

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

HEALTH CARE REVENUE FUND

Years Ended September 30, 2014 and 2013
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> | 11 |
| Schedule of Findings and Responses | 13 |
| Unresolved Prior Year Findings | 16 |

INDEPENDENT AUDITORS' REPORT

Honorable Phillip Muller
Minister of Health
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, 2014 and 2013, 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

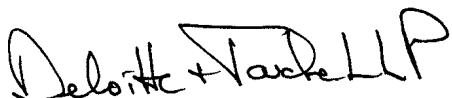
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Care Revenue Fund as of September 30, 2014 and 2013, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2015, 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 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 internal control over financing 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 28, 2015

HEALTH CARE REVENUE FUND

Balance Sheets
September 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 3,722,067 | \$ 2,302,963 |
| Receivables: | | |
| Patients | 5,785,422 | 5,687,892 |
| Affiliates | 1,695,931 | 1,322,972 |
| Employees | 20,525 | 15,233 |
| Other | <u>36,402</u> | <u>32,149</u> |
| | 7,538,280 | 7,058,246 |
| Less allowance for doubtful accounts | <u>(5,785,422)</u> | <u>(5,710,901)</u> |
| | 1,752,858 | 1,347,345 |
| Prepayment | <u>19,720</u> | <u>4,613</u> |
| | <u>\$ 5,494,645</u> | <u>\$ 3,654,921</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 258,706 | \$ 72,496 |
| Other liabilities and accruals | 87,408 | 107,542 |
| Payable to affiliates | <u>47,776</u> | <u>13,882</u> |
| Total liabilities | <u>393,890</u> | <u>193,920</u> |
| Contingency | | |
| Fund balance: | | |
| Non-spendable: | | |
| Inventory and prepaid amounts | 19,720 | 4,613 |
| Committed for: | | |
| Health services | <u>5,081,035</u> | <u>3,456,388</u> |
| Total fund balance | <u>5,100,755</u> | <u>3,461,001</u> |
| Total liabilities and fund balance | <u>\$ 5,494,645</u> | <u>\$ 3,654,921</u> |

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance September 30, 2014 and 2013

| | 2014 | 2013 |
|---|--------------|--------------|
| Revenues: | | |
| Hospital charges | \$ 351,818 | \$ 333,361 |
| Grants | 285,637 | 692,968 |
| Other | 21,333 | 54,798 |
| Total revenues | 658,788 | 1,081,127 |
| Expenditures: | | |
| Pharmaceutical | 1,122,144 | 1,986,868 |
| Medical supplies | 636,944 | 1,507,668 |
| Hospital equipment | 122,634 | 297,882 |
| Grants and subsidies | 62,287 | 40,144 |
| Professional and consulting fees | 54,795 | 128,754 |
| Freight and delivery | 7,635 | 7,779 |
| Administrative: | | |
| Salaries and wages | 220,676 | 227,438 |
| Travel | 95,022 | 42,199 |
| Training | 72,841 | 92,541 |
| Bad debt | 27,676 | - |
| Supplies | 15,433 | 13,971 |
| Office equipment | 12,647 | 5,908 |
| Communications | 600 | 2,578 |
| Professional fees | - | 21,500 |
| Other administrative costs | 55,346 | 13,898 |
| Total expenditures | 2,506,680 | 4,389,128 |
| Deficiency of revenues under expenditures | (1,847,892) | (3,308,001) |
| Other financing sources (uses): | | |
| Contributions from RepMar's Health Fund | 3,517,500 | 3,187,649 |
| Contributions to RepMar's General Fund | (29,854) | - |
| Total other financing sources (uses), net | 3,487,646 | 3,187,649 |
| Net change in fund balance | 1,639,754 | (120,352) |
| Fund balance at beginning of year | 3,461,001 | 3,581,353 |
| Fund balance at end of year | \$ 5,100,755 | \$ 3,461,001 |

See accompanying notes to financial statements.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2014 and 2013

(1) Reporting Entity

The Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Care Revenue Fund Act of 2001. Administration, control and management of the Fund were transferred from the Marshall Islands Social Security Administration (MISSA) to RepMar's Ministry of Health (MOH). The Fund's enabling legislation also requires that 55% of contributions collected by the Basic Health Benefits Plan be transferred to the Fund. The 55% distribution should be made after deducting the 10% costs associated with the administration of MOH Health Fund. The Fund was established to use funds, provided through appropriation by the Nitijela of RepMar and revenue received from hospital charges and other health care charges collected by MOH, for the purchase of drugs, medical supplies and equipment and the provision and administration of other health services.

