

**HEALTH CARE REVENUE FUND
(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(AS RESTATED)**

HEALTH CARE REVENUE FUND

Years Ended September 30, 2019 and 2018
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Revenues, Expenditures and Changes in Fund Balance	4
Notes to Financial Statements	5
III. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	11
Schedule of Findings and Responses	13
Corrective Action Plan	18
Unresolved Prior Year Findings	19

INDEPENDENT AUDITORS' REPORT

Honorable Bruce Bilimon
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 Health Care Revenue Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2019 and 2018, 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 Health Care Revenue Fund as of September 30, 2019 and 2018, 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 Health Care Revenue 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.

COVID-19

As discussed in Note 6 to the financial statements, the HCRF has determined that the COVID-19 pandemic may negatively impact its operations through increased levels of expenditures for medical supplies and equipment. The HCRF is unable to reasonably estimate its ultimate financial impact.

Restatement

As discussed in Note 7 to the financial statements, the 2018 financial statements have been restated to correct an error.

Our opinion is not modified with respect to these matters.

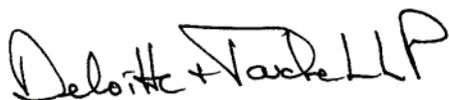
Other Matters

Required Supplementary Information:

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, on our consideration of the Health Care Revenue 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 Health Care Revenue 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 Health Care Revenue Fund's internal control over financial reporting and compliance.



June 16, 2020

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u> (As Restated)
<u>ASSETS</u>		
Cash	\$ 2,011,718	\$ 1,547,347
Receivables:		
Patients	6,193,251	6,091,313
Affiliates	76,030	59,431
Employees	110,077	69,045
Other	<u>72,929</u>	<u>44,815</u>
	6,452,287	6,264,604
Less allowance for doubtful accounts	<u>(6,392,891)</u>	<u>(6,205,173)</u>
	59,396	59,431
Prepayments	<u>119,168</u>	<u>54,634</u>
Total assets	<u>\$ 2,190,282</u>	<u>\$ 1,661,412</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 586,539	\$ 433,292
Other liabilities and accruals	25,015	51,322
Payable to affiliates	<u>160,296</u>	<u>17,845</u>
Total liabilities	<u>771,850</u>	<u>502,459</u>
Contingencies		
Fund balance:		
Non-spendable:		
Inventory and prepaid amounts	119,168	54,634
Committed for:		
Health services	<u>1,299,264</u>	<u>1,104,319</u>
Total fund balance	<u>1,418,432</u>	<u>1,158,953</u>
Total liabilities and fund balance	<u>\$ 2,190,282</u>	<u>\$ 1,661,412</u>

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance
Year Ended September 30, 2019 and 2018

	2019	2018
Revenues:		
Hospital charges	\$ 431,863	\$ 379,764
Grants	373,862	388,153
Other	95,561	105,090
Total revenues	901,286	873,007
Expenditures:		
Medical and laboratory supplies	1,221,728	829,011
Pharmaceutical	971,878	2,150,892
Laboratory fees	137,291	106,023
Hospital equipment	127,964	359,470
Freight and delivery	29,716	21,009
Professional and consulting fees	9,866	37,466
Administrative:		
Salaries and wages	176,567	169,409
Travel	91,146	36,033
Provision for bad debts	84,271	105,641
Supplies	33,546	9,868
Foodstuffs	28,056	24,663
Rentals	20,870	1,950
Printing and reproduction	16,359	17,679
Communications	14,965	9,437
Equipment	10,352	674
POL	9,141	2,854
Training	7,564	11,264
Other administrative costs	31,634	29,305
Total expenditures	3,022,914	3,922,648
Deficiency of revenues under expenditures	(2,121,628)	(3,049,641)
Other financing sources (uses):		
Transfer in from the Marshall Islands Health Fund	2,521,446	862,052
Transfer out to RepMar's General Fund	(140,339)	-
Total other financing sources (uses), net	2,381,107	862,052
Net change in fund balance	259,479	(2,187,589)
Fund balance at beginning of year, as previously reported	1,158,953	3,530,673
Restatement (Note 7)	-	(184,131)
Fund balance at beginning of year, as restated	1,158,953	3,346,542
Fund balance at end of year	\$ 1,418,432	\$ 1,158,953

