

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(AS RESTATED)

MARSHALL ISLANDS HEALTH 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 Marshall Islands Health 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 Marshall Islands Health 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-Matters

Reporting Entity

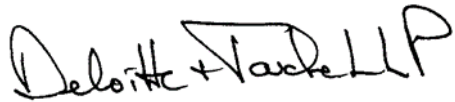
As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Health Fund and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restatement

As discussed in Note 7 to the financial statements, the 2017 financial statements have been restated to correct an error. 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 13, 2019, 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 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 Marshall Islands Health 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 Marshall Islands Health Fund's internal control over financial reporting and compliance.



June 13, 2019

MARSHALL ISLANDS HEALTH FUND

Balance Sheets
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>
<u>ASSETS</u>		
Cash	\$ 241,642	\$ 166,030
Receivables:		
Contributions	1,805,811	1,984,494
Affiliates	1,957,680	1,819,085
Employees	32,668	19,766
Due from Third Party Administrator	-	38,650
	<u>3,796,159</u>	<u>3,861,995</u>
Prepayments	-	130,496
Other assets	<u>350,000</u>	<u>350,000</u>
Total assets	<u>\$ 4,387,801</u>	<u>\$ 4,508,521</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	109,596	\$ 109,112
Medical claims payable	2,101,855	1,821,451
Payable to affiliates	<u>12,723</u>	<u>6,127</u>
Total liabilities	<u>2,224,174</u>	<u>1,936,690</u>
Contingencies		
Fund balance:		
Non-spendable:		
Prepaid amounts	-	130,496
Committed for:		
Health services	<u>2,163,627</u>	<u>2,441,335</u>
Total fund balance	<u>2,163,627</u>	<u>2,571,831</u>
Total liabilities and fund balance	<u>\$ 4,387,801</u>	<u>\$ 4,508,521</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

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

	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>
Revenues:		
Basic Health Fund collections	\$ 7,534,958	\$ 7,468,520
Supplemental Health Fund collections	669,572	672,911
Other	<u>877</u>	<u>1,813</u>
Total revenues	<u>8,205,407</u>	<u>8,143,244</u>
Expenditures:		
Off-island care	5,568,990	4,126,006
Off-island travel	827,385	779,156
Other medical charges	330,930	182,525
Professional and consulting fees	183,000	162,145
On-island care	153,683	143,714
Administrative:		
Salaries and wages	272,082	240,266
Collection fees	200,000	200,000
Travel	62,717	64,887
Utilities	51,047	38,128
Supplies	28,825	19,178
Repairs and maintenance	17,953	51,020
Insurance	14,573	4,430
POL	9,760	11,112
Communications	9,634	21,876
Training	8,220	6,752
Other administrative charges	<u>12,760</u>	<u>29,686</u>
Total expenditures	<u>7,751,559</u>	<u>6,080,881</u>
Excess of revenues over expenditures	453,848	2,062,363
Other financing sources (uses), net:		
Contributions (to) from the Health Care Revenue Fund	<u>(862,052)</u>	<u>375,508</u>
Net change in fund balance	(408,204)	2,437,871
Fund balance at beginning of year	<u>2,571,831</u>	<u>133,960</u>
Fund balance at end of year	<u>\$ 2,163,627</u>	<u>\$ 2,571,831</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2018 and 2017

(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 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 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 and Human Services.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2018 and 2017

(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, 2018 and 2017, the carrying amounts of the Fund's total cash were \$241,642 and \$166,030, respectively, and the corresponding bank balances were \$278,240 and \$229,950, respectively. Of the bank balances, \$253,717 and \$223,760, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$250,000 and \$223,760, respectively, were FDIC insured. Bank deposits of \$24,523 and \$6,190, 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.

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, 2018 and 2017

(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.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Unassigned - includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

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 balances in the 2017 presentation has been reclassified to conform to the 2018 presentation.

MARSHALL ISLANDS HEALTH 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 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.

MARSHALL ISLANDS HEALTH 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) Other Assets

In 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 and Human Services medical referral program.

(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 (HCRF) 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, 2018 and 2017, are as follows:

	2018		2017	
	Receivables	Payables	Receivables	Payables
RepMar:				
HCRF	\$ 3,594	\$ 6,541	\$ -	\$ -
General Fund	40,606	-	26,682	-
MISSA	<u>1,913,480</u>	<u>6,182</u>	<u>1,792,403</u>	<u>6,127</u>
	<u>\$ 1,957,680</u>	<u>\$ 12,723</u>	<u>\$ 1,819,085</u>	<u>\$ 6,127</u>

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2018 and 2017

(5) Related Party Transactions, Continued

Receivables from MISSA represent contributions collected by MISSA unremitted to the Fund at September 30, 2018 and 2017.

Contributions to RepMar's HCRF 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 HCRF to fund operations.

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

(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.

