

Performance Audit on Cash Handling Procedures Department of Health Services

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



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February 22, 2016

The Honorable Governor, Lyndon H. Jackson
The Honorable Speaker, Tulensa W. Palik
The Honorable Members, 11th Kosrae State Legislature
Kosrae State Government
Kosrae State, Federated States of Micronesia 96944

Re: Performance Audit on Department of Health Services Cash Handling Procedures

EXECUTIVE SUMMARY

We respectfully submit this Performance Audit PA 01-2016 on Kosrae State Department of Health Services Cash Handling Procedures covering the period of FY 2013-2014.

The objective of the audit was to determine whether (1) Department of Health Services (DHS) manages its cash in accordance with Kosrae Financial Management Regulation, DHS Policies and Procedural Manual and applicable laws; and (2) Cash Receipts are complete, accurate, properly recorded and timely deposited.

The audit was performed in accordance with auditing standards generally acceptable in the United States of America and the standards applicable to performance audits 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 and DHS Policies and Procedural Manual were use as criteria for compliance.

With reference to the specific objectives we noted the following:

- (1) That the Department of Health Services is in compliance with the State Financial Management Regulation however it does not follow provision in the DHS Policies and Procedural Manual on collections.



(2) That the Department of Health Services has insufficient controls over collection due to poor documentation.

2.1 Incomplete issuance of official receipts and posting of transaction

2.2 Possibility of Incomplete deposit with high risk of misappropriation and fraud

Based on the foregoing findings, we recommend (1) that DHS comply with the provisions in the department Policy and Procedures Manual on income collection; (2) to create and implement policy to include better internal control in transaction flow from the screening of patients to the cashier to give reasonable assurance that all transactions are posted or logged; (3) that the management of DHS needs to delegate additional accounting duties to other staffs to enable the proper segregation of duties and independent reviews; and, (4) that due to the findings #2.2 the auditor recommend that further review and investigation be made to the records and documents of DHS cash collection for possibility of fraud.

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

The Office of the Public Auditor provided draft copies of this report with the Director of Health Services for his review and comment on January 29, 2016. Attached with the report as appendix 1 is the DHS management respond on the audit findings dated February 15, 2016. Lastly, the audit result was referred to the Investigation Unit of the Public Auditor's Office for the detailed review on possible fraud case.

Respectfully submitted,


Stoney S. Taulung
Public Auditor



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Introduction:

Cash count is one of the projects that the Office of the Public Auditor planned for the fiscal year 2015. Accordingly, On March 20, 2015 we conducted an unannounced cash count and inspection of government funds collected in the custody of Department of Health Services (DHS). Our objective was to determine if the established fund (if any) and the cash receipts in the cash drawer were present and accounted for. We also asked DHS staff fundamental questions about cash handling and accountability practices. As a result, weak controls and non-compliance with Kosrae State Financial Management Regulation on cash handling practices that came to our attention were noted.

Based on the result of the Cash Count, the auditors recommended a full performance audit on the possibility of mishandling of cash collections. Our performance audit covered the Department of Health Services transaction for the fiscal year 2013-2014. However, the gathering, reviewing and testing of relevant information and documentations included previous and subsequent period for analytical purposes. We conducted the inspections pursuant to Kosrae State Code Title 10, section 4.

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.

Department of Health Service Administrative Service Goal

To provide professional and efficient administrative and support services to DHS and to ensure the availability of human, material and financial resources necessary to provide an adequate standard of health care to the community.



Financial Management Regulation (FMR)

These regulations are promulgated by the Director of the Department of Administration and Finance pursuant to Sections 10.202 and 2.402 of the Kosrae State Code. These regulations shall have the force and effect of law.

“The purposes of these regulations are to implement and establish a Financial Management System, setting forth guidelines, procedures, requirement, 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 any other way responsible.”