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2019 and 2018

(1) Reporting Entity

The Health Care Revenue Fund (HCRF), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Health Care Revenue Fund Act of 1989, as amended, to facilitate the purchase of drugs, medical and dental supplies, hospital equipment, and for the provision and administration of other health services. The Marshall Islands Health Fund (MIHF), a governmental fund of RepMar, was established pursuant to the Marshall Islands Health Fund Act of 2002, as amended, to provide, pay, or reimburse all or a determined portion of the cost of basic health care obtained at a local health care facility, as an approved off-island medical referral, or as emergency off-island medical care. The MIHF includes the operations of the Basic Health Benefits Plan. Administration, control and management of both the HCRF and the MIHF is the responsibility of the Secretary of RepMar's Ministry of Health and Human Services (MOHHS). The MIHF's enabling legislation requires that 55% of contributions collected by the Basic Health Benefits Plan be transferred, on a quarterly basis, to the HCRF. The 55% distribution is to be made after deducting the 10% costs associated with the administration of the MIHF. On February 26, 2018, the HCRF's enabling legislation was amended to authorize the Health Services Board to modify the 55% distribution, as necessary.

The accompanying financial statements relate solely to those accounting records maintained by the HCRF, and do not incorporate any accounts related to the MIHF, 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 HCRF is considered to be a blended component unit (special revenue fund) of RepMar.

(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 HCRF's accounting policies are described below.

Measurement Focus and Basis of Accounting

The HCRF 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 in 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

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 HCRF 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 revenue received from hospital charges and other health care charges collected by the Ministry of Health and Human Services as well as grants, gifts and donations.

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 HCRF 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 HCRF'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 HCRF 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, 2019 and 2018, the carrying amounts of the HCRF's total cash were \$2,011,718 and \$1,547,347, respectively, and the corresponding bank balances were \$2,030,802 and \$1,567,712, respectively. Of the bank balances, \$1,665,231 and \$1,255,166, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$365,571 and \$312,546, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$250,000 were FDIC insured. The HCRF 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 include amounts due from hospital patients, affiliates, employees, and other sources. These receivables are uncollateralized and non-interest bearing.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Bad debts are written-off against the reserve on the specific identification method.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Prepayments

Certain payments made 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 HCRF 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.

Fund Balance

Fund balance classifications are based on the extent to which the HCRF 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. Any unused portion of the rest of the grants received have been included in the restricted portion/committed for fund balance.

A formal minimum fund balance policy has not been adopted.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

Taxes

RepMar imposes a gross receipts tax of 3% on revenues. The HCRF 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2019, the HCRF implemented the following pronouncements:

- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the HCRF's 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.

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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

(3) Risk Management

The HCRF 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 HCRF 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) Related Party Transactions

The HCRF is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the MIHF.

Receivables from and payables to affiliates as of September 30, 2019 and 2018, are as follows:

	2019		2018	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
Health Fund	\$ 13,030	\$ 3,619	\$ 6,541	\$ 3,594
General Fund	63,000	145,738	52,890	5,118
Other	-	10,939	-	9,133
	\$ 76,030	\$ 160,296	\$ 59,431	\$ 17,845

Contributions from the MIHF during the years ended September 30, 2019 and 2018 amounted to \$2,521,446 and \$862,052, respectively, representing a percentage share of collections of the Basic Health Benefits Plan transferred to fund HCRF operations.

During the year ended September 30, 2019, the HCRF transferred \$140,339 to the General Fund in accordance with the RepMar Appropriation Act 2018 (Financial Year 2019) for the purpose of funding the operations of the Office of the Auditor General.

