

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
CHUUK STATE, FSM



**CHUUK STATE DEPARTMENT OF HEALTH
SERVICES: ISSUES FOUND ON DOCUMENTATION,
INVENTORY SYSTEM, AND WAREHOUSING**

FISCAL YEAR 2020-2022

AUDIT REPORT No. 2023-01



Manuel L. San Jose Jr.
Public Auditor



Chuuk State
Office of the Public Auditor
P.O. Box B, Weno, Chuuk FSM 96942
Tel: (691) 330-8832/8835 Fax: (691) 330-8840
E-mail: publicauditor@fmocpa.com

December 5, 2023

Honorable Alexander R. Narruhn
Governor
Chuuk State, FSM

Honorable Arno H. Kony
President
House of Senate
Chuuk State Legislature

Honorable Lester D. Mersai
Speaker
House of Representative
Chuuk State Legislature

RE: Audit of the Chuuk State Department of Health Services

We have completed the audit of the Chuuk State Department of Health Services (DHS). We conducted this audit in accordance with the U.S. Generally Accepted Government Auditing Standards. The objectives of this performance audit were to determine whether the DHS is effectively ensuring that financial transactions are following the applicable laws and regulations of Chuuk State focusing on the proper filing and complete documentation of obligation and appropriate payment of government housing allowance. We also determined the adequacy of internal controls that were implemented for pharmaceutical, medical supplies, and donated items, focusing on the inventory system and warehousing management.

For the compliance audit objective, we noted issues on proper documentation, filing of paid documents, and propriety of payments of housing allowance given to employees. The audit disclosed that during the fiscal years 2020-2022, the DHS, along with the Chuuk State Department of Administrative Services (DAS), did not follow the Chuuk State regulations on complete documentation of payments, proper filing of check voucher packages, and appropriate spending on housing allowance. Regarding proper documentation, \$648,142.32 was expended without complete documentation. This represents 31% of the samples selected for examination. The DHS justified that some of the payments without adequate supporting documents were incurred during the COVID-19 pandemic, in which the implementation of the financial regulation was suspended due to the state of emergency. However, we believe that compliance with proper documentation was still practiced because most of the audit samples were transacted during the COVID-19 period and they complied with the requirements of the financial management regulations on proper documentation. The DHS management agreed to the audit recommendations that it should ensure, using the payment checklist, that transactions payments are properly supported. On the filing of check voucher packages, \$354,210.73 worth of check vouchers were missing; thus, we were not able to verify whether these payments were properly supported. This represents 13% of the samples selected for examination. The DHS management, likewise, agreed that the borrowing of paid check vouchers and their supporting documents must be properly monitored in a log book. Although the filing of documentation was the responsibility of the DAS, the DHS should have had copies of the transaction documents that were forwarded to the DAS. Regarding housing allowance, \$118,200 was overspent on housing allowance due to rate variances and conflict of interest during the period covered by the audit from fiscal years 2020-2022. For instance, we found a few cases where housing allowances beneficiaries were receiving the monthly allowances while living in their parent's houses. The DHS management agreed that it would coordinate with the management of the Personnel Service Commission for the review of the current regulations on housing allowance.

For the performance audit objective, we noted substantial issues in the management of inventory for pharmaceutical and medical supplies. The DHS was incurring a substantial average amount of \$1.5 million for the procurement of pharmaceutical and medical supplies every year. Thus, we focused the

