

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

MARSHALL ISLANDS HEALTH FUND

Years Ended September 30, 2020 and 2019
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INDEPENDENT AUDITORS' REPORT

Honorable Bruce Bilimon
Minister of Health and Human Services
Republic of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Health Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2020 and 2019, 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 Marshall Islands Health Fund as of September 30, 2020 and 2019, 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 Matters

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Health 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.

COVID-19

As discussed in Note 7 to the financial statements, the Marshall Islands Health Fund determined that the COVID-19 pandemic may negatively impact its operations through increased levels of expenditures for the off-island medical referral program. The Marshall Islands Health Fund is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

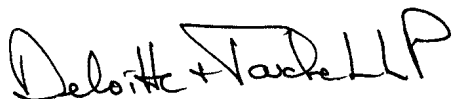
Other Matters

Required Supplementary Information:

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2021, on our consideration of the Marshall Islands Health 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 solely 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 the effectiveness of the Marshall Islands Health Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall Islands Health Fund's internal control over financial reporting and compliance.



September 20, 2021

MARSHALL ISLANDS HEALTH FUND

Balance Sheets
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash	\$ 185,455	\$ 252,138
Receivables:		
Contributions	1,728,156	2,401,378
Affiliates	2,390,962	1,671,748
Employees	45,672	39,067
Other	273,979	38,650
	<u>4,438,769</u>	<u>4,150,843</u>
Less allowance for doubtful accounts	<u>(130,273)</u>	<u>(130,273)</u>
	<u>4,308,496</u>	<u>4,020,570</u>
Other assets	<u>375,000</u>	<u>350,000</u>
Total assets	<u>\$ 4,868,951</u>	<u>\$ 4,622,708</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	127,620	121,023
Medical claims payable	457,929	1,552,877
Payable to affiliates	388,566	96,314
Total liabilities	<u>974,115</u>	<u>1,770,214</u>
Contingencies		
Fund balance:		
Committed for:		
Health services	<u>3,894,836</u>	<u>2,852,494</u>
Total liabilities and fund balance	<u>\$ 4,868,951</u>	<u>\$ 4,622,708</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Statements of Revenues, Expenditures, and Changes in Fund Balance
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Basic Health Fund collections	\$ 8,073,953	\$ 8,193,583
Supplemental Health Fund collections	630,230	652,207
Refunds and other revenues	<u>343,409</u>	<u>223,319</u>
Total revenues	<u>9,047,592</u>	<u>9,069,109</u>
Expenditures:		
Off-island care	2,725,419	4,743,580
Other medical charges	725,552	330,705
Off-island travel	517,929	1,008,127
Professional and consulting fees	278,200	174,000
On-island care	10,752	90,400
Bad debts	-	91,623
Administrative:		
Salaries and wages	306,660	275,649
Collection fees	200,000	200,000
Utilities	53,617	50,990
Capital outlays	46,758	12,703
Travel	43,206	59,125
Repairs and maintenance	21,109	31,316
Supplies	17,476	10,304
Insurance	16,658	15,401
Communications	10,627	7,603
POL	5,786	8,359
Other administrative charges	<u>23,519</u>	<u>13,532</u>
Total expenditures	<u>5,003,268</u>	<u>7,123,417</u>
Excess of revenues over expenditures	<u>4,044,324</u>	<u>1,945,692</u>
Other financing sources (uses):		
Contributions from RepMar's General Fund	100,000	1,400,000
Contributions to RepMar's General Fund	(28,965)	(135,380)
Contributions to the Health Care Revenue Fund	<u>(3,073,017)</u>	<u>(2,521,446)</u>
Total other financing sources (uses), net	<u>(3,001,982)</u>	<u>(1,256,826)</u>
Net change in fund balance	1,042,342	688,866
Fund balance at beginning of year	<u>2,852,494</u>	<u>2,163,628</u>
Fund balance at end of year	<u>\$ 3,894,836</u>	<u>\$ 2,852,494</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(1) Reporting Entity

The Marshall Islands Health Fund (MIHF), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Marshall Islands Health Fund Act of 2002, as amended, 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 MIHF includes the operations of the Basic Health Benefits Plan and the Supplemental Health Benefits Plan. The Health Care Revenue Fund (HCRF), a governmental fund of RepMar, was established pursuant to the Health Care Revenue Fund Act of 1989, as amended, to facilitate the purchase of drugs, medical and dental supplies, hospital equipment, and for the provision and administration of other health services. Administration, control and management of both the MIHF and the HCRF is the responsibility of the Secretary of RepMar's Ministry of Health and Human Services (MOHHS). The MIHF's enabling legislation requires that 55% of contributions collected by the Basic Health Benefits Plan be transferred, on a quarterly basis, to the HCRF. The 55% distribution is to be made after deducting the 10% costs associated with the administration of the MIHF. On February 26, 2018, the HCRF's enabling legislation was amended to authorize the Health Services Board to modify the 55% distribution, as necessary.

