

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

HEALTH CARE REVENUE FUND

Years Ended September 30, 2020 and 2019
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> | 12 |
| Schedule of Findings and Responses | 14 |
| Unresolved Prior Year Findings | 18 |

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, 2020 and 2019, 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, 2020 and 2019, 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 Health Care Revenue Fund has determined that the COVID-19 pandemic may negatively impact its operations through increased levels of expenditures for medical supplies and equipment. The Health Care Revenue Fund is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

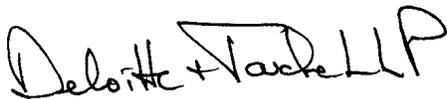
Other Matters

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 September 20, 2021, 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.



September 20, 2021

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 651,540 | \$ 2,011,718 |
| Receivables: | | |
| Patients | 6,285,051 | 6,193,251 |
| Affiliates | 205,748 | 76,030 |
| Employees | 115,600 | 110,077 |
| Other | 62,226 | 72,929 |
| | <u>6,668,625</u> | <u>6,452,287</u> |
| Less allowance for doubtful accounts | <u>(6,492,591)</u> | <u>(6,392,891)</u> |
| | 176,034 | 59,396 |
| Prepayments | <u>230,571</u> | <u>119,168</u> |
| Total assets | <u>\$ 1,058,145</u> | <u>\$ 2,190,282</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 435,942 | \$ 586,539 |
| Other liabilities and accruals | 71,150 | 25,015 |
| Payable to affiliates | 81,214 | 160,296 |
| Total liabilities | <u>588,306</u> | <u>771,850</u> |
| Contingencies | | |
| Fund balance: | | |
| Committed for: | | |
| Health services | 469,839 | 1,418,432 |
| Total fund balance | <u>469,839</u> | <u>1,418,432</u> |
| Total liabilities and fund balance | <u>\$ 1,058,145</u> | <u>\$ 2,190,282</u> |

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|---|-------------|--------------|
| Revenues: | | |
| Grants | \$ 529,927 | \$ 373,862 |
| Hospital charges | 418,627 | 431,863 |
| Other | 40,980 | 95,561 |
| Total revenues | 989,534 | 901,286 |
| Expenditures: | | |
| Pharmaceutical | 1,950,112 | 971,878 |
| Medical and laboratory supplies | 1,510,234 | 1,221,728 |
| Hospital equipment | 666,243 | 127,964 |
| Laboratory fees | 136,337 | 137,291 |
| Freight and delivery | 89,969 | 29,716 |
| Professional and consulting fees | 22,612 | 9,866 |
| Administrative: | | |
| Salaries and wages | 217,988 | 176,567 |
| Travel | 118,958 | 91,146 |
| Foodstuffs | 33,604 | 28,056 |
| Printing and reproduction | 33,422 | 16,359 |
| Communications | 31,018 | 14,965 |
| Supplies | 29,498 | 33,546 |
| Training | 21,853 | 7,564 |
| Rentals | 15,602 | 20,870 |
| Provision for bad debts | 13,460 | 84,271 |
| POL | 10,373 | 9,141 |
| Equipment | 1,890 | 10,352 |
| Other administrative costs | 77,979 | 31,634 |
| Total expenditures | 4,981,152 | 3,022,914 |
| Deficiency of revenues under expenditures | (3,991,618) | (2,121,628) |
| Other financing sources (uses): | | |
| Transfer in from the Marshall Islands Health Fund | 3,073,017 | 2,521,446 |
| Transfer out to RepMar's General Fund | (29,992) | (140,339) |
| Total other financing sources (uses), net | 3,043,025 | 2,381,107 |
| Net change in fund balance | (948,593) | 259,479 |
| Fund balance at beginning of year | 1,418,432 | 1,158,953 |
| Fund balance at end of year | \$ 469,839 | \$ 1,418,432 |

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2020 and 2019

(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, 2020 and 2019

(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 other than grants and assistance awards to be available if they are collected within 90 days of the end of the current fiscal period. Grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. 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, 2020 and 2019, the carrying amounts of the HCRF’s total cash were \$651,540 and \$2,011,718, respectively, and the corresponding bank balances were \$684,842 and \$2,030,802, respectively. Of the bank balances, \$276,337 and \$1,665,231, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$408,505 and \$365,571, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, 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.

