

# Performance Audit on Department of Health Services Procurement Process

A Report to the  
Governor  
and the  
Legislature of  
the State of Kosrae



**Stoney S. Taulung**  
PUBLIC AUDITOR

# **GOVERNMENT OF KOSRAE**

## **Office of the Public Auditor**

POST OFFICE BOX 847

KOSRAE, FEDERATED STATES OF MICRONESIA 96944

TELEPHONE: (691) 370-3766

December 23, 2019

The Honorable Governor, Carson K. Sigrah  
The Honorable Speaker, Tulensa W. Palik  
The Honorable Members, 12<sup>th</sup> Kosrae State Legislature  
Kosrae State Government  
Federated States of Micronesia 96944

**Re: Performance Audit on Procurement Practices for Department of Health Services**

### **EXECUTIVE SUMMARY**

We respectfully submit this Performance Audit PA 03-19 on procurement practices for the Department of Health Services covering fiscal years 2016- December 2019.

The objectives of the audit were to determine whether (1) Department of Health Services ensured that adequate properties and supplies were timely provided; (2) procured properties and supplies were in accordance with the grant requirements and the State's Financial Management Regulations; and (3) safeguard its assets and supplies against fraud, waste, and abuse.

The audit was performed in accordance with auditing standards generally acceptable in the United States of America and the standards applicable to performance audit contained in Government Auditing Standards, issued by the Comptroller General of the United States. The audit was also conducted pursuant to Title 10 Chapter 4 of the Kosrae State Code. Furthermore, Financial Management Regulation, World Health Organization (WHO) Essentials Listing, Department of Health Services (DHS) Formulary and Essential Medicines Listing were used as criteria for compliance.

With reference to the specific objectives, we noted the following; (1) Department of Health Services did not provide assurance that adequate pharmaceuticals and medical supplies were

timely provided; (2) existing policy on procurement of pharmaceuticals and medical supplies were implemented with weaknesses; and (3) weak internal control on pharmaceuticals and medical supplies increase the risk of inventory theft, loss, and misuse.

Based on the foregoing findings, we recommend (1) that the Department of Health Services carefully plan its limited resources, prioritize its purchases to obtain the most basic needs, especially with medical equipment, tools, medicines, and pharmaceutical supplies to achieve its goals and objectives; (2) more effort should be exerted to comply with the applicable provisions of the State's Financial Management Regulations and Purchase Contract Requirement to achieve its objectives and to minimize further incurrence of costs; (3) Department of Health Services establish controls to safeguard its properties and assign a person responsible to (a) record and reconcile its properties, (b) put identification as DHS properties, (c) document its assignment to its responsible user, (d) conduct regular physical inspection, and (e) report to the State Supply Officer as required by the State Financial Management Regulations.

Details of our examinations are discussed in the findings and recommendations section of this report.

The Office of the Public Auditor provided draft copies of this report to the Director of Health Services and the Administrator for the department for their review and comment on December 12, 2019. A copy of the management response is included on this report as Annex 1.

Respectfully Submitted,

  
Stoney S. Taulung  
Public Auditor

**TABLE OF CONTENTS**

EXECUTIVE SUMMARY..... 1

BACKGROUND..... 4

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY..... 8

    Objectives.....8

    Scope and Methodology..... 8

PRIOR YEAR AUDITS REVIEW.....10

CONCLUSION.....10

FINDINGS AND RECOMMENDATIONS..... 10

    1. DHS did not provide assurance that adequate pharmaceuticals and supplies are timely provided.....10

    2. Existing policy on procurement of pharmaceuticals and medical supplies were implemented with weaknesses.....15

    3. Weak internal control on pharmaceuticals and medical supplies increase the risk of inventory theft, loss, and abuse.....16

ANNEX 1.....18

PUBLIC AUDITOR’S COMMENT.....20

ACKNOWLEDGEMENT AND OPA CONTACT.....21

**BACKGROUND**

The Department of Health Services is tasked by virtue of Kosrae State Law to (a) conduct a comprehensive public health services program, including medical and dental services; (b) operates and maintains the State hospital and outlying dispensaries; and (c) oversees sanitation practices.