(5) Contingencies

The HCRF receives substantially all of its funding from the MIHF through collections of the MIHF's Basic Health Benefits Plan. A significant reduction in the level of this funding, if this were to occur, may have an effect on the HCRF's programs and activities.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of June 16, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. The HCRF has determined that should the pandemic reach the Marshall Islands, it may negatively impact the HCRF's operations through increased levels of expenditures for medical supplies and equipment, and the HCRF may be dependent upon the financial support of RepMar. Therefore, while the HCRF expects this matter to potentially cause increased levels of expenditures for medical supplies and equipment, the related financial impact cannot be reasonably estimated at this time.

(7) Restatement

Subsequent to the issuance of the HCRF's 2018 financial statements, the HCRF's management determined that accounts payable as of September 30, 2017 was understated by \$184,131. As a result of this determination, the HCRF's 2018 beginning fund balance has been restated from the amount previously reported of \$3,530,673 to \$3,346,542.

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 Bruce Bilimon
Minister of Health and Human Services
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 Health Care Revenue Fund (HCRF), which comprise the balance sheet as of September 30, 2019, 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 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HCRF'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 HCRF's internal control. Accordingly, we do not express an opinion on the effectiveness of the HCRF'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 2019-002 and 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

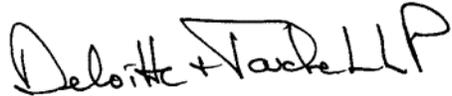
As part of obtaining reasonable assurance about whether the HCRF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 item 2019-001.

HCRF's Responses to Findings

HCRF's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. HCRF'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 16, 2020

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses Year Ended September 30, 2019

Finding No. 2019-001

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- (a) Section 116 - subject to the regulations of the Policy Office, the Chief Procurement Officer may delegate authority to designees or to any department, agency, or official.
- (b) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (c) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (d) Section 129 – notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or a safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided that such emergency procurement shall be made with such competition as is practicable under the circumstance. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.
- (e) Section 130 – adequate notice of the need for such services shall be given by the Purchasing Agency through a Request for Proposals. The Request for Proposals shall describe the services required, list and type of information and date required for each offeror, and state the relative importance of particular qualifications.

Condition: We noted the following items where supporting documentation was inadequate to evidence compliance with the procurement process set forth in the criteria:

Laboratory fees

Payments were made to the selected vendor for laboratory services. However, various quotations from other vendors were not on file. Further, there is no justification of vendor selection:

<u>Invoice no.</u>	<u>PO Date</u>	<u>Amount</u>
681817	07/31/2018	<u>\$ 60,061</u>

Medical Supplies

PO#00960 for \$19,800 was described as an "emergency" purchase of medical supplies. Minimum of 3 quotations as required by RepMar's Procurement Code were not obtained.

According to RepMar's Procurement Code, "emergency" procurement shall be made when there exists a threat to public health, welfare, or a safety under emergency conditions. The above condition does not constitute an emergency condition; instead, the condition lacks proper inventory planning of the determination of the level of needed medical supplies since those purchases are for daily use and such level of usage can be budgeted or projected.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No. 2019-001, Continued

Local Noncompliance, Continued

Monitoring of purchase orders

The following purchases were received more than ninety days from the PO date:

