

February 15, 2023

Mr. Jack Niedenthal
Secretary of Health and Human Services
Republic of the Marshall Islands

Dear Mr. Niedenthal:

In planning and performing our audit of the financial statements of the Marshall Islands Health Fund (MIHF) as of and for the year ended September 30, 2021 (on which we have issued our report dated February 15, 2023) 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 MIHF'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 MIHF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MIHF'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 MIHF's internal control over financial reporting and other matters as of September 30, 2021, that we wish to bring to your attention.

We have also issued a separate report to the Honorable Joe Bejang, Minister of Health and Human Services, also dated February 15, 2023, on our consideration of the MIHF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

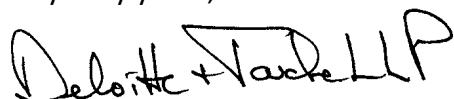
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Ministry of Health and Human Services, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the MIHF for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I - DEFICIENCIES

We identified, and have included below, certain deficiencies involving the MIHF's internal control over financial reporting as of September 30, 2021, that we wish to bring to your attention:

1) Long Outstanding Travel Advances

RepMar's Ministry of Finance, Banking and Postal Services memorandum on Travel Rules and Regulations requires travelers to submit Travel Voucher Claims fifteen days after the end of travel. As of September 30, 2021, \$31,358 of travel advances pertain to past due unliquidated advances, including a significant portion that pertains to prior years. We recommend management establish internal control policies and procedures to scrutinize long outstanding advances and, where necessary, require timely adjustments. This matter has been previously reported in the audits of the MIHF for fiscal years 2014 through 2020.

2) Daily Cash Collections

For 3 of 6 daily cash collections tested, deposits were made 4 to 9 banking days after receipt. We recommend management establish internal control policies and procedures requiring that cash collections be timely deposited.

3) Double Recording of Transactions

During the year ended September 30, 2021, a \$32,410 off-island expenditure item for the month of August 2021, was recorded twice. Furthermore, such was subsequently paid twice through check #s 24022 and 24339. We recommend management establish internal control policies and procedures requiring that expenditures be accurately supported, identified, and recorded.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Withholding Income Taxes

Income taxes withheld for PPE November 6, 2020, December 31, 2020, and March 26, 2021 were filed and paid in a manner inconsistent with the Income Tax Act of 1989. We recommend management establish internal control policies and procedures requiring compliance with the Income Tax Act. This matter has been previously reported in the audits of the MIHF for fiscal years 2017 through 2020.

2) Social Security Taxes

Employer and employee contributions withheld for the quarter ended September 30, 2021 were filed and paid in a manner inconsistent with the Social Security Act and the Social Security Health Fund Act. We recommend management establish internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act. This matter has been previously reported in the audits of the MIHF for fiscal years 2017 through 2020.

SECTION II - OTHER MATTERS, CONTINUED3) RMI Procurement Code

RepMar's Procurement Code states the following:

- (a) 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. 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.
- (b) Section 126.7 - award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.
- (c) 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.

Plumbing repair costs for the Honolulu Medical Referral Office of \$17,249 were supported only by a price quotation from a single vendor. Such lacks evidence of compliance with the procurement code and justification of vendor selection. We recommend management require that documentation be adequate to comply with applicable procurement requirements.

4) Marshall Islands Health Fund Act

Section 211. 3(a) of Marshall Islands Health Fund Act states that no money shall be withdrawn from the Health Fund except pursuant to budgets and procedures approved by the Board. During the year ended September 30, 2021, the MIHF incurred \$60,220 of on-island care costs for which no budget was established. Furthermore, one of fifteen hospital employees whose housing benefits were paid by the MIHF, could not be agreed to the Public Service Commission's list of hospital employees with housing benefits. We recommend management establish internal control policies and procedures requiring compliance with the Marshall Islands Health Fund Act.

SECTION III - 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 MIHF'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.