

June 16, 2020

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 Health Care Revenue Fund (HCRF) as of and for the year ended September 30, 2019 (on which we have issued our report dated June 16, 2020), 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 HCRF'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 HCRF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HCRF'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 HCRF's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Bruce Bilimon, Minister of Health and Human Services, also dated June 16, 2020, on our consideration of the HCRF'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.

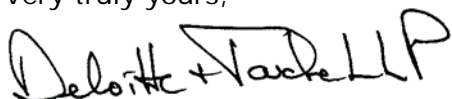
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, deficiencies involving the HCRF's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

(1) Long Outstanding Unliquidated 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, 2019, approximately \$57,656 of receivables from employees, payroll advances and total travel advances were more than 90 days past due. We recommend management take reasonable steps to comply with established travel policies regarding liquidation of travel advances, receivables from employees and payroll advances. This matter was discussed in our previous audits for fiscal years 2006 through 2018.

(2) Allowance for Doubtful Accounts

As of September 30, 2019, the HCRF did not perform an analysis of allowance for doubtful accounts for long outstanding hospital user fee receivables of \$6,193,251 and other receivables of \$259,036. Such was adjusted during the audit process with a proposed audit adjustment of \$185,087. We recommend management continue to pursue collection of outstanding receivables. This matter was discussed in our previous audits for fiscal years 2010 through 2018.

(3) Long Outstanding Accounts Payables

Scrutiny of the accounts payable balance indicated \$45,753 of payables that are aged more than 90 days past due and invoices relating to 2013 transactions. We recommend management strengthen and improve internal control procedures over the transaction review process and revisit the validity of these payables. This matter was discussed in our previous audits for fiscal years 2016 through 2018.

(4) Grant and Deferred Revenue

Deferred revenue computation and schedule was not prepared and provided to us during the audit. Further, collections during the year were recorded inconsistently, either grant revenue or deferred revenue. Such was adjusted during the audit process with proposed audit adjustments. We recommend management strengthen and improve internal control procedures over the review process and the monitoring of grant revenue, deferred revenue and related expenditures.

(5) Late filing of RMI Withholding and MISSA Social Security Taxes

- i. The HCRF filed and paid income taxes withheld in a manner inconsistent with 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105. Scrutiny of withholding tax payments (Form 1178) revealed the following:

Payroll Period	<u>Health Care Revenue Fund</u>		<u>Global Fund</u>	
	Date Filed	Date Paid	Date Filed	Date Paid
10/14/18 - 11/10/18	12/12/2018	12/14/2018	12/12/2018	12/14/2018
11/11/18 - 12/08/18	01/09/2019	01/10/2019	01/09/2019	01/10/2019
12/09/18 - 01/05/19	03/27/2019	04/08/2019	04/08/2019	04/08/2019
01/06/19 - 02/02/19	03/27/2019	04/08/2019	04/08/2019	04/08/2019
02/03/19 - 03/02/19	04/03/2019	04/08/2019	06/11/2019	06/25/2019
03/03/19 - 03/30/19	06/11/2019	06/25/2019	06/11/2019	06/25/2019
03/31/19 - 04/27/19	06/11/2019	06/25/2019	06/11/2019	06/25/2019
04/28/19 - 05/25/19	06/20/2019	06/25/2019	06/20/2019	06/25/2019
05/26/19 - 06/22/19	07/18/2019	07/22/2019	07/18/2019	07/22/2019
06/23/19 - 07/20/19	08/16/2019	08/21/2019	08/16/2019	08/21/2019
07/21/19 - 08/17/19	09/12/2019	09/19/2019	09/13/2019	09/19/2019
09/15/19 - 10/12/19	11/15/2018	11/26/2018	11/15/2018	11/26/2018

SECTION I –DEFICIENCIES, CONTINUED

(5) Late filing of RMI Withholding and MISSA Social Security Taxes, Continued

Form 1178 is due within two weeks following the preceding four week pay period. The HCRF was noncompliant with this requirement. Further, Form 1178 for Payroll Periods 09/16/18-10/13/18 and 08/18/19-09/14/19 could not be located and provided during the audit.

- ii. Scrutiny of the MISSA tax return for the quarter ended 09/30/19 indicated that filing and payment occurred on 10/23/2019. MISSA tax deadline is the 10th of the first month of the following quarter. The HCRF was noncompliant with this requirement.

We recommend management strengthen and improve internal control procedures over the timely filing and payment of RMI Withholding and MISSA Social Security Taxes in accordance with established requirements. This matter was discussed in our previous audit for fiscal year 2018.

(6) Information Technology

The HCRF has not adopted formal policies and procedures governing information technology and data security. We recommend management adopt formal policies and procedures governing information technology and data security.

(7) Timely Submission of Request for Reimbursements

As of September 30, 2019, we noted requests for audit fee reimbursement are not timely submitted. We recommend management strengthen and improve internal control procedures over the timely submission of requests audit fee reimbursement.

(8) Maintenance of files

During the year ended September 30, 2019, Receipt (OR# 860936) could not be located. We recommend management strengthen and improve internal control procedures over the documentation and filing processes for recorded financial statement transactions

SECTION II – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 HCRF'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.