

**MARSHALL ISLANDS HEALTH FUND**

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

**YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005, and have issued our report thereon dated May 18, 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 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 condition is described in the accompanying Schedule of Findings as items 2005-1 and 2005-2.

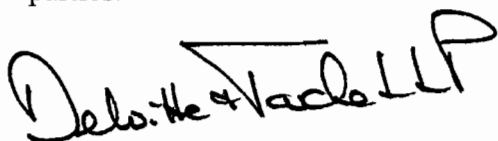
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 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 2005-3.

We also noted certain additional matters that we reported to management of the Fund in a separate letter dated May 18, 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 that reads "Deloitte & Touche LLP". The signature is written in a cursive, stylized font.

May 18, 2006

# MARSHALL ISLANDS HEALTH FUND

Schedule of Findings  
Year Ended September 30, 2005

## Cash Receipts/Revenue

### Finding No. 2005-1

Criteria: Cash collections should be deposited intact in a timely manner.

Condition: Of twenty five (25) receipts tested, sixteen (16) were deposited late. Further, we noted that no deposits were made from September 14, 2005 through November 17, 2005 during the time when the staff assigned to perform the deposits was on leave.

Cause: The cause of the above condition is the lack of policies requiring that collections be deposited on a daily basis.

Effect: The effect of the above condition is the potential mishandling of public funds.

Recommendation: We recommend that management review cash collections and ensure that funds are deposited intact in a timely manner.

Auditee Response: As was stated in our responses to FY 2004's findings, the Ministry has centralized all accounting finance transactions in the Division of Accounting and Finance for better monitoring and compliance with policies and procedures and implementation of control measures.

## Expenditures

### Finding No. 2005-2

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

Condition: Supporting documents for professional fees from Philippine health care providers consisted only of service provider bills written on their prescription slips either in pencil or ink. No receipts for the payments were made available to support the validity of payments made by the third party administrator (TPA) as all payments for Philippine medical referrals are made through the TPA.

Cause: The cause of the above condition is the lack of established policies and procedures to govern documentation requirements and internal control over the Fund's third party administrator.

Effect: The effect of the above condition is the potential mishandling of public funds.

Recommendation: We recommend that management establish policies and procedures governing documentation requirements and internal control over its third party administrator.

## MARSHALL ISLANDS HEALTH FUND

Schedule of Findings, Continued  
Year Ended September 30, 2005

### Expenditures

#### Finding No. 2005-2, Continued

Auditee Response: Management shall look into the current agreement between the MOH and the TPA to ensure that there is a clause that states that there needs to be valid supporting documents for all payments made to any medical providers in the Philippines for the TPA.

As part of our corrective action, we will develop policies to the effect of what is mentioned above for the Board to consider and approve to ensure strict compliance and avoid recurring errors as this.

### Local Noncompliance

#### Finding No. 2005-3

Criteria: The Republic of the Marshall Islands (RepMar) Procurement Code Section 130 “Competitive Selection Procedures for Services” states that procurement of services requires that adequate notice of the need of such services shall be given through a Request for Proposals.

Condition: On October 6, 2004, the Fund entered into a Third Party Administration Contract for a fee of \$78,000. The Health Services Board approved the contract; however, the contract did not go through competitive selection procedures as set forth in RepMar’s procurement code.

Cause: The cause of the above condition is the lack of management adherence to controls set per local policies and procedures

Effect: The effect of the above condition is noncompliance with RepMar’s Procurement Code.

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

Auditee Response: We are in agreement with the finding. Management shall ensure that there shall be strict compliance and adherence controls set by local policies and procedures. As part of our corrective action, it shall be an activity of the Bureau of Administration, Personnel and Finance to ensure that **all** policies and procedures are strictly complied with.

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Unresolved Prior Year Findings  
Year Ended September 30, 2005

There were no unresolved findings from prior year audits of the Marshall Islands Health Fund.