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March 23, 2023

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, 2021 (on which we have issued our report dated March 23, 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 Directors, also dated March 23, 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.

Although we have included management's written responses to our comments, such responses have not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

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, 2021, that we wish to bring to your attention at this time:

1. Accounts Receivable

   Comment: The Plan is unable to create an aging report for premiums receivable.

   Recommendation: We recommend that the Plan develop an aging of its premiums receivable. The Plan should timely review and analyze long outstanding and nonmoving accounts and make necessary adjustments.

   Auditee Response: Starting in April 2022, MiCare started creating premium invoice and receiving premium payment in the accounting system Quickbooks. This should help with the aging report of premium receivable.

2. Accounts Payable and Accruals

   Comment: As in the prior year, cut-off of expenses and accruals was not consistently addressed which resulted in certain adjustments being proposed after the submission of the final MiCare prepared financial statements.

   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 Reported policies (IBNR).

   Auditee Response: This is correct. There needs to be reconciliation payables every month to address this issue.

3. Minutes of Board Meetings

   Comment: Minutes were not prepared for various 2021 board meetings.

   Recommendation: Minutes should be prepared documenting matters discussed in all board meetings.

   Auditee Response: This is correct. Minutes were not prepared, or if it was, the Acting administrator cannot find it.

4. Journal Entry Approvals and Staffing Adequacy

   Comment: Certain journal entries were not subject to independent review and approval. This condition appears to have resulted from staffing inadequacies.

   Recommendation: The Board should evaluate the adequacy of its staffing patterns, especially given the reopening of the borders and the impact on the number of subsequent transactions.

   Auditee Response: Yes, sometimes this is happens. Some journals, during the audit, was found to have no signature of the administrator, because Comptroller may not have checked to make sure all JVs were signed or it just never went through to the Administrator because it was overlooked.

SECTION I – DEFICIENCIES, CONTINUED

5. 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.

Auditee Response: This is correct, we do not have the audit authority. Even without this legislation, MiCare still do manual analysis of these premiums and if any issues are found, it is communicated to the Employer.

6. Beginning Net Position

Comment: Beginning net position did not agree with PY audited balance. Such resulted in an audit adjustment of $4,282.

Recommendation: We recommend management perform reconciliation of beginning balances.

Auditee Response: This is correct.

7. Financial Reporting

Comment: Financial statements are not timely prepared.

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

Auditee Response: Not timely prepared is correct.

8. 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.

Auditee Response: Not recorded timely. Preparing of invoice and receiving of payment directly into the accounting system should take care of this issue.

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.