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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

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 classification is 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 is reported as committed fund balance. Committed fund balance includes 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.

Taxes

RepMar imposes a gross receipts tax of 3% on revenues. The HCRF is specifically exempt from this tax. Furthermore, the HCRF and related transactions are not subject to any tax, rate, charge or impost under any other law.

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, 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, 91, 92 and 93 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. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(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, 2020 and 2019, are as follows:

| | <u>2020</u> | | <u>2019</u> | |
|--------------|--------------------|------------------|--------------------|-------------------|
| | <u>Receivables</u> | <u>Payables</u> | <u>Receivables</u> | <u>Payables</u> |
| RepMar: | | | | |
| Health Fund | \$ 157,435 | \$ 35,413 | \$ 13,030 | \$ 3,619 |
| General Fund | 48,313 | 34,928 | 63,000 | 145,738 |
| Other | <u>-</u> | <u>10,873</u> | <u>-</u> | <u>10,939</u> |
| | <u>\$ 205,748</u> | <u>\$ 81,214</u> | <u>\$ 76,030</u> | <u>\$ 160,296</u> |

Contributions from the MIHF during the years ended September 30, 2020 and 2019 amounted to \$3,073,017 and \$2,521,446, respectively, representing a percentage share of collections of the Basic Health Benefits Plan transferred to fund HCRF operations.

During the years ended September 30, 2020 and 2019, the HCRF transferred \$29,992 and \$140,339, respectively, to the General Fund for the purpose of funding the operations of the Office of the Auditor General.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2020 and 2019

(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.

(6) COVID-19 Pandemic

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. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of September 20, 2021, no community transmission has been identified. The HCRF has determined that should community transmission occur, it may negatively impact the HCRF's operations and financial position through increased levels of expenditures for medical supplies and equipment. As a result, the HCRF may become dependent upon the financial support of RepMar; however, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while the HCRF expects this matter to potentially have a negative impact on its business, results of operations, and financial position, 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 Health Care Revenue Fund (HCRF), which comprise the balance sheet as of September 30, 2020, 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 September 20, 2021.

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) as the basis for designing 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 item 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

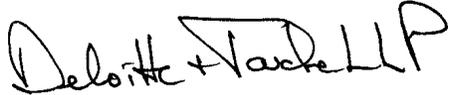
As part of obtaining reasonable assurance about whether the HCRF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 2020-001.

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 + Touche LLP". The signature is written in a cursive, stylized font.

September 20, 2021

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses Year Ended September 30, 2020

Finding No. 2020-001

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 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.
- (e) 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.
- (f) 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:

Medical, Laboratory and Pharmaceutical Supplies

Bulk purchase of medical supplies (hand sanitizers) of different sizes were split into two vendors. First transaction was awarded to a vendor with amount of \$24,940 and the second one was awarded to a vendor with amount of \$18,200. However, quotations provided shows that the latter offered higher amount per piece (\$9.10) than the former (\$8.91), such that the purchase was not made by selecting lowest cost possible. Selection of the second vendor was justified as 'awarded based on availability' but the vendor quoted only 15% capacity (or 300 units in-stock over 2,000 total order). In addition, it appears that total purchase should have been made through formal/sealed bidding.

Purchase of medical supplies (gauze sponges) amounting to \$19,976 was not awarded to the vendor with the lowest offer resulting to a lost savings of \$2,876.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2020

Finding No. 2020-001, Continued

Local Noncompliance, Continued

Medical, Laboratory and Pharmaceutical Supplies, Continued

We noted (1) purchase of laboratory supplies amounting to \$40,800 (PO#01665 and PO#02236) received during the year; (2) medical supplies amounting to \$30,400 (PO#02190) received in the subsequent period; and (3) pharmaceutical supplies amounting to \$17,800 (PO#01514), were purchase through sole-source procurement and such were justified that only one vendor submitted within the deadline. However, we noted that the deadline given to the vendors during the request of quotations was only until the following day. The justification provided does not adequately define that one source is able to provide the required supplies.

In addition, the inadequate notice due to tight deadline limits the ability of the other vendors to provide necessary proposals to participate in the procurement process.