The accompanying financial statements relate solely to those accounting records maintained by the Fund, and do not incorporate any accounts related to RepMar's Ministry of Health or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. The Fund is considered to be a blended component unit (governmental fund type-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 Fund's accounting policies are described below:

Measurement Focus and Basis of Accounting

The Fund 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, 2014 and 2013

(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 Fund 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 revenue received from hospital charges and other health care charges collected by the Ministry of Health 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.

Reclassification

Certain reclassifications have been made to the 2013 financial statements in order to conform to the 2014 presentation.

Cash

The deposit and investment policies of the Fund 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 Fund’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 Fund 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, 2014 and 2013, the carrying amounts of the Fund’s total cash were \$3,722,067 and \$2,302,963, respectively, and the corresponding bank balances were \$3,778,925 and \$2,411,135, respectively. Of the bank balances, \$3,604,950 and \$2,266,977, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$173,975 and \$144,158, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2014 and 2013, bank deposits in the amount of \$250,000 were FDIC insured. The Fund 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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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 identified method.

Prepayment

Certain payments made to vendors or persons for services reflect costs applicable to future accounting period and are recorded as prepaid items in the financial statements.

Compensated Absences

The Fund 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

Governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - 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.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

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.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Taxes

The Government of RepMar imposes a gross receipts tax of 3% on revenues. The Fund is specifically exempt from this tax.

Estimates

The preparation of financial statements in conformity 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, 2014, the Fund implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

(3) Risk Management

The Fund 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 Fund 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 Fund is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. The Marshall Islands Health Fund (the Health Fund) is a governmental fund of RepMar established by the Nitijela 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 Health Fund includes the operations of the Basic Health Benefits Plan, which provides a substantial portion of the Fund's funding.

Receivables from and payables to affiliates as of September 30, 2014 and 2013, are as follows:

| | 2014 | | 2013 | |
|--------------|--------------|-----------|--------------|-----------|
| | Receivables | Payables | Receivables | Payables |
| RepMar: | | | | |
| Health Fund | \$ 1,695,931 | \$ - | \$ 1,301,402 | \$ - |
| General Fund | - | 40,344 | 21,570 | 5,486 |
| Other | - | 7,432 | - | 8,396 |
| | \$ 1,695,931 | \$ 47,776 | \$ 1,322,972 | \$ 13,882 |

Contributions from RepMar's Health Fund during the years ended September 30, 2014 and 2013 were \$3,517,500 and \$3,187,649, respectively, representing 55% of collections of the Basic Health Benefits Plan. Receivables from RepMar's Health Fund represent 55% of contributions to the Basic Health Benefits Plan not transferred by the Health Fund at September 30, 2014 and 2013, respectively.

During the year ended September 30, 2014, the Fund transferred \$29,854 to the General Fund in accordance with Public Law 2013-20 for the purpose of funding the operations of the Office of the Auditor General.

HEALTH CARE REVENUE FUND

Notes to Financial Statements
September 30, 2014 and 2013

(4) Related Party Transactions, Continued

During the year ended September 30, 2014, the Fund purchased pharmaceuticals, medical supplies and equipment in the amount of \$431,936 from a related party.

(5) Contingency

The Fund receives substantially all of its funding from RepMar through collections of the Health Fund'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 Fund's programs and activities.

**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 Phillip Muller
Minister of Health
Republic of the Marshall Islands:

We have audited, in accordance with the 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, which comprise the balance sheet as of September 30, 2014, 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 May 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Care Revenue Fund'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 Health Care Revenue Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Care Revenue Fund'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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

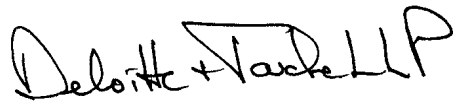
As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 item 2014-001.

Health Care Revenue Fund's Responses to Findings

The Health Care Revenue Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Health Care Revenue Fund'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 + Tuckers LLP". The signature is written in a cursive, stylized font.

