

Audit Report No. PA 03-2021

**PERFORMANCE AUDIT ON THE IMPLEMENTATION OF
THE RECOMMENDATIONS**

**of audit report no. PA03-2019
*Department of Health Services (DHS)***

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



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July 28, 2021

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

**Re: Performance Audit on the Implementation of the Recommendations reflected in the
Audit Report PA03-2019 for Department of Health Services (DHS) Procurement Practices**

EXECUTIVE SUMMARY

We respectfully submit this Performance Audit PA03-2021 report on the implementation of the recommendations reflected in the Audit Report PA03-2019 that has been issued for Department of Health Services Procurement Practices.

The objectives of this audit are 1) To assess and provide assurance to the Department of Health Services on the progress that has been made on the implementation of the recommendations outlined in the audit report PA03-2019 and 2) To identify audit report findings that require immediate management attention and any other findings for which follow up is considered necessary at this time, and inform the stakeholders about the status of implementation as review on those findings.

The audit was performed in accordance with auditing standards generally accepted 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, the state 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.

Based on our follow-up audit, we found that Department of Health Services did not fully implement the corrective action to address the audit findings and recommendations in audit Report PA03-2019, we conclude that of the 6 recommendations. a) One (1) substantially implemented, b) One (1) planning for implementation, and c) Four (4) are not yet implemented.

The status of implementation is defined in Annex B. The summaries of recommendation with their status of implementation are as reflected below;

<i>Recommendations</i>	<i>Status</i>
On Finding No. 01 DHS did not provide assurance that adequate pharmaceuticals and supplies are timely provided	
a. 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.	Not yet implemented
b. 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.	Planning Stage
c. The DHS should also use a reasonable Reorder Point System and provide Safety Stocks which can lower the risk of unavailability of essential medicines.	Not yet implemented
Finding No. 02 Existing Policy on Procurement of Pharmaceuticals and Medical Supplies were implemented with weaknesses	
a. Exert more effort to comply with the applicable Kosrae State Financial Management Regulation and Purchase Contract requirement	Substantially Implemented
b. Hiring of additional staff and put in place a more effective procurement and supply management plan	Not yet implemented
Finding No. 03 Weak internal control on pharmaceuticals and medicals supplies increases the risk of inventory theft, loss, misuses and abuse.	
a. DHS to 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)	Not yet implemented

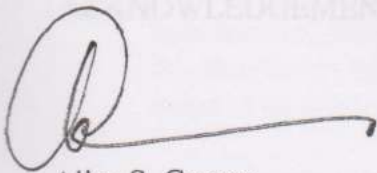
conduct regular physical inspection, and (5) report to the State Supply Officer as required by the State Financial Management Regulation.	
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After evaluating the results of this performance audit, we recommend that 1) DHS management should fully address and implement all the six (6) audit recommendations reflected in the audit report PA 03-2019, and 2) DHS management should resolve on their problem on lack of manpower with their stakeholders to build up their internal capacity on procurement.

Details of our examinations are discussed in the status of implementation section of this report.

The Office of the Public Auditor provided draft copies of this report to the Department of Health Services Acting Director and management staff for their review and comment on July 13, 2021. A copy of the management response is included in this report as Annex C.

Sincerely,



Alice S. George
Acting Public Auditor

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INTRODUCTION

Background

The Office of the Kosrae Public Auditor conducted a Performance Audit on Procurement Practices for the Department of Health Services and issued PA 03-2019.

Based on the Audit Report PA 03-2019, three (3) findings were reported and six (6) recommendations were given as a result and are reflected below.

Findings

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.

In 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 have 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 was only being done when an 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 to 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 be impossible to determine whether items procured will be available on time.

B. The Deficient DHS Formulary (Essential Medicines List) May Result In 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 of the core and the complimentary list:

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 healthcare 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 necessarily based on the local setting's disease prevalence.

