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July 18, 2016

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, 2015 (on which we have issued our report dated July 18, 2016) 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, 2015, 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 July 18, 2016, 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, 2015, that we wish to bring to your attention:

(1) Long Outstanding 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, 2015, 65% 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. This matter has been previously reported for the audit of the Fund for fiscal year 2014.

(2) Bank Reconciliations

Check #s 15693 and 15699, dated 07/01/15, in the amounts of \$56,140 and \$70,904, respectively, were tagged as void. However, examination revealed that these two checks were not voided in the system and were reflected as outstanding checks. Such were corrected and reversed by management through prepared adjustments.

Long outstanding checks were reflected in the bank reconciliation as follows:

<u>Bank Account</u>	<u>Amount</u>	<u>Remarks</u>
BOG - HF Main	\$ 25,075	Outstanding from 2004 to 2014
BOG - Outer Islands	<u>5,915</u>	Outstanding from 2004 to 2014
	<u>\$ 30,990</u>	

Reconciling items do not appear to be monitored.

We recommend management strengthen and improve internal control policies over the review process of bank reconciliations that would facilitate timely identification of errors.

(3) Unrecorded Liabilities

Examination of subsequent disbursements revealed that three check payments in FY16 pertained to FY15 invoices. Such invoices were received in FY16 but the expenditures were incurred in FY15 and no accruals were made. Such was corrected through proposed audit adjustments. Details were as follows:

<u>No.</u>	<u>Check date</u>	<u>Check #</u>	<u>Payee</u>	<u>Amount</u>
1	11/10/15	16174	Medpharm Phil, Inc.	\$ 126,326
2	12/01/15	16286	Medpharm Phil, Inc.	210,081
3	02/08/16	16518	Mina Pharmacy	<u>27,724</u>
				<u>\$ 364,131</u>

We recommend management perform review of invoices received subsequent to the fiscal year end and verify that all expenditures incurred were recorded in the correct accounting period.

SECTION I – CONTROL DEFICIENCIES, CONTINUED(4) Audit of Third Party Administrator

No independent review of Third Party Administrator (TPA) replenishment forms occurs and no independent audit of the TPA occurs.

Examination of check no. 95, dated 03/19/15, and replenishment document no. RF #01-205 submitted by TPA revealed that \$21,228 of \$53,318 pertains to hospital bills for basic health patients. The replenishment does not contain a detailed list that includes patient name, service dates and patient status.

We recommend that management verify; that an independent review of TPA files submitted by the TPA occurs to verify accuracy, completeness, and validity of requests. Further, 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 and wire transfer forms (Ref 07-2015, signed on 09/14/15), we noted that the approval officer was other than the authorized approval officer. No delegation of authority was 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

The MISSA Summary of Collection schedule did not agree with the due from MISSA account, transfer in and due to HCRF. 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.

(7) Maintenance of files

Several files were missing at the time of our audit as follows.

Check no. 16133, dated 10/29/2015, Document no. HF16-202369;

Missing check payment details for the following:

<u>Invoice no.</u>	<u>Invoice Date</u>	<u>Amount</u>
HFTA0003653A	07/16/2015	\$ 4,094
HFTA0003649A	07/15/2015	4,774
HFTA0003649A	07/16/2015	4,094

Missing check payments, invoices and replenishment for the following:

<u>PO/Document No.</u>	<u>PO Date</u>	<u>Amount</u>
15343	03/27/2015	\$ 116,312
HF15-202158	02/12/2015	14,153

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

SECTION I – CONTROL DEFICIENCIES, CONTINUED

(8) Supplemental Health Fund Collections

Examination of daily collection reports and related deposit slips revealed that collections on June 11, 2015 were deposited on June 17, 2015, which is 4 banking days after collection was received. In addition, certain daily collection reports have no signature of the preparer and reviewer evidencing that the review took place.

We recommend management require that the daily collection reports be reviewed before making bank deposit. Further, management should strengthen control over collections and verify that collections received were deposited within the next banking day/s to minimize opportunity for the misappropriation of cash.

(9) Health Fund Act.

Ministry of Health (MoH) is responsible for adequate internal controls over monitoring of compliance with the Policy on Basic Health Plan for maximum coverage of \$100,000 per covered person annually.

We were not provided with the accumulated balance of TPA expenditures, hospital bills per referred patients on an annual basis. Such monitoring was represented to have been performed by TPA-Medpharm on a replenishment (per month) basis or per a referral basis.

In addition, we noted one transaction pertaining to the basic claim payment, check #15597, dated 06/01/15, amounting to \$51,531 that was made at a hospital outside of the RMI, and which was not included in the list of approved medical service providers.

We recommend management establish internal controls over monitoring TPA expenditures, hospital bills per patients referred and the medical service providers on an annual basis as required by the Policy on Basic Health Plan. Further, management should revisit policies over health care obtained outside of the RMI, which may not be included as an approved health care facility.

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.