

September 20, 2021

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, 2020 (on which we have issued our report dated September 20, 2021) 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, 2020, 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 September 20, 2021, 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.

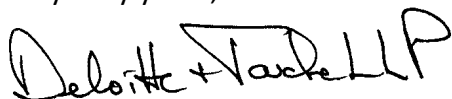
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2020, 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. At September 30, 2020, \$46,228 of travel advances pertain to past due unliquidated advances, including a significant portion that pertains to prior years. We recommend management establish internal control policies and procedures to scrutinize long outstanding advances and, where necessary, require timely adjustments. This matter has been previously reported in the audits of the MIHF for fiscal years 2014 through 2019.

2) Bank Reconciliations

Stale checks were reflected in bank reconciliations as follows:

<u>Bank Account</u>	<u>Amount</u>
BOG - HF Main	\$ 14,632
BOMI	192
	<u>\$ 14,824</u>

Reconciling items do not appear to be monitored. We recommend management establish internal control policies and procedures over the review process of bank reconciliations that would facilitate timely identification of errors. Furthermore, management should revisit the validity of recorded long-outstanding stale checks. This matter has been previously reported in the audits of the MIHF for fiscal years 2014 through 2019.

3) Long Outstanding Payables

At September 30, 2020, the MIHF has accounts payable and medical claims payable of \$585,549, of which \$66,311 or 11% were outstanding for more than one year including transactions incurred in 2017 and 2018. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures over the review of long outstanding payables and determine a timely course of action.

4) Medical Service Billings

During the year ended September 30, 2020, medical services billings of \$39,184 representing September 2019 procedures were included in the Third-Party Administrator's October 2019 statement of account. In addition, medical air travel and patient billings for \$54,920 were not accrued. Audit adjustments were proposed to correct these misstatements. We recommend management establish internal control policies and procedures over medical services billings review and verify that all expenditures were recorded in the correct accounting period.

5) Journal Entry review process

During the year ended September 30, 2020, preparer signatures were not affixed to journal vouchers. In addition, the journal vouchers were stamped as "Posted" by the approver; however, the posting date was not affixed evidencing date recorded. Accordingly, journal entries lagged behind the transaction date. Finally, journal vouchers were not properly and timely filed. We recommend management establish internal control policies and procedures to adequately document the preparation, review, and timely recording of journal entries.

SECTION I - DEFICIENCIES, CONTINUED

6) Supplemental Health Benefits Plan Revenue

Tests of Supplemental Health Benefits Plan revenues indicated the following:

- Revenue was recognized for a supplemental receipt relating to fiscal year 2021.
- Revenue collections were not timely deposited to bank.

We recommend management establish internal control policies and procedures over the recording and timely deposit of revenue collections.

7) Bank Reconciliations

During the year ended September 30, 2020, bank reconciliations were not timely performed resulting in reconciling items not being timely addressed. We recommend management establish internal control policies and procedures to facilitate timely performance of monthly bank reconciliations.

8) Bank Transfers

During the year ended September 30, 2020, bank transfers between bank accounts of \$417,736 were incorrectly recorded as revenues and expenditures. Such was subsequently corrected 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 the financial reporting closing process.

9) Refunds

During the year ended September 30, 2020, a \$106,830 refund received for medical services was recorded as supplemental health fund collections. Such was subsequently corrected during the audit process. We recommend management establish internal control policies and procedures to facilitate the recording of refunds to the correct revenue account.

10) Contributions Receivable

At September 30, 2020, contributions receivable of \$1,728,156 and receivable of \$481,999 for basic health taxes collected by the Marshall Islands Social Security Administration (MISSA) were not recorded. Such were subsequently adjusted during the audit process. We recommend management establish internal control policies and procedures requiring timely reconciliation of amounts due from MISSA.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Withholding Income Taxes

Income taxes withheld for payroll periods from October 11, 2019 to April 24, 2020 were filed and paid in a manner inconsistent with the Income Tax Act of 1989. We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act. This matter has been previously reported in the audits of the MIHF for fiscal years 2017 through 2019.

SECTION II - OTHER MATTERS, CONTINUED2) Social Security Taxes

Employer and employee contributions withheld for the quarter ended December 31, 2019 were filed and paid in a manner inconsistent with the Social Security Act and the Social Security Health Fund Act. We recommend management establish 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 audits of the MIHF for fiscal years 2017 through 2019.

3) RMI 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.

Purchase of used vehicle was purchased through sole-source procurement amounting to \$18,500. However, brand new vehicle (different model) could be purchased at same price or lower should various quotations were obtained at time of requisition. We recommend management require that documentation be adequate to comply with applicable procurement requirements.

4) Duties and Responsibilities of the Third-Party Administrator (TPA)

The TPA agreement requires the TPA to report year end medical billing accruals. At September 30, 2020, the TPA did not report year end medical billing accruals to the MIHF, which resulted in a prior year \$38,598 medical billing accrual being recorded in the current year. No audit adjustment was proposed as the amount was not considered material to the financial statements. We recommend management establish internal control policies and procedures requiring the TPA comply with contractual obligations.

5) Medical Referral Committee (MRC) Minutes

During the year ended September 30, 2020, minutes of the MRC evidencing the referral of three patients were not available. We recommend management establish internal control policies and procedures requiring MRC minutes be maintained evidencing medical referral approvals.

SECTION III - 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.