

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

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FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

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YEARS ENDED SEPTEMBER 30, 2021 and 2020

HEALTH CARE REVENUE FUND  
Years Ended September 30, 2021 and 2020  
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## INDEPENDENT AUDITOR'S REPORT

Honorable Joe Bejang  
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 Health Care Revenue Fund, a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2021 and 2020, 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.

### Auditor's 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 Health Care Revenue Fund as of September 30, 2021 and 2020, 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 Health Care Revenue 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 6 to the financial statements, the Health Care Revenue Fund has determined that the COVID-19 pandemic may negatively impact its operations through increased levels of expenditures for medical supplies and equipment.

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 require 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 January 24, 2023, on our consideration of the Health Care Revenue 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 Health Care Revenue 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 Health Care Revenue Fund's internal control over financial reporting and compliance.



January 24, 2023

**HEALTH CARE REVENUE FUND**

Balance Sheets  
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash	\$ 1,166,168	\$ 651,540
Receivables:		
Patients	6,356,379	6,285,051
Affiliates	239,964	205,748
Employees	131,630	115,600
Other	<u>134,043</u>	<u>62,226</u>
	6,862,016	6,668,625
Less allowance for doubtful accounts	<u>(6,544,667)</u>	<u>(6,492,591)</u>
	317,349	176,034
Prepayments	<u>47,472</u>	<u>230,571</u>
Total assets	<u>\$ 1,530,989</u>	<u>\$ 1,058,145</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 736,572	\$ 435,942
Other liabilities and accruals	9,748	20,497
Deferred revenue	107,430	50,653
Payable to affiliates	<u>11,893</u>	<u>81,214</u>
Total liabilities	<u>865,643</u>	<u>588,306</u>
Contingencies		
Fund balance:		
Committed for:		
Health services	<u>665,346</u>	<u>469,839</u>
Total fund balance	<u>665,346</u>	<u>469,839</u>
Total liabilities and fund balance	<u>\$ 1,530,989</u>	<u>\$ 1,058,145</u>

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

### Statements of Revenues, Expenditures, and Changes in Fund Balance Years Ended September 30, 2021 and 2020

	2021	2020
Revenues:		
Grants	\$ 602,814	\$ 529,927
Hospital charges	444,735	418,627
Other	69,927	40,980
Total revenues	1,117,476	989,534
Expenditures:		
Medical and laboratory supplies	1,798,580	1,510,234
Pharmaceutical	1,342,819	1,950,112
Hospital equipment	614,879	666,243
Laboratory fees	177,585	136,337
Freight and delivery	65,985	89,969
Professional and consulting fees	45,480	22,612
Administrative:		
Salaries and wages	200,824	217,988
Supplies and materials	100,873	43,262
Boat charters	87,718	-
Travel	72,974	118,958
Communications	32,575	31,018
Foodstuffs	29,431	33,604
POL	26,172	10,373
Printing and reproduction	25,146	33,422
Training	24,434	21,853
Rentals	23,470	15,602
Equipment	9,200	1,890
Provision for bad debts	-	13,460
Other administrative costs	45,402	64,215
Total expenditures	4,723,547	4,981,152
Deficiency of revenues under expenditures	(3,606,071)	(3,991,618)
Other financing sources (uses):		
Transfer in from the Marshall Islands Health Fund	3,832,073	3,073,017
Transfer out to RepMar's General Fund	(30,495)	(29,992)
Total other financing sources (uses), net	3,801,578	3,043,025
Net change in fund balance	195,507	(948,593)
Fund balance at beginning of year	469,839	1,418,432
Fund balance at end of year	\$ 665,346	\$ 469,839

See accompanying notes to financial statements.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2021 and 2020

### (1) Reporting Entity

The Health Care Revenue Fund (HCRF), a governmental fund of the Republic of the Marshall Islands (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. The Marshall Islands Health Fund (MIHF), a governmental fund of 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. Administration, control and management of both the HCRF and the MIHF 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 HCRF, and do not incorporate any accounts related to the MIHF, 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 HCRF 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 HCRF's accounting policies are described below.

#### Measurement Focus and Basis of Accounting

The HCRF 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.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2021 and 2020

### (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 HCRF considers revenues other than grants and assistance awards to be available if they are collected within 90 days of the end of the current fiscal period. Grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred. Significant revenues susceptible to accrual include revenue received from hospital charges and other health care charges collected by the Ministry of Health and Human Services as well as grants, gifts and donations.

#### Cash

The deposit and investment policies of the HCRF 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 HCRF'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 HCRF 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, 2021 and 2020, the carrying amounts of the HCRF's total cash were \$1,166,168 and \$651,540, respectively, and the corresponding bank balances were \$1,229,752 and \$684,842, respectively. Of the bank balances, \$1,178,427 and \$276,337, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$51,325 and \$408,505, respectively, being maintained in a financial institution not subject to depository insurance. As of September 30, 2021 and 2020, bank deposits in the amount of \$250,000 were FDIC insured. The HCRF 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

Receivables include amounts due from hospital patients, affiliates, employees, and other sources. These receivables are uncollateralized and non-interest bearing. 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 allowance on the specific identification method.