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

Measurement Focus and Basis of Accounting

The MIHF 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.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(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 MIHF 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 quarterly contributions from employers and employees as well as premiums for health benefit plans collected by the Ministry of Health and Human Services 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.

Cash

The deposit and investment policies of the MIHF 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 MIHF'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 MIHF 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, 2020, and 2019, the carrying amounts of the MIHF's total cash were \$185,455 and \$252,138, respectively, and the corresponding bank balances were \$227,621 and \$430,837, respectively. Of the bank balances, \$212,671 and \$418,682, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020, and 2019, bank deposits in the amount of \$212,671 and \$250,000, respectively, were FDIC insured. Bank deposits of \$14,950 and \$12,155, respectively, are maintained in financial institutions not subject to depository insurance. The MIHF 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.

Receivables

Contributions receivable are due from employers located within the Republic of the Marshall Islands. These receivables are not collateralized and are non-interest bearing. Receivables from affiliates are primarily due from the Marshall Islands Social Security Administration (MISSA), which represent unremitted contributions collected by MISSA on behalf of the MIHF.

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 identification method.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

The MIHF 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

Fund balance classifications are based on the extent to which the MIHF is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Such are reported as committed, which 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.

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.

Contributions

Contributions to the Basic Health Benefits Plan are governed by the Marshall Islands Health Fund Act of 2002, which imposes a tax on the quarterly income of every employee who is considered a covered person under the Act. Employees are required to contribute an amount equal to 3.5% of wages while every employer is required to contribute an amount equal to that contributed by employees. Maximum quarterly taxable wages are \$5,000. Contributions to the Supplemental Health Benefits Plan are also governed by the Act; however, these contributions represent voluntary premiums as determined by the Health Services Board in order to become eligible for designated benefits.

Taxes

The Government of RepMar imposes gross receipts tax of 3% on revenues. The MIHF is specifically exempt from this tax; however, all goods imported by the Health Services Board for the purposes of the MIHF, are subject to tax under the Import Tax Act of 1989.

Estimates

The preparation of financial statements in accordance 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, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Risk Management

The MIHF 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 MIHF 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) Other Assets

In 2015, the MIHF made a deposit of \$350,000 with Medpharm Philippines as the Third-Party Administrator (TPA) to provide administrative and logistical services for the Ministry of Health and Human Services medical referral program. In addition, the MIHF and the TPA entered into a medical services agreement for a fixed monthly fee of \$14,500, which expired on September 30, 2019. On October 10, 2019, the MIHF and the TPA renewed the agreement for an additional 36 months, effective October 1, 2019, for a fixed monthly fee of \$18,600 and requiring a \$25,000 increase in the deposit to \$375,000.

(5) Related Party Transactions

The MIHF is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the HCRF.

Receivables from and payables to affiliates as of September 30, 2020 and 2019, are as follows:

	2020		2019	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
RepMar:				
HCRF	\$ 36,501	\$ 156,904	\$ 4,246	\$ 13,030
General Fund	3,606	81,345	3,606	75,380
Air Marshall Islands, Inc.	-	143,918	-	-
MISSA	<u>2,350,855</u>	<u>6,399</u>	<u>1,663,896</u>	<u>7,904</u>
	<u>\$ 2,390,962</u>	<u>\$ 388,566</u>	<u>\$ 1,671,748</u>	<u>\$ 96,314</u>

MARSHALL ISLANDS HEALTH FUND

Notes to Financial Statements
September 30, 2020 and 2019

(5) Related Party Transactions, Continued

Receivables from MISSA represent unremitted contributions to the MIHF at September 30, 2020 and 2019 collected by MISSA from employers located within the Republic of the Marshall Islands for the benefit of the MIHF for a fixed fee of \$200,000 per year.

During the years ended September 30, 2020 and 2019, the MIHF received \$100,000 and \$1,400,000, respectively, from RepMar to provide financial support for off-island referrals.

During the years ended September 30, 2020 and 2019, the MIHF transferred \$28,965 and \$135,380, respectively, to the General Fund for the purpose of funding the operations of the Office of the Auditor General.

Contributions to the HCRF during the years ended September 30, 2020 and 2019 amounted to \$3,073,017 and \$2,521,446, respectively, representing a percentage share of collections of the Basic Health Benefits Plan transferred to the HCRF to fund operations.

(6) Contingencies

The MIHF receives substantially all of its funding from MISSA through collections of the MIHF's Basic Health Benefits Plan. A significant reduction in the level of this funding, that may ultimately require additional contributions from RepMar, if this were to occur, may have an effect on the MIHF's programs and activities.