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

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

Our review noted that the 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 unit/division 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. If the demand for the medicines is too high, the procurement officer proceeds with reordering without waiting for 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 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 is not considered in the ordering of pharmaceuticals and supplies. This weakness often resulted in 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 may cause medicines to expire.
 - a. files of expired medicines and supplies were stored in the Pharmacy for almost a year
 - b. overstocking of pharmaceuticals and supplies at the main warehouse
 - c. Unaccounted loss/waste of pharmaceuticals and medical supplies
 3. Emergency purchases
 - a. Due to unplanned and urgent reordering, the department tends to look at the closest and fastest supplier around and doesn't even follow the procurement process of selection on choosing a vendor. Emergency purchases resulting in excessive procurement of pharmaceuticals and supplies.
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 managers are required to submit the requisition to the Supplies Specialist on a quarterly basis. Supplies Specialist summarizes the request, checks if the medicine requested are listed in the formulary and submit for budget approval. However, the examination of the stock request form from hospital units and the summarized order form prepared by the Supplies Specialist shows that the ending inventory of each item was not considered. Ordering without considering the stocks on hand may lead to over/understocking and eventually may lead to unplanned purchases and waste.

B. No proper justification on explore & selection of vendors

The auditors' examination of procurement vouchers at the Department of Finance reveals a considerable expenditure package without complete attachment to ensure a proper selection of vendors with regards to cost and ability to deliver. Most of the purchase cost varies from \$ 500.00 to more than \$10,000.00 wherein comparative vendors' quotations were required. It was observed by the auditors that vendor quotations were not attached in the Purchase Request form instead, a 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 auditors noted that suppliers with higher quotations were chosen without proper justification.

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

In the course of our audit, we reviewed the inventory management system of the DHS to determine the adequacy of internal control procedures in place. We reviewed 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 has 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 or mismanagement;
3. Prevent unnecessary storage and maintenance costs or purchase of inventories already on hand.

The Management Response dated December 20, 2019, which was attached to Audit Report PA 03-2019, signed by the Director of Health Services, noted the findings and acknowledged recommendations to improve the procurement practices in the Department of Health Services.

OBJECTIVES, SCOPE, METHODOLOGY

Objectives

1. The objective of this audit was to assess and provide assurance to the Department of Health Services on the progress that has been made on the implementation of the recommendations outlined in the audit report PA 03-2019.
2. Identify audit report findings that require immediate management attention and any other findings for which follow-up is considered necessary at this time, and inform the stakeholders about the status of implementation as a review on those findings.

Scope

The scope of our performance audit was to assess the extent to which the Department of Health Services management had made satisfactory progress in implementing the recommendations in the DHS Procurement Process audit report no. PA 03-2019 was issued on December 23, 2019. However, the gathering, reviewing and testing of relevant information and documentation included a previous and subsequent period for analytical purposes. We conducted the audit and inspection 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 Standards (GAGAS). Those standards require 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 a 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 project.

We considered compliance with state laws and regulations to be able to render an opinion to our audit objectives. Our procedures were also designed to identify weaknesses in internal controls that are material to the expression of an opinion to our audit objectives.

Audit procedures included, but were not limited to interviews of Department of Health Services' employees and stakeholders. We also review transaction processes and documentations. In addition, we performed assessment on the implementation of the previous audit. The audit criteria used to develop the required audit tests were based on the previous audit report issued.

PRIOR AUDIT COVERAGE

This is the second performance audit on the procurement process of the Department of Health Services. The objective of this second performance audit was to assess the extent to which DHS Management had implemented the recommendation reflected in the Audit Report PA 03-2019.

CONCLUSION

We concluded that based on the audit objectives:

- (1) The Department of Health Services has not fully implemented all audit recommendations and needs to take appropriate action to address the audit findings and the six (6) audit recommendations per Audit Report No. PA 03-2019; and

- (2) DHS management has failed to exert effort to initiate an effective strategic plan to develop a procurement and inventory system.

STATUS OF IMPLEMENTATION OF AUDIT RECOMMENDATIONS

Finding No. 1 - DHS Did Not Provide Assurance that Adequate Pharmaceuticals and Supplies Are Timely Provided

1.1 Recommendation

We recommend 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.

