

**HEALTH CARE REVENUE FUND**

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

**YEAR ENDED SEPTEMBER 30, 2006**

**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 (the Fund), a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2006, and have issued our report thereon dated June 6, 2007. 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 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2006-1 and 2006-2.

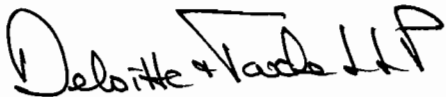
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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 as items 2006-2 through 2006-4.

We also noted certain matters that we reported to management of the Fund in a separate letter dated June 6, 2007.

This report is intended solely for the information and use of the Ministry of Health and RepMar management 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 + Woods LLP". The signature is written in a cursive, stylized font.

June 6, 2007

## HEALTH CARE REVENUE FUND

Schedule of Findings  
Year Ended September 30, 2006

### Disbursements

#### Finding No. 2006-1

Criteria: Disbursements should only be made for goods and services received.

Condition: Of \$1,822,763 in medical supplies expenditures, eighty-nine items, totaling \$1,017,106, were tested. No evidence of receipt of merchandise was made available for one invoice (Invoice # 00108891) for \$11,409 paid on check# 3725.

Cause: The cause of the above condition is a lack of adequate controls to ensure that payments are made only for received goods and services.

Effect: The effect of the above condition is a potential misstatement of expenditures.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure that payments are made only for goods and services received.

Auditee Response and Corrective Action: We are in agreement with the finding. Management shall ensure that there is strict compliance and adherence to the policies and procedures for payments to vendors. As part of our corrective action, management shall ensure that sufficient time is allowed for processing of payments to ensure that payments are made only for goods and services received.

## HEALTH CARE REVENUE FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### Disbursements/Local Noncompliance

#### Finding No. 2006-2

Criteria: Supplier invoices and credit notes received at, before, or after the end of an accounting period are scrutinized and/or reconciled to ensure complete and consistent recording in the appropriate period. Further, unfilled purchase orders within 90 days should be cancelled according to the Fund's policies and procedures.

Condition: Of \$1,822,763 in medical supplies expenditures, eighty-nine items, totaling \$1,017,106, were tested. We noted one invoice (Invoice # SI00018794) for \$10,793 paid on check # 3687 that pertained to a purchase order dated August 17, 2004 and a bill of lading dated October 15, 2004. However, the invoice was signed as received by Supplies Department personnel on January 9, 2006.

Cause: The cause of the above condition is a lack of reconciliation of vendor invoices and/or statements to ensure that expenditures are recorded in the appropriate period and discrepancies are timely resolved.

Effect: The effect of the above condition is a misstatement of expenditures and noncompliance with the Fund's policies and procedures on procurement of goods and services.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure the validity of expenditures and compliance with RepMar policies and procedures.

Auditee Response and Corrective Action: We are in agreement with the finding. Management will ensure that there is strict enforcement of all local policies and procedures that are in place.

**HEALTH CARE REVENUE FUND**

Schedule of Findings, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-3

Criteria: Purchase of goods or services should occur after obtaining proper authorizations.

Condition: We noted twenty three (23) instances where purchases and the receipt of merchandise occurred prior to obtaining authorizations through purchase requisitions and purchase orders, as follows:

<u>Check #</u>	<u>Invoice #</u>	<u>Amount</u>	<u>Check #</u>	<u>Invoice #</u>	<u>Amount</u>
2973	MOH092605	\$ 5,198	3849	026-236060	\$ 11,943
3453	026-124952	\$ 14,384	3866	06-01	\$ 1,200
3849	026-173777	\$ 7,926	4085	21247	\$ 2,494
3612	026-172728	\$ 9,408	4123	026-303432	\$ 15,950
3612	026-180175	\$ 7,388	4123	026-291849	\$ 10,022
3641	026-182916	\$ 12,803	4123	026-291847	\$ 7,715
3665	1022354561	\$ 13,254	4214	0005	\$ 1,250
3665	1022849961	\$ 10,976	4572	005-24062603	\$ 35,112
3720	400075	\$ 16,737	4577	1024726500	\$ 9,028
3736	1051	\$ 1,501	4713	25004924	\$ 16,839
3831	2004-382	\$ 7,085	4850	026-344618	\$ 14,942
3837	026-214142	\$ 12,982			

Cause: The cause of the above condition is lack of management adherence to policies and procedures.

Effect: The effect of the above condition is noncompliance with the RepMar procurement code and established policies and procedures.

Prior Year Status: Noncompliance with the RepMar procurement code was reported as a finding in the audit of the Fund for fiscal year 2005.

Recommendation: We recommend that management ensure compliance with the RepMar Procurement Code.

Auditee Response and Corrective Action: We are in agreement with the finding. As part of our corrective action, management shall ensure that there is strict compliance and adherence to RepMar's procurement code by ensuring that there is proper authorization prior to purchases.

**HEALTH CARE REVENUE FUND**

Schedule of Findings, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-4

Criteria: RepMar’s Procurement Code states the following:

- (a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding 25,000 may be made in accordance with small purchase procedures. 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. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: The Fund did not comply with Section 124, 127 and 128 of the RepMar Procurement Code in its purchases of pharmaceutical and medical supplies.

Of \$4,436,192 non-payroll expenditures, one hundred ninety-three items, totaling \$2,516,683, were tested. We noted thirteen (13) instances where purchases, exceeding \$25,000, were not supported by evidence that competitive sealed bidding occurred. Sole source determination was also not documented.

<u>Check #</u>	<u>Invoice #</u>	<u>Amount</u>	<u>Check #</u>	<u>Invoice #</u>	<u>Amount</u>
3424	403871	\$ 27,349	4058	20060425-02	\$ 33,159
3453	026-128515	\$ 26,566	4133	1024448564	\$ 26,686
3472	026-127416	\$ 86,088	4383	93806229	\$ 35,968
3472	026-124953	\$ 38,815	4457	4377	\$ 28,742
3552	1423	\$ 28,905	4572	026-378253	\$ 41,872
3714	3988	\$ 27,969	4596	25007849	\$ 29,179
3989	026-259536	\$ 36,821			

Further, all purchases that did not exceed \$25,000 that we tested were not supported by price or rate quotations from an adequate number of qualified vendors.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with the Rep Mar Procurement Code.

Effect: The effect of the above condition is noncompliance with applicable procurement standards.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure compliance with the Rep Mar Procurement Code

## HEALTH CARE REVENUE FUND

Schedule of Findings, Continued  
Year Ended September 30, 2006

### Local Noncompliance, Continued

#### Finding No. 2006-4, Continued

Auditee Response and Corrective Action: We are in agreement with the finding. As part of our corrective action, management shall ensure that there is strict compliance and adherence to RepMar's procurement code by ensuring that any purchase for any good and services exceeding \$25,000 is bid out. In addition, management will now require 3 different price quotes to accompany any purchase requisition for a good and service not exceeding \$25,000.

## **HEALTH CARE REVENUE FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2006

The status of unresolved prior year findings is discussed in Schedule of Findings section of this report (pages 3 through 7).