audit to determine whether the DHS was effectively and efficiently managing its inventories and warehouses as well as implementing internal controls. There was no adequate internal control in place. We concluded that the DHS did not efficiently and effectively manage its inventory and warehousing. Inventory tracking using Microsoft Excel was implemented for the pharmaceutical products, but no similar tracking systems were being used for medical supplies and donated items. The inventory system for pharmaceutical products was not updated on time, which led to inaccurate balances of available inventory during the physical count of inventory. The inventory of medical supplies, with an estimated purchases amount of \$432,514.32, and donated items had no inventory system in place to track and provide accountability. In addition, warehousing for these items was fully packed and poorly maintained, which resulted in some supplies already expired and damaged but not reported. Due to space limitations, the inventories were stored at four different locations, making it inconvenient to move items from one place to another. Two of these four storage areas were quite far from the main hospital. The inventory custodian estimated that about \$1 million worth of inventories (pharmaceutical and medical supplies) were purchased and stored at the warehouses annually. These inventories were assets of the DHS that should have been properly tracked and protected. We cannot verify the accuracy of this amount in the absence of an inventory system that would generate not only quantities but also inventory costs. We recommended that the DHS consider moving its inventories and invest in a bigger warehouse as well as acquiring and implementing a computerized inventory system to allow for a more efficient, systematic, and effective management of these inventories. Lastly, we noted that there was a lack of clear and appropriate division of duties in the storeroom, which increases the risk of errors, theft, and fraudulent activities. Therefore, we recommended that the DHS should review and implement proper segregation of duties and functions within the warehouse. In their management response, the DHS management generally agreed with the improvements that were recommended in the audit report. However, they wanted to defer the implementation of those recommendations because of budget issues. We believe by deferring these implementations, the DHS would experience high cost of inventory, unreconciled inventory balances, excessive stock levels, undetected missing inventory, consistent stock-outs, high amount of obsolete or expired inventory, and high cost of storage. These were accountability issues that should be addressed promptly.

Our findings and recommendations have been discussed with the DHS, DAS, and PSC during our Exit Conference on November 1, 2023. We also requested a formal management response to the audit report. For most parts, DHS generally agreed with our findings and recommendations. They requested to change some of the deadlines to implement the recommendations. The formal management response was shown in the section for Management Response while the auditor's comments were shown in the section for OCPA's Evaluation of Management Response. The details of this performance audit can be found in the subsequent pages.

Respectfully,



Manuel L. San Jose, Jr., CPA, CIA, CISA, CRMA, CGAP, CFIP
Public Auditor

Table of Contents

INTRODUCTION	2
Background	2
Objectives, Scope and Methodology	3
Prior Audit Coverage	3
Conclusion	3
FINDINGS AND RECOMMENDATIONS.....	5
FINDING 1: Non-Compliance with the Chuuk State Financial Management Act and Regulation.	5
FINDING 2: Check Vouchers and Supporting Documents for Transaction Worth \$354,210.73 Were Not on File.....	6
FINDING 3: Certain Housing Allowances Are Not in Accordance with the Chuuk State Government Housing Regulation.	7
FINDING 4: Inadequate Management of Pharmaceutical, Medical Supplies, and Donated Items.....	9
1. Lack of Accountability for Pharmaceutical, Medical Supplies and Donated Items Inventory	9
2. Packed Warehouses	10
3. Improper Segregation of Duties.....	12
Appendix A: DHS Divisions' Functions	14
Appendix B. DHS Funds Details	15
Appendix C: DHS Procurement Process	17
Appendix D. Pharmaceutical & Medical Supplies Storages	18
MANAGEMENT RESPONSE.....	25
OCPA's EVALUATION OF MANAGEMENT RESPONSES.....	30
PUBLIC AUDITOR'S COMMENTS	33
OCPA CONTACT AND STAFF ACKNOWLEDGMENT	34

INTRODUCTION

Background

The Chuuk State Department of Health Services (DHS) existed under the Executive Organization (CSL 2-94-10) and was established according to Article X, section 6

“The State Government shall provide for the protection and promotion of health, and shall ensure, within the limits of its resources, that no person is discriminated against in the distribution of medical care, or is refused medical care because of that person’s inability to pay.”

DHS provides for the protection and promotion of the public health and administers medical and dental facilities of the State (CSL 190-07, section 4). It developed a vision to become a self-sufficient, adequate and holistic system of health care services for Chuuk State. Its mission is to promote and maintain a holistic system of health care that will improve the health and longevity of Chuukese. To fulfill this goal, DHS established the following strategic goals:

1. Improve primary and secondary health services
2. Improve primary health care
3. Develop a sustainable health care financing mechanism
4. Improve capacity level and sustain availability of skilled personnel
5. Maintain adequate, transparent and accountable systems

DHS comprises six divisions: dentistry, dispensary, management and administration services (M&A), nursing, public health, and sanitation. Refer to Table 1 for the Chief of each division.