(7) Restatement

Subsequent to the issuance of the Fund's 2017 financial statements, Fund management determined that off-island care expenditures were understated by \$249,059. As a result of this determination, medical claims payable and related off-island care expenditures have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At September 30:		
Liabilities:		
Medical claims payable	\$ <u>1,572,392</u>	\$ <u>1,821,451</u>
Total liabilities	\$ <u>1,687,631</u>	\$ <u>1,936,690</u>
Fund Balance:		
Committed for Health Services	\$ <u>2,690,394</u>	\$ <u>2,441,335</u>
Total fund balance	\$ <u>2,820,890</u>	\$ <u>2,571,831</u>
For the year ended September 30:		
Expenditures:		
Off-island care	\$ <u>3,876,947</u>	\$ <u>4,126,006</u>
Total expenditures	\$ <u>5,831,822</u>	\$ <u>6,080,881</u>
Excess of revenues over expenditures	\$ <u>2,311,422</u>	\$ <u>2,062,363</u>
Net change in fund balance	\$ <u>2,686,930</u>	\$ <u>2,437,871</u>
Fund balance at the end of year	\$ <u>2,820,890</u>	\$ <u>2,571,831</u>

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 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, 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 13, 2019. Our report includes an emphasis of matter paragraph concerning a restatement to correct an error.

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.

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 2018-001 and 2018-003 that we consider to be material weaknesses.

Compliance and Other Matters

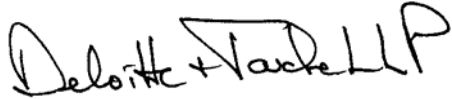
As part of obtaining reasonable assurance about whether the Marshall Islands Health Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 2018-002 and 2018-004 through 2018-006.

The Marshall Islands Health Fund's Responses to Findings

The Marshall Islands Health Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Marshall Islands Health 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 13, 2019

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses Year Ended September 30, 2018

Finding No. 2018-001

Timely Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: The Ministry of Health and Human Services did not close the Fund's accounting records for fiscal year September 30, 2018 (trial balance, subsidiary and general ledgers) until April 1, 2019. Furthermore, the Ministry of Health and Human Services 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 did not appear to have been timely processed and updated as evidenced by the following, but not limited to:

- a. Bank reconciliations were not timely and independently reviewed.
- b. A schedule of cash transfers to the Health Care Revenue Fund was not timely prepared, reconciled and reviewed. Alternative audit procedures resulted in a proposed \$1,881,872 audit adjustment.
- c. A subsidiary ledger of accrued medical claims payable as of September 30, 2018 was not timely prepared.

Cause: The cause of the above condition is the lack of a timely year end closing process and the absence of timely reconciliation and review of significant accounts.

Effect: The effect of the above condition is that the trial balance, general ledger and other reconciliations were not timely provided for audit purposes.

Prior year status: The lack of timely year end closing and the absence of timely reconciliation and review of significant accounts 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 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:

- o Bank reconciliations are prepared by the Accounting staff and reviewed and approved by the Finance Director and the Assistant Secretary for AP&F
- o 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
- o Accrued medical claims payables sub-ledger is reconciled and reviewed on a quarterly basis by the Chief Accountant

MARSHALL ISLANDS HEALTH FUND

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

Finding No. 2018-002

Transfers 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%, or any percentage share approved by the Health Services Board, of the total quarterly contributions collected by the Health Fund.

Condition: During the year ended September 30, 2018, the Health Fund recorded Basic Health Fund collections of \$7,534,958 and corresponding cash transfers to the Health Care Revenue Fund of \$862,052. Such transfers to the Health Care Revenue Fund do not appear to be in accordance with Section 211.

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 audits of the Fund for fiscal years 2015 through 2017.

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 notes this finding regarding cash transfers from Health Fund to Health Care Revenue Fund. An amendment to the Health Fund Act Section 211 in February 2018 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. Such amendment allows for flexibility of share distributions for both funds.

MARSHALL ISLANDS HEALTH FUND

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

Finding No. 2018-003

Audit of Third Party Administrator (TPA)

Criteria: Timely review and verification of accuracy and completeness of replenishment requests submitted by the TPA should be facilitated by internal control conducive to the preparation and independent review of these expenses.

Condition: An independent review of TPA replenishment forms does not occur and no independent audit of the TPA occurs. Of \$5.57 million of off-island care expenditures related to referred patients, 75% or \$4.17 million pertains to claims reimbursed to TPA for referred patients in the Philippines during the year ended September 30, 2018.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring timely review and verification of replenishments submitted by the TPA and related charges billed by the hospital/practitioners.

Effect: The effect of the above condition is a potential misstatement of expenses incurred related to referred patients.

Prior Year Status: The lack of adequate internal control policies and procedures requiring timely review and verification of replenishments submitted by the TPA or other health care providers was reported as a finding in the audit of the Fund for fiscal year 2017.