The Department consists of three divisions, namely (a) The Division of Curative Services (b) The Division of Preventive Services (c) The Division of Administrative Services.

Table 1 : Summary of DHS Staff for FY 2019.

Divisions	Doctors	Admin Staffs	Total Staff
Administrative	-	19	19
Preventive	-	19	19
Curative	14	37	51
<b>Total</b>	<b>14</b>	<b>75</b>	<b>89</b>

Source: Department of Health Services

Table 2 : Summary of FY 2016-2018 Department Budget

	FY 2016	FY 2017	FY 2018	2019
<b>Department Budget Expenditures</b>	2,423,963	2,217,716	2,158,786	
<b>Supplies</b>				
Office supplies	78,204	64,220	69,170	
Medical supplies	188,870	110,956	143,754	
Pharmaceuticals	242,908	266,234	394,345	
<b>Total Supplies</b>	<b>509,982</b>	<b>441,410</b>	<b>607,269</b>	
<b>Properties (Capital Outlays)</b>	<b>140,785</b>	<b>270,059</b>	<b>146,716</b>	
<b>Total Properties and</b>				

<b>Supplies</b>	650,767	711,469	753,985
<b>% to Total Department Budget</b>	27%	32%	35%

Source: Kosrae State Department of Administration and Finance

As shown in Table 2, properties and supplies (which are office supplies, pharmaceuticals, medical supplies and fixed asset/capital outlays accounts in the state accounting system) consisted about 27%-35% of the total department budget.

### Mission and Strategic Goals

The mission and strategic goals of the department provided in their Annual Performance Budget are indicated below:

#### Mission

To provide the best possible healthcare for the people of Kosrae.

#### Strategic Goals

- a) Direct manage and guide activities of the department to ensure progress towards priority goals;
- b) To provide administrative support services in fulfilling requirements of reporting, budgeting and the overall management of the department that will ensure successful implementation of prevention and treatment services for the residents of Kosrae;
- c) To conduct medical consultations, medical treatment and ensure availability of diagnostic testing to provide an acceptable standard of medical care to resident of Kosrae and to reduce reliance on off-island referrals;
- d) To maintain prevention program to control the spread of diseases and to decrease all risks related to communicable and non-communicable diseases. To implement preventive program to reduce tooth decay among young children and increase level of awareness on poor nutrition, health practices and behavior.

Under its strategic goal (b) above, on its Administrative Support Services, one of the outputs indicated, “*Output BS1.6 100 Purchase requisitions for medical, dental supplies, pharmaceuticals, food, cleaning supplies, office supplies, fixed assets, equipments, utilities, printing, communication*” having a proposed amount of \$497,066.

Kosrae State Code Chapter 8 Section 7 further establishes a Health Advisory Board for the Department of Health Services. The Board's duties and functions shall be to act in an advisory capacity to the State Government with respect to its function in the field of Health Services:

(1) The Board shall:

- a) Provide advice and assistance to the Director to promote and establish a comprehensive preventive health plans consistent with the overall plans and objectives of the State Government.
- b) Advise the Director on matters concerning health policies and objectives;
- c) Act as liaison for the public to bring patient care concerns to the attention of the Director.
- d) Comment upon Health Services budgets for submission by the Department to the Governor for inclusion in the State budget;
- e) Promote access for all Kosraens to a high quality health care service;
- f) Make recommendations on ways to improve and promote quality health care service in Kosrae; and
- g) Provide an annual report to the Governor and the Speaker on the progress made by the Department of Health Services in meeting the goals enumerated in this subsection.

#### Kosrae Financial Management Regulation Definition of Property and Supplies

Property<sup>1</sup> - This Part shall apply to the following property of the Kosrae State Government: typewriters, computers, filing cabinets, vehicles, copy machines, desks, chairs, printers, boats, tables, air conditioners, heavy equipment, grass eaters, green machines, lawn mowers, refrigerators, washers, dryers, stoves, and any personal property with a value of \$1,000 or more and a useful life of more than one year (hereinafter all and any of these things shall be referred to as "Property").