Table 1: Chief of DHS Divisions

Division of DHS	Chief of Division
1. Dentistry	Yalbert Enlet
2. Dispensary	Joe Eas
3. Management and Administration	Friday Shomour
4. Nursing	Helden Heldart
5. Public Health	Dorina Fred
6. Sanitation	Curtis Kiki Sos

The divisions play a critical role in ensuring the delivery of quality healthcare services to the community. The functions of the divisions include responsibility for developing and implementing division policies, assigning and evaluating assignments, delivering quality services and tasks within their scope of work, and submitting appropriate reports to the management team. Refer to Appendix A for the detailed functions for each division.

Financial History

A. Budget

The operation of the DHS has been funded by four funding sources. In FY 2020-2022, the expenditures incurred from these funding sources were shown in Table 2. The average total expenditure was \$10,877,173.91 for the three years.

Table 2: DHS Expenditures

	2020	2021	2022

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Fund Source			
Sector Funding	\$9,450,769.02	\$9,366,050.08	\$10,443,294.43
General Fund	151,427.12	128,824.98	140,341.97
Carryover Fund	927,833.06	867,605.71	788,950.23
Revolving Fund	56,818.38	123,320.41	186,286.34
Total	<u>\$10,586,847.58</u>	<u>\$10,485,801.18</u>	<u>\$11,558,872.97</u>

Table 3 shows the DHS budget allocations from the Health Sector (Compact II fund) for the fiscal years 2020 to 2022. During the audited years, DHS average annual budget is \$10,080,996.33. In FY 2021, its expenditure decreased by approximately 1%, and in the following year, it increased by approximately 10%. DHS expenditures on fixed assets surpassed its budget in FY 2021 and 2022 by over 20,000 and 80,000, respectively.

Table 3: DHS Sector Fund

	2020	2021	2022
Allotted Budget	\$9,885,901.00	\$10,122,594.00	\$10,234,494.00
Actual Expenditure	9,450,769.02	9,366,050.08	10,443,294.43
Expenditure (Over)/Under	\$435,131.98	\$756,543.92	\$(208,800.43)

Table 4 indicates DHS procurement budget allocation from the General Fund for the years 2020-2022. Only the Hospital and Management division was allotted a budget from this fund. The average budget allotted was \$162,500. The actual expenditure decreased by approximately 15% in 2021 and increased by 9% in the following year.

Table 4: DHS General Fund

	2020	2021	2022
Allotted Budget	\$163,750.00	\$160,000.00	\$163,750.00
Actual Expenditure	151,427.12	128,824.98	140,341.97
Expenditure (Over)/Under	\$12,322.88	\$31,175.02	\$23,408.03

DHS has also been using other funds including the revolving and carryover funds to finance its operations. The revolving fund (Special Account) does not require an annual appropriation as long as the budget is approved by the Directors of DHS and DAS. The DHS is able to replenish and expend this fund, accordingly. The carryover fund referred to the unexpended funds from prior year budget period that the DHS requested to be used in the current budget period. Refer to Appendix B for details on the DHS funds.

B. Procurement

The DHS follows the Chuuk State Financial Management Regulations (FMR) when purchasing its pharmaceutical products, medical supplies, and other needs. A requested amount of \$99,999 and below will trigger a Purchase Requisition (PR) form; an amount of \$100,000 and above will demand a competitive bidding. PR requires not less than three quotations to be attached to the request form and submitted to the Department of Finance for approval. When approved, a purchase order (PO) will be prepared and awarded to the least costly vendor. If the requested amount is more than \$10,000, the Governor must approve before further processes. The Miscellaneous Payment Request (MPR) is used for sole source, reimbursement, and small purchases that do not exceed \$100. Furthermore, competitive bidding requires a detailed inspection process involving the Chuuk State Planning and Statistics Office, the Compact Funds Control Commission (CFCC), the Attorney General Office, the Bidding Committee, and the Sub-Committee (Bid Evaluation Committee). Refer to Appendices C for details on procurement.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Objectives, Scope and Methodology

Objectives

1. To determine whether the DHS is effectively ensuring that financial transactions are compliant with applicable laws and regulations of Chuuk State, focusing on the proper filing and complete documentation of obligation and appropriate payment of government housing allowance.
2. To determine the efficiency and effectiveness of internal controls of pharmaceutical products, medical supplies, and donated items, focusing on the inventory system and warehousing management.