It is also recommended that DHS establish a 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 the adequacy and timeliness of the required properties and supplies. **(not yet implemented)**

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. **(Planning Stage)**

The DHS should also use a reasonable Reorder Point System and provide Safety Stocks that 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. **(not yet Implemented)**

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

1.2 Prior Management Response

The department faces a yearly budget shortfall for priority areas such as clinical and medical services including manpower, equipment, and supplies. For the department to fully provide better direct care services to our people, it has to put more resources in one area than the other. This creates an imbalance in the procurement delivery as pointed out in the audit. *With this in mind, DHS is putting more effort to develop the procurement system by hiring additional staff and put in place a more effective procurement and supply management plan.*

1.3 Current Implementation Status: Based on our review and assessment the implementation status of the recommendation is as follows:

- (i) Establishment of Procurement Management Plan – **Not yet Implemented.**
- (ii) Update of Existing Formulary - **Planning Stage**
- (iii) Reorder Point System and provide Safety Stocks which can lower the risk of unavailability of essential medicines- **Not yet Implemented**

1.4 Effect of Non- Implementation and Delay of implementation

Untimely delivery, inadequate pharmaceutical and medical supplies contribute to inefficient public service. The impact will be loss of money arising from expired medicines to loss of lives.

1.5 Cause of Non- Implementation

DHS management/staff did not exert effort in setting their timelines in achieving their plan and relied upon the premise of lack of personnel to improve the system. Without the full commitment of the management to implement the recommendations, this improvement for better public service will not be realized.

1.6 *Current Management Response: (annex C)*

- *The Quality Assurance (QA) officer will enforce the quality assurance policy as identified in DHS Quality Manual for medical & Pharmaceutical specifically for inventory procedures and control.*
- *DHS will continuously communicate and coordinate with FSM National Government to ensure the completion and implementation of the National Drug Policy initiated in 2012 to eventually resolve the above issue.*
- *To seek National Government's support in getting World Health Organization (WHO) to complete and implement the Pharmaceutical Inventory Management System (PIMS).*

Finding No. 2 – Existing Policy on Procurement of Pharmaceuticals and Medical Supplies Were Implemented With Weaknesses.

2.1 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. **(Not Yet Implemented)**

2.2 Prior Management Response

The department had been using FMR to base their procurement works through requisitions and PO system and property management. The original requests for orders are normally submitted to the supply unit from each clinical supervisor which worked out pretty well for the most part. For the most part, it is a basic system that works pretty well. The issue cited derived mostly from the moment when staffs are away from the office and things got backlogged. With this issue again, DHS is putting more effort to develop the procurement system by *hiring additional staff and put in place a more effective procurement and supply management plan.*

2.3 Current Implementation Status

- (i) Exert more effort to comply with the Kosrae State Financial Management Regulation and Purchase Contract requirements - **Substantially Implemented**

- (ii) Hiring of additional staff and put in place a more effective procurement and supply management plan - **Not yet Implemented**

2.4 Effect of Non- implementation and delay of implementation

Weakness in full compliance with KSFMR increases the risk of waste, misuse or fraud.

2.5 Cause of Non- Implementation

DHS management claims that they still need more funding to hire a qualified individual to develop an effective procurement and supply management.

2.6 **Current Management Response (Annex C)**

- To reevaluate the job description of the current position to apply minimum controls in the DHS procurement process as recommended.
- To included and justify additional budgets or funding for new staff for the medical warehouse unit.

Finding No. 3 - Weak Internal Control on Pharmaceuticals and Medicals Supplies Increases the Risk of Inventory Theft, Loss, Misuse, and Abuse.

3.1 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.

3.2 Prior Management Response

The Department sometimes faces challenges in the 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 staffs that fall 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.

3.3 Current Implementation Status

Based on reviews and assessments, it was concluded that the recommendation was **not yet implemented**.

ANNEX A: STATUS OF IMPLEMENTATION MATRIX

3.4 Effect of Non- implementation

The absence of strong internal control on department assets will continuously increase the risk of theft, loss, misuse, and abuse.

3.5 Cause of Non-implementation

DHS management claims the need for funding for additional staff to work for tougher internal control.

3.6 *Current Management Response (Annex C)*

- *To install a full system for internal control as well as to implement the existing policy to handle misuse and abuse.*
- *To strictly implement existing policy to update fixed assets listing every quarter and controls on discarding and repairs of assets.*

RECOMMENDATIONS

After evaluating the results of this performance audit, we recommend that:

1. DHS management should fully address and implement all the six (6) audit recommendations reflected in the audit report PA 03-2019.
2. DHS management should resolve their problem of lacking manpower with their stakeholders to build up their internal capacity on procurement.