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 | 10/23/2019 | 01088 | 02/12/2020 | \$ 12,430 |
| Medical Supplies | 10/23/2019 | 01088 | 04/23/2020 | \$ 21,293 |
| Medical Supplies | 10/23/2019 | 01088 | 05/21/2020 | \$ 46,686 |
| Medical Supplies | 10/23/2019 | 01088 | 07/02/2020 | \$ 16,095 |
| Medical Supplies | 06/23/2020 | 01976 | 09/30/2020 | \$ 13,312 |
| Medical Supplies | 01/23/2020 | 01442 | 07/02/2020 | \$ 15,872 |
| Laboratory Supplies | 12/05/2019 | 01288 | 08/28/2020 | \$ 32,674 |
| Pharmaceutical | 03/09/2020 | 01644 | 06/11/2020 | \$ 21,954 |
| Pharmaceutical | 03/13/2020 | 01667 | 07/23/2020 | \$ 16,823 |
| Pharmaceutical | 04/17/2020 | 01803 | 07/30/2020 | \$ 15,158 |
| Pharmaceutical | 04/14/2020 | 01792 | 08/17/2020 | \$ 16,919 |
| Pharmaceutical | 11/06/2019 | 01174 | 04/16/2020 | \$ 56,420 |
| Pharmaceutical | 11/06/2019 | 01174 | 03/09/2020 | \$ 34,522 |
| Pharmaceutical | 11/06/2019 | 01174 | 02/07/2020 | \$ 19,240 |
| Pharmaceutical | 11/06/2019 | 01174 | 07/01/2020 | \$ 15,168 |
| Pharmaceutical | 11/06/2019 | 01174 | 05/07/2020 | \$ 46,912 |
| Pharmaceutical | 11/06/2019 | 01174 | 08/25/2020 | \$ 18,309 |
| Medical Equipment | 05/12/2020 | 01864 | 09/24/2020 | \$ 24,945 |
| Medical Equipment | 01/28/2020 | 01457 | 05/30/2020 | \$ 16,770 |
| Medical Equipment | 07/23/2018 | 00529 | 10/10/2019 | \$ 22,600 |

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 2019.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2020

Finding No. 2020-001, 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: With respect to medical supplies, the Ministry acknowledges the finding and to address this matter, the Accounting Division will develop and implement a requisition checklist that is in line with procurement code and regulations.

With respect to monitoring of purchase orders, the Ministry acknowledges the finding. Due to the COVID-19 pandemic, some of the issues the Ministry faced in regard to delivery of items included inbound flight restrictions, global supply chain issues and logistical issues due to multiple COVID-19 transportation restrictions. In regard to the one-year contracts for Pharmaceuticals and Lab Supplies, delivery was limited to storage space and for LAB Supplies, short shelf life of the items restricted delivery within 90 days. For regular purchase order monitoring, the Accounting Division will impose consistent reconciliation and liquidation of Purchase Orders on a monthly basis. This will be done in coordination with the programs:

Majuro and Ebeye Pharmacies
Majuro and Ebeye Supply and Procurement
Majuro and Ebeye Lab
Outer Islands Healthcare Services

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2020

Finding No. 2020-002

Financial Reporting

Criteria: Proper 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 does not have an established set of policies, procedures and controls in place to properly prepare and review reconciliations and reports. During the year ended September 30, 2020, various accounting records were not processed and properly updated, including but not limited to the following:

- a. Bank reconciliations were not independently reviewed in a timely manner.
- b. Year end balances of account per record.
 1. Cash - understated by \$48,395
 2. Receivables - understated \$26,728
 3. Prepayments - overstated by \$240,339
 4. Accounts payable - understated by \$90,459
 5. Other liabilities and accruals - overstated by \$298,458

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

Effect: Various material post-closing and audit entries were required to correct the financial records.

Prior Year Status: Noncompliance with timely financial reporting was reported as a finding in the audits of the HCRF for fiscal years 2017 through 2019.

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

Auditee Response and Corrective Action Plan: The Ministry acknowledges this finding. As a corrective action, the Ministry plans on reconciling subsidiary and general ledgers on a monthly basis. Additionally, the Chief Accountant will train each of the responsible staff to review and reconcile all the balance sheet accounts.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2020

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