Scope

The audit covered the period from FY 2020 to 2022. This audit was conducted pursuant to Article VIII Section 9 of the Chuuk Constitution and TSL 6-21 which states in part:

“The Auditor shall conduct audits of all financial transactions of all branches, departments, offices, agencies and instrumentalities of the government, and of all accounts kept by or for them.”

Methodology

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

- To determine whether the DHS is effectively ensuring that financial transactions are following the applicable laws and regulations of Chuuk State, the auditors judgmentally selected sample transactions and verified their compliance with the Chuuk State FMR.
- To determine the adequacy of internal controls and implementation of these controls for pharmaceutical, medical supplies and donated items, the team evaluated the inventory management system, obtained the established policies and regulations, bidding contracts, employees’ job duties and responsibilities, and inspected the storage areas.

Prior Audit Coverage

The DHS has been subjected to various audits. Previous audits were done by the Office of the National Public Auditor, whereas the last report was issued on November 10, 2014 - *Audit on Chuuk State Department of Health Services: Poor Procurement Practices & Inventory Management System Led to Excessive Costs - FY 2011-2013*, and on *Audit Report No. 2015-01*. Regarding the prior audit, finding 3- “over \$324,000 worth of paid pharmaceuticals and medical supplies not timely delivered” was partially implemented because internal controls for pharmaceuticals were implemented but weak and there were no internal controls established for medical supplies. Also, finding 5- “lack of accountability on pharmaceuticals and medical supplies inventory increased the risk of inventory theft, loss, misuse and abuse” was not implemented and is a current finding in this report.

Conclusion

We concluded that the DHS did not adhere to the Chuuk State Regulations on complete documentation of obligations and appropriate payment of government housing. We also concluded that the DHS, along with

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

the DAS, did not comply with prudent practice of the proper filing of documentation. Regarding the complete documentation of obligations, the DHS expended \$648,142.32 worth of transaction with incomplete supporting documents. These obligations were not suppose to be paid out until the supporting documents are complete. Pertaining to the proper filing of documentation, DAS was responsible for the filing of the missing payment vouchers totaling \$354,210.73. However, in practice, the DHS should have had copies of the transaction documents that were forwarded to the DAS for payment processing. On payment for housing allowance, DHS overspent a total amount of \$118,200 due to rate variances and conflict of interest. The DHS and PSC should coordinate to develop clear guidelines on housing allowance.

Furthermore, we concluded that the DHS did not effectively and efficiently manage its inventory and warehousing. Regarding inventory system, Microsoft Excel was being utilized to account for the pharmaceutical products, but there were no similar systems to keep record of medical supplies and donated items. In 2022, the estimated purchases amount of medical supplies with no established accountability was \$432,514.32. The lack of appropriate inventory system contributed to the inaccuracy and mismanagement of inventory for pharmaceutical products, medical supplies, and donated items. Pertaining to warehousing, there was limited space to accommodate all supplies as well as maintenance issues that damaged some inventories. In addition, we found that there was no clear description of duties in the storeroom that resulted in the improper segregation of duties.

We found the following issues during our audit:

1. Non-compliance with the Chuuk State Financial Management Act and Regulation.
2. Check vouchers and supporting documents worth \$354,210.73 were not on file.
3. Certain housing allowances were not in accordance with the Chuuk Housing Regulation.
4. Inadequate management of pharmaceutical, medical supplies, and donated items.
 - A. Lack of accountability for pharmaceutical, medical supplies, and donated items.
 - B. Packed warehouse.
 - C. Improper segregation of duties.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

FINDINGS AND RECOMMENDATIONS

FINDING 1: Non-Compliance with the Chuuk State Financial Management Act and Regulation.

