

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2016 and 2015
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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 Marshall Islands Health Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2016 and 2015, 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

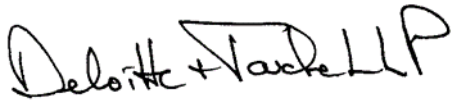
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall Islands Health Fund as of September 30, 2016 and 2015, and the results of its operations for the years then ended in accordance with accounting principles generally 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 Marshall Islands Health 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 May 12, 2017, on our consideration of the Marshall Islands Health Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall Islands Health Fund's internal control over financial reporting and compliance.

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

May 12, 2017

MARSHALL ISLANDS HEALTH FUND

Balance Sheets
September 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 782,858	\$ 399,785
Receivables:		
Contributions	1,735,969	1,621,837
Affiliates	1,648,629	2,678,776
Employees	52,474	28,168
Due from Third Party Administrator	<u>38,650</u>	<u>-</u>
	<u>3,475,722</u>	<u>4,328,781</u>
Prepayments	130,496	37,606
Other assets	<u>350,000</u>	<u>350,000</u>
	<u>\$ 4,739,076</u>	<u>\$ 5,116,172</u>
 <u>LIABILITIES AND FUND BALANCE</u> 		
Liabilities:		
Accounts payable	\$ 300,033	\$ 255,806
Medical claims payable	687,803	580,255
Payable to affiliates	<u>3,617,280</u>	<u>4,103,602</u>
Total liabilities	<u>4,605,116</u>	<u>4,939,663</u>
Contingency		
Fund balance:		
Non-spendable:		
Prepaid amounts	130,496	37,606
Committed for:		
Health services	<u>3,464</u>	<u>138,903</u>
	<u>133,960</u>	<u>176,509</u>
Total liabilities and fund balance	<u>\$ 4,739,076</u>	<u>\$ 5,116,172</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance
Years Ended September 30, 2016 and 2015

	2016	2015
Revenues:		
Basic Health Fund collections	\$ 7,041,401	\$ 7,387,415
Supplemental Health Fund collections	642,824	634,914
Other	4,479	16,902
Total revenues	7,688,704	8,039,231
Expenditures:		
Off-island care	4,046,288	3,403,588
Off-island travel	843,397	694,550
Other medical charges	231,456	212,126
On-island care	143,583	136,454
Professional and consulting fees	142,520	136,288
Administrative:		
Salaries and wages	237,000	243,549
Collection fees	200,000	200,000
Utilities	54,897	51,121
Insurance	25,279	15,125
Travel	24,769	64,517
Repairs and maintenance	19,385	20,725
Communications	15,001	12,827
POL	7,726	22,587
Other administrative charges	67,940	51,895
Total expenditures	6,059,241	5,265,352
Excess of revenues over expenditures	1,629,463	2,773,879
Other financing uses:		
Contributions from RepMar's General Fund	1,805,440	-
Contributions to the Health Care Revenue Fund	(3,450,506)	(3,497,210)
Contributions to RepMar's General Fund	(26,946)	-
	(1,672,012)	(3,497,210)
Net change in fund balance	(42,549)	(723,331)
Fund balance at beginning of year	176,509	899,840
Fund balance at end of year	\$ 133,960	\$ 176,509

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2016 and 2015

(1) Reporting Entity

The Marshall Islands Health Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Fund Act of 2002. The Fund was established to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, or as an approved off-island medical referral, or as emergency off-island medical care.

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 and is governed by a seven-member Board.

(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 on 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.

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 quarterly contributions from employers and employees as well as premiums for health benefit plans collected by the Ministry of Health.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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, 2016 and 2015, the carrying amounts of the Fund's total cash were \$782,858 and \$399,785, respectively, and the corresponding bank balances were \$825,999 and \$497,014, respectively. Of the bank balances, \$807,212 and \$486,231, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$18,787 and \$10,783, respectively, are maintained in financial institutions not subject to depository insurance. 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 are primarily due from the Marshall Islands Social Security Administration (MISSA), which collects contributions from employers located within the Republic of the Marshall Islands for the benefit of the Fund for a fixed fee of \$200,000 per year effective from October 1, 2009. These receivables are uncollateralized and non-interest bearing. The Fund has not recorded an allowance for doubtful accounts.

Prepayments

Certain payments 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.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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.

A formal minimum fund balance policy has not been adopted.

Taxes

The Government of RepMar imposes 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 2015 balances have been reclassified to conform to the 2016 financial statement presentation.

New Accounting Standards

During the year ended September 30, 2016, the Fund implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2015, GASB issued 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*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued 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. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In 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.

(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) Other Assets

A summary of other assets as of September 30, 2016 and 2015, follows:

	<u>2016</u>	<u>2015</u>
Deposit for TPA services	\$ <u>350,000</u>	\$ <u>350,000</u>

During the year ended September 30, 2015, the Fund made a deposit of \$350,000 with Medpharm Philippines as the Third Party Administrator (TPA) to provide administrative and logistical services for the Ministry of Health medical referral program.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2016 and 2015

(5) Related Party Transactions

The Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Health Care Revenue Fund is a governmental fund of RepMar established by the Nitijela for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services. Receivables from and payables to affiliates as of September 30, 2016 and 2015, are as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Care Revenue Fund	\$ -	\$ 3,612,944	\$ 6,560	\$ 4,097,440
General Fund	25,606	-	25,606	-
MISSA	<u>1,623,023</u>	<u>4,336</u>	<u>2,646,610</u>	<u>6,162</u>
	<u>\$ 1,648,629</u>	<u>\$ 3,617,280</u>	<u>\$ 2,678,776</u>	<u>\$ 4,103,602</u>

Receivable from MISSA represents contributions collected by MISSA unremitted to the Fund at September 30, 2016 and 2015.

