

October 13, 2021

Mr. Karsom Enlet
Executive Director
Chuuk State Health Care Plan

Dear Mr. Enlet:

In planning and performing our audit of the financial statements of the Chuuk State Health Care Plan (the Plan), a component unit of the State of Chuuk, as of and for the year ended September 30, 2020 (on which we have issued our report dated October 13, 2021), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated October 13, 2021, 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.

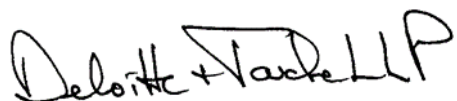
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Board of Trustees, 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,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, certain deficiencies involving the Plan's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

1. Enrollee Master File

Comment: The Plan does not maintain a complete enrollee master file.

Recommendation: The Plan should maintain an enrollee master file and update such on a regular basis to allow the Plan to monitor premium payments on an individual basis and assess the collectability of overdue balances. This matter was discussed in our previous letters to management for fiscal years 2010 through 2019.

2. Fixed Asset Capitalization Policy

Comment: The Plan has adopted a fixed asset capitalization policy of \$50,000 for property and equipment; however, such policy is not reflected in actual practice and is inconsistent with entities of similar size.

Recommendation: The Plan should consider reducing the capitalization threshold to a more reasonable amount. This matter was discussed in our previous letters to management for fiscal years 2010 through 2019.

3. Audit of Health Care Providers

Comment: The Plan does not possess authority to audit health care providers; therefore, the Plan has not conducted such audits since the inception of the Plan.

Recommendation: The Plan should request the Chuuk State Legislature to change the enabling legislation to allow the Plan to have audit authority. This matter was discussed in our previous letters to management for fiscal years 2010 through 2019.

4. Incurred But not Reported (IBNR) Based Accounting

Comment: While the Plan tracks referral expenses on an individual member basis, the Plan does not make an initial estimate of the projected referral cost.

Recommendation: The Plan should consider a more IBNR-based accounting so that the Plan will be able to start its IBNR projection for an earlier financial statement closing process. This matter was discussed in our previous letters to management for fiscal years 2010 through 2019.

5. Receivables

Comment: Receivables from State of Chuuk of \$40,000 have been outstanding for more than a year and have been provided with a 100% allowance as of September 30, 2020 as the collection of such is uncertain.

Recommendation: We recommend the Plan pursue collection of this receivable.

SECTION I – CONTROL DEFICIENCIES, CONTINUED**6. Beginning Net Position**

Comment: Beginning net position did not agree with the prior year audited net position. This was corrected during the audit process.

Recommendation: We recommend the Plan review beginning net position and verify that such agrees with the prior year audited balance.

7. Other Legal Matters

Comment: During fiscal year 2020, the Plan's Board approved and gave Plan employees, management and board members emergency COVID-19 financial assistance totaling \$8,000. Also, in March 2020, the Board approved an increase in board meeting allowances from \$125 to \$200. As a result, meeting allowances increased from \$9,700 in FY19 to \$31,600 in FY20. Subsequently, in March 2021, the Board approved an increase of the allowance to \$250 per meeting.

The financial assistance and allowances received may be subject to applicable taxes. However, no related taxes were withheld related to this matter during fiscal year 2020.

During the year 2020, the Plan paid the overage of medical billings for one government official amounting to \$131,000. The Plan agreed to share this expense with the State of Chuuk and received \$80,000 as a payment related to this matter. The remaining balance of \$51,000 was recorded as a receivable from the State of Chuuk as of September 30, 2020. Such has been provided with a 100% allowance as of September 30, 2020 as the collection of such is uncertain.

Subsequent disbursements

Subsequent to fiscal year 2020, the Plan paid an overage of medical billings to two third party administrators for service dates from 2016-2018 amounting to \$44,000. No related receivables were recorded related to this matter.

Recommendation: We recommend the Plan obtain a legal opinion as to the taxability of the financial assistance and allowances given to management and employees and as to the legality of the payment of excess medical billings.

8. Bank Reconciliation

Comment: We noted a difference between the adjusted balance per the bank reconciliation versus the balance per books of \$45,600. Per examination, there were various check payments recorded that did not clear the bank as of 09/30/20, but such were not properly reflected as bank reconciling items in the bank reconciliation.

Recommendation: We recommend management review bank reconciliation and reconciling items.

9. Gifts and Donations

Comment: During the year, the Plan received six cellphones aggregating \$1,200 as a gift from a third party coordinator.

Recommendation: We recommend the Plan establish policies and procedures regarding the acceptance of third party gifts and donations.

SECTION II – DEFINITION

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 operations 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.