<u>GL Account</u>	<u>PO Date</u>	<u>PO nos.</u>	<u>Items received</u>	<u>Amount</u>
Medical Supplies	02/02/2018	00112	10/02/2018	\$ 4,984
Medical Supplies	06/13/2019	01539	09/23/2019	\$ 16,920
Medical Supplies	09/02/2018	00693	01/12/2019	\$ 27,147
Medical Supplies	09/02/2018	00693	01/18/2019	\$ 27,773
Medical Supplies	09/21/2018	00663	01/10/2019	\$ 17,059
Medical Supplies	09/25/2018	00690	01/10/2019	\$ 40,197
Medical Supplies	09/25/2018	00690	01/31/2019	\$ 51,758
Medical Supplies	09/25/2018	00690	05/27/2019	\$ 5,376
Medical Supplies	09/27/2018	00701	01/15/2019	\$ 9,103
Medical Supplies	09/27/2018	00699	01/15/2019	\$ 52,838
Medical Supplies	12/12/2018	00949	05/10/2019	\$ 40,362
Laboratory Supplies	07/09/2018	00507	12/10/2018	\$ 11,398
Pharmaceutical	01/14/2019	01027	07/16/2019	\$ 11,027
Pharmaceutical	01/15/2019	01029	05/24/2019	\$ 6,950
Pharmaceutical	04/03/2019	01297	07/16/2019	\$ 22,062
Pharmaceutical	05/10/2019	01414	09/02/2019	\$ 16,136
Pharmaceutical	08/28/2018	00621	01/29/2019	\$ 6,195
Medical Equipment	01/07/2019	00994	05/17/2019	\$ 19,440
Medical Equipment	03/05/2019	01179	06/05/2019	\$ 14,900
Medical Equipment	11/21/2018	00875	04/24/2019	\$ 11,348

As per Ministry of Health and Human Service's policy, "all unserved items after 90 days will be cancelled".

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code and Ministry of Finance's policies. Also, lack of proper inventory planning in the determination of needed medical supplies caused purchases to be classified as "emergency".

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code and Ministry of Finance's policies.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the HCRF for fiscal years 2005 through 2018.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No. 2019-001, Continued

Local Noncompliance, Continued

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code and Ministry of Finance's policies. We recommend management establish internal control policies and procedures to monitor delivery of purchases as per agreed schedule.

Auditee Response and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2019

Finding No. 2019-002

Timely Financial Reporting

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

Condition: The HCRF did not finalize closing fiscal year September 30, 2019 financial information (trial balance, subsidiary and general ledgers) until April 17, 2020. Further, the HCRF 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, 2019, various accounting records do not appear to have been processed and timely updated.

Specifically, subsidiary ledger of accounts payable was not monitored and timely reconciled. During the year ended September 30, 2019, we noted recorded expenditures totaling \$184,131 that pertain to prior years (2018 and earlier).

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

Effect: The trial balance and general ledger were not timely provided for audit purposes.

Prior Year Status: Noncompliance with timely financial reporting was reported as a finding in the audits of the HCRF for fiscal years 2017 and 2018.

Recommendation: We recommend management implement internal control procedures to facilitate more timely and accurate general ledger reconciliation processes.

Auditee Response and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

HEALTH CARE REVENUE FUND

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

Finding No. 2019-003

Account Payables

Criteria: Adequate internal control policies and procedures should be established requiring that account payables be regularly monitored and timely reconciled.

Condition: The account payable subsidiary ledger was not monitored and timely reconciled. Such resulted in audit adjustments amounting to \$184,131 and a restatement of the 2018 beginning fund balance from the amount previously reported of \$3,530,673 to \$3,346,542.

Cause: The cause of the above condition is the lack of implementation of established policies and procedures requiring that account payables be regularly monitored and timely reconciled. Specifically, there is a lack of procedure/ process from accounting department to timely reconcile account payables from received items or services.

Effect: The above condition resulted in audit adjustments and a restatement of beginning fund balance.

Recommendation: We recommend management establish adequate internal control policies and procedures requiring that account payables be regularly monitored and timely reconciled.

Auditee Response and Corrective Action Plan:

See the auditee-prepared Corrective Action Plan.