Supplies<sup>2</sup> - Every kind of supplies (paper, office, food, plant, animal, equipment, construction, electrical, medical, books, materials, computer programs, computer and copier supplies, trash cans, etc.)

#### Procurement

#### US Compact Procurement Requirements and State Financial Management Regulations

---

<sup>1</sup> Kosrae State Financial Management Regulation (FMR) Part V Property Management and Control 5.1 (a)

<sup>2</sup> FMR Part I – 1.4 (k) 1

It was prescribed at minimum that the Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the Compact of Free Association, as amended, between the Government of the United States of America and the Government of the Federated States of Micronesia and other applicable OMB Circulars be considered for compliance.

At the State level, it is required that the State Financial Management Regulation must be followed. The purpose of this regulation is to implement and establish a Financial Management System, setting forth guidelines, procedures, requirements and standards to provide fiscal control and accountability over public funds and other funds for which the Government is a trustee, a fiduciary, or is in any other way responsible.

Kosrae State Department of Administration and Finance (DOAF) is a principal department within Kosrae State Government that is responsible to manage state finance and accounting of funds. The Division of Budget and Division of Finance are two divisions within the DOAF involved with financial transactions for amended Compact Sector grants. The Division of Budget allots funds for Health Sector Grant and the Division of Finance makes the final disbursement. Both divisions in the same manner ensure that obligations and disbursements by the Department of Health Services comply with the State FMR and US Compact requirements.

#### DHS Administrator

This position is a senior employee of the Department of Health Services and reports to the Director of Health Services. One of his administrative responsibilities is to ensure that the Hospital and Public Health always have adequate supplies of pharmaceuticals, medical supplies, equipment to provide efficient and effective health care service and that correct inventories and ordering procedures are maintained<sup>3</sup>.

#### Procurement Officers

Procurement Officers is a position under the supervision of the Director of the Department of Health Services. Currently there are two procurement officers assigned for procurement of pharmaceuticals and medical supplies and the other one is assigned for regular office supplies and non-medical supplies required by the department.

---

<sup>3</sup> Department of Health Services, Policy and Procedures Manual Job Description, DHS Administrator

## Formulary

At its most basic level, a formulary is a list of medicines.<sup>[1]</sup> Traditionally, a formulary contained a collection of formulas for the compounding and testing of medication (a resource closer to what would be referred to as a pharmacopoeia today). The main function of formularies today is to specify which medicines are approved to be prescribed under a particular contract. The development of formularies is based on evaluations of efficacy, safety, and cost-effectiveness of drugs<sup>4</sup>.

## AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

### Objectives

The purposes of this audit were to determine whether the Department of Health Services:

- (1) Ensured that adequate properties and supplies are timely provided;
- (2) Procured properties and supplies were in accordance with grant requirements and with the state's financial management regulations; and
- (3) Safeguarded its fixed assets and supplies against fraud, waste and abuse.

### Scope and Methodology

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to achieve the audit objectives. We believe that the evidence obtained provided reasonable basis for our findings and conclusions based on our audit objectives. The scope of this audit covered FY 2016 through 2019. Auditors noted during field work and examination the volume of expired medicines and medical supplies, therefore the Public Auditor decided to extend the scope from FY 2016 to 2019 (2 years extension to the original scope).

