

June 14, 2019

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 (the Fund) as of and for the year ended September 30, 2018 (on which we have issued our report dated June 14, 2019), 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Kalani Kaneko, Minister of Health and Human Services, also dated June 14, 2019, 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.

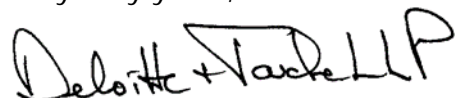
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

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

Very truly yours,



SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Fund's internal control over financial reporting as of September 30, 2018 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 fifteen days after the end of travel. As of September 30, 2018, 100% or \$60,826 of receivables from employees, payroll advances and total travel advances were past due, which resulted in a proposed bad debt adjustment during the audit process.

We recommend 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 2017.

(2) Allowance for Doubtful Accounts

As of September 30, 2018, the Fund did not perform an analysis of the allowance for doubtful accounts for long outstanding hospital user fee receivables of \$6,091,318 and other receivables of \$44,815. Such resulted in a proposed audit adjustment of \$93,302.

We recommend management continue to pursue collection of outstanding receivables. This matter was discussed in our previous audits for fiscal years 2010 through 2017.

(3) Bank Reconciliation – Long outstanding checks

Examination of bank reconciliations revealed that \$62,290 of outstanding checks have been outstanding from 2011 to 2017. Further, \$2,445 of uncleared deposits in transit have been outstanding from 2011 through 2017.

Reconciling items do not appear to be monitored.

We recommend 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 and deposits in transit from 2011 through 2017. This matter was discussed in our previous audit for fiscal years 2015 through 2017.

(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	\$ 26,242
Other payables	<u>44,930</u>
	\$ <u>71,172</u>

We recommend management strengthen and improve internal control policies over the transaction review process and revisit the validity of these payables. This matter was discussed in our previous audits for fiscal years 2016 and 2017.

SECTION I –DEFICIENCIES, CONTINUED

(5) Grant and Deferred Revenue

A deferred revenue computation and a supporting schedule were not prepared and provided during the audit process. Further, deferred revenue did not change from the prior year. 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 expenditures.

(6) Late filing of Withholding and Social Security Taxes

The Fund filed and paid income taxes withheld in a manner inconsistent with 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105.

Examination of withholding tax payments (Form 1178) revealed the following:

Payroll period	Date Filed	Date Paid
11/05/17 - 12/02/17	01/03/2018	01/18/2018
12/01/17 - 12/31/17	02/16/2018	04/11/2018
01/01/18 - 01/28/18	02/21/2018	04/11/2018
01/29/18 - 02/25/18	03/20/2018	04/11/2018
02/26/18 - 03/25/18	05/15/2018	05/21/2018
03/26/18 - 04/22/18	05/15/2018	05/21/2018
04/23/18 - 05/20/18	06/08/2018	06/12/2018
07/16/18 - 08/12/18	08/28/2018	08/30/2018

Form 1178 is due within two weeks following the preceding four week pay period. The Fund was noncompliant with this requirement. Further, we noted that payroll periods used by the Fund for purposes of submission of Form 1178 reporting are not consistent with the Fund's actual payroll periods.

Examination of quarterly tax returns for contributions withheld revealed the following:

QTR ending	Date Filed	Date Paid
12/31/2017	01/24/2018	01/29/2018
03/31/2018	05/16/2018	05/16/2018
06/30/2018	07/30/2018	07/30/2018

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. Further, we recommend tax returns be reviewed prior to filing.

(7) Maintenance of files

Various quotations for PO no. 9663 amounting to \$5,069 were missing.

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

SECTION I –DEFICIENCIES, CONTINUED

(8) Journal Entries

Journal entries lack a preparer and a reviewer signature that evidences independent review prior to posting. Further, journal vouchers are not properly and timely filed.

We recommend that adequate review and approval of journal entries occur. Also, we recommend proper and timely filing of journal vouchers.

(9) Travel Expenditures

Outer island travel expenditures totaling \$2,904 did not contain proper documentation of a submission of a travel expense report.

We recommend management implement appropriate action encouraging proper documentation of submission of travel expense reports.

(10) Timely Submission of Request for Reimbursements

We noted that requests for audit fee reimbursements are not timely submitted.

We recommend management implement appropriate action encouraging timely submission of requests for reimbursement of audit fees.

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.