#### Prepayments

Certain payments made to vendors or persons for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.



## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2021 and 2020

### (2) Summary of Significant Accounting Policies, Continued

#### Deferred Revenue

Deferred revenue represents grant monies received which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

#### Compensated Absences

The HCRF 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 classification is based on the extent to which the HCRF is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and is reported as committed fund balance. Committed fund balance includes 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. Any unused portion of the rest of the grants received have been included in the restricted portion/committed for fund balance.

A formal minimum fund balance policy has not been adopted.

#### Taxes

RepMar imposes a gross receipts tax of 3% on revenues. The HCRF is specifically exempt from this tax.

#### 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

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed 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.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2021 and 2020

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

During the year ended September 30, 2021, the HCRF implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the fiscal year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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 the 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 the fiscal year ending September 30, 2022.

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 the fiscal year ending September 30, 2023.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2021 and 2020

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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 are effective for the fiscal year ending 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 the 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 the fiscal year ending September 30, 2023.

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the fiscal year ending September 30, 2022.

## HEALTH CARE REVENUE FUND

Notes to Financial Statements  
September 30, 2021 and 2020

### (3) Risk Management

The HCRF 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 HCRF 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) Related Party Transactions

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

Receivables from and payables to affiliates as of September 30, 2021 and 2020, are as follows:

	2021		2020	
	Receivables	Payables	Receivables	Payables
RepMar:				
Health Fund	\$ 147,661	\$ -	\$ 157,435	\$ 35,413
General Fund	92,303	5,353	48,313	34,928
Other	-	6,540	-	10,873
	\$ 239,964	\$ 11,893	\$ 205,748	\$ 81,214

Contributions from the MIHF during the years ended September 30, 2021 and 2020 amounted to \$3,832,073 and \$3,073,017, respectively, representing a percentage share of collections of the Basic Health Benefits Plan transferred to fund HCRF operations.

During the years ended September 30, 2021 and 2020, the HCRF transferred \$30,495 and \$29,992, respectively, to the General Fund for the purpose of funding the operations of the Office of the Auditor General.

### (5) Contingencies

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

### (6) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended the containment and mitigation measures worldwide. During the year ended September 30, 2021, four confirmed cases were identified in the Marshall Islands that were isolated and contained. On August 8, 2022, community transmission was identified and the HCRF has determined that such may negatively impact the HCRF's operations and financial position through increased levels of expenditures for medical supplies and equipment and the HCRF 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 HCRF expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

INDEPENDENT AUDITOR'S 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 Joe Bejang  
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 Health Care Revenue Fund (HCRF), which comprise the balance sheet as of September 30, 2021, 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 January 24, 2023. Our report includes an emphasis-of-matters paragraphs concerning the reporting entity and the impact of COVID-19.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HCRF's internal control over financial reporting (internal control) as the 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 HCRF's internal control. Accordingly, we do not express an opinion on the effectiveness of the HCRF'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 2021-002 that we consider to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HCRF'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 item 2021-001.

## HCRF's Responses to Findings

HCRF's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. HCRF'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.

*Deloitte & Touche LLP*

January 24, 2023

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses  
Year Ended September 30, 2021

Finding No. 2021-001

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- (a) Section 116 - subject to the regulations of the Policy Office, the Chief Procurement Officer may delegate authority to designees or to any department, agency, or official.
- (b) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (c) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (d) Section 128 - a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.
- (e) Section 129 – notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or a safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided that such emergency procurement shall be made with such competition as is practicable under the circumstance. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.
- (f) Section 130 – adequate notice of the need for such services shall be given by the Purchasing Agency through a Request for Proposals. The Request for Proposals shall describe the services required, list and type of information and date required for each offeror and state the relative importance of particular qualifications.

Condition: We noted the following items where supporting documentation was inadequate to evidence compliance with the procurement process set forth in the criteria:

Pharmaceutical Supplies

The following pharmaceutical supplies were sole-sourced and were documented as justified in that only one vendor submitted within the deadline. However, we noted that the deadline given to the vendors during the request of quotations may have been inadequate to allow for other vendors to respond, as follows:

<u>PO Number</u>	<u>PO Date</u>	<u>Request Date and Time</u>	<u>Deadline Date and Time</u>	<u>Amount</u>
21-PO-03078	04/01/2021	03/20/2021 10:00	03/22/2021 09:00	\$ 22,275
21-PO-02955	03/12/2021	02/05/2021 10:46	02/08/2021 09:00	\$ 17,600

The inadequate notice due to a tight deadline may limit the ability of other vendors to provide necessary proposals to participate in the procurement process.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2021

