

**MARSHALL ISLANDS HEALTH FUND**

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

**YEAR ENDED SEPTEMBER 30, 2004**

**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 Marshall Islands Health Fund, (the Fund) a special revenue fund of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2004, and have issued our report thereon dated May 8, 2006. 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 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 2004-1 and 2004-2.

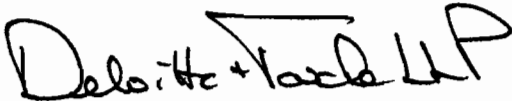
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2004-3.

We also noted certain additional matters that we reported to management of the Fund in a separate letter dated May 8, 2006.

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, appearing to read "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 8, 2006

# MARSHALL ISLANDS HEALTH FUND

Schedule of Findings  
Year Ended September 30, 2004

## Bank Reconciliation

### Finding No. 2004-1

Criteria: Bank statements should be reconciled on a regular basis.

Condition: Bank reconciliations were performed for all months. However, the reconciliations were not performed on a monthly or on a regular basis. Rather, such were prepared only after the end of the fiscal year. Further, the reconciliations were prepared by the Chief Accountant without review or approval by either the Finance Director or the Assistant Secretary for Administration, Personnel and Finance.

Cause: The cause of the above condition is the lack of policy governing bank reconciliations.

Effect: The effect of the above condition is untimely resolution of unidentified transactions or suspense reconciling items.

Recommendation: We recommend that Fund management ensure that bank reconciliations are performed monthly and are properly reviewed and approved.

Auditee Response and Corrective Action Plan: We are in agreement with the finding. It will be a policy for the Division of Finance and Accounting to have one accountant work on bank reconciliation along with the Chief Accountant. A bank reconciliation status report shall be submitted to the office of Finance Director and the Assistant Secretary for Administration, Personnel and Finance at the end of each month for better monitoring and assurance that the Ministry is up-to-date on its bank reconciliations.

## Deposits

### Finding No. 2004-2

Criteria: Deposits to health care providers should be properly monitored to ensure appropriate recording of corresponding expenditures.

Condition: Deposits to health care providers are recorded as off-island care expense upon disbursement. However, deposits are not reconciled to patient billings to ensure that expenditures match with the actual hospital charges. Further, the following refunds receivable were not recorded:

<u>Deposit Check#</u>	<u>Refund Amount</u>
1921	\$ 40,007
1699	40,751

**MARSHALL ISLANDS HEALTH FUND**

Schedule of Findings, Continued  
Year Ended September 30, 2004

Deposits

Finding No. 2004-2, Continued

Cause: The cause of the above condition is that lack of defined procedures governing how the Health Fund monitors prepayments to health care providers.

Effect: The effect of the above condition is an overstatement of off-island care expenditures.

Recommendation: We recommend that Fund management ensure that deposits are properly monitored.

Auditee Response and Corrective Action Plan: We are in agreement with the finding. The Ministry of Health has taken some measures to ensure that there is compliance in the future and have centralized all accounting/financial transactions in the Division of Finance and Accounting. The Deputy Chief Accountant will now be responsible for monitoring all payments made to providers to ensure that all transactions are recorded in the proper period. For better monitoring of transactions, he will also provide monthly financial statements to the Chief Accountant, Finance Director and the Assistant Secretary for Administration and Finance.

As part of our corrective action, we have also recorded a refund receivable for \$80,758 and deposits of \$51,363 at September 30, 2005.

Local Noncompliance

Finding No. 2004-3

Criteria: Public Law 2004-11 Section 2, 211(1), states that the Fund shall transfer to the Health Care Revenue Fund on a quarterly basis, a sum equal to 45% of the quarterly contributions collected by the Administration.

Conditions: Transmittal of Health Care Revenue Fund's (HCRF) share of the Fund collections is not performed on a quarterly basis or on a timely manner. The following collections were paid at a much later date than the date of receipt.

<u>Amount Due to HCRF</u>	<u>Date of Remittance from MISSA</u>	<u>For the Quarter Ending</u>	<u>Date of Transfer to HCRF</u>
\$ 80,049	2/19/2004	12/31/2004	4/29/2005
142,571	5/14/2004	3/31/2004	4/29/2005
245,577	11/29/2004	9/30/2004	2/7/2006

## MARSHALL ISLANDS HEALTH FUND

Schedule of Findings, Continued  
Year Ended September 30, 2004

### Local Noncompliance

#### Finding No. 2004-3, Continued

Cause: Late transmittal to HCRF was due to lack of monitoring to ensure that payments are made as soon as remittances from MISSA are received.

Effect: The effect of the above condition is noncompliance with Public Law 2004-11.

Recommendation: We recommend that the Fund comply with the provisions of Public Law 2004-11 by transferring amounts due to HCRF on a quarterly basis.

Auditee Response and Corrective Action Plan: We are in agreement with the finding. As part of the centralization of the Accounting and Finance Division, all remittances from MISSA shall be received by the accounting staff and not the medical referral staff. Furthermore, it shall be the responsibility of the deputy chief accountant to ensure that the 45% due to the Health Care Revenue Fund is transferred immediately after receipt from MISSA.

As part of our corrective action, we will also develop and establish a memorandum of agreement between MOH the Health Fund collections the next day after taxes are due at MISSA and to follow up additional collections at the end of the month.

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Unresolved Prior Year Findings  
Year Ended September 30, 2004

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