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May 29, 2015

Ms. Mailyynn K. Langinlur
Acting Secretary of Health
Republic of the Marshall Islands

Dear Ms. Langinlur:

In planning and performing our audit of the financial statements of the Marshall Islands Health Fund (the Fund) as of and for the year ended September 30, 2014 (on which we have issued our report dated May 29, 2015), 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, 2014, that we wish to bring to your attention.

We have also issued a separate report to the Honorable Phillip Muller, Minister of Health, also dated May 29, 2015, 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,

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Fund's internal control over financial reporting as of September 30, 2014, that we wish to bring to your attention:

(1) 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, 2014, 89% of Travel Advances pertain to unliquidated advances that are past due and a significant portion pertains to prior years. We recommend that management scrutinize long outstanding advances and necessary adjustments occur timely.

(2) Bank Reconciliations

The September 30, 2014 bank reconciliation contained deposits in transit of \$200 that pertain to December 2013 collections. Upon further investigation, these collections were not deposited to the bank, but had been recorded as cash and revenues. We recommend that all collections be deposited to the Fund's bank account to minimize the risk of misappropriation/misuse of cash and that a thorough review of the bank reconciliation occur.

(3) Accrual of Expenditures

The amount accrued for RF#2013-048 was understated which was caused by a mistake in expenditure recording. We recommend that a thorough review be performed by those in-charge of journal entry posting.

(4) Audit of Third Party Administrator

During scrutiny of replenishment forms submitted by the Third Party Administrator (TPA), we noted that independent review by management personnel did not occur. Further, we noted variances between total amounts shown on the summary as submitted by TPA against the amount paid. We recommend that management establish policies and procedures requiring an independent review of replenishment files submitted by the TPA to determine the accuracy, completeness, and validity of requests. Also, we recommend that someone with medical expertise be designated to review the validity of medical procedures and related charges billed by the hospitals/practitioners.

(5) Delegation of Authority

Upon examination of supporting replenishment requests (HF14-202017; HF14-201961; and RF #s 2014-008 and 2014-024), we noted that the approval officer was other than the authorized approval officer. No delegation of authority was made available to support the documented approval officer. We recommend that the authority of another officer signing on behalf of a named approving officer be memorialized through written delegation of authority.

(6) Reconciliation of Accounts

Recording of current year expenditures that pertain to prepaid items, which services have already been received, is only performed at year-end. Also, we noted an expenditure was recorded when it pertained to prepaid rent and a refundable deposit. Timely posting and reconciliation of accounts is not practiced. We recommend that management establish policies and procedures requiring the timely posting and reconciliation of accounts to facilitate recorded financial transactions that reflect the current economic condition.

SECTION II – 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 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.