(7) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of September 20, 2021, no community transmission has been identified. The MIHF has determined that should community transmission occur, it may negatively impact the MIHF's operations and financial position through increased levels of expenditures for the off-island medical referral program. As a result, the MIHF may become dependent upon the financial support of RepMar; however, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, while the MIHF expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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 Bruce Bilimon
Minister of Health and Human Services
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the Marshall Islands Health Fund (MIHF), which comprise the balance sheet as of September 30, 2020, 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 September 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MIHF's internal control over financial reporting (internal control) as a basis for designing 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 MIHF's internal control. Accordingly, we do not express an opinion on the effectiveness of the MIHF'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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

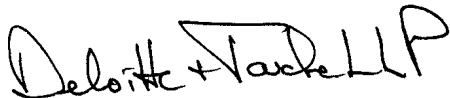
As part of obtaining reasonable assurance about whether the MIHF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 items 2020-002 and 2020-003.

The MIHF's Responses to Findings

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

September 20, 2021

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses Year Ended September 30, 2020

Finding No. 2020-001

Audit of Third-Party Administrator (TPA)

Criteria: Timely review and verification of accuracy and completeness of replenishment requests submitted by the TPA should be facilitated by internal control conducive to the preparation and independent review of these expenses.

Condition: An independent review of TPA replenishment forms does not occur and no independent audit of the TPA occurs. Of \$2.73 million of off-island care expenditures related to referred patients, 78% or \$2.12 million pertains to claims reimbursed to TPA for referred patients in the Philippines during the year ended September 30, 2020. The last audit that occurred was for off-island care expenditures for the year ended September 30, 2018.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring timely review and verification of replenishments submitted by the TPA and related charges billed by the hospital/practitioners.

Effect: The effect of the above condition is a potential misstatement of expenses incurred related to referred patients.

Recommendation: We recommend management verify that an independent review of 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.

Auditee Response and Corrective Action Plan: The Ministry acknowledges this audit finding and, as a corrective action, will conduct an audit of the TPA for fiscal years 2019 and 2020.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2020

Finding No. 2020-002

Maximum Annual Benefit Coverage

Criteria: The Basic Health Plan and the Supplemental Health Plan pays for 100% and 80%, respectively, of the costs of non-emergency medical care up to \$100,000. For emergency cases, the Basic Health Plan pays 80% of the actual cost or \$1,000, whichever is higher. Furthermore, the Supplemental Health Plan does not pay medical care of patients enrolled in the state insurance program. The MIHF is responsible for adequate internal controls over monitoring benefits claimed in compliance with Basic Health Plan and Supplemental Health Plan benefits coverage.

Condition: Five patients tested exceeded the allowed or annual maximum benefits by \$93,133, which constitutes noncompliance with the criteria stated above. During the year ended September 30, 2020, the MIHF did not appear to monitor monthly actual costs incurred per patient to track benefits claimed.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures over monitoring allowed or the maximum allowed benefits in compliance with Marshall Islands Health Fund Act. The corrective action response during the 2018 audit to review patient expenses on a monthly basis was not properly implemented.

Effect: The effect of the above condition is potential noncompliance with the Marshall Islands Health Fund Act.

Prior Year Status: Exceeding the maximum annual benefit coverage was reported as a finding in the audits of the MIHF for fiscal years 2018 and 2019.

Recommendation: We recommend management establish policies and internal controls over the monitoring of off-island care expenses, travel costs, per diem and escort related expenses, and verify compliance with the Marshall Islands Health Fund Act.

Auditee Response and Corrective Action Plan: The Ministry acknowledges this finding. A patient is approved by the National Medical Referral Committee for off island treatment. The Plan pays according to Schedules of Benefits up to an annual maximum of \$100,000 per covered person. When the patient reaches his/her maximum of \$100,000, it is then reviewed again by the Medical Referral Committee and presented to the Health Services Board for approval if indicated that further medical treatment is required.

The Ministry recently hired a Health Fund Reconciliation Specialist in June 2021 who assists the Medical Referral Office in monitoring the monthly expenditures per patient.

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings and Responses, Continued Year Ended September 30, 2020

Finding No. 2020-003

Excluded Medical Conditions

Criteria: Section 202 of the Marshall Islands Health Fund Act of 2002 states “excluded medical conditions for claiming basic and supplemental benefits includes any case with a five year survival rate of less than 50% based on current medical statistics and experiences in RepMar”.

Condition: None of the 20 samples tested contained documentation of the assessment of the survival rate, of which five referred patients did not survive within a year of receiving medical treatment.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring compliance with the Marshall Islands Health Fund Act.

Effect: The effect of the above condition is potential noncompliance with the Marshall Islands Health Fund Act.

Prior Year Status: Excluded medical conditions was reported as a finding in the audits of MIHF for fiscal years 2018 and 2019.

Recommendation: We recommend management establish adequate internal control policies and procedures requiring compliance with the Marshall Islands Health Fund Act or that management recommend that the Act be amended.

Auditee Response and Corrective Action Plan: The Ministry acknowledges the finding and will ensure proper documentation of the assessment of survival rate is filed and accessible.

Through the replenishment checklist, the Health Fund Reconciliation Specialist will review and ensure that there is a documentation of the survival rate assessment.

MARSHALL ISLANDS HEALTH FUND

Unresolved Prior Year Findings
Year Ended September 30, 2020

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