Contributions to RepMar’s Health Care Revenue Fund during the years ended September 30, 2016 and 2015 were \$3,450,506 and \$3,497,210, respectively, representing 55% of collections of the Basic Health Benefits Plan. Payables to RepMar’s Health Care Revenue Fund represents unremitted contributions at September 30, 2016 and 2015, respectively.

During the year ended September 30, 2016, the Fund received contributions from RepMar amounting to \$1,805,440 to provide financial support for off-island referrals.

During the year ended September 30, 2016, the Fund transferred \$26,946 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.

(6) Contingency

The Fund receives substantially all of its funding from MISSA through collections of the Fund’s Basic Health Benefits Plan. A significant reduction in the level of this funding, that may ultimately require additional contributions from RepMar, if this were to occur, may have an effect on the Fund’s programs and activities.

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

Honorable Kalani Kaneko
Minister of Health
Republic of the Marshall Islands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Health Fund, which comprise the balance sheet as of September 30, 2016, 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 May 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marshall Islands Health 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 Marshall Islands Health Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall Islands Health 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.

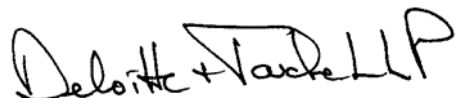
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Marshall Islands Health 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 2016-001 and 2016-002.

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.



May 12, 2017

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding No. 2016-001

Maximum Annual Benefit Coverage

Criteria: The Ministry of Health (MOH) is responsible for adequate internal control over monitoring of compliance with the Policy on Basic Health Plan for the maximum coverage of \$100,000 per covered person annually.

Condition: One patient exceeded the maximum coverage of \$100,000 per covered person annually as stated in the Policy on Basic Health Plan as follows:

<u>Invoice Date</u>	<u>Service Date</u>	<u>Amount</u>
07/22/16	04/26/16	\$ 75,455
07/22/16	04/25/16	32,258
07/22/16	04/27 to 05/04/16	<u>30,937</u>
		\$ <u>138,650</u>

Based on scrutiny of the Third Party Administrator (TPA) agreement, it appears that the TPA is responsible for providing administrative and logistical services for the MOH medical referral program, including adherence to the coverage under the Basic Health Plan. Accordingly, the excess amount of \$38,650 was reclassified and presented as due from the TPA.

Total expenditures represent hospital bills and do not include professional fees, medicine, travel costs, etc. Further, we were not provided with the accumulated balance (on an annual basis) for patients referred to the Philippines.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures over monitoring the maximum Basic Health Plan coverage in compliance with the Marshall Islands Health Fund Act.

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

Recommendation: We recommend management revisit established policies and internal controls over monitoring TPA expenditures and hospital bills for patients referred to medical service providers on an annual basis as required by the Policy on Basic Health Plan and seek reimbursement to the TPA in excess of the maximum annual benefit coverage. We also recommend that management discuss the best manner of collection of the \$38,650 receivable.

Auditee Response and Corrective Action Plan: The Ministry believes that it had complied with the Basic Health Plan policy, and carefully, with the assistance of its Third Party Administrator (TPA), is able to monitor the patient capitation limit. In this referral case outlined as a finding, patient incurred charges amounting to \$63,195 during an unscheduled stop while returning home from medical treatment overseas. Patient was unable to continue on the flight and was admitted to a hospital where patient was stabilized and finally returned to the Marshall Islands. Prior to flying, the Ministry is responsible for stabilizing a Basic Referral patient to ensure that they are medically fit to travel and are able to reach their point of destination.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2016

Finding No. 2016-002

Due to Health Care Revenue Fund

Criteria: Section 211 of the Marshall Islands Health Fund Act of 2002 states that the Health Fund shall transfer to the Health Care Revenue Fund, on a quarterly basis, a sum equal to 55% of the total quarterly contributions collected by the Health Fund.

Condition: During the year ended September 30, 2016, the Health Fund recorded a \$3,612,944 payable to the Health Care Revenue Fund, representing unremitted collections from the previous year.

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

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

Prior Year Status: The lack of compliance with the Marshall Islands Health Fund Act regarding quarterly transfers to the Health Care Revenue Fund was reported as a finding in the audit of the Fund for fiscal year 2015.

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

Auditee Response and Corrective Action Plan: The Ministry agrees that it has a recorded payable from Health Fund to the Health Care Revenue Fund in the amount of \$3,612,944 – a cumulative amount from FY2016 and prior years. This has mainly been the result of cash flow issues for Health Fund's need to support interisland and off island basic referral activities. The Ministry recognized its need to correct this issue and in FY2015 began collecting from Health Fund and plans to continue to collect until the balance has been cleared.

MARSHALL ISLANDS HEALTH FUND

Unresolved Prior Year Findings
Year Ended September 30, 2016

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