

MARSHALL ISLANDS HEALTH 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 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, 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 through 2006-4.

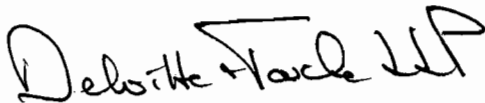
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings as items 2006-4 and 2006-5.

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

June 6, 2007

MARSHALL ISLANDS HEALTH FUND

Schedule of Findings
Year Ended September 30, 2006

Travel Advances

Finding No. 2006-1

Criteria: Reconciliation of general ledger accounts to subledgers or detailed schedules should occur on a periodic basis. Further, according to RepMar travel rules and regulations, travelers are to submit within 15 days of the end of travel, a travel voucher claim (TVC) to liquidate travel advances. Failure to submit a TVC within the aforementioned period results in a payroll deduction.

Condition: The detailed schedule of travel advances did not reconcile with the general ledger. The general ledger is \$18,394 in excess of the subsidiary ledger and management was not able to provide an explanation for this difference. Further, the following travel advances have been outstanding over 15 days and/or supporting travel authorizations, could not be located:

HFTA000824	HFTA0000973
HFTA000825	HFTA0001029
HFTA000826	HFTA0001041
HFTA000850	HFTA0001052
HFTA0000975	HFTA0001055
HFTA000778	HFTA000830

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure that travel advances are reconciled on a regular basis and that RepMar travel rules and regulations are complied with.

Effect: The effect of the above condition is a potential misstatement of travel advances and potential unrecorded travel expenditures.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure that travel advances are reconciled on a regular basis. Management should also ensure compliance to RepMar travel rules and regulations.

Auditee Response and Corrective Action Plan: We are in agreement with the finding. Management will ensure that travel advances are reconciled on a regular basis to ensure compliance with RepMar travel policies and procedures. As part of our corrective action, management will assign an accounting staff to reconcile travel advances on a bi-weekly or monthly basis.

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Schedule of Findings, Continued
Year Ended September 30, 2006

Expenditures

Finding No. 2006-2

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

Condition: Supporting documentation for professional fees to Philippine health care providers paid through check #s 2592 and 3032 (for \$63,321 and \$50,000, respectively) consisted only of service provider bills written on prescription slips either in pencil or in ink. No receipts for the payments were available to support the validity of payments made by the third party administrator (TPA). All payments for Philippine medical referrals are made through the TPA.

Cause: The cause of the above condition is a lack of adequate 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 inadequate documentation of the use of public funds.

Prior Year Status: Lack of adequate policies and procedures to govern documentation requirements and internal control over the Fund's third party administrator was reported as a finding in the audit of the Fund for fiscal year 2005.

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

Auditee Response and Corrective Action Plan: We are in agreement with the finding. However, this incident took place early part of the fiscal year. Management has informed the third party administrator in the Philippines to ensure that there is proper documentation supporting any professional fees submitted by health care providers for payment. Management has also informed the TPA that any payments made without adequate documentation will not be reimbursed by the MOH. Strict enforcement of this policy shall be practiced.

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Schedule of Findings, Continued
Year Ended September 30, 2006

Expenditures

Finding No. 2006-3

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

Condition: A payment made through check # 2024 (for \$3,892) was not supported by a vendor invoice.

Cause: The cause of the above condition is the lack of adequate policies and procedures to ensure that disbursements are made only for valid vendor invoices, contracts and 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 are in agreement with the finding. Management shall ensure that policies and procedures for paying vendors are strictly complied with. As part of our corrective action, no payment to any vendor shall be made unless there is valid supporting documentation.

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Schedule of Findings, Continued
Year Ended September 30, 2006

Expenditures/Local Noncompliance

Finding No. 2006-4

Criteria: Benefit payments out of the Basic Health Plan shall only be made to covered beneficiaries as approved by the medical referral committee.

Condition: A payment to the third party administrator made through check # 2286 included reimbursement of medical costs of \$13,653 for an unapproved patient.

Cause: The cause of the above condition is the lack of adequate review of reimbursement requests and documents submitted by third party administrator prior to payment.

Effect: The effect of the above condition is overstatement of expenditures and misappropriation of government funds.

Recommendation: We recommend that management establish adequate internal control policies and procedures to ensure that payments to third party administrator are made only for approved patients.

Auditee Response and Corrective Action Plan: We are in agreement with the finding. Management will ensure that there is strict compliance and adherence to the policies and procedures of making payments for approved patients by the third party administrator.

Corrective Action Plan: Management will conduct an "audit" of its own for compliance by the third party administrator on policies and procedures as stipulated in the agreement between MOH and the TPA.

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Schedule of Findings, Continued
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-5

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 MOH Health Fund did not comply with Section 124, 127 and 128 of the RepMar Procurement Code in acquisition of contract of third party administrator.

Condition: On October 2005, the Fund entered into a Third Party Administration Contract for an annual fee of \$110,000. 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 and Corrective Action Plan: We are in agreement with the find. Management shall ensure that there is strict compliance with RepMar's procurement code. As part of our corrective action, management will bid out the TPA services prior to the expiration of the current contract to ensure compliance.

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Unresolved Prior Year Findings
Year Ended September 30, 2006

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