Non-spendable:		
Inventory and prepaid amounts	54,634	65,829
Committed for:		
Health services	<u>1,288,450</u>	<u>3,464,844</u>
Total fund balance	<u>1,343,084</u>	<u>3,530,673</u>
Total liabilities and fund balance	<u>\$ 1,661,412</u>	<u>\$ 3,926,748</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance
Year Ended September 30, 2018 and 2017

	2018	2017
Revenues:		
Grants	\$ 388,153	\$ 430,579
Hospital charges	379,764	380,480
Other	105,090	22,718
Total revenues	873,007	833,777
Expenditures:		
Pharmaceutical	2,150,892	961,542
Medical and laboratory supplies	829,011	896,698
Hospital equipment	359,470	283,474
Laboratory fees	106,023	85,779
Professional and consulting fees	37,466	56,944
Freight and delivery	21,009	13,553
Administrative:		
Salaries and wages	169,409	170,342
Provision for bad debts	105,641	-
Travel	36,033	146,963
Foodstuffs	24,663	19,932
Printing and reproduction	17,679	3,852
Training	11,264	31,835
Supplies	9,868	10,254
Communications	9,437	2,446
Other administrative costs	34,783	34,000
Total expenditures	3,922,648	2,717,614
Deficiency of revenues under expenditures	(3,049,641)	(1,883,837)
Other financing sources (uses):		
Contributions from (to) the Marshall Islands Health Fund	862,052	(375,508)
Net change in fund balance	(2,187,589)	(2,259,345)
Fund balance at beginning of year	3,530,673	5,790,018
Fund balance at end of year	\$ 1,343,084	\$ 3,530,673

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2018 and 2017

(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 and Human Services (MOHHS). 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 the Health Fund. On February 26, 2018, the Fund's enabling legislation was amended, to provide the Health Services Board the authority to modify the 55% distribution as necessary. On September 4, 2018, the distribution percentage was changed to 30%. 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 MOHHS, 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 and Human Services 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, 2018 and 2017

(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 and Human Services 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, 2018 and 2017, the carrying amounts of the Fund's total cash were \$1,547,347 and \$3,767,984, respectively, and the corresponding bank balances were \$1,567,712 and \$3,866,763, respectively. Of the bank balances, \$1,255,166 and \$3,591,480, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$312,546 and \$275,283, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2018 and 2017, 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, 2018 and 2017

(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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2018, the Fund implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB Statement No. 85, *Omnibus 2017*, which address 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).
- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the accompanying 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 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 has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 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.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.

(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, 2018 and 2017, are as follows:

	2018		2017	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 6,541	\$ 3,594	\$ -	\$ -
General Fund	52,890	5,118	21,000	4,969
Other	<u>-</u>	<u>9,133</u>	<u>-</u>	<u>8,468</u>
	<u>\$ 59,431</u>	<u>\$ 17,845</u>	<u>\$ 21,000</u>	<u>\$ 13,437</u>

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2018 and 2017

(4) Related Party Transactions, Continued

Contributions from RepMar's Health Fund during the year ended September 30, 2018 amounted to \$862,052 representing a percentage share of collections of the Basic Health Benefits Plan transferred to fund operations.

No contributions from RepMar's Health Fund occurred during the year ended September 30, 2017 due to a determination by the Fund's management that the repayment of an interfund receivable due from RepMar's Health Fund was not expected to occur within a reasonable time. This determination resulted in the recognition by the Fund of a contribution to RepMar's Health Fund of \$375,508 to fund Health Fund operations.

(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 December 11, 2018, the Health Services Board issued Resolution 2019-001, to modify the distribution percentage share of the Fund from 30% to 0%.

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 and Human Services
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the Health Care Revenue Fund, which comprise the balance sheet as of September 30, 2018, 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 14, 2019.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2018-002 and 2018-004 that we consider to be material weaknesses.

Compliance and Other Matters

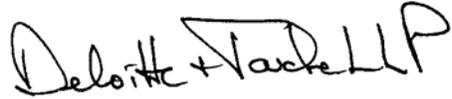
As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2018-001 and 2018-003.

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.

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

June 14, 2019

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses Year Ended September 30, 2018

Finding No. 2018-001

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:

Medical and Laboratory Supplies

PO no. 0342, dated 05/03/18 amounting to \$23,000 was processed with various price vendor quotations and a price comparison sheet showing the lowest bidder. Per further examination, the purchase was awarded to the second lowest bidder. Please see price comparison below:

Second lowest bidder	\$ 23,000
Lowest bidder	\$ <u>17,184</u>
Difference	\$ <u>5,816</u> (34% higher than lowest bidder)

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2018

Finding No. 2018-001, Continued

Local Noncompliance, Continued

Monitoring of purchase orders

The following purchases were received more than ninety days from the PO date:

<u>GL Account</u>	<u>PO Date</u>	<u>PO nos.</u>	<u>Items received</u>	<u>Amount</u>
Medical Supplies	07/24/2017	9596	11/08/2017	\$ 1,939
Medical Supplies	08/17/2017	9636	11/16/2017	\$ 6,150
Medical Supplies	02/16/2018	0150	05/24/2018	\$ 10,460
Medical Supplies	02/16/2018	0152	09/29/2018	\$ 741
Pharmaceutical	10/16/2017	9708	02/28/2018	\$ 2,623
Pharmaceutical	07/11/2017	9572	10/31/2017	\$ 1,475
Pharmaceutical	02/28/2018	0175	08/10/2018	\$ 7,598
Pharmaceutical	02/28/2018	0176	07/16/2018	\$ 13,675
Pharmaceutical	03/20/2018	0232	07/02/2018	\$ 4,311
Pharmaceutical	03/02/2018	0173	06/05/2018	\$ 15,380
Pharmaceutical	02/28/2018	0176	06/22/2018	\$ 27,618
Pharmaceutical	03/07/2018	0185	07/12/2018	\$ 48,505
Pharmaceutical	02/24/2018	0186	07/30/2018	\$ 13,260
Pharmaceutical	02/28/2018	0176	08/06/2018	\$ 15,468

As per Ministry of Health and Human Service's policy and as per the 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".

