

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

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**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

## MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2019 and 2018  
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## **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 Marshall Islands Health Fund (MIHF), 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 MIHF 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 MIHF 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 7 to the financial statements, the MIHF determined that the COVID-19 pandemic may negatively impact its operations through increased levels of expenditures for the off-island medical referral program. The MIHF is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

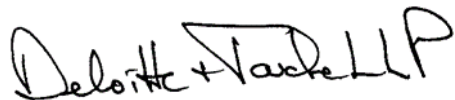
## **Other Matters**

### *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 August 25, 2020, on our consideration of the MIHF'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 MIHF'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 MIHF's internal control over financial reporting and compliance.



August 25, 2020

# MARSHALL ISLANDS HEALTH FUND

Balance Sheets  
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash	\$ 252,138	\$ 241,642
Receivables:		
Contributions	2,401,378	1,805,811
Affiliates	1,671,748	1,957,680
Employees	39,067	32,668
Other	<u>38,650</u>	<u>38,650</u>
	4,150,843	3,834,809
Less allowance for doubtful accounts	<u>(130,273)</u>	<u>(38,650)</u>
	<u>4,020,570</u>	<u>3,796,159</u>
Other assets	<u>350,000</u>	<u>350,000</u>
Total assets	<u>\$ 4,622,708</u>	<u>\$ 4,387,801</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	121,023	109,596
Medical claims payable	1,552,877	2,101,855
Payable to affiliates	<u>96,314</u>	<u>12,723</u>
Total liabilities	<u>1,770,214</u>	<u>2,224,174</u>
Contingencies		
Fund balance:		
Committed for:		
Health services	<u>2,852,494</u>	<u>2,163,627</u>
Total liabilities and fund balance	<u>\$ 4,622,708</u>	<u>\$ 4,387,801</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS HEALTH FUND**

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

	<u>2019</u>	<u>2018</u>
Revenues:		
Basic Health Fund collections	\$ 8,193,583	\$ 7,534,958
Supplemental Health Fund collections	652,207	669,572
Refunds and other revenues	<u>223,319</u>	<u>877</u>
Total revenues	<u>9,069,109</u>	<u>8,205,407</u>
Expenditures:		
Off-island care	4,743,580	5,568,990
Off-island travel	1,008,127	827,385
Other medical charges	330,705	330,930
Professional and consulting fees	174,000	183,000
Bad debts	91,623	-
On-island care	90,400	153,683
Administrative:		
Salaries and wages	275,649	272,082
Collection fees	200,000	200,000
Travel	59,125	62,717
Utilities	50,990	51,047
Repairs and maintenance	31,316	17,953
Insurance	15,401	14,573
Capital outlays	12,703	-
Supplies	10,304	28,825
POL	8,359	9,760
Communications	7,603	9,634
Training	-	8,220
Other administrative charges	<u>13,531</u>	<u>12,760</u>
Total expenditures	<u>7,123,416</u>	<u>7,751,559</u>
Excess of revenues over expenditures	<u>1,945,693</u>	<u>453,848</u>
Other financing sources (uses):		
Contributions from RepMar's General Fund	1,400,000	-
Contributions to RepMar's General Fund	(135,380)	-
Contributions to the Health Care Revenue Fund	<u>(2,521,446)</u>	<u>(862,052)</u>
Total other financing sources (uses), net	<u>(1,256,826)</u>	<u>(862,052)</u>
Net change in fund balance	688,867	(408,204)
Fund balance at beginning of year	<u>2,163,627</u>	<u>2,571,831</u>
Fund balance at end of year	<u>\$ 2,852,494</u>	<u>\$ 2,163,627</u>

See accompanying notes to financial statements.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2019 and 2018

### (1) Reporting Entity

The Marshall Islands Health Fund (MIHF), a governmental fund of the Republic of the Marshall Islands (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. The Health Care Revenue Fund (HCRF), a governmental fund of 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. Administration, control and management of both the MIHF and the HCRF 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 MIHF, and do not incorporate any accounts related to the HCRF, 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 MIHF 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 MIHF's accounting policies are described below.