**Corrective Action Plan
Year Ended September 30, 2019**

Finding Number	Title	Audit Finding Response	Date of Completion	Responsible Person
<u>2019-001 (A)</u>	Laboratory Fees: Payments was made to the selected vendor for laboratory services. However, various quotations from other vendors were not on file. Further, there is no justification of vendor selection. Please see details below:	The Ministry notes this finding regarding inadequacy of obtaining two other quotations for laboratory services. Moving forward, Ebeye Hospital Management shall obtain two other quotations to comply with the RepMar's procurement policy Section 124.	<u>July 31, 2020</u>	<ul style="list-style-type: none"> • Assistant Secretary KAHCS/ Glorine Jeadrik • Lab Director/Allen Capelle • Support Director/Johnny Choban
<u>2019-001 (B)</u>	Medical Supplies: PO#00960 for \$19,800 was described as an "emergency" purchase of medical supplies. Minimum of 3 quotations as required by RepMar's Procurement Code were not obtained.	The Ministry does not agree with the finding. Initially, MD Wholesale had an existing order that was supposed to arrive on 12/09/2018. Due to unforeseen delays, the shipment never arrived on time therefore an emergency order took place. The following action was conducted, Medpharm was sole sourced because it was the only vendor with available stock and was the fastest route of delivery. Medpharm's shipment arrived on 12/08/2018, two days after the purchase order was created.	<u>N/A</u>	<ul style="list-style-type: none"> • N/A
<u>2019-001 (C)</u>	MONITORING OF PURCHASE ORDERS Purchases were received more than ninety days from the PO dates	The Ministry notes this finding regarding monitoring of purchase orders and delivery of goods beyond 90 days. Moving forward, the Ministry plans on training employee(s) to do a monthly reconciliation on each and every purchase orders. The Ministry is also in the process of hiring a reconciliation specialist who will be working with the SRF Senior Accountant on this monthly reconciliation to ensure the liquidation of Purchase Orders beyond their 90 days validity. Furthermore, the Ministry will be reviewing, finalizing and implementing the Standard Operation Procedures to strengthen the monitoring of Purchase Orders.	<u>September 30, 2019</u>	<ul style="list-style-type: none"> • Chief Accountant/Marius Escarez • Recon Specialist/vacant • SRF Senior Accountant/Hiram Samuel

**Corrective Action Plan
Year Ended September 30, 2019**

<p><u>2019-002</u></p>	<p><u>Timely Financial Reporting</u> The Fund did not finalize closing fiscal year September 30, 2019 financial information (trial balance, subsidiary and general ledgers) until April 17, 2020. Further, the Fund 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, 2019, various accounting records do not appear to have been processed and timely updated.</p>	<p>The Ministry notes this finding regarding timely financial reporting. For FY'20, the Ministry plans on reconciling subsidiary and General Ledgers on a monthly basis. Furthermore, Policies and Procedures are to be created and implemented through training of responsible staff to ensure timely financial reporting. Monthly Reconciliation will be reviewed by Assistant Secretary of AP & F.</p>	<p><u>July 31, 2020</u></p>	<ul style="list-style-type: none"> • Assistant Secretary of AP&F/Titus Bien • Chief Accountant/Marius Escarez • SRF Senior Accountant/Hiram Samuel • Payroll Accountant/Jerry Anjolak • A/R Accountant/Vacant
<p><u>2019-003</u></p>	<p><u>Account Payables</u> Subsidiary ledger of account payables was not monitored and timely reconciled. Such resulted in audit adjustments amounting to \$184,131 and restatement of 2018 beginning fund balance from the amount previously reported of \$3,530,673 to \$3,346,542.</p>	<p>The Ministry notes this finding regarding monitoring of the subsidiary ledger of accounts payables and timely reconciled. The Ministry recently hired an Accounting Consultant to help set policies and procedures to ensure the timely reconciliation of the subledger for Account Payables. Once policies and procedures are finalized, Training of Accounts Payable Reconciliation to be conducted and performed on a monthly basis. Reconciliation of Accounts Payable Subledger to be reviewed by Assistant Secretary of AP & F.</p>	<p><u>July 31, 2020</u></p>	<ul style="list-style-type: none"> • Assistant Secretary o AP&F/ Titus Bien • Chief Accountant/Marius Escarez • SRF Accountant/ Hiram Samuel

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2019

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