Government regulations are a set of effective rules and requirements that establish the legal and acceptable behaviors. These policies are in place to govern the proper spending of funds. The Chuuk State Government enacted the Financial Management Act and Regulation to ensure that the proper filing and documentation of government obligations are complete and available.

The Financial Management Act Section 1006 (1) states that
The treasurer shall not record or assent to any claim that an obligation exists unless it is supported by documentary evidence.

The Financial Management Regulation Part 6 (Procurement & Competitive Bidding) requires the following documents for procurement.

6.2.c Miscellaneous Payment Request Form be used for payment of services provided by sole sources; for reimbursement requests supported by receipts; for purchases small which do not exceed \$100 and supported by receipt and approved by appropriated allottee.

6.4 Purchase Requisition be used for requesting government purchase of supplies and personal property not supported by a contract

6.8 Purchase Order be used for government purchases

6.9 Payment:

a. An original copy of the invoice

b. A receiving report confirming the receipts of goods or services

c. An advance payment on a purchase order is required and approved by the Director or his designee.

We judgmentally selected 61 samples of payments with the total value of \$1,550,815.97. From these samples, we noted 19 samples with exceptions amounting to \$648,142.32. This is a 31% of non-compliance with the Chuuk State Act and Regulation on documentary evidence or complete documentation of transactions. Following were the exceptions that were found:

- Two samples, totals of \$17,955.00 for the payment of air-conditioner and \$23,019.90 for the payment of radio set, were issued with checks without the approval from the Governor.
- A sample, total of \$19,908.80, included a maintenance contract agreement and charged invoice from the vendor. There were missing important documents such as the requisition for each maintenance work and monthly report of vehicle (serial numbers) under maintenance.
- Five samples, amounting to \$125,756.40, have unclear to no justification of not selecting the vendor with the lower cost.
 - A boat charter, total of \$40,000.00, was awarded to the vendor with the highest cost instead of the lower vendor. There was a justification for not selecting the vendor with the lowest price. However, there was no justification for not choosing the vendor with the second lowest cost. DHS would have saved \$5,875.00 if it had offered the service to the second lowest vendor.
- Payment of vehicle amounting to \$47,169.80 was processed without the three required quotations from different vendors.
- Five samples have missing attachments for bidding (e.g., Term of Bidding, Notice of Award and Formulation of pharmaceutical certified by manufacturer/supplier) amounting to \$356,480.27. Regarding the missing of formulation of pharmaceutical, the notification of award indicated that

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

the award will be terminated without the submission of formulation of pharmaceutical list. During the Exit Conference, DHS management stated that this list was submitted to the Planning Office. However, there was no notation included in the voucher package.

- Others included missing purchase requisition, receiving report, travel authorization, itinerary, and indication of vehicle being fueled amounting to \$57,852.15.
 - A boat, with the total cost of \$20,000, was chartered to deliver supplies to the dispensaries. However, there were no supporting evidences that the supplies were actually received by the dispensaries.

As a result, the total estimated expenditure amounting to \$648,142.32 could not be substantiated. The transactions mentioned above should not have been processed unless they were sufficiently supported and complete. There is no assurance that these obligations were authentic, valid, proper and fiscally responsible.

Cause & Recommendation

Documents were not properly documented due to inattentiveness. Although there was an ‘Encumbrance/Obligation Distribution Listing’ checklist attached to every obligation packages, there was a lack of diligent review of attached documentations before the payments were processed and checks were cut.

- For the incomplete supporting documents, we recommend that the Department of Administrative Services review the ‘Encumbrance/Obligation Distribution Listing’ sheet for every type of payments to be made. The payment review processors should ensure that the required documents are attached before inputting the payment voucher in the system. This should be implemented by December 2023.
- Regarding the request for pharmaceutical formulation, we recommend that, by 2024, the DHS, CFCC and the Contracting Officer create a list that disclose the existing pharmaceutical which may not need the formulation, and the new requested pharmaceuticals which demand the formulation. Then, attach this list to the “Notice of Award” letter as support as well as indicate the date that this list was provided (within 7 days). During the Exit Conference, DHS stated that this list is very long; therefore, we requested that a notation indicating the receipt of this list should be attached to the voucher packages.