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 of vendor selection. Please see details below:

<u>Invoice no.</u>	<u>Date</u>	<u>Amount</u>
11566103117	10/31/2017	\$ 10,393
11566033118	04/26/2018	\$ 15,477
		\$ <u>25,870</u>

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2018

Finding No. 2018-001, Continued

Local Noncompliance, Continued

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 2017.

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:

Medical & Lab Supplies

- The Ministry notes this finding regarding inadequate documentation to support justification for awarding the second lowest bidder. Per the record of procurement form, second lowest bidder was chosen for the fact that it would deliver within one week upon receipt of PO as stated in the quotation provided by the winning vendor. Due to the urgent need of supplies, the Ministry had based its decision on delivery information provided by the vendors.

Monitoring of Purchase Orders

- The Ministry notes this finding regarding monitoring of purchase orders and delivery of goods beyond 90 days. A revised Accounting SOP on monitoring of regular purchase orders has been implemented in May 2019 and is overseen by the SRF Senior Accountant, hired in April 2019. This will ensure that goods are delivered within the timeframe provided. For contractual purchase orders, the Material Management Director shall impose penalty to vendors based on contract clause.

Laboratory Fees

- The Ministry notes this finding regarding selection of vendor. Majuro Hospital Lab Department has an existing letter of agreement with vendor and as a corrective action shall provide supporting documents (quotations & letter of justification) by July 31st, 2019.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2018

Finding No. 2018-002

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 finalize closing fiscal year September 30, 2018 financial information (trial balance, subsidiary and general ledgers) until May 2, 2019. 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, 2018, various accounting records do not appear to have been processed and timely updated as evidenced by the following:

- a. Bank reconciliations were not independently reviewed in a timely manner.
- b. The schedule of transfer of HCRF share on basic health tax collection was not prepared, reconciled and reviewed in a timely manner. Such resulted in audit adjustments of the following accounts:
 - i. Contributions from Marshall Islands Health Fund of \$2,441,976
 - ii. Due from Marshall Islands Health Fund of \$2,441,976
- c. A subsidiary ledger of accrued expenses as of September 30, 2018 was not prepared and was not made available during the audit.

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 significant general ledger accounts.

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

Prior Year Status: Noncompliance with timely financial reporting was reported as a finding in the audit of the Fund for fiscal year 2017.

Recommendation: We recommend management implement internal control procedures to facilitate more timely and accurate general ledger reconciliation processes.

Auditee Response and Corrective Action Plan:

- The Ministry notes this finding regarding timely financial reporting. The Ministry has improved slightly since the hiring of the Chief Accountant & Accounting Admin in early FY2018. The Ministry has taken steps to address this finding with the hiring of a Special Revenues Fund Senior Accountant in April 2019 and implementing the following processes:
 - Bank reconciliations are prepared by the Accounting staff and reviewed and approved by the Finance Director and the Assistant Secretary for AP&F
 - MISSA Health Fund collection schedule is prepared by the Chief Accountant and reviewed and approved by the Finance Director and the Assistant Secretary for AP&F on a quarterly basis
 - Accrued expenses sub-ledger is reconciled and reviewed on a quarterly basis by the Chief Accountant

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2018

Finding No. 2018-003

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 and April 2, 2018, HCRF transferred \$770,000 and \$800,000, respectively, to the Marshall Islands Health Fund to replenish a fund shortage of the Third Party Administration revolving funds. The transfers of \$770,000 and \$800,000 do 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 the Health Care Revenue Fund Act.

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

Prior Year Status: Noncompliance with the Health Care Revenue Fund Act (HCRF) (Public Health Safety and Welfare) was reported as a finding in the audit of the Fund for fiscal year 2017.

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 notes this finding regarding payments made out of the Fund. The borrowing of funds from HCRF to Health Fund was necessary to provide additional financial support to the Off Island Medical Referral Program. Amendment to the Health Fund Act has enabled the Health Services Board to modify the percentage of funds for Health Fund & Health Care Revenue Fund in the event that the original division is not sufficient for respective purposes

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2018

Finding No. 2018-004

Prepayments

Criteria: Adequate internal control policies and procedures should be established requiring that prepayments be regularly monitored and timely updated.

Condition: A subsidiary ledger for September 30, 2018 prepayments was not prepared, monitored and timely updated. Such resulted in audit adjustments.

Cause: The cause of the above condition is the lack of implementation of established policies and procedures requiring that prepayments be regularly monitored and timely updated. Specifically, there is a lack of communication between requesting departments and the accounting department to timely update prepayments for received items.

Effect: The above condition resulted in audit adjustments.

Recommendation: We recommend management establish adequate internal control policies and procedures requiring that prepayments be regularly monitored and timely updated.

Auditee Response and Corrective Action Plan:

- The Ministry notes this finding on preparation, monitoring, and timely updated of prepayments sub-ledgers. A revised Accounting SOP on the prepayment process has been implemented in May 2019 and is overseen by the SRF Senior Accountant, hired in April 2019. This will ensure that prepayments are monitored and updated in a timely manner.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2018

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