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May 28, 2015

Ms. Mailynn K. Langinlur
Acting Secretary of Health
Republic of the Marshall Islands

Dear Ms. Langinlur:

In planning and performing our audit of the financial statements of the Health Care Revenue Fund (the Fund) as of and for the year ended September 30, 2014 (on which we have issued our report dated May 28, 2015), 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, we considered the Fund's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Fund's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Phillip Muller, Minister of Health, also dated May 28, 2015, on our consideration of the 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 definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Ministry of Health, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Fund's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

(1) Travel Advances

RepMar's Ministry of Finance memorandum on Travel Rules and Regulations requires travelers to submit Travel Voucher Claims 15 days after the end of the travel. As of September 30, 2014, 80% of total travel advances were past due. We recommend that management take reasonable steps to comply with established travel policies. This matter was discussed in our previous audits for fiscal years 2006 through 2013.

Also, travel advances of \$7,994 for employees who already resigned were written off. We recommend that management impose policies regarding liquidation of travel advances for employees who are to resign.

(2) Allowance for Doubtful Accounts

As of September 30, 2014, the Fund provided an allowance for Hospital user fee receivables of \$5,785,422. We recommend that management continue to pursue collection of outstanding receivables. This matter was discussed in our previous audits for fiscal years 2010 through 2013.

(3) Accruals

As of September 30, 2014, one purchase transaction should not have been accrued. Items purchased were received after September 30, 2014. Further, various pharmaceutical and medical supplies were recorded only at fiscal year end. Some of these purchased items were received in the prior year and some were received during the year.

We recommend that monitoring occur of the process between the Requesting and the Accounting Department to record purchases in the correct period.

(4) Bank Reconciliation

Deposits in transit that pertained to July to September 8, 2014 collections of \$8,768 were included in the September 30, 2014 bank reconciliation. Upon further investigation, these collections were not deposited to the bank, but had been recorded as cash and revenues. Also, an instance was noted where the amount of September 30, 2014 collections per the report is not the same as the amount deposited, which created a shortage.

We recommend that all collections be counted and be compared to the collection report prior to deposit to the bank. Also, deposits should immediately occur to minimize the risk of misappropriation/misuse of cash. Thorough review of bank reconciliation should also occur.

(5) Proper Input of Journal Entries Details

We noted instances wherein details (i.e., GL Codes, Fund Code, Program Code, Effective Date) of journal entries were incorrect. We recommend that details of journal entries be reviewed prior to posting.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Adequacy of Documents

Certain documentation could not be provided.

Purchase Requisition, purchase Order, Check and Sales Invoice related to printing and production expense Check #43470.

Purchase Requisition, Purchase Order, Check and Sales Invoice related to purchase of medical supplies for Document #S13-0637.

Documentation should be on file in support of all recorded financial statement transactions.

SECTION III – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Fund's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.