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July 6, 2020

Ms. Davelyn David
Acting Administrator
Micare Health Insurance Plan

Dear Ms. David:

In planning and performing our audit of the financial statements of the Micare Health Insurance Plan (the Plan) as of and for the year ended September 30, 2019 (on which we have issued our report dated July 6, 2020), 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, we considered the Plan's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Plan's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 6, 2020, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management, others within the organization, and the Office of the FSM National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Plan for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Plan's internal control over financial reporting for the year ended September 30, 2019 that we wish to bring to your attention at this time:

1. Accounts Receivable

Comment: The following accounts receivable matters were noted:

- Receivables from patient share increased by $5,152 (or 1%) from $504,131 at September 30, 2018 to $509,283 at September 30, 2019.
- The allowance for doubtful accounts increased by $160,832 (or 26%) from $615,249 at September 30, 2018 to $776,082 at September 30, 2019.
- Long outstanding receivables of $694,983 did not move from the prior year. The balance has been outstanding for more than 3-5 years and has been provided with a 100% allowance as of September 30, 2019. Details follow:

Patient share receivable	$ 509,283
FSM Treasury	73,055
Advances to officers and employees	4,883
Travel advances	25,574
Advances to others	82,188
	$ 694,983

Recommendation: We recommend that the Plan strengthen procedures over the collection of receivables. The Plan should timely review and analyze long outstanding and nonmoving accounts and make necessary adjustments.

2. Accounts Payable and Accruals

Comment: The following accounts payable and accrual matters were noted:

- Four of forty-two medical services tested in FY19 were not accrued as of September 30, 2018. Such resulted in net audit adjustments of $26,348.
- Two of three payables with service providers tested in FY19 were not timely reconciled. Such resulted in a net audit adjustment of $76,753.

Recommendation: We recommend that management implement policies and procedures requiring timely reconciliation and transactional recording of medical claims expense with service providers and Incurred But Not Recorded policies (IBNR).

3. Deposits with Service Providers

Comment: For one deposit with a service provider totaling $10,000, a bank confirmation or equivalent third party documentation was not available. For another deposit with a service provider of $10,000, the service provider confirmed a $0 deposit as at 09/30/19. Such resulted in an uncorrected misstatement of $10,000.

For one bank balance totaling $1,440, a bank statement or other third party documentation was not available to support this balance.

Recommendation: We recommend that the Plan obtain monthly bank statements or equivalent third party documentation to support deposits with service providers and perform timely reconciliation.

SECTION I – DEFICIENCIES, CONTINUED

4. Audit of Participating Employers

Comment: The Plan does not currently possess audit authority.

Recommendation: We recommend that the Plan request the FSM Congress to change the enabling legislation to allow the Plan to have audit authority in the same manner as the FSM Tax Office possesses for tax compliance.

5. Missing documents

Comment: Two of one-hundred-one medical claims tested aggregating $68,537 were unsupported due to missing check payments, voucher payable, invoices and/or billing statements from the medical service provider evidencing the occurrence of the transactions.

Recommendation: We recommend management require proper filing and safekeeping of documents supporting financial transactions.

6. Financial Reporting

Comment: Financial statements are not timely prepared.

Recommendation: We recommend that management prepare monthly financial reports in a timely manner.

7. Premium income

Comment: Based on tests and observations, daily collections were deposited in a timely manner, supported by daily collection reports and deposit slips. However, recording of the premium collections in the general ledger takes an average of four weeks. Further, accruals of monthly premiums were not supported by signed and approved journal vouchers evidencing that independent review took place.

Recommendation: We recommend that management timely record premium collections. In addition, management should perform documented reviews of journal vouchers.

SECTION II – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Plan's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operation objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.