May 28, 2015

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-001

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 a supply, service, or construction item without competition 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 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 circumstances. 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 data required of 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:

The following purchases and payments appear to represent the potential split of purchase orders:

- (i) Certain POs had the same date and vendor, as follows:

| PO Date | PO# | Invoice# | Amount |
|----------------|------------|-----------------|------------------|
| 16-Sep-13 | 7828 | 2013-0449 | \$ 6,226 |
| 16-Sep-13 | 7829 | 2013-0451 | 1,032 |
| 16-Sep-13 | 7827 | 2013-0452 | 13,146 |
| 16-Sep-13 | 7832 | 2013-0453 | 10,549 |
| 16-Sep-13 | 7824 | 2013-0454 | 5,288 |
| | | | <u>\$ 36,241</u> |

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

Finding No. 2014-001

Local Noncompliance, Continued

Condition, Continued: The above purchases appeared to exhibit characteristics of intentionally being split and thus appear to be non-compliant with RepMar's Procurement Code.

Per examination of Purchases Orders (PO), the following were classified as "emergency" and/or "sole source" purchases.

- (i) PO #8120 for \$38,700 was described as an "emergency" purchase of pharmaceutical supplies. The process of bidding was waived due to the urgency of the needs of TB medication and the uncertainty of the bid process.
- (ii) The same was noted for the purchase of medical supplies for \$1,260 per Document #2014-0168. The purchase of these medical supplies, together with other supplies did not undergo bid process as the process was waived. The basis of the emergency was that current stock of dental supplies was very low.

According to RepMar's Procurement Code, "emergency" procurement shall be made when there exists a threat to public health, welfare, or a safety under emergency conditions. The above condition does not appear to constitute an emergency condition, but appears to indicate a lack of planning as to maintaining a required level of pharmaceutical and medical supplies.

- (iii) Another instance was noted for the purchase of medical equipment for \$20,469 per PO #8182. The process was waived and sole source was approved due to the urgency of the need as the current Chemistry Analyzer was not functional. However, per the vendor proposal submitted, delivery of the unit was approximately 6 to 8 weeks from the receipt of the order. Noting the expected delivery date, the requestor pursued sole source and did not seek additional quotations. Related dates do not appear to support the purchase as an "emergency" considering the time elapsed from request to item receipt:

| | |
|------------------------------------|----------|
| Sole Source BID Committee Approval | 5-May-14 |
| PR Date | 7-May-14 |
| PO Date (008182) | 6-Jun-14 |
| ETD of item in Majuro | 6-Aug-14 |

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

Finding No. 2014-001

Local Noncompliance, Continued

- (iv) PO #7397 for \$24,804 described an "emergency" and "sole source" purchase of medical equipment. A single vendor quote was on file which stated that the hospital was in "dire need" of Hospital beds and these beds have been purchased from a vendor who is a sole distributor for beds on Island. However, the following dates do not support the purchase as an "emergency" considering the time elapsed from request to item receipt.

| | |
|------------------|-----------|
| PR Date | 9-Nov-12 |
| PO Date (007397) | 28-Nov-12 |
| Invoice date | 14-Oct-13 |
| Date received | 19-Oct-13 |

According to the vendor, the delivery of the items was delayed due to manufacturing delays. Support for the purchase to be considered an "emergency" does not appear to exist considering the delivery time compared with the date of the PO.

The above transaction appears to be non-compliant with RepMar's Procurement Code.

Further, we noted that Invoice #2014-0186 for \$10,650 lacked a supporting Purchase Requisition and Purchase Order. Also, for Invoice #s 2014-0233 and 2014-00237 for \$20,450 and \$24,000, respectively, a Purchase Requisition is on file but it was not circulated for signature and approval. Thus, the Purchase Order was never processed. However, the items were received by the Fund. Per the Procurement Code, adequate notice of the need for such services shall be given by the Purchasing Agency through a Request for Proposals. We conclude that these purchases appear to be non-compliant with RepMar's Procurement Code.

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 planning in the determination of the needed pharmaceutical supplies, medical supplies and medical equipment caused purchases to be classified as "emergency".

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code and Ministry of Finance policies.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the Fund for fiscal years 2005 through 2013.

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.

Auditee Response and Corrective Action Plan: The Ministry agrees with the findings. Currently, bidding processes have started for both Medical Supplies and Pharmaceuticals. By doing so, the Ministry is confident that this will eliminate its non-compliance findings for fiscal year FY2015 in regards to "splitting". Furthermore, an inventory system is now in place and running. This will help with the monitoring and tracking of the medical and pharmaceutical inventory, therefore, reducing the need for "urgent" and "emergency" orders. To conclude, the Ministry would like to recommend that the small purchase cap of \$25,000 be revised to a larger amount as prices of medical supplies and pharmaceuticals have risen since 1988 when amount was placed in the Procurement Act.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings
Year Ended September 30, 2014

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