

August 25, 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 Marshall Islands Health Fund (MIHF) as of and for the year ended September 30, 2019 (on which we have issued our report dated August 25, 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 MIHF'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 MIHF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MIHF'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 MIHF'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 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 definition of a deficiency is also set forth in the attached Appendix I.

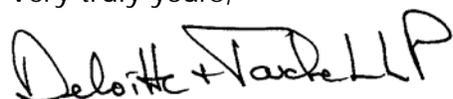
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

Very truly yours,



SECTION I - DEFICIENCIES

We identified, and have included below, certain deficiencies involving the MIHF's internal control over financial reporting as of September 30, 2019, that we wish to bring to your attention:

1) Long Outstanding Travel Advances

RepMar's Ministry of Finance, Banking and Postal Services memorandum on Travel Rules and Regulations requires travelers to submit Travel Voucher Claims fifteen days after the end of travel. As of September 30, 2019, \$20,578 of travel advances pertain to unliquidated advances that are past due and a significant portion pertains to prior years. We recommend management scrutinize long outstanding advances and necessary adjustments timely occur. This matter has been previously reported in the audits of the MIHF for fiscal years 2014 through 2018.

2) Bank Reconciliations

Long outstanding checks were reflected in bank reconciliations as follows:

<u>Bank Account</u>	<u>Amount</u>	<u>Remarks</u>
BOG - HF Main	\$ 7,432	Outstanding from 2004 to 2017
BOMI	<u>405</u>	December 2018
	\$ <u>7,837</u>	

Reconciling items do not appear to be monitored. We recommend management strengthen and improve internal control policies over the review process of bank reconciliations that would facilitate timely identification of errors. Furthermore, management should revisit the validity of recorded long-outstanding checks. This matter has been previously reported in the audit of the MIHF for fiscal years 2014 through 2018.

3) Long Outstanding Accounts Payable

At September 30, 2019, the MIHF has accounts payable of \$121,023, of which \$20,807 were outstanding for over a year including transactions incurred in 2004 through 2018. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management review long outstanding payables and determine a timely course of action.

4) Unrecorded and Improperly Recorded Liabilities

During the year ended September 30, 2019, we noted two transactions for \$29,835 that were included within accounts payable. The related services of these transactions are for the year ending September 30, 2020. We also noted un-accrued September 2019 medical services billings included in the October 2019 statement of account from the third-party administrator amounting to \$39,184. Audit adjustments were proposed to correct these misstatements. We recommend management perform invoice review and verify that all expenditures were recorded in the correct accounting period.

5) Journal Entry review process

During the year ended September 30, 2019, preparer signatures were not affixed the vouchers. Also, the vouchers were stamped as "Posted" by the approver but the date was not affixed evidencing of the recording trail. Furthermore, journal vouchers are not properly and/or timely filed. Journal entries (recording date) significantly lagged behind the transaction date. We recommend management establish internal control procedures and policies to adequately document the preparation and review of journal entries.

SECTION I - DEFICIENCIES, CONTINUED6) Supplemental Health Benefits Plan Revenue

Tests of Supplemental Health Benefits Plan revenues indicated the following:

- Revenue was recognized for a supplemental receipt pertaining to a subsequent period.
- Collections of \$5,085 from a plan member for the basic health benefits plan were recorded as revenues of the supplemental health benefits plan.
- Two of thirteen collections tested were not timely deposited.
- Discrepancies between Ebeye cash collections and bank deposits of \$1,828 were noted for the months of November 2018 through February 2019.

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

7) Income Tax Act

The Ministry of Health and Human Services filed and paid income taxes withheld for payroll periods from January 28, 2019 to May 10, 2019 in a manner inconsistent with the Income Tax Act of 1989, specifically, withholding taxes of \$5,862 were not timely remitted. These were filed 18 to 56 days after the due date. We recommend management establish adequate internal control policies and procedures requiring compliance with the Income Tax Act. This matter has been previously reported in the audit of the MIHF for fiscal years 2017 and 2018.

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

The Ministry of Health and Human Services filed and paid employer and employee contributions withheld for the year ended September 30, 2019 in a manner inconsistent with RepMar Social Security Act and the Social Security Health MIHF Act. Specifically, social security contributions for the quarter ended September 30, 2019 were not timely filed and remitted. Specifically, contributions were filed and paid on 10/23/2019, which is 13 days after the due date. We recommend management establish adequate internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act. This matter has been previously reported in the audit of the MIHF for fiscal years 2017 and 2018.

9) Reimbursements

During the year ended September 30, 2019, we noted late submissions of \$60,000 reimbursement requests to Ministry of Finance. We recommend management submit timely the reimbursement requests.

10) Duplicate Billings and Reimbursements

During the year ended September 30, 2019, we examined the statement of accounts provided by the third-party administrator and noted a duplicate billing (and payment) of mortuary services of \$2,297 for a patient who died in the Philippines. Such was noted in the December 2018 and March 2019 statements. We recommend management review properly the statements provided by third-party administrator before processing of payment.

11) Bank Transfers

During the year ended September 30, 2019, bank transfers (to Outer Island MIHF) of \$332,379 were incorrectly recorded as revenues and expenditures. Such was subsequently adjusted during the audit process. We recommend management monitor transfers between bank accounts and require adjustment and close out of such at year end as part of financial reporting closing process.

SECTION I - DEFICIENCIES, CONTINUED

12) Refunds

During the year ended September 30, 2019, a \$78,706 refund received for medical services was recorded as supplemental health fund collections instead of as a separate revenue refund category. This matter was corrected during the audit process. We recommend management properly record refunds received.

13) Local noncompliance on RepMar Procurement Code

RepMar's Procurement Code states the following:

(a) 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. 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.

(b) Section 126.7 - award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.

(c) Section 128 - a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Supporting documentation was inadequate to evidence the procurement process utilized for \$4,109 purchase of equipment in Hawaii Office. We recommend management require that documentation be adequate to comply with applicable procurement requirements.

SECTION II - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The MIHF'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.