Finding No. 2021-001, Continued

Local Noncompliance, Continued

Monitoring of Purchase Orders

The following purchases of various items appear to be delivered in excess of 90 days from the purchase order date:

<u>GL Account</u>	<u>PO Date</u>	<u>PO nos.</u>	<u>Items received</u>	<u>Amount</u>
Medical Supplies	08/10/2020	20-PO-02190	11/20/2020	\$ 30,400
Medical Supplies	09/30/2020	20-PO-02358	05/05/2021	\$ 5,920
Medical Supplies	12/15/2020	21-PO-02649	08/10/2021	\$ 5,550
Medical Supplies	12/15/2020	21-PO-02648	03/19/2021	\$ 24,200
Medical Supplies	12/30/2020	21-PO-02724	05/04/2021	\$ 4,266
Medical Supplies	12/30/2020	21-PO-02724	05/11/2021	\$ 2,497
Medical Supplies	11/24/2020	21-PO-02577	03/29/2021	\$ 14,962
Medical Supplies	11/24/2020	21-PO-02577	03/29/2021	\$ 2,992
Pharmaceuticals	08/18/2020	20-PO-02231	12/20/2020	\$ 12,432
Pharmaceuticals	07/09/2020	20-PO-02061	10/28/2020	\$ 21,174
Pharmaceuticals	07/09/2020	21-PO-02452	12/07/2020	\$ 11,751
Pharmaceuticals	07/09/2020	21-PO-02452	01/06/2021	\$ 6,448
Medical Equipment	06/22/2020	20-PO-01969	11/25/2020	\$ 11,634
Medical Equipment	05/05/2020	20-PO-01678	01/27/2021	\$ 24,253
Medical Equipment	12/08/2020	21-PO-02615	04/20/2021	\$ 12,373
Medical Equipment	12/23/2020	21-PO-02676	07/28/2021	\$ 12,270

As per Ministry of Health and Human Service's policy, "all unserved items after 90 days will be cancelled".

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code and Ministry of Health and Human Service policies.

Effect: The effect of the above condition is potential noncompliance with RepMar's Procurement Code and Ministry of Health and Human Service policies.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the HCRF for fiscal years 2005 through 2020.

Recommendation: We recommend management establish internal control policies and procedures requiring compliance with RepMar's Procurement Code and Ministry of Health and Human Service policies and the monitoring and delivery of purchases as per the agreed schedule.

Auditee Response and Corrective Action Plan:

Pharmaceutical Supplies:

The Ministry acknowledges the finding and to address this matter, training on procurement was initiated in FY2022 and is conducted twice a year with discussions on proper deadline limits provided to vendors to provide necessary proposals to participate in the bid process. The current practice is to allow vendors a minimum of three (3) business days to provide a response.



HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2021

Finding No. 2021-001, Continued

Local Noncompliance, Continued

Auditee Response and Corrective Action Plan, Continued:

Monitoring of Purchase Orders:

Due to the COVID-19 pandemic, the Ministry faced issues regarding delivery of items including inbound flight restrictions, global supply chain issues and logistical issues due to multiple COVID-19 transportation restrictions.

For regular purchase order monitoring, the Accounting Division will continue to impose monthly reconciliation and liquidation of Purchase Orders. Furthermore, the Accounting Division will continue to implement its monthly reconciliation meeting on PO monitoring with respective Programs. This will be done in coordination with (but not limited to) the following programs:

Majuro and Ebeye Procurement & Supply (medical supplies)  
Majuro Pharmacy (pharmaceuticals)  
Majuro Procurement & Supply (equipment)

## HEALTH CARE REVENUE FUND

### Schedule of Findings and Responses, Continued Year Ended September 30, 2021

#### Finding No. 2021-002

##### Deferred Revenue

Criteria: Deferred revenue should represent grant monies received which have not been earned due to grant expenditures not yet incurred or revenues that do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

Condition: As of September 30, 2021, the HCRF recorded \$107,430 of deferred revenue associated with various federal agency and donor organizations for which grant accounting records were inadequate to ascertain the accuracy and validity of recorded deferred revenue.

Cause: The HCRF did not establish adequate grant accounting records requiring timely reconciliation and monitoring controls over deferred revenue associated with U.S. federal agency and other donor grants.

Effect: The aforementioned deferred revenue account is potentially misstated.

Recommendation: The HCRF should establish adequate grant accounting records and develop monitoring procedures for financial reporting purposes that include timely recognition of grant related transactions. Furthermore, the HCRF should assess whether additional personnel well versed in accounting reconciliations, or additional training of existing responsible personnel, may be required to allow for accurate and complete financial reporting.

Auditee Response and Corrective Action Plan: The Ministry acknowledges that this is the first finding on deferred revenue and as a corrective action, in FY2022, the Finance Department implemented a procedure on deferred revenue transactions to ensure timely and accurate recording of such transactions.

HEALTH CARE REVENUE FUND

Unresolved Prior Year Findings  
Year Ended September 30, 2021

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