

April 19, 2023

Mr. Winipinat Bisalen  
Executive Director  
Chuuk State Health Care Plan

Dear Mr. Bisalen:

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, 2021 (on which we have issued our report dated April 19, 2023), 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated April 19, 2023, 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.

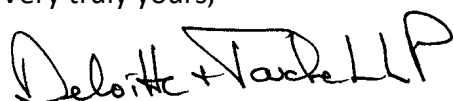
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2021 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 2020.

**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 2020.

**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 2020.

**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 2020.

**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, 2021 as the collection of such is uncertain.

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

## SECTION I – CONTROL DEFICIENCIES, CONTINUED

### 6. Segregation of Duties

Comment: In certain instances, journal vouchers did not evidence signatures of the reviewer and approver. Additionally, the requestor of a payment was also the approver.

Recommendation: We recommend that appropriate segregation of duties occur within the journal voucher and disbursement processes.

### 7. Overtime

Comment: Overtime incurred does not appear to require advance or after-the-fact approval.

Recommendation: Overtime hours should normally be approved in advance of their incurrence.

## 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.