

June 13, 2019

Mr. Jack Niedenthal
Secretary of Health and Human Services
Republic of the Marshall Islands

Dear Mr. Niedenthal:

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, 2018 (on which we have issued our report dated June 13, 2019) 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, 2018, that we wish to bring to your attention.

We have also issued a separate report to the Honorable Kalani Kaneko, Minister of Health and Human Services, also dated June 13, 2019, 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.

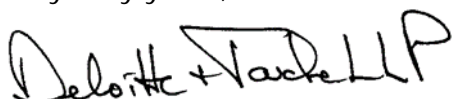
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Ministry of Health and Human Services, 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, certain deficiencies involving the Fund's internal control over financial reporting as of September 30, 2018, 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 fifteen days after the end of travel. As of September 30, 2018, \$19,177 of travel advances pertain to unliquidated advances that are past due and a significant portion pertains to prior years. We recommend management scrutinize long outstanding advances and necessary adjustments timely occur. This matter has been previously reported in the audits of the Fund for fiscal years 2014 through 2017.

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	\$ 51,581	Outstanding from 2004 to 2017
BOG - Outer Islands	<u>6,785</u>	Outstanding from 2004 to 2017
	\$ <u>58,366</u>	

No evidence of independent review was noted in the bank reconciliation process and 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. Furthermore, management should revisit the validity of recorded long-outstanding checks. This matter has been previously reported in the audit of the Fund for fiscal years 2014 through 2017.

3) Long outstanding accounts payable

At September 30, 2018, the Fund recorded accounts payable of \$109,621, of which \$90,356 or 82% were outstanding for over a year.

We recommend management review long outstanding payables and determine a timely course of action.

4) Unrecorded liabilities

Examination of subsequent billings revealed off-island medical claims of \$72,563 that were included in October 2018 billings. The invoice was received in November 2018 and no accrual was recorded. This matter was corrected through proposed audit adjustment.

We recommend management perform reviews of invoices received subsequent to fiscal year end and verify that claims incurred are recorded in the correct accounting period.

SECTION I – DEFICIENCIES, CONTINUED

5) Supplemental Health Plan Revenue

Tests of Supplemental Health Plan revenues revealed the following:

- For nine of thirteen Supplemental Health Plan revenue items tested, contributions per receipts do not agree with the system premium payment list. There is a possibility that non-covered members or dependents received benefits. Further, no refund was provided to members. It appears that review procedures were not in place to monitor the accuracy of the Supplemental Health Fund Members eligibility listing and related payments.
- Six of thirteen collections tested were not timely deposited.

We recommend management establish internal control procedures and policies to monitor that Health Fund contributions are properly accounted for and that collections are timely deposited.

6) Journal Entry review process

There was no evidence of independent review of journal entries.

We recommend management establish internal control procedures and policies to adequately document the preparation and review of journal entries.

7) Income Tax Act

The Ministry of Health and Human Services filed and paid income taxes withheld for the payroll periods from 12/02/2017 to 08/12/2018 in a manner inconsistent with the Income Tax Act of 1989, specifically, withholding taxes of \$14,658 were not timely remitted.

We recommend management establish adequate internal control policies and procedures requiring compliance with the Income Tax Act. This matter has been previously reported in the audit of the Fund for fiscal year 2017.

8) Social Security Act and the Social Security Health Fund Act

The Ministry of Health and Human Services filed and paid employer and employee contributions withheld for the year ended September 30, 2018 in a manner inconsistent with RepMar Social Security Act and the Social Security Health Fund Act. Specifically, social security contributions for the following quarters were not timely filed and remitted:

<u>Quarter Ended</u>	<u>Amount Owed</u>	<u>Due Date</u>	<u>Date filed and paid</u>
December 31, 2017	\$ 8,533	01/10/18	01/29/18
March 31, 2018	\$ 12,321	04/10/18	05/16/18
June 30, 2018	\$ 10,240	07/10/18	07/30/18

We recommend management establish adequate internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act. This matter has been previously reported in the audit of the Fund for fiscal year 2017.

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.