Performance Audit on Implementation of Recommendations
of audit report no. PA03-2019
Department of Health Services

ANNEX A: STATUS OF IMPLEMENTATION MATRIX

DEPARTMENT OF HEALTH SERVICES
FOLLOW UP AUDIT
PERFORMANCE AUDIT ON PROCUREMENT PROCESS
PA 03-2019

A. Not yet implemented
B. Planning Stage
C. Preparation for Implementation
D. Substantial Implementation
E. Full Implementation
F. Obsolete

No progress or significant progress (informal plans, meetings)
Formal plan have been created and approved by the appropriate level of management
Preparation for implementing a recommendation (hiring or training of staff, developing resources to implement recommendation)
Structures are in place and integrated, and achieved results are identified
Structures or processes are operating as intended
Not applicable (justified issue)

FINDINGS	RECOMMENDATION	MANAGEMENT RESPONSE	STATUS	AUDITOR COMMENTS
I. DHS Did Not Provide Assurance that Adequate Pharmaceuticals and Supplies Are Timely Provided	A. DHS Did not Provide Assurance that Adequate Pharmaceuticals and Supplies Were Timely Provided. 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.	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	A. Procurement Plan - <i>not yet implemented</i> B. formulary updated - <i>Planning Stage</i> C. Re-order Point - <i>not implemented</i>	Administrator responded that their procurement process has not been changed or updated and is still the same process where they order supplies every 3 months based on the usage of the supplies from dispensary. formulary has not been changed, however there is a committee established for the update of the formulary that consists of the doctors, pharmacist and administration staff. Due to the committee's conflicting schedules and the COVID-19, the recommended updated formulary has not been reviewed and approved. According to the HR Manager there is no set of plan they use regarding ordering/reordering of supplies and equipment. If there is special orders that they need then they need to react quick to it. In addition, the manager mention that maintain that they avoid receiving medical and pharmaceutical supplies that are less than 2 years of expiration that will end up going to waste Supply Specialist: same procurement process is implemented, inventory was conducted every 2 months in preparation to the next purchases. However with their other duties it can be done more than 2 months.
II. The Deficient DHS Formulary (Essential Medicines List) May Result to Not Having the Most Available Appropriate Medicines. 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.		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.	Hiring of additional staff for warehouse and procurement <i>(not implemented)</i> evaluation of suppliers/vendors <i>(not implemented)</i>	The Supplies Specialist mention to the auditor that his additional staff was hired and is still the same procurement process he's been doing until now. no evaluation of supplier has been made in a regular basis as per interview with DHS Administrator and Administrative Assistant. The only supplier evaluation they had is upon approval of new supplier. In addition, it was also mentioned that suppliers are on contract with the government, however there is no document presented as to the process and result of supplier contract evaluation.

Performance Audit on Implementation of Recommendations
of audit report no. PA03-2019
Department of Health Services

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

C. A need to Establish System in Replenishing Pharmaceutical and Medical Supplies to Ensure Efficient Public Health Services. 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[] 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 disruption 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.

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 item were not considered. Ordering without considering the stocks on hand may lead to over/under stocking and eventually may lead to unplanned purchases and waste.

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

3. Weak internal control on pharmaceuticals and medical 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

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 occurrence of costs.

The department has been using FMR to base their procurement works through requisition 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 most part. For the most part, it is a basic system that's works pretty well. This issue cited derived mostly from moments when staffs are away from office and things got backlogged. With this issues 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.

Supplier masterlist [not implemented]

No Supplier masterlist was presented to the auditor at the time of audit follow up.

Exert effort to comply with applicable ISMAR and Purchase contract requirement - [Substantially implemented]

DHS comply with the basic procurement process as required by the ISMAR however the department failed to maintain sufficient files and documents within the department as part of supplier evaluation. There is also no document submitted to the auditor on the pre-supplier selection process.

Hiring of additional staff and put in place a more effective procurement and supply management plan as indicated in the DHS management response. [not implemented]

Initial plan of reorganizing plan of reorganizing the department to maximize the existing capacity was part of the action plan mentioned in the management. This is to identify one of the existing staff to handle more job/ responsibility to help establish a more efficient procurement process. However such plan did not materialized even at the time of follow up.

