

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Minister Alvin Jacklick
Ministry of Health
Republic of the Marshall Islands:

We have audited the financial statements of the Health Care Revenue Fund, a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2003, and have issued our report thereon dated February 14, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Care Revenue Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Health Care Revenue Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs (pages 6 and 7) as item 2003-1.

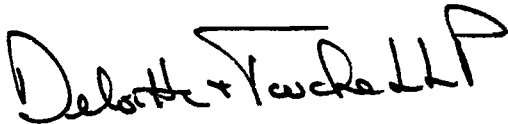
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Care Revenue Fund's financial statements are free of 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the Health Care Revenue Fund in a separate letter dated February 14, 2005.

This report is intended solely for the information and use of the Ministry of Health, RepMar management, federal awarding agencies, and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

February 14, 2005

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable Minister Alvin Jacklick
Ministry of Health
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Health Care Revenue Fund, a special revenue fund of the Republic of the Marshall Islands (RepMar), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2003. The Health Care Revenue Fund's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 and 7). Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its one major federal program is the responsibility of the Health Care Revenue Fund's management. Our responsibility is to express an opinion on the Health Care Revenue Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Health Care Revenue Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Health Care Revenue Fund's compliance with those requirements.

In our opinion, the Health Care Revenue Fund complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2003.

Internal Control Over Compliance

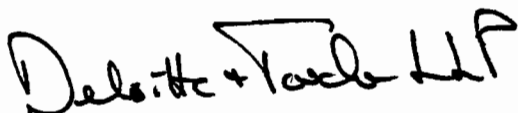
The management of the Health Care Revenue Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Health Care Revenue Fund's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Health Care Revenue Fund as of and for the year ended September 30, 2003, and have issued our report thereon dated February 14, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the Health Care Revenue Fund's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Ministry of Health, RepMar management, federal awarding agencies, and the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



February 14, 2005

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

Schedule of Expenditures of Federal Awards
CFDA #15.875- U.S. Department of the Interior
Year Ended September 30, 2003

	<u>Compact Funds Received</u>	<u>Compact Funds Expended</u>
Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of the Compact of Free Association:		
Section 177	\$ 312,750	\$ 312,750
Section 221B	<u>73,618</u>	<u>73,618</u>
	\$ <u>386,368</u>	\$ <u>386,368</u>

The above funds are received in a subrecipient capacity through RepMar. The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. Federal fund expenditures are included within total expenditures of the Health Care Revenue Fund, totaling \$3,046,273 for the year ended September 30, 2003.

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. One reportable condition in internal control over financial reporting was identified, which was not considered to be a material weakness.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Health Care Revenue Fund's one major program was as follows:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Health Care Revenue Fund's did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2003-1	Maintenance of Accounting Records	\$ -	7

Section III - Federal Award Findings and Questioned Costs

No matters are reportable for the year ended September 30, 2003.

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Section II - Financial Statement Findings

Maintenance of Accounting Records

Finding No. 2003-1

Criteria: Accounting records should be maintained during the year and reconciliations should be prepared monthly.

Condition: During the audit process, approximately thirty adjusting journal entries were proposed due to inadequate financial statement maintenance. The lack of reconciliations and the lack of attention to the general ledger necessitated excessive amounts of year-end adjustments. This condition indicates that interim financial statements cannot be relied upon.

Cause: The cause of this condition appears to be the lack of adequate general ledger maintenance.

Effect: The effect of this condition is that interim financial information is unreliable.

Recommendation: The Fund should acquire adequate accounting assistance to ensure that records are adequately maintained.

Auditee Response and Corrective Action Plan: For the most part of Year 2003, we had no Chief Accountant to help us maintain the accounting system. It was only on January 2004 that we were able to get a new Chief Accountant. She is assigned to maintain the accounting system and to do the reconciliation. As of to date, we have updated all reconciliation.

**REPUBLIC OF THE MARSHALL ISLANDS
HEALTH CARE REVENUE FUND**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2003

There are no unresolved findings and questioned costs from prior year audits of the Health Care Revenue Fund.