

January 24, 2023

Mr. Jack Niedenthal
Secretary of Health and Human Services
Republic of the Marshall Islands

Dear Mr. Niedenthal:

In planning and performing our audit of the financial statements of the Health Care Revenue Fund (HCRF) as of and for the year ended September 30, 2021 (on which we have issued our report dated January 24, 2023), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the HCRF's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HCRF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HCRF's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the HCRF's internal control over financial reporting and other matters as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Joe Bejang, Minister of Health and Human Services, also dated January 24, 2023, on our consideration of the HCRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

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

This report is intended solely for the information and use of the Ministry of Health and Human Services, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the HCRF for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving the HCRF's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

(1) Long Outstanding Unliquidated Travel Advances

RepMar's Ministry of Finance memorandum on Travel Rules and Regulations requires travelers to submit Travel Voucher Claims 15 days after the end of travel. As of September 30, 2021, approximately \$114,315 of receivables from employees, payroll and travel advances were more than 90 days past due. We recommend management establish internal control policies and procedures over travel policies and liquidation of travel advances, receivables from employees and payroll advances. This matter was discussed in our previous letters to management for the audits for fiscal years 2006 through 2020.

(2) Long Outstanding Accounts Payables

Scrutiny of accounts payable balances indicated \$37,906 of payables were aged more than 90 days past due and related to 2013-2018 transactions. We recommend management establish internal control policies and procedures over the transaction review process and revisit the validity of these payables. This matter was discussed in our previous letters to management for the audits for fiscal years 2016 through 2020.

(3) Supplies Shelf-life

During the year ended September 30, 2021, \$26,840 of pharmaceutical supplies were received with a shelf-life less than as stipulated in the purchase contract. Such may result in a higher level of wastage due to expired supplies. We recommend management establish internal control policies and procedures over monitoring the shelf-life of pharmaceutical supplies. This matter was discussed in our previous letter to management in the fiscal year 2020 audit.

(4) Duplicate Transactions

During the year ended September 30, 2021, we noted the following duplicate transactions:

- a. A \$3,125 revenue item (HCRF CR948989 dated 9/30/2021) representing hospital fees; and
- b. A \$11,325 expenditure item (Invoice 2021-0842) and a \$213 expenditure item (Invoice 2021-0347) representing medical supplies.

We recommend management establish internal control policies and procedures requiring that revenues and expenditures be accurately recorded.

(5) Bank Reconciliations

A bank reconciliation is a control activity that compares banking records to accounting records and ultimately requires that both sets of records agree with one another; however, we noted that bank reconciliations are not independently reviewed. We recommend that independent supervisory review be documented by signature and date to provide evidence of that control activity.

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) RMI Withholding and MISSA Social Security Taxes

- i. Scrutiny of the MISSA tax return for the quarter ended 9/30/2021 for both the HCRF and the UNDP account indicated filings and payments occurred on 10/21/2021, which is inconsistent with 49 MIRC Chapter 1, Social Security Act of 1990, Section 131. MISSA's tax deadline is the 10th of the first month of the following quarter. The HCRF was noncompliant with this requirement.
- ii. The HCRF filed and paid income taxes withheld in a manner inconsistent with 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105. Scrutiny of withholding tax payments (Form 1178) resulted in the following exceptions:

Payroll Period	<u>Health Care Revenue Fund</u>		<u>Global Fund</u>	
	Date Filed	Date Paid	Date Filed	Date Paid
10/23/20 & 11/06/20	11/23/2020	11/25/2020	N/a	N/a
12/18/20 & 12/31/20	01/18/2021	01/19/2021	01/18/2021	01/19/2021
03/12/21 & 03/26/21	04/13/2021	04/14/2021	04/13/2021	04/14/2021

Form 1178 is due within two weeks following the preceding 4-week pay period. The HCRF was noncompliant with this requirement.

We recommend management establish internal control policies and procedures over the timely filing and payment of RMI Withholding and MISSA Social Security Taxes in accordance with enabling legislation. This matter was discussed in our previous letters to management for the audits for fiscal years 2018 through 2020.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

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

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

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

Management's Responsibility

The HCRF's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.