

August 31, 2007

Ms. Amy Roberts
Office-In-Charge - Executive Director
Chuuk State Health Care Plan
P.O. Box 1679
Weno, Chuuk State
Federated States of Micronesia

Dear Ms Roberts:

In planning and performing our audit of the financial statements of the Chuuk State Health Care Plan, (the "Plan") for the year ended September 30, 2006 (on which we have issued our report dated August 31, 2007 and which report was qualified due to our inability to determine the adequacy of recorded journal entries, medical claims payable balances, and other operating expenses), we developed the following recommendations concerning certain matters relating to other accounting, administrative, and operating matters for which we submit our comments and recommendations as described below.

1. Non - Issuance of Official Receipts

Observation: The Plan does not always issue official receipts for premium collections. In certain cases, receipts are maintained and filled-out only for monitoring purposes and not for issuance to remitters. We noted that both the original and duplicate receipt copies were on file.

Recommendation: Official receipts should be issued for all collections received as an acknowledgement of the amounts received.

Management's Response and Corrective Action Plan: The plan always issue receipts on premium collections. However, there are certain cases where receipts are just retained on file and filled out only for monitoring purposes like the payments made from the Chuuk State Government. But we will ensure starting next fiscal year that these receipts will actually be given to all the payees.

2. Granting of Medical Benefits to Members despite No Full Compliance with Requirements

Observation: Some members received medical benefits even though Plan requirements were not met:

- a. A member received medical benefits even though premium payments were delinquent.

Member No.: 02-612298
Date of Referral: April 2006
Comment: Member patient is one-year delinquent in premium payments

- b. A member received medical benefits without a referral authorization.

Member No.: 02-01437
Date of Referral: October 2005

2. Granting of Medical Benefits to Members despite No Full Compliance with Requirements, Continued

Recommendation: Plan policy requires that a member be current in payment and a referral authorization must be issued before medical benefits are received. These policies should be enforced.

Management's Response and Corrective Action Plan: We agree that it was really a mistake of judgment in the part of the Executive Director when she approved the referral of this patient. We will see to it that none of this case will happen again in the future and enforce that only patients with complete premium payments will be referred.

3. Non-Recognition of Foreign Exchange Gain or Loss

Observation: Medical claims categorized as 'off-island' approximate 39% of total medical claims as of September 30, 2006, the majority of which consist of medical expenses for patients referred to the Philippines. These claims are paid in Philippine currency as the Plan also maintains Philippine denominated checking and savings accounts. As such, the Plan has exposure to foreign exchange gains or losses. As the Plan does not record payables for medical billings until year-end, possible foreign exchange gains or losses are not accounted for but are effectively included in the claims expense account.

Recommendation: Management should record liabilities for medical billings as of a certain cut-off (i.e., monthly) and recognize the corresponding foreign exchange gain or loss upon payment.

Management's Response and Corrective Action Plan: We agree with the finding and the recommendation. The Plan's management will start considering the effect of the foreign exchange rate in our future transactions with the bank in the Philippines. However, as of 2006, payables for medical billings are already recorded monthly.

4. Deficiencies in the Processing and Recording of Travel Expense Transactions

Observation: In our tests of general expenses, we noted the following control deficiencies:

a. Travel expense item with inadequate documentation to support the expense:

Check No.	1796
Check Amount:	\$ 850
Check date:	August 8, 2006

b. A discrepancy in travel expenses appears to have been caused by extra charges added twice to the check amount:

Per ticket receipt	\$ 5,054
Per check	<u>5,094</u>
Difference	\$ <u>(40)</u>

Recommendation: The Plan should ensure that all travel expenses are documented and are in accordance with Plan policy, which policy should require adequate documentation supporting related travel expenses.

4. Deficiencies in the Processing and Recording of Travel Expense Transactions, Continued

Management's Response and Corrective Action Plan: We agree with the finding and the recommendation. We will ensure that all the supporting documents for every expense are properly attached to the payment details. However, the discrepancy cited above on the travel expense was the case of one government leader who lost all his travel documents for his trip and, hence, he cannot furnish us anymore with the necessary papers to liquidate his Travel Authorization. He only provided the Plan an affidavit attesting to what happened to his travel documents.

5. Travel Expenses

Observation: Travel expenses of \$98,859 approximate 61% of total Plan general and administrative expenses as of September 30, 2006. Given the nature of the Plan's operations, it appears that travel expenses incurred during the year may be excessive. It was noted that about \$29,000 relates to travel for the purpose of selling the Plan to prospective enrollees off-island. However, as per management representations, no members have been recruited as a result of these off-islands trips. Additionally, we noted that travel and per diem expenses of about \$21,000 were spent during the year on off-island travel for the purpose of signing agreements, meeting with bank officials and recruiting an accountant.

Recommendation: We recommend that travel expenses be monitored, ensuring that only business and valid travel is charged to the Plan. The Plan should also perform a cost-benefit analysis prior to engaging in promotional activities. We also recommend that a policy requiring trip reports for all travel transactions, be formulated, where details of business travel are itemized and justified.

Management's Response and Corrective Action Plan: We do not agree with the finding. All those travels made by the Plan officers were necessary and valid. For those made to acquire more members, enrollees for these new prospective members are just put on hold due to the pending of the Plan's Supplemental Coverage. One factor contributing to this was the changing of the members of the Plan's Board of Trustees. The new Board members still have to review and assess the provisions of the Supplemental coverage before we can accept those new members outside Chuuk. With regards to the other trips, these were all essential to ensure that excellent services will be given by our off-island health coordinators and providers, thus we have to meet and discuss various provisions with them. As to the meetings with bank officials, this trip was for the change in our bank signatories due to the new Board members. But we agree with the recommendation for us to formulate written travel policies and procedures.

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We have communicated certain matters noted during our audit of the financial statements of the Plan for the year ended September 30, 2006, which we considered to be reportable conditions, in our report dated August 31, 2007.

This report is intended solely for the information and use of the Plan's management, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the cooperation of the staff and management of the Plan during the course of our audit.

Very truly yours,