Recommendation: We recommend management verify that an independent review of files submitted by the TPA occurs to verify accuracy, completeness, and validity of requests. Further, we recommend that someone with medical expertise be designated to review the validity of medical procedures and related charges billed by the hospitals/practitioners.

Prior Year Status: The lack of adequate internal control policies and procedures requiring timely review and verification of replenishments submitted by the TPA or other health care providers was reported as a finding in the audit of the Fund for fiscal year 2017.

Auditee Response and Corrective Action Plan: The Ministry notes this finding regarding timely review and verification of accuracy and completeness of replenishment requests submitted by the TPA. The Ministry will conduct a medical audit on the current TPA in late July 2019. The Medical Referral Office reviews replenishment forms on a monthly basis and verify that expenditures are accurate prior to submitting to the Accounting Division to process payment.

MARSHALL ISLANDS HEALTH FUND

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

Finding No. 2018-004

Maximum Annual Benefit Coverage

Criteria: The Basic Health Plan and the Supplemental Health Plan pays for 100% and 80%, respectively, of the costs of non-emergency medical care up to \$100,000. For emergency cases, the Basic Health Plan pays 80% of the actual cost or \$1,000, whichever is higher. Furthermore, the Supplemental Health Plan does not pay medical care of patients enrolled in the state insurance.

The Fund is responsible for adequate internal controls over monitoring benefits claimed in compliance with Basic and Supplemental Health Plan policy.

Condition: Seven patients tested exceeded the allowed or annual maximum benefits by \$385,790, which constitutes noncompliance with the criteria stated above.

The Fund did not appear to monitor monthly actual costs incurred per patient during the year to track benefits claimed.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures over monitoring allowed or the maximum allowed benefits in compliance with 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 establish policies and internal controls over the monitoring of off-island care expenses, travel costs, per diem and escort related expenses, and verify compliance with the Marshall Islands Health Fund Act.

Auditee Response and Corrective Action Plan: The Ministry notes this finding on Basic Health Plan & Supplemental Health Plan monitoring of annual benefit coverage. As a corrective action effective FY2019, the Medical Referral Office shall review patient expenses on a monthly basis and provide a progress report to the Medical Referral Committee and the Finance Department. Furthermore, the Medical Referral Committee and the Medical Referral Office shall finalize revised Off Island Referral draft policies by January 2020.

MARSHALL ISLANDS HEALTH FUND

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

Finding No. 2018-005

Excluded Medical Conditions

Criteria: Section 202 of the Marshall Islands Health Fund Act of 2002 states “excluded medical conditions for claiming basic and supplemental benefits includes any case with a five year survival rate of less than 50% based on current medical statistics and experiences in RepMar”.

Condition: 27 of 29 samples tested did not contain documentation of the assessment of the survival rate, of which eight referred patients did not survive within a year of receiving medical treatment.

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.

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

Auditee Response and Corrective Action Plan: The Ministry notes this finding on Basic Health Plan & Supplemental Health Plan monitoring of excluded medical conditions. Patients are referred off island not only for management care but also for diagnosis and prognosis – which determines the staging and treatment process. A prognostication letter will confirm whether patient is eligible for off island management care. Furthermore, some fatalities occur not as a result of referred diagnosis but unforeseen medical complications that may occur during treatment off island.

MARSHALL ISLANDS HEALTH FUND

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

Finding No. 2018-006

Duties and Responsibilities of the TPA

Criteria: The agreement with the TPA includes the following scope of work, but not limited to:

- a. Submission of individual patient overall medical billings within one week of patient's return to the RMI.
- b. Provision for the details of fiscal year-end accruals of medical expenses.
- c. Submission of updated individual patient expense files on a monthly basis.
- d. TPA bank reconciliation statement along with copies of the bank statement and cash disbursement summary shall be provided no later than the 15th of the following month.

Condition: The TPA does not appear to consistently submit the reports and documents stated in the criteria above, which are necessary for the Fund's decision making and in carrying out their operations. This condition resulted in a \$249,059 restatement of off-island care for FY2017. Furthermore, the TPA is custodian of a \$350,000 imprest account. No imprest account reconciliation was performed and provided by the TPA at September 30, 2018 to support this account.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring TPA to carry out related duties and responsibilities.

Effect: The effect of the above condition is TPA's potential noncompliance with their contractual requirements and responsibilities and the Fund's potential noncompliance with the Marshall Islands Health Fund Act.

Recommendation: We recommend management establish policies and internal controls over the TPA's duties and responsibilities.

Auditee Response and Corrective Action Plan: The Ministry notes this finding monitoring of TPA requirements and responsibilities. As a corrective action, the Medical Referral Office shall coordinate with the TPA to ensure that reports and documents stated in contract are submitted to the Finance Department in a timely manner per the contract clauses. Furthermore, a replenishment request payment checklist will be attached and filled out prior to the process of payment.

MARSHALL ISLANDS HEALTH 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.