

**MARSHALL ISLANDS HEALTH 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 Marshall Islands Health 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 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 accounting principles generally accepted in the United States of America 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 deficiency described in the accompanying Schedule of Findings and Responses (pages 3 and 4) as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a 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 consider the significant deficiency described above in item 2007-1 to be a material weakness.

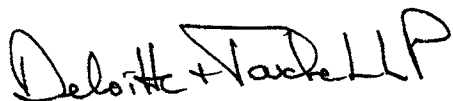
#### Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2007-2.

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

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

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

# MARSHALL ISLANDS HEALTH FUND

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

### Expenditures

#### Finding No. 2007-1

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

Condition: Two payments made through check #'s 3224 and 3327 for patient and escort travel were not supported by a vendor invoice or airline receipts.

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 inadequate documentation demonstrating appropriate 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.

Prior Year Status: Lack of adequate policies and procedures to ensure that expenditures are adequately supported by a vendor invoice or other relevant documentation was reported as a finding in the audit of the Fund for fiscal year 2006

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

## MARSHALL ISLANDS HEALTH FUND

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

### Local noncompliance

#### Finding No. 2007-2

Criteria: Section 211(4) of the Marshall Islands Health Fund Act states that except with the approval of the Nitijela, the budget for the costs for the administration of this Act for any fiscal year shall not exceed 10% of the estimated income from contributions, premiums, government subsidies, penalties, interests, dividends and any other income from the investment of the health fund for that fiscal year.

Condition: Total revenues of the Fund during fiscal year 2007 were \$6,352,926. Thus, administration expenses should not exceed \$635,293. However, administration expenses were \$953,784, which exceeded the allowable limit by \$318,491.

Cause: The cause of this condition is the lack of adequate policies and procedures to ensure compliance with the provisions of the Marshall Islands Health Fund Act.

Effect: The effect of the above condition is noncompliance with the provisions of the Marshall Islands Health Fund Act.

Recommendation: We recommend that management establish policies and procedures to ensure compliance with the provisions of the Marshall Islands Health Fund Act.

Auditee Response and Corrective Action Plan: We are in agreement with the finding. In FY09, management will structure its budgets to comply with this finding.

## **MARSHALL ISLANDS HEALTH FUND**

Unresolved Prior Year Findings  
Year Ended September 30, 2007

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 and 4).