FINDING 2: Check Vouchers and Supporting Documents for Transaction Worth \$354,210.73 Were Not on File.

Best practice¹ states that record offices should properly file and monitor the movement of documents to easily and quickly locate and access files. Some practices for effective filing management include the following:

1. Categorize documents by type
2. Arrange them in both chronological and alphabetical order
3. Optimize the filing space
4. Eliminate unnecessary documents.
5. Consider digitizing the files.
6. Maintain a register specifying details like date out, file title, reference number, borrower, date in, and officer’s signature. Borrowed files should be returned within four business days.

¹ A. *Procurement Records Management Procedures Manual*; B. *How To Organize Your Paperwork Effectively in 7 Steps* by Jennifer Herrity

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Eight of the 61 sampled check vouchers, 13% exception, along with the supporting documents for transactions worth \$354,210.73 were missing. According to DHS management, the check vouchers and supporting documents were in the possession of the DAS, and the hospital has no control on how the department kept their documents. We requested a diligent search on the whereabouts of these documents from the DAS twice and the search have failed. These consist of the following payments in Table 5.

Table 5: List of Missing Check Voucher and Supporting Documents

Obligation No.	Check #	Payee	Description	Amount
223838	112508	MedPharm	Supply & Installation of Med. Equip	\$182,239.00
240666	114421	AWM Incorporated	L. Agreement 4 G. Daytec/Nursing	3,900.00
249413	118312	J&B Dealers	Vehicles/ Hosp & Mnmt	15,300.00
245982	118722	Padma Ent	Ambulance/Hosp & Mnmt	59,999.73
262433	124027	Shigeto Corporation	Outboard Engine/Hosp & Mngmnt	20,928.00
287591	132031	Medpharm	AceTAMINOPHEN Inj./ HOSP & MG	68,769.00
231440	101899	Benter	1st QTR Housing Allowance/Health	1,500.00
231696	101949	Takamichy Mori	1st QTR Housing Allowance/Health	1,575.00
				\$354,210.73

In addition to the missing voucher package, the ambulance (Check#118722) amounting to \$59,999.73 was not included in the list of DHS’s fixed assets record provided by the Supply Office (DAS). We were not able to physically inspect this ambulance due to absence of record to identify the asset. These indicate that important documentations were misplaced and untraceable. As a result, we were unable to substantiate the validity of cash payments totaling \$354,210.73.

Cause & Recommendation

Check voucher packages were not in the filing cabinet because they were being held at other Finance division offices or set aside for later filing. Also, the Accountant II recorded all borrowed check voucher package in a log book. However, when these check vouchers were returned, the Accountant II did not cross-check the number of check vouchers with the log book to verify that all borrowed packages were there.

- For the missing check voucher packages, we recommend that the Accountant II should locate the whereabouts of these packages by December 2023. Subsequently, the Accountant II should report to the auditor on the status of the missing checks.
- In addition to the existing control in the Treasury Division Office, we recommend that, by December 2023, the Accountant II inspect the returned checks and cross-check with the log book to verify that **all** the borrowed check voucher packages are returned.
- We recommend that the DHS should retain copies of its transaction payments and properly file them to validate the existence of its payments. This should be resolved by December 2023.

FINDING 3: Certain Housing Allowances Are Not in Accordance with the Chuuk State Government Housing Regulation.

The Chuuk State Directive and Regulations have provided the requirements for Government Housing. The Chuuk State Government Administrative Directive No. 02-2006, under the subject- *Chuuk State Directive Relative to the Limiting Officials/Employees Housing Allowances/Entitlement*, states the following allowable rental rate for government housing.

<i>Bedroom</i>	<i>Per Month Rental</i>
----------------	-------------------------

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

<i>One bedroom</i>	<i>Not more than \$300</i>
<i>Two bedrooms</i>	<i>Not more than \$500</i>
<i>Three bedrooms</i>	<i>Not more than \$750</i>
<i>Four bedrooms</i>	<i>Not more than \$1,000</i>

We judgmentally selected 14 samples and found nine non-compliances with the Chuuk State Directive. This is a 64% exception- 43% of complete deviation from the applicable rental rates, which means that the recipients of the government housing were receiving more than the appropriate rental rate per month. Also, 29% of the exceptions were payments involving conflict of interest. These individuals were living in their close relative houses or apartments (e.g., parents, siblings, and in-laws) while receiving government housing fees.