The audit was also conducted pursuant to Title 10 Chapter 4 of the Kosrae State Code, which states partly, “ (a) *Inspect and audit personally, or by his duly authorized assistants, all accounts, books, and other financial records of the State Government, to include but not be*

---

<sup>4</sup> [http://en.wikipedia.org/wiki/Formulary\\_\(pharmacy\)](http://en.wikipedia.org/wiki/Formulary_(pharmacy))

*limited to, every branch, department, office, political subdivision, board, commission, agency, other public legal entity (owned, or partially owned, by the State), whether they receive public funds or not, and nonprofit organizations that receive public funds from the State Government; (b) inspect and audit personally, or by his duly authorized assistants, the fiscal books, records and accounts of all allottees and other custodians of public funds, making independent verification of all assets, liabilities, revenues, expenditures, and obligations of the State Government, entities owned in whole or part by the State Government, and agencies of the State Government; (c) inspect and audit personally, or by his duly authorized assistant, the fiscal books, records, and other financial records associated with any project, program and activity receiving funding in whole or part from public funds in the State Government, including the records of any contractor performing public work on a cost-reimbursement-type contract in order to verify the cost charged to the public contractor; (d) inspect and audit personally or by his duly authorized assistants, the books, records, accounts, and other financial records associated with business sales that may be used for sales assessment for tax collection purposes.”*and other laws promulgated thereafter. We used the Kosrae State Financial Management Regulation, the Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the Compact of Free Association and other applicable OMB Circulars, acceptable project management standards, World Health Organization recommendations as criteria for compliance and performance.

To determine whether adequate properties and supplies are timely provided to the end users, we have reviewed the department’s controls over procurement and checked whether adequate plans are in place to ensure that DHS timely receive necessary properties and supplies. We conducted interviews from the responsible staff and the requesting end users to determine whether adequate properties and supplies are timely provided.

To determine compliance to grant rules and state financial management regulations the auditors reviewed the procurement transactions made by the DHS for properties and supplies from FY 2016 through 2019. We judgmentally selected individual transactions amounting to \$1,000 and above as the criteria for our sampling and sampled about 55% based on the amount examined.

To determine whether properties and supplies were adequately secured against fraud, waste and abuse, we conducted actual test inspections of the properties in the DHS and interviewed appropriate individuals.

## **PRIOR YEAR AUDITS/REVIEWS**

This is the second time that a separate audit was conducted on properties and supplies for the Department of Health Services.

## **CONCLUSION**

We concluded based on the audit objectives that the Department of Health Services;

- (1) Did not provide reasonable assurance that adequate properties and supplies are timely provided;
- (2) Procured properties and supplies were in accordance with grant requirements and with the state's financial management regulations, with few exceptions for items noted in finding number 2; and
- (3) Needs to improve controls to safeguard its properties and supplies against fraud, waste and abuse.

## **FINDINGS AND RECOMMENDATIONS**

### **1. DHS Did Not Provide Assurance that Adequate Pharmaceuticals and Supplies Are Timely Provided**

#### **A. Insufficient Procurement Management Plan.**

The purpose of the Procurement Management Plan is to define the procurement requirements for the project and how it will be managed from developing procurement documentation through contract closure. The Procurement Management Plan defines the items to be procured with justification statements and timelines.

Our interview with the persons responsible for procurement, we found out that there is no concrete Procurement Management Plan. A procurement plan set from the beginning of the year to include at least the items to be procured,

justification statements and timelines set for procurement has not been established.

The Department of Health Services is spending an average of \$800,000. Every year for properties and supplies which comprises 58% of their total budget for current expenditure for the 3 fiscal years period from 2016 to 2018.

Most of the time procurement of properties and supplies were only being done when immediate need arises. These are mostly based on the requests of the department's programs when they found that their properties and supplies are not serviceable or inadequate. Considering that most purchases were being done off island, the time from the preparation of the purchase requisition to the final receipt of the items required is the lag time that needed properties and supplies are not available.

Items classified as properties are medical equipment, computer equipment, projectors, furniture and fixtures and similar items are only identified in their annual budgets. However its purchase justifications and timelines were not set clear. The same applies with supplies as pharmaceuticals, medical supplies, medicines and the like. Timelines for the purchase of these supplies were not also set. When procurement timelines were not set it will almost be impossible to determine whether items procured will be timely available.

**B. The Deficient DHS Formulary (Essential Medicines List) May Result to Not Having the Most Available Appropriate Medicines**

The Model List of Essential Medicines (Model List) serves as a guide for the development of national and institutional essential medicine lists. Many international organizations as well as non-governmental organizations and international non-profit supply agencies, have adopted the essential medicines concept and base their medicine supply system on the Model List. The list is composed on the core<sup>5</sup> and the complimentary<sup>6</sup> list:

---

<sup>5</sup> The **core list** presents a list of minimum medicine needs for a basic health- care system, listing the most efficacious, safe and cost- effective medicines for priority conditions. Priority conditions are selected on the basis of current and estimated future public health relevance, and potential for safe and cost- effective treatment

<sup>6</sup> The **complementary list** presents essential medicines for priority diseases, for which specialized diagnostic or monitoring facilities, and/or specialist medical care, and/or specialist training are needed. In case of doubt

We further found out that the DHS Formulary lacked the listed medicines recommended in the WHO Model List of Essential Medicines (March 2015) core list. Based on our testing, the 2019 DHS Formulary did not include about 30% of the medicines listed in the WHO Model Lists. Again, the core list presents a list of minimum medicine needs for a basic health-care system, listing the most efficacious, safe and cost-effective medicines for priority conditions.

We have listed 14 samples of medicines representing 30% and discussed with DHS their justifications which in most cases medicines noted are not necessary based on the local setting’s disease prevalence.

---

**Samples of Medicines Listed in the WHO Essential Medicines,  
 March 2015  
 Not Included in the DHS Formulary**

	DHS Justification Why Medicines are Not Included
<b>Ephedrine Injection</b>	<i>Spinal anaesthesia during delivery to prevent hypotension</i>
<b>Acetylsalicylic Acid</b>	<i>No –opioids and non-steroidal anti-inflammatory medicines</i>
<b>albendazole</b>	<i>Antifilarials</i>
<b>triclabendazole</b>	<i>Antischistosomes and other antitrematode medicines</i>
<b>Clofazimine</b>	<i>Antileprosy Medicines</i>
<b>Ethambutol</b>	<i>Anti Tuberculosis</i>
<b>Abacavir</b>	<i>Nucleoside/nucleotide reverse transcriptase inhibitors</i>
<b>Entecavir</b>	<i>Hepatitis B</i>
<b>Sofosbvit</b>	<i>Hepatitis C</i>
<b>Metronidazole</b>	<i>Antiamoebic and anti giardiasis medicine</i>
<b>Quinine</b>	<i>Curative treatment ( doxycycline should be use only with quinine)</i>
<b>bleomycin</b>	<i>Cytotoxic and adjuvant medicine (early stage cancers)</i>
<b>Biperiden</b>	<i>Antiparkinsonism Medicines</i>
<b>Clopidogrel</b>	<i>Antitrombotic medicines</i>

---

medicines may also be listed as complementary on the basis of consistent higher costs or less attractive cost-effectiveness in a variety of settings.

In addition, auditor noted that 134 medicines from the DHS Formulary were not listed in the WHO Essential listing of medicines.

**C. A need to establish system in replenishing Pharmaceutical and Medical Supplies to ensure efficient public health services.**

Our review noted that reordering of medicines and pharmaceuticals is based on the demand submitted by DHS sections on a weekly basis. Our interview with the procurement officer showed that he does his reordering of medicines based on actual consumption. They do reordering based on the reports submitted by each units/divisions every week and month. These reports consist of the actual consumption of medicines and pharmaceuticals during the week/month. These reports are then summarized by the procurement officer to come up with the quantities for their regular quarterly stock replenishment. In the event that the demand of the medicines is too high, the procurement officer proceeds with reordering without waiting the regular quarterly stock replenishment.