**Performance Audit on Implementation of Recommendations
of audit report no. PA03-2019
Department of Health Services**

ANNEX B: STAGES OF IMPLEMENTATION

There are five stages used to assess the status of implementation of the recommendations. Stages are listed below:

and issuing of inventory as well as the processes in reporting and verifying the inventory. We found the following:

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

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

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 inquired 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 mismanagement;
3. Prevent unnecessary storage and maintenance costs or purchase of inventories already on hand.

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.

The department sometimes faces challenges in the 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.

Establish sufficient controls to safeguard its properties - **Not implemented**

Interview with Property and equipment officer provides report on his recent inventory which was done alongside with the State Finance Supply Officer which should be done every six months. However the inventory report submitted to the auditor was dated 2018. Also, no reconciliation of record and physical inventory was performed.

ANNEX B: STAGES OF IMPLEMENTATION

There are five stages used to assess the status of implementation of the recommendations. Stages are listed below:

- (i) **Not yet Implemented** – No progress or insignificant progress: Action such as having meetings and generating informal plans.
- (ii) **Planning Stage:** When formal plans for organization changes have been created and approved by the appropriate level of management with appropriate resources to implement the recommendation.
- (iii) **Preparation for Implementation:** If the entity made preparation for implementing a recommendation by hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.
- (iv) **Substantial Implementation:** If the structures or process are in place and integrated within at least some parts of the organization, and some achieved results have been identified.
- (v) **Full Implementation:** If the structure and processes are operating as intended and are fully implemented.

Obsolete

The recommendation is obsolete if it is no longer applicable because the issue has been outdated as a result of having been superseded by something newer.

ANNEX C: MANAGEMENT RESPONSE



DEPARTMENT OF HEALTH SERVICES
KOSRAE STATE
FEDERATED STATES OF MICRONESIA 96944
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July 27, 2021

Mrs. Alice S. George
Acting Public Auditor
Kosrae State Government
Kosrae, FSM, 96944

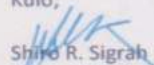


Re: Status of Implementation on Audit PA 03-2019

Attached herewith are the Kosrae DHS Management Response to subject matter mentioned above for your information and further use.

Should you have any questions on the submission, please let us know.

Kulo;


Shiro R. Sigrah
Acting Director
Kosrae State Department of Health Services

Cc: Administrator, Kosrae DHS
File

AUDIT REPORT PA 03 – 2019 FINDINGS
STATUS OF IMPLEMENTATION OF AUDIT RECOMMENDATIONS
JULY 27, 2021

I. DHS did not provide assurance that the adequate Pharmaceuticals and supplies are timely provided.

- a) Current status as of today,
- a. Establishment of a Procurement management plan – not yet implemented
 - b. Updating existing formulary – in planning stage
 - c. Install a Recorder Point System & Safety Stocks which can lower the unavailability of essential medicines – not yet implemented
- b) Effect of non-implementation and delay of implementation
- a. Untimely delivery contributes to inefficient public service.
 - b. The impact will be loss of money from expired medicine or loss of life.
- c) Cause of non-implementation
- a. Not exhorting time to get task done because of lack of personnel
 - b. Without commitment from management, this improvement of service will not be realized

d) PRIOR MANAGEMENT RESPONSE : DECEMBER 23, 2020

- DHS faces a yearly budget shortfall for priorities such as clinical and medical including manpower, equipment and supplies.
- In order for DHS to provide better services to our people, it has to sacrifice all resources to into one area more than the other. This creates an imbalance on the procurement process as pointed out by this audit.
- *With this in mind, DHS is putting more efforts in developing a procurement system by hiring additional staff and put in place a more effective procurement and supply management system.*

a) CURRENT MANAGEMENT RESPONSE : JULY 27, 2021

- We have identified a policy manual (QA Manual) for medical & Pharmaceutical that was put in place that indicates inventory should be conducted on a quarterly basis. The QA officer will enforce this requirement from now on. The QA Manual carries out the functions of a procurement plan for all medical and pharmaceutical needs.
- We have found that FSM National and States had developed a National Drug Policy back in 2012 which reflects a formulary for each state; however, it has not been fully completed and implemented. The idea is there but needs to be completed. We will work with National to ensure completion of the initiative which will resolve this issue.
- Recorder Point System – The Pharmaceutical Inventory Management System (PIMS) will help resolve this issue. It worked magically for our warehouse and pharmacy units in the past and allows them to link up and worked directly with each other's stocks. The system is down right now and need to be revived. We hope to seek National support in getting WHO to complete this project by middle of next year 2022.