One recipient of the housing allowance was given \$1,000 per month for lease housing. Since this individual resided in Hawaii, DHS viewed this as a reasonable rate given the cost of living there. However, there was no existing policy regarding this condition.

As a result, DHS was expending an additional amount of approximately \$37,800 for 2020 and \$40,200 for each of the following two years (a total estimation of \$118,200 for FY 2020-2022). This amount could have been saved and spent where it was necessary and most needed. Furthermore, the conflict of interest appeared to be a violation of the law and form of a fraudulent activity. Refer to Table 6 for the estimation of annual breakdown of potential saving amount.

Table 6: Breakdown of Potential Saving

	No. of Employees	Current Cost	“Should be” Cost	Potential Saving
Year 1	13	\$93,600	\$55,800	\$37,800
Year 2	12	84,600	44,400	40,200
Year 3	12	84,600	44,400	40,200
Total		<u>\$262,800</u>	<u>\$144,600</u>	<u>\$118,200</u>

Cause & Recommendation

There were two existing policies on housing allowance: Directive No. 02-2006 and Housing Regulation Part V.B.24. DHS followed the Directive No. 02-2006 for housing allowances. The PSC gave us the Housing Regulation Part V.B.24.b. We noted that the regulation stated the monthly rate of \$350 for one bedroom, while the Directive stated \$300. This was a slight difference of \$50 in the monthly rental for one bedroom in the regulation and directive. Although the PSC Regulations Part V.B.24 was the current regulation on government housing, there was no indication that it superseded the Governor’s Directive No. 02-2006.

In Part V.B.24.b.1, we also noticed that there was no clear provision of an employee with only one dependent. It was unclear whether this individual is qualified to receive housing with one or two bedrooms. In Part V.B.24.b.2, there was no clear protection for the ineligible employee², who in unforeseen situation, experiences an instant divorce from his/her spouse. These unclear areas may have caused confusion and gave the departments an opportunity to develop their own interpretations and may deviate from complying with the government regulation.

² Employee meets the housing eligibility requirements but became ineligible because the spouse owns a house, quarter or apartment OR the spouse had already been entitled for housing allowance.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Furthermore, since the DHS needed more staff on board but cannot offer a competitive salary rate that other organizations can offer, it used the “Point-of-Hire”³ approach, even though the prospective employee’s permanent residency was within the commuting distance. This approach had caused the hospital to carry the burden of expending more for housing than it was required.

- We recommend that PSC conduct a comprehensive analysis to evaluate the present demand for housing units and the prevailing rates in the housing industry within Chuuk State, and then create a realistic rate for the Chuuk State Government Housing by July 2024.
- We recommend that DHS and PSC work together in developing new policies to mitigate the existing employment concerns (salary rate, housing package as incentives, and Honolulu-based housing allowance rate). PSC should clarify the areas of vagueness and update them on the FSM Law Website. This should be resolved by July 2024.

FINDING 4: Inadequate Management of Pharmaceutical, Medical Supplies, and Donated Items.

Best practice⁴ in the health industry recommends the use of an inventory system to keep track of stock levels. This helps provide a high-quality service to patients and transparency to stakeholders. An effective inventory system is used to track the receiving, issuing, location, and expiration of supplies. Furthermore, having an existing inventory system allows management to ensure assets and stocks are well-managed and prevent unexpected procurement.

We found the following weaknesses caused by the lack of inventory management.