#### Measurement Focus and Basis of Accounting

The MIHF 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.

## MARSHALL ISLANDS HEALTH 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 MIHF 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 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 MIHF 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 MIHF'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 institution but not in the depositor-government's name. The MIHF 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 MIHF's total cash were \$252,138 and \$241,642, respectively, and the corresponding bank balances were \$430,837 and \$278,240, respectively. Of the bank balances, \$418,682 and \$253,717, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$12,155 and \$24,523, respectively, are maintained in financial institutions not subject to depository insurance. The MIHF 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), 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.



## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2019 and 2018

### (2) Summary of Significant Accounting Policies, Continued

#### Compensated Absences

The MIHF 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 MIHF is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Such are reported as committed, which 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.

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

The Government of RepMar imposes gross receipts tax of 3% on revenues. The MIHF 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.

#### New Accounting Standards

During the year ended September 30, 2019, the MIHF 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.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2019 and 2018

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

- 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 accompanying 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.

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.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2019 and 2018

### (3) Risk Management

The MIHF 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 MIHF 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

The MIHF 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. In addition, the MIHF and the TPA entered into a medical services agreement for a fixed monthly fee of \$14,500, which expires on September 30, 2019. On October 10, 2019, the MIHF and the TPA renewed the agreement for an additional 36 months, effective October 1, 2019, for a fixed monthly fee of \$18,600.

### (5) Related Party Transactions

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

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:				
HCRF	\$ 4,246	\$ 13,030	\$ 3,594	\$ 6,541
General Fund	3,606	75,380	40,606	-
MISSA	<u>1,663,896</u>	<u>7,904</u>	<u>1,913,480</u>	<u>6,182</u>
	<u>\$ 1,671,748</u>	<u>\$ 96,314</u>	<u>\$ 1,957,680</u>	<u>\$ 12,723</u>

Receivables from MISSA represent unremitted contributions to the MIHF at September 30, 2019 and 2018 collected by MISSA from employers located within the Republic of the Marshall Islands for the benefit of the MIHF for a fixed fee of \$200,000 per year.

During the year ended September 30, 2019, the MIHF received \$1,400,000 from RepMar to provide financial support for off-island referrals.

During the year ended September 30, 2019, the MIHF transferred \$135,380 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.

Contributions to the HCRF 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 the HCRF to fund operations.

### (6) Contingencies

The MIHF receives substantially all of its funding from MISSA through collections of the MIHF'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 MIHF's programs and activities.

## MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements  
September 30, 2019 and 2018

### (7) 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 August 25, 2020, there has been no confirmed cases of COVID-19 in the Marshall Islands. The MIHF has determined that should the pandemic reach the Marshall Islands, it may negatively impact the MIHF's operations through increased levels of expenditures for the off-island medical referral program, and the MIHF may be dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding from RepMar may be limited. Therefore, while the MIHF expects this matter to potentially cause increased levels of expenditures for the off-island medical referral program, the related financial impact cannot be reasonably estimated at this time.

**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 Marshall Islands Health Fund (MIHF), 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 August 25, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the MIHF'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 MIHF's internal control. Accordingly, we do not express an opinion on the effectiveness of the MIHF'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 item 2019-001 that we consider to be material weaknesses.

### **Compliance and Other Matters**

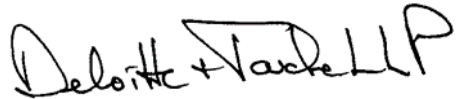
As part of obtaining reasonable assurance about whether the MIHF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2019-002 and 2019-003.

## The MIHF's Responses to Findings

The MIHF's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The MIHF'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, stylized font.