The existing procedure of replenishing medicines inventory did not consider the use of reorder point system which will give the procurement officer the Reorder Point Quantity<sup>7</sup> when to place the order. The provision of safety stock to cover for shortages of medicines brought by variations in demand, supply failure, transport failure and other disruptions has not been considered as well. It was also noted that ending inventory for the pharmaceuticals are not considered in ordering of pharmaceuticals and supplies. This weakness often resulted to the following:

1. Unavailability of medicines and medical supplies.
  - a. Incomplete or unavailable laboratory testing services
  - b. Expired Medicine on shelves and been issued to the patients for consumption
2. Overstocking that may cause medicines to expire.
  - a. files of expired medicines and supplies was stored in the Pharmacy for almost a year
  - b. over stocking of pharmaceuticals and supplies at the main warehouse
  - c. Unaccounted loss/waste of pharmaceuticals and medical supplies
3. Emergency purchases

---

7

Due to unplanned and urgent reordering, the department tends to look at the closest and fastest supplier around and don't even follow the procurement process of selection on choosing vendor. Emergency purchases resulting to excessive procurement of pharmaceuticals and supplies.

**Effect:**

Untimely delivery of adequate pharmaceutical and medical supplies contributes to inefficient public service. The impact will be from loss of money arising from expiration of medicines to loss of lives.

**Cause:**

The above condition can be attributed minimal efforts towards project management in planning, organizing, securing and managing resources to achieve the successful completion of project objectives. Project management tools such as Procurement Management Plan and Inventory Reorder System were not used to ensure that necessary items are timely provided.

Although funding constraints is everybody's limitation, the more that rigorous planning to manage and make the most of limited resources is a must.

**Recommendation:**

We recommend that the Department carefully plan its limited resources, prioritize its purchases to obtain the most basic needs, especially with medical equipment, tools, medicines and pharmaceutical supplies to achieve its goals and objectives.

It is also recommended that DHS establish Procurement Management Plan to include at minimum the (1) items to be procured; (2) justification of the purchase; and (3) the timelines that will indicate the timeliness of procurement. By establishing this plan, the department will be in a position to ensure adequacy and timeliness of the required properties and supplies.

There is an urgent need to revise and update the existing formulary based on the WHO Model List of Essential Medicines and on disease prevalence, evidence on efficacy and safety, and comparative cost-effectiveness based on local setting.

The DHS should also use a reasonable Reorder Point System and provide Safety Stocks which can lower the risk of unavailability of essential medicines. DHS may also consider classifying items which demands are constant or random all over the year and use widely acceptable economic ordering models such as Economic Order Quantity, Newsvendor and other models. These models are designed to obtain the most economical order quantities over the year.

This system and procedures will also serve as criteria for performance evaluation for the responsible officers for procurement, administration and inventory management.

**2. Existing Policy on Procurement of pharmaceuticals and medical supplies were implemented with weaknesses.**

- A. Ordering of pharmaceuticals and medical supplies without considering inventory on hand.** Auditor's interview with DHS Supplies Specialist reveals that all units and program manager are required to submit requisition for to the Supplies Specialist on quarterly basis. Supplies Specialist summarize the request, checks if the medicine requested are listed in the formulary and submit for budget approval. However, examination of stock request form from hospital units and the summarized order form prepared by the Supplies Specialist shows that ending inventory of each items were not considered. Ordering without considering the stocks on hand may lead to overs/under stocking and eventually may lead to unplanned purchases and waste.
- B. No proper justification on explore & selection of vendors**  
General provision under FMR part IV Procurement and Open Bidding states the following
- a. Supplies and Property less than \$500, including shipping and freight charges, a memorandum of expenditure form that has been signed by the allottee or his designee. And certified by the director
  - b. Excess of \$500 not more than \$10,000 including shipping and freight charges. (i) Requisition Form certified by the director (ii) Purchase order that has been signed by the allottee or his designee and certified by the director as to the availability of funds.
  - c. In excess of \$10,000 including shipping and freight cost. (i) Requisition form certified by the Director indicating compliance. (ii) Purchase order has been signed by the Allottee and certified by the Director as to the availability of Funds; (iii) written report, containing price quotations for the item(s) to be purchased or leased from at least two vendors and justification of section.