1. Lack of accountability in pharmaceutical, medical supplies and donated items inventory.
2. Packed warehouse
3. Improper segregation of duties

Further details about the mentioned issues are as follows:

1. Lack of Accountability for Pharmaceutical, Medical Supplies and Donated Items Inventory

On September 8, 2023, we judgmentally selected 28 samples for physical count to test the accuracy of the pharmaceutical inventory. Out of the 28 samples, 14 did not equal the ending balance in the system, 50% exception. At the time of our count, we were told that the system was partially updated in July 2023. To consolidate the data, we selected seven out of the 14 exceptions and requested for their receiving and issuance slips from July to September. However, the consolidated ending balances for all seven samples did not equal to our physical count, 100% discrepancy. The auditor provided the detailed report on the breakdown of unaccounted items to the DHS.

We noted that the DHS storeroom has been utilizing Microsoft Excel to track pharmaceutical inventory. The inventory manager, who has the sole access to the system, has been manually inputting the pharmaceutical data on a daily basis. Also, we observed that it is more difficult to locate items with higher quantities, inside the storage room.

³ If an individual was hired from off-island, he or she is qualified to receive government housing.

⁴*Effects of Inventory Management Practices on Service Delivery at Adult Hospital-The Case Study of University Teaching Hospital (UTH)* by Choolwe Kaile

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

The accountability for stock items may not be properly established due to the lack of an appropriate inventory system. The unaccounted pharmaceutical products amount to \$8,754.67. The DHS inventory stock and valuation were not accurate due to the untimely reporting and unaccounted pharmaceutical products from the current system. The auditor provided the detailed report on the breakdown of total cost of unaccounted items to the DHS.

Regarding medical supplies and donated items, the DHS did not have an inventory system to account for and monitor them. The inventory manager was only keeping track of the receiving and issuance reports of supplies. In 2022, the medical supplies that were unaccounted for had an estimated purchases amount of **\$432,514.32**. This list was provided to the DHS. There was no actual inventory balances to provide accountability of available medical supplies and donated items in stock. This was one of the findings in the previous audit.

Cause and Recommendation

The previous inventory system, FileMakerPro, crashed around September of 2021, and the retrievable data was only available up to 2014. Furthermore, the updating of the Excel worksheet for monitoring the pharmaceutical inventory was a difficult task for the inventory manager who also manages other important tasks. For these causes, the pharmaceutical and medical supplies were not properly and accurately monitored.

- We recommend that DHS management prioritize the purchase and installation of an inventory system, with barcode scanner, by May 2025, to effectively manage inventory and stock control with ease. The inventory system should be able to provide valuation of the stock items in the warehouse.
- In the meantime, we recommend that the DHS use an alternative system (e.g., Microsoft Excel) to manually input and monitor the inventory data for medical supplies. Also, DHS should review the medical supplies list and remove any unnecessary supplies. These should be in place by April 2024.
- By April 2024, DHS management should hire or designate an individual to solely be responsible for updating the Excel File for pharmaceutical and medical supplies.

2. Packed Warehouses

Prudent practice⁵ in storage areas for premises and facilities includes the following:

- Storage areas should be of sufficient capacity to allow the orderly storage of materials and products.
- Storage areas should be clean, dry and maintain acceptable temperature limits. Products should be stored off the floor and suitably spaced to permit cleaning and inspection. Pallets should be kept in a good state of cleanliness and repair.
- Storage areas should be clean, and free from accumulated waste and vermin. There should be written procedures and regular schedule for pest control.

Additionally, there should be zones for storage which are clearly marked to easily locate the stored items as per the category. These precaution measures will ensure that inventories are in good condition and allow the facility to achieve the desired standards of quality.

The DHS stored its medical supplies and donated items in the four following areas:

1. Storage room was located inside the hospital

⁵Guide to Good Storage Practices for Pharmaceuticals by World Health Organization

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

- Inside the storage room, the aisle was blocked (Appendix D, Picture 2) and inventories were disorganized. Items were improperly stacked on top of each other and directly on the floor rather than on pallets. Due to the limited space, some supplies and donations were placed in the open area leading to the storage (Picture 1).
- 2. Container was located outside the hospital
 - The container was a few feet from the main hospital building. It has blocked walkways with no air circulation. Dust has accumulated on both the items and the floor. Within the container, there were purchased and donated supplies, including pillows and bedding materials (Picture 4).
- 3. Storage 1 was situated beside Ace Hardