

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

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

YEAR ENDED SEPTEMBER 30, 2007

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 Amenta Matthew
Ministry of Health
Republic of the Marshall Islands:

We have audited the financial statements of the Health Care Revenue Fund (the Fund), a governmental fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2007, and have issued our report thereon dated July 7, 2008. 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 as a basis for designing our auditing procedures 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 6) as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

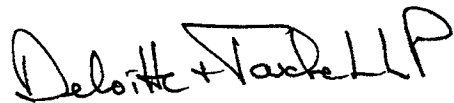
Compliance and Other Matters

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 and Responses as items 2007-2 and 2007-3.

The Fund's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Fund's responses and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to management of the Fund in a separate letter dated July 7, 2008.

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 + Touche LLP". The signature is written in a cursive, stylized font.

July 7, 2008

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses
Year Ended September 30, 2007

Disbursements

Finding No. 2007-1

Criteria: Expenditures should be supported by valid invoices, contracts, approved travel request forms, and other relevant documentation.

Condition: Of eighty five (85) check vouchers examined, two (2) instances paid through check #'s 4651 and 5541 for purchases of medical supplies and airfare were not supported by a vendor invoice or airline receipt.

Cause: The cause of the above condition is a lack of adequate policies and procedures to ensure that expenditures are adequately supported by a valid vendor invoice, contract or other relevant documentation

Effect: The effect of the above condition is potential inadequate documentation demonstrating the use of public funds.

Recommendation: We recommend that management establish policies and procedures to ensure that disbursements are made only for valid vendor invoices, contracts and other relevant documentation.

Auditee Response and Corrective Action Plan: We agree with the finding. We have policies and procedures already established. Management will enforce them in the subsequent fiscal year.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-2

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 Sections 124, 127 and 128 of RepMar’s Procurement Code in its purchases of pharmaceutical and medical supplies.

Of \$3,589,094 non-payroll expenditures, eighty-five (85) items, totaling \$1,571,731, were tested. We noted seven (7) 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>
4513	SI00030509	\$ 34,963
4770	026-424894	\$ 43,855
4968	20019	\$ 28,000
4977	20061028-001	\$ 30,795
5083	1027492207	\$ 26,045
5083	1027492206	\$ 31,752
5309	SI00033285	\$ 26,347

Further, forty-eight (48) items tested that did not exceed \$25,000 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 RepMar’s Procurement Code.

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

Prior Year Status: Noncompliance with RepMar’s Procurement Code was reported as a finding in the audits of the Fund for fiscal years 2005 and 2006.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure compliance with RepMar’s Procurement Code.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Local Noncompliance, Continued

Finding No. 2007-2, Continued

Auditee Response and Corrective Action: In FY2008, management has enforced the process of small purchases by requiring at least three quotes to comply with the Code. In addition, Contract/Purchases in excess of \$25,000 are processed accordingly.

HEALTH CARE REVENUE FUND

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-3

Criteria: Purchases of goods or services should occur after obtaining requisite authorizations.

Condition: We noted two instances where purchases occurred prior to obtaining authorizations through purchase requisitions and purchase orders, as follows:

<u>Check #</u>	<u>Invoice #</u>	<u>Amount</u>
5462	0010928	\$ 11,468
4643	06100044	\$ 11,929

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 RepMar's Procurement Code and established policies and procedures.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of the Fund for fiscal years 2005 and 2006.

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

Auditee Response and Corrective Action: In FY2008, management has enforced its policies and procedures regarding this finding.

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Unresolved Prior Year Findings
Year Ended September 30, 2007

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report (pages 3 through 6).