

May 12, 2017

Dr. Kennar Briand  
Secretary of Health  
Republic of the Marshall Islands

Dear Dr. Briand:

In planning and performing our audit of the financial statements of the Marshall Islands Health Fund (the Fund) as of and for the year ended September 30, 2016 (on which we have issued our report dated May 12, 2017) 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 as of September 30, 2016, that we wish to bring to your attention.

We have also issued a separate report to the Honorable Kalani Kaneko, Minister of Health, also dated May 12, 2017, 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.

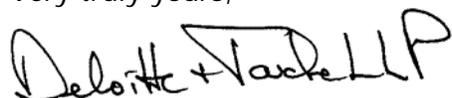
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

We identified, and have included below, control deficiencies involving the Fund’s internal control over financial reporting as of September 30, 2016, that we wish to bring to your attention:

(1) Long Outstanding 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 travel. As of September 30, 2016, 87% of travel advances pertain to unliquidated advances that are past due with a significant portion pertaining to prior years. We recommend that management scrutinize long outstanding advances and necessary adjustments occur timely. This matter has been previously reported in the audits of the Fund for fiscal years 2014 and 2015.

(2) Bank Reconciliations

Long outstanding checks were reflected in the bank reconciliation as follows:

<u>Bank Account</u>	<u>Amount</u>	<u>Remarks</u>
BOG - HF Main	\$ 26,444	Outstanding from 2004 to 2015
BOG - Outer Islands	<u>5,865</u>	Outstanding from 2004 to 2015
	\$ <u>32,309</u>	

Reconciling items do not appear to be monitored.

We recommend management strengthen and improve internal control policies over the review process of bank reconciliations that would facilitate timely identification of errors. This matter has been previously reported in the audit of the Fund for fiscal year 2015.

(3) Unrecorded Liabilities

Examination of subsequent disbursements revealed that check no. 17682 dated 01/24/17 in the amount of \$22,265 paid to Shuang Ho Hospital and pertained to a FY16 invoice. This invoice was received in FY17 but the expenditure was incurred in FY16 and no accrual occurred at that date. This matter was corrected through a proposed audit adjustment.

We recommend management perform invoice review received subsequent to fiscal year end and verify that all expenditures incurred were recorded in the correct accounting period. This matter has been previously reported in the audit of the Fund for fiscal year 2015.

(4) Audit of Third Party Administrator

No independent review of Third Party Administrator (TPA) replenishment forms occurs and no independent audit of the TPA occurs.

We recommend that 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. This matter has been previously reported in the audit of the Fund for fiscal year 2015.

**SECTION I – CONTROL DEFICIENCIES, CONTINUED**

(5) Maintenance of Files

We noted missing check payment, invoice and supporting documentation for the following:

<u>PO/Document No.</u>	<u>PO Date</u>	<u>Name</u>	<u>Amount</u>
0001769-IN	09/26/16	Air Marshalls	\$12,850

We recommend that management require that all pertinent documentation associated with check voucher payments be adequately maintained on file. This matter has been previously reported in the audit of the Fund for fiscal year 2015.

(6) Supplemental Health Fund Collections

Examination of daily collection reports and related deposit slips revealed that collections on the following dates were deposited an average of 3 or more banking days after receipt:

<u>Date collected</u>	<u>Date deposited</u>	<u>No. of banking days</u>
04/13/16	04/18/16	3
05/10/16	05/18/16	6
07/08/16	07/13/16	3

We recommend management require that the daily collection reports be reviewed before making bank deposits. Further, management should strengthen control over collections and verify that collections received are deposited within the next banking day or two to minimize opportunity for the misappropriation of cash. This matter has been previously reported in the audit of the Fund for fiscal year 2015.

(7) Late Filing of RMI Taxes

Examination of Withholding Tax payments (Form 1178) revealed late filing of pay-period returns for the payroll period from 12/02/15 to 05/20/16, which was filed and paid on 08/15/16 with check no. 17082 dated 08/10/16 amounting to \$12,104.

Form 1178 is due within two weeks following the preceding four week pay period. The Fund was noncompliant with this requirement.

We recommend management file and timely remit Withholding Tax payments in accordance with established requirements.

## **SECTION II – 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.