August 25, 2020

## MARSHALL ISLANDS HEALTH FUND

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

#### Finding No. 2019-001

##### Timely Financial Reporting

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

Condition: The Ministry of Health and Human Services did not close the MIHF's accounting records for fiscal year September 30, 2019 (trial balance, subsidiary and general ledgers) until April 17, 2020. Furthermore, the Ministry 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 were not timely processed and updated as evidenced by the following, but not limited to:

- a. Bank reconciliations were not properly prepared and reviewed which resulted in a proposed \$557,378 audit adjustment.
- b. Accounts payable aging schedule and subsidiary ledger of accrued medical claims payable as of September 30, 2019 were not properly maintained and reviewed. These accounts included liabilities already paid as well as unreversed prior year accrual entries. This resulted in proposed audit adjustments of \$325,852 and \$34,817, respectively, to accounts payable and accrued medical claims payable.

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 audits of the MIHF for fiscal years 2017 and 2018.

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. 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 Finance Director or Assistant Secretary of AP & F.

Date of Completion: June 30, 2020

##### Responsible Person(s):

- Finance Director / Neri Wase
- Interim Chief Accountant / Marius Escarez
- SRF Senior Accountant / Hiram Samuel
- HF Accountant / Jerry Anjolak

## MARSHALL ISLANDS HEALTH FUND

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

#### Finding No. 2019-002

##### 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 program. The MIHF is responsible for adequate internal controls over monitoring benefits claimed in compliance with Basic Health Plan and Supplemental Health Plan benefits coverage.

Condition: Six patients tested exceeded the allowed or annual maximum benefits by \$75,033, which constitutes noncompliance with the criteria stated above. During the year ended September 30, 2019, the MIHF did not appear to monitor monthly actual costs incurred per patient 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. The corrective action response during the 2018 audit to review patient expenses on a monthly basis was not properly implemented.

Effect: The effect of the above condition is potential noncompliance with the Marshall Islands Health Fund Act.

Prior Year Status: Seven patients tested exceeding the allowed or annual maximum benefits by \$385,790 was reported as a finding in the audit of the MIHF for fiscal year 2018.

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. Medical Referral Office responses are the following: (1) Both Basic & Supplement Health Plans pay 100% coverage of medical bills if individual travel from RMI off islands and get sick within 30 (30 days clause) days of departure from RMI; (2) Medical Referral Policy has been reviewed by the Medical Referral Committee & Medical Referral Services as with some areas to revise and finalized. It will be relooked, revise before going to upper levels for final review and approval; (3) There have been patients referred out for treatment and management off islands and when the lengths of stay had to be longer due to further management. These patients are then presented to the MRC for further approval for further treatments/ tests needed to be done off island (not available on island); and (4) Replenishment Check List has been developed and implemented lately and it is being reviewed by MRS Claim Officer, RMI Medial Referral Director, including Accounting Department. This is done after it is reviewed and mark with completion (check mark in each box).

Date of Completion: February 28, 2021

##### Responsible Person(s):

- MRO Director/Hellen J. David
- Reconciliation Specialist (interview of applicants is on-going)



## MARSHALL ISLANDS HEALTH FUND

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

#### Finding No. 2019-003

##### 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: None of the 26 samples tested contained documentation of the assessment of the survival rate, of which six 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.

Prior Year Status: Twenty-seven patients tested in prior year had no assessment of survival and eight did not survive within the following year, which was reported as a finding in the audit of MIHF for fiscal year 2018.

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. Most of patients were sent off island (cancer patients) because there were certain tests that are not available on island to: Confirm the nature of condition, diagnosis; prognostication, including staging of the condition/cancer (for PET Scan) not available in RMI. All referral cases off island under Basic Health Plan are pre-approved by the RMI Medical Referral Committee (MRC) before he/she is referred out.

Date of Completion: Ongoing

Responsible Person(s):

- MRO Director/Hellen J. David

**MARSHALL ISLANDS HEALTH 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.