

June 29, 2018

Ms. Julia Alfred
Secretary of Health and Human Services
Republic of the Marshall Islands

Dear Ms. Alfred:

In planning and performing our audit of the financial statements of the Health Care Revenue Fund (the Fund) as of and for the year ended September 30, 2017 (on which we have issued our report dated June 29, 2018), 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 Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Kalani Kaneko, Minister of Health, also dated June 29, 2018, on our consideration of the 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 definition of a deficiency is also set forth in the attached Appendix I.

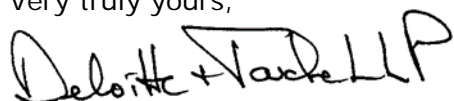
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Ministry of Health, 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 Fund for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Fund's internal control over financial reporting as of September 30, 2017 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, 2017, 100% or \$43,422 of receivables from employees, payroll advances and total travel advances were past due as per subsequent collection testing. We recommend that management take reasonable steps to comply with established travel policies regarding liquidation of travel advances, receivables from employees and payroll advances. This matter was discussed in our previous audits for fiscal years 2006 through 2016.

(2) Allowance for Doubtful Accounts

As of September 30, 2017, the Fund did not perform an analysis of allowance for doubtful accounts for long outstanding hospital user fee receivables of \$5,998,010 and other receivables of \$34,111. Such resulted in an audit adjustment of \$66,068.

We recommend that management continue to pursue collection of outstanding receivables. This matter was discussed in our previous audits for fiscal years 2010 through 2016.

(3) Bank Reconciliation – Long outstanding checks

Examination of bank reconciliations revealed that \$57,400 of outstanding checks have been outstanding from 2011 to 2016. Furthermore, there was an unidentified cash in bank difference of \$4,117. Such was recorded under Other charges and expenses.

Reconciling items do not appear to be monitored.

We recommend that management strengthen and improve internal control policies over the bank reconciliation review process. That process should facilitate timely identification of errors. Additionally, management should revisit the validity of recorded outstanding checks from 2011 to 2016. This matter was discussed in our previous audit for fiscal years 2015 through 2016.

(4) Long Outstanding Accounts Payables

Examination of accounts payable revealed the following long outstanding balances:

<u>Description</u>	<u>Amount</u>
Pharmaceutical/medical supplies payable	\$ 28,399
Other payables	<u>36,598</u>
	\$ <u>64,997</u>

We recommend that management strengthen and improve internal control policies over the transaction review process and revisit the validity of these payables.

SECTION I –DEFICIENCIES, CONTINUED

(5) Grant and Deferred Revenue

The schedule of grant revenue and related expenses and a journal voucher supporting a deferred revenue adjustment did not agree with the supporting deferred revenue computation and schedule. This matter was corrected through a proposed audit adjustment.

We recommend management strengthen and improve controls over the review process and the monitoring of grant revenue, deferred revenue and related expenses.

(6) Late filing of RMI and MISSA Taxes

Examination of withholding tax payments (Form 1178) revealed the late filing of returns for the payroll period from 06/18/17 to 07/15/17, which were filed and paid on 08/14/17. Form 1178 is due within two weeks following the preceding four week pay period. The Fund was noncompliant with this requirement.

Examination of employer's quarterly tax return for contributions withheld for the quarter ending 03/31/17 revealed the late filing of a return, which was filed and paid on 08/18/17. MISSA tax deadline is the 10th of the first month of the following quarter. The Fund was noncompliant with this requirement.

We recommend management file and timely remit MISSA taxes and RMI withholding tax payments in accordance with established requirements.

(7) Maintenance of files

The check payment, invoice, and supporting documentation for the following were missing:

<u>Document No.</u>	<u>Invoice Date</u>	<u>Amount</u>
245365	11/03/16	\$ 114
17181B	12/23/16	<u>4,130</u>
		\$ <u>4,244</u>

The Purchase Order (PO) and various quotations for the following were missing at the time of our inspection:

<u>PO No.</u>	<u>Amount</u>
9423	\$12,179

Various invoices were missing for a check payment made on 04/27/17 with check no. 16798 amounting to \$36,626, which were related to FY16 transactions. As a result, expenses were recorded and paid in FY17.

We recommend that management require that all pertinent documentation associated with check payments be maintained on file.

SECTION II – 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 Fund'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.