II. Existing policy on procurement of pharmaceuticals and medical supplies were implemented with weakness

- a) Current status as of today,
 - a. Exert more efforts to comply with the applicable KSFMR and purchase contract requirement – *Substantially implemented*
 - b. Hiring of additional staff and put in place a more effective procurement and supply management plan – *not yet implemented*
- b) Effect of non-implementation and delay of implementation
 - a. Weaknesses of full implementation increase the risks of waste, misused and fraud.
- c) Cause of non-implementation
 - a. DHS claims they still need funding to hire qualified staff to develop system needed

d) PRIOR MANAGEMENT RESPONSE : DECEMBER 23, 2020

- a. DHS had been using FMR to base their procurement works through requisitions and PO system and property management.
- b. Original request for orders are normally submitted to the supply unit from each clinical supervisors which worked pretty well for the most part..
- c. *The issue cited derived mostly from 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.*

b) CURRENT MANAGEMENT RESPONSE : JULY 27, 2021

- Several years back, WHO had helped KSA to install a inventory system called Pharmaceutical Inventory Management System (PIMS) which worked magically for our warehouse and pharmacy units. The system allowed them to link up and worked directly with each other's stocks. Unfortunately, after few years, the system crashed and was never repaired, even though DHS requested numerous times from FSM DHS & WHO to repair system.
- As of now, the two units of Pharmacy and the medical Warehouse have their own stand alone system (excel systems) which causes the issue of slow and ineffective procurement.
- The upcoming FY22 budget is too late to include request for more funding to be considered for additional new staff for the medical warehouse unit. At this point in time, DHS will have to repurpose its staff to the unit while awaiting the next opportunity submits for new funding for new staff.

III. Weak internal controls on Pharmaceuticals and Medical supplies increases the risk of inventory theft, loss, misuses, and abuse.

c) Current status as of today,

- a. Based on review and assessment, it was concluded that the recommendation was – *Not yet implemented*

d) Effect of non-implementation and delay of implementation

- a. The absence of strong internal control on department assets will continuously increase the risks of theft, loss, misuse and abuse.

e) Cause of non-implementation

- a. DHS continue to claim the needs of additional staff to work for tougher internal control.

f) PRIOR MANAGEMENT RESPONSE : DECEMBER 23, 2020

- a. It is a policy of the DHS to fire any and all staff who are caught under these circumstances. This is a standing policy that had been enforced.
- b. *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.*

g) CURRENT MANAGEMENT RESPONSE : JULY 27, 2021

- Unless we fixed the PIMS, we will continue to face slow and challenges.
- Most of the vendors used in procuring pharmaceuticals and supplies for KSA state derived from Guam, Hawaii or US Mainland. It takes longer period to have them ordered so fully stocking is deemed impossible. The FSM Drug Policy cited this issue.
- We have not installed the full system for internal control but have policy to handle misuse and abuse.
- We also have a policy in place to renew fixed assets listing every quarter and updating what needs to be discarded properly and what needs to be repaired.

PUBLIC AUDITOR'S COMMENTS

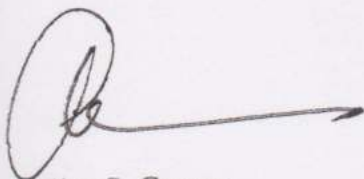
We would like to extend our appreciation to the Department of Health Services for their cooperation and assistance throughout the course of the audit.

In compliance with Generally Accepted Government Auditing Standards, 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 C in this report.

In addition, we also extended copies to the following officials:

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

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



Alice S. George
Acting Public Auditor

ACKNOWLEDGEMENT AND OPA CONTACT

Performance Audit on the Implementation of the Recommendations of Department of Health and
Services Procurement Practices
Audit Report No. PA03-2021

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ACKNOWLEDGEMENT Emma P. Balagot, CPA, Audit Manager
The audit staff that make key contributions to Elizabeth M. Jonah, Auditor II
this report Reed Floyd, Auditor I

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

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