DHS Policy on Financial Management

To ensure the Department of Health Services (DHS) has sufficient financial resources available to provide an appropriate standard of Health care to the people of Kosrae. Also, to ensure that all income and expenditure is correctly recorded, controlled and managed within DHS. (Appendix 2)

Policy on Income Collection

To ensure that Department of Health Services collects all income due from patients and any other sources. (Appendix 3)

Policy on Collection of Patient Fees

To ensure that all patients pay for medical and dental services and prescribed medications received from the Department of Health Services. (Appendix 4)

DHS Policy on Handling of Cash Collection

To ensure an accurate record is maintained of all cash and checks received from patients as payment of fees by the Cashier and in the hospital ward, and that all cash and checks are correctly handled and accounted for. (Appendix 5)

AUDIT OBJECTIVES AND SCOPE

Objectives

The purpose of this audit is to assess Kosrae Department of Health Service Cash Handling Procedure. Audit objectives are to determine whether:

1. Department of Health Services (DHS) manages its collection in accordance with the its Policies & Procedural Manual and applicable laws;



2. Cash Receipts are complete, accurate, properly recorded and timely deposited

Scope

Our performance audit covered the Kosrae Department of Health Services cash collection for the fiscal year 2013-2014. However, the gathering, reviewing and testing of relevant information and documentations included previous and subsequent period for analytical purposes. We conducted the inspections pursuant to Kosrae State Code Title 10, section 4 which stated in part:

- (a) The Public Auditor shall inspect and audit personally, or by his duly authorized assistants, all account, books, and other financial records of the State Government, to include but not be 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 received 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 in part from public funds of 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.



AUDIT METHODOLOGY

The audit was conducted in accordance with generally accepted government auditing standard (GAGAS) . Those standards requires that we plan and perform the audit to obtain, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning our examination, we obtained sufficient understanding of the internal controls that is material to the audit objectives to plan the engagement and design the audit procedures. Based on this assessment, we reviewed documents and records relevant to the Department of Health Services cash handling.

We considered compliance to state laws and regulations to be able to render an opinion to our audit objectives. Our procedures were also designed to identify weaknesses on internal controls that are material to the expression of an opinion to our audit objectives. Details of our findings and recommendations are explained in the schedule of Findings and Recommendation of this report.

PRIOR YEAR AUDITS/REVIEWS

This is the first time that a separate audit / examination was conducted on Cash Handling Procedure of the Department of Health Services.

CONCLUSION

Based on our audit, we conclude that the Department of Health Services needs substantial improvement on implementation of strong internal control on cash handling. Department of Health Services did not ensure that collection and deposit were made accordingly. As a result, waste and possibility of fraud is high.

The findings and recommendations are discussed in detail in the following pages.

III. Findings and Recommendations

Finding No. 1: Not following provision in the DHS Manual.

The Department of Health Services is in compliance with State Financial Management Regulation however it does not follow provision in the DHS Policies and Procedural Manual on collections.

Finding No. 2: We found out that DHS has insufficient controls over collection due to poor documentation.



2.1 Incomplete issuance of Official Receipts and posting of transaction.

To establish accountability for the reception of cash and completion of deposits/remittance, DHS cashier is required to prepare an accurate daily transaction summary and deposit/remittance slip. Daily Transaction Sheet serves as journal that post the amount received to customer accounts and established accounts receivable for unpaid medicine and medical services.

During the tests of details of transactions, the auditor traces if all daily Official Receipt issued by the cashier were posted in the Daily Transaction Sheet. The test reveals that the Daily Transaction Lists shows collections which are not receipted. The cashier told the auditor that it is possible that some collection was not receipted because anyone in the office is allowed to receive window collection. It is also, possible that some of the collection were not posted in the Daily Transaction List since they are busy that sometimes they forgot to log the transaction.

2.2 Possibility of Incomplete Deposit.

Examination of Cash Receipt from Department of Finance and Administration on the total deposit/ remittance of DHS show that it was based on the total official receipts issued by the cashier. However, the auditor' review of Daily Transaction sheet against actual receipts reveals that some of collection posted in the transaction sheet were not receipted and therefore not included in the DHS remittance to the Department of Finance and Administration. Thus, the auditor believes that there is a high possibility that some of collections were not deposited.

2.3 Our review noted that following weaknesses in the internal controls over collection:

- (a) Accurate report is being prepared for the Summary of Daily transaction complete information based in an accountable form. The Daily Transaction Sheet does not provide sufficient assurance that all transaction has been posted or logged.
- (b) More than one employee was allowed to collect, issue receipt and posting in Daily Transaction Sheet at the same time without mitigating control to identify the accountability of each individual.
- (c) There is no segregation of duties to achieve adequate internal control on collection. Custodianship and recording were performed by the Cashier.

Ideal internal control procedure for collection is the issuance of pre numbered official receipts for all payment received. Official receipts are accountable forms which must be issued chronologically for all collections, filed and reviewed to ensure that all collections



have been deposited. Independent review procedure reduces the risk that a person in a position to both perpetrates and conceals errors in the normal course of duty.

Cause: weakness of internal control.

Effect: High risk of fraud and misappropriation of collection

Recommendation:

Based on the finding, we recommend to the Department of Health Services do the following:

- 1) The audit recommends that the management of the Department of Health Services comply with the provisions in the department Policy & Procedures Manual on Income Collection.
- 2) To create and implement policy to include better internal control in transaction flow from the screening of patients to the cashier to give reasonable assurance that all transactions are posted/ logged.
- 3) Management needs to delegate additional accounting duties to other staffs to enable proper segregation of duties and independent reviews.
- 4) Due to the finding #2.2 the auditors recommend that further review and investigation be made to the records and document of DHS cash collection for possibility of fraud.



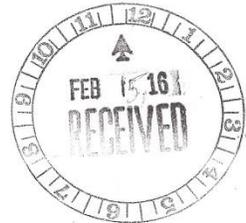
Appendix 1 - Management Letter



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FAX: (691) 370-3073**



February 15, 2016



Mr. Stoney Taulung
Public Auditor
Kosrae State Gov't.

Dear Mr. Taulung:

I do hope that this communication finds you in the best of health. I am responding on behalf of the Department of Health in reference to the Exit Audit Report recently received two weeks ago. The Exit Report highlighted one issue that required our attention and effort to correct it and that is the insufficient control over Collection due to poor documentation.

It was cited that Daily Transaction list showed that there were collections made without receipt and therefore can be assumed that it was not included in the Department remittance to Department of Finance and Administration.

The Department of Health totally agreed with the Findings and Recommendations made and presented during the Exit Audit Report. One recommendation made that we believed will prevent us from any fraud is the monitoring of daily encounters (prescriptions) from medical record section against receipts made during the day.

The issue regarding other Administrative staff assisted with the collection and forgot to post it on the Daily Transaction sheet was addressed during the training conducted to all Administrative staff on Billing and Collection during the month of December 2015.



Other policies that recommended being in place and enforcing will be developed and share with those who will be involved or handling Collections of cash /checks for payment of goods and services.

I certainly hope that this brief communication properly address the findings made and presented during the Exit Audit Report with the Department of Health Services.

Lastly, our apology for the belated response to your Exit Audit Report.

Kulo


Dr. Livinson Taulung
Director, DHS

/kre



Appendix 2 – DHS Financial Management

FINANCIAL MANAGEMENT

Purpose

1. To ensure the Department of Health Services has sufficient financial resources available to provide an appropriate standard of health care to the people of Kosrae.
2. To ensure that all income and expenditure is correctly recorded, controlled and managed within DHS.

Policy

- The DHS will adhere to the financial policies and procedures of the State of Kosrae and the laws and regulations relating thereto.
- The Director of Health Services is responsible for the accuracy and veracity of the DHS Budget and associated records, the control of all expenditure thereunder and the collection of all income due to DHS.
- The Director has the power to delegate financial management functions within DHS but remains responsible and accountable for proper overall management and outcomes.
- Policies & Procedures for the financial management at of DHS are categorized as follows :-
 1. Annual Budget preparation.
 2. Submission of DHS Budget for approval to Kosrae State.
 3. Quarterly Budget Review against actuals.
 4. Supplementary Budget requests.
 5. Expenditure control.



6. Accounts Payable management.
 7. Income collection.
 8. Accounts Receivable management. ✕
 9. Funding for DHS operations.
 10. Reporting on DHS financial outcomes.
-



Appendix 3 – DHS Policy on Income Collection

INCOME COLLECTION

Purpose

To ensure that DHS collects all income due to it from patients and any other sources.

Policy

- The Director is responsible to ensure that all moneys due to DHS are collected and properly accounted for. This responsibility may be delegated, but the Director remains ultimately accountable for correct control.
- DHS operates under the principles of “user pays” - ie. the community are expected to pay for the medical, hospital and pharmaceutical services they receive.
- Patient payments are collected in one of 2 ways :-
 - (1) Patient pays for services at the time services are received.
 - (2) Patient receives the services on credit - ie. the amount owed is debited to their account with DHS and they pay on receipt of a monthly DHS statement.
- A computerized Accounts Receivable system is maintained which records receipt of all cash payments received under (1) above and which will provide a means of verifying by way of daily balance all cash payments received and that they are correctly accounted for.
- The Accounts Receivable system also records all services placed on credit by patients under (2) above. This will be operated on a recognized software package which provides for ledger accounts for each patient, automatic monthly billing, follow-up and control of payments received.



Appendix 4 – DHS Policy on Collection of Patient Fees

COLLECTION OF PATIENT FEES

Purpose

To ensure that all patients pay for medical and dental services and prescribed medications received from DHS.

Policy

- Patients are liable to pay for medical and dental services, and medications, in accordance with the scale of fees established by DHS.
- Payments of fees will be collected by the Cashier during office hours and, for out-patients attending the Ward after hours, fees will be collected by the Ward staff.
- Fees not paid by patients are regarded as funds owed to DHS.
- Medical and dental services will not be withheld from any person because of their inability to pay.
- The Cashier operates a computerized Accounts Receivable system.
- Fees will be paid for in cash or by check at the conclusion of the service and before any medications are collected, unless the patient is unable to pay on the spot, in which case the fee(s) due will be debited to their account maintained in the Accounts Receivable system.
- The Cashier does not have the authority to waive fees or otherwise disregard any fees owed by any patient.
- A record of all fees owed by each patient will be maintained under the Accounts Receivable ledger system so that all fees owed by any patient can be readily identified.
- An monthly account will be sent to every patient owing fees to DHS.



Appendix 5 – DHS Policy on Handling of Cash

HANDLING OF CASH

Purpose

To ensure an accurate record is maintained of all cash and checks received from patients as payment of fees by the Cashier and in the Hospital Ward, and that all cash and cheques are correctly handled and accounted for.

Policy

- All fees received from patients by DHS will be collected by either the Cashier during office hours, or the Ward staff after hours.
- All fees collected are the property of DHS and will be handled honestly and carefully.
- All fees received must be recorded and accounted for.
- The Cashier will collect all fees collected by the Ward the morning of the next day the Cashier office is open.
- No cash is to be left on the premises when the Cashier is absent from the office, unless locked in a secure place.
- Once recorded, reconciled and accounted for, all fees collected are delivered to Department of Finance by the Cashier and a receipt obtained.
- Department of Finance receipt is handed to Administrative Officer for filing.
- Cashier's record books are to be kept current and held available for inspection at any time by an authorized officer.



PUBLIC AUDITOR'S COMMENTS

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

In compliance with Generally Accepted Government Auditing Standards, a copy of the draft report was shared with the Department of Health Services with a management response. The response is attached which agreed to our findings and recommendations.

In addition to provide a copy to the Director of Health Services, we also extend copies to the officials and agencies:

1. Governor, Kosrae State
2. Speaker, 11th KSL and all members
3. Chief Clerk, Kosrae State Court
4. V6AJ Radio

If there are any questions or concerns regarding this report, please feel free to contact the Office of the Public Auditor.


Stoney S. Taplung
Public Auditor



ACKNOWLEDGEMENT AND OPA CONTACT

Performance Audit on Cash Handling Procedures Department of Health Services

Report No. PA 01-2016

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ACKNOWLEDGMENT **Emma P. Balagot, Audit Manager**
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