Auditor examination of procurement vouchers at the Department of Finance reveals considerable expenditure package without complete attachment to ensure that proper selection of vendors with regards to cost and ability to deliver. Most of the purchase cost varies from \$ 500.00 to more than \$10,000 where in comparative vendors' quotation were required. It was observed by the auditor that vendor quotations were not attached in the Purchase Request form instead, summary of quotation (excel format) was prepared by the supplies specialist. This will limit verification of information by the staff that issues and approves P.O. In addition, the auditor noted that supplier with higher quotation were chosen without proper justification.

**Effect:**

There is an apparent non-compliance with the applicable provisions of the State Financial Management Regulation. Risk of loss equivalent to the amount paid if the items order are not delivered and installed as applicable.

**Cause:**

The weakness on compliance with the provisions of KSFMR resulted from insufficient or lack of staff assigned for procurement and inventory management

**Recommendation:**

It is recommended that more efforts should be exerted to comply with the applicable provisions of the State Financial Management Regulations and Purchase Contract requirements. These provisions are the safeguards of the state to achieve its project objectives and to minimize further incurrence of costs.

**3. Weak internal control on pharmaceuticals and medicals supplies increase the risk of inventory theft, loss, misuse and abuse**

Prudent inventory management requires the entity should keep complete and reliable information on inventory and should verify the existence on periodic basis. In the course of audit, we review the inventory management system of the DHS to determine the adequacy of internal control procedures in place. We review documentation for receiving and issuing of inventory as well as the processes in reporting and verifying the inventory. We found the following weaknesses:

A. No verification of inventory been done. Physical counts of inventory and reconciliation were not conducted and documented.

B. Stock receiving reports and stock issuance forms for the year were not chronologically and sequentially filed for reference.

C. There were no internal control procedures in place for regular reporting and disposal of expired medicines

D. For lack of reliable information and inventory reliable information, the DHS management was impaired regarding its ability to

1. know the quantity, location, condition, and value of inventories it owns;
2. safeguard its inventories from physical deterioration, theft, loss r mismanagement;
3. Prevent unnecessary storage and maintenance costs or purchase of inventories already on hand.

**Cause:**

There were not enough efforts to establish controls over safeguarding properties and assigning a responsible person to ensure that properties are free from fraud, waste and abuse.

**Recommendation:**

We recommend that DHS establish controls to safeguard its properties and assign a person responsible to (1) record and reconcile its properties, (2) put identification as DHS properties, (3) document its assignment to its responsible user, (4) conduct regular physical inspection, and (5) report to the State Supply Officer as required by the State Financial Management Regulation.



**DEPARTMENT OF HEALTH SERVICES**  
**KOSRAE STATE**  
**FEDERATED STATES OF MICRONESIA 96944**  
TELEPHONE: (691) 370-3199/3012/3200/3006  
FAX: (691) 370-3073



*Reed 12/23/2019*

December 20, 2019

To: Kosrae State Public Auditors Office  
From: Kosrae Department of Health Services  
Subject: **2019 DHS AUDIT RESPOND**

I am writing to provide DHS's respond to the Kosrae State Public Auditors Office audit findings on "procurement services of the DHS" identifying three areas of weaknesses as pointed out during the close out meeting between the department and OPA on December 11, 2019 as below.

1. *DHS did not provide assurance that adequate pharmaceutical and supplies are timely provided.*
2. *Existing policy on procurement of pharmaceutical and medical supplies were implemented with weaknesses*
3. *Weak internal controls in pharmaceutical and medical supplies increase the risk of inventory theft, loss, misuses and abuse.*

Although many factors are causes of some failures and weaknesses, we generally agree with the recommendations made by Kosrae OPA to seek ways to improve upon our services. It is also important for us to make you understand some of our challenges and shortfalls which also impacted the overall delivery of services as in our response below:

Finding # 1: *DHS did not provide assurance that adequate pharmaceutical and supplies are timely provided.*

1. As OPA pointed out, there are several causes for Finding #1 in the following, 1.) No concrete department procurement plan, 2). Procurements are done only when the needs arise, 3). Off island purchase time lag, 4). Timelines were not set for purchases (fixed assets), 5). Missing list of meds in the WHO model list, 6). No plan for replenishing meds on formulary.
2. The department faces a yearly budget shortfall for priority areas such as clinical and medical services including manpower, equipment and supplies. In order for the department to fully provide better direct care services to our people, it has to put most resources in one area than the other. This creates an imbalance on the procurement delivery as pointed out in the audit. With this issue in mind, DHS is putting more efforts to develop the procurement system by hiring additional staff and put in place a more effective procurement and supply management plan.

*Finding # 2: Existing policy on procurement of pharmaceutical and medical supplies were implemented with weaknesses*

1. As OPA pointed out, causes for Finding #2 include following, 1.) Some orders were made without considering inventory on hand, 2). No proper justification on explore and selection of some vendors.
2. The department had been using FMR to base their procurement works through requisitions and PO system and property management. Original request for orders are normally submitted to the Supply unit from each clinical supervisors which worked out pretty well for the most part. For the most part, it is a basic system that's works pretty well. The issue cited derived mostly from moments when staffs are away from office and things got backlogged. With this issue again, DHS is putting more efforts to develop the procurement system by hiring additional staff and put in place a more effective procurement and supply management plan.

*Finding # 3: Weak internal controls in pharmaceutical and medical supplies increase the risk of inventory theft, loss, misuses and abuse.*

1. As OPA pointed out, causes for Finding #3 include following, 1.) No verification of inventory, 2). Stock receiving reports and issuances are not chronologically and sequentially filed, 3). No internal control for reporting of expired medicines, 4). The department has no reliable inventory information on quantity, location, and value of inventories it owns, 5). Safeguarding its inventories from loss, theft and mismanagement, 6). Prevent unnecessary storage and maintenance cost or purchase of inventories that are already on hand.
2. The department sometimes faces challenges in this area; however, it is a policy of the department to fire any and all staff who are caught under this circumstance. This standing policy was enforced and has been enforced for any and all staff that falls under this circumstance. With this issue cited in the report, DHS will work on installing new tougher internal control to all properties and develop a property management plan.

Thank you for your consideration of this respond.

Kulo ma lulap;



Dr. L. Vinson Taulung  
Director, Kosrae Department of Health Services

Cc: Governor Sigrah  
Speaker Palik  
File

## **PUBLIC AUDITOR'S COMMENTS**

We would like to extend our appreciation to the Department of Health Services and Department of Administration and Finance for their cooperation and assistance throughout the course of our audit.

In compliance with Generally Accepted Government Auditing Standard, a copy of the draft report was discussed and agreed upon with the Department of Health Services management and key staff and is attached as Annex 1 in this report.

In addition to providing copies of this report to the above mentioned agency, we also extended copies to the following officials:

1. Governor, Kosrae State
2. Lt.Governor, Kosrae State
3. Speaker, 12<sup>th</sup> KSL and all members
4. Attorney General
5. Chief Clerk, Kosrae State Court
6. V6AJ Radio

If there is any question or concern regarding this report, please contact the Office of the Public Auditor.

  
Stoney S. Taulung  
Public Auditor

## ACKNOWLEDGEMENT AND OPA CONTACT

Audit on Department of Health Services Procurement Process  
Report No. PA 03-19

### OPA CONTACT

Stoney S. Taulung  
[ksauditor@mail.fm](mailto:ksauditor@mail.fm)

### ACKNOWLEDGEMENT

The audit staff that make key contribution  
to this report

Emma Balagot, Audit Manager  
Alice S. George, Auditor III  
Elizabeth Jonah, Auditor II

### OPA MISSION

Conduct effective and efficient audits and  
investigations to ensure that government  
resources are properly managed

### OFFICE CONTACT

GOVERNMENT OF KOSRAE  
OFFICE OF THE PUBLIC AUDITOR  
POST OFFICE BOX 847  
Kosrae, FSM 96944

Telephone Number: 691-370-3766  
Hotline Number: 691-370-3767  
Website: [www.ksaopa.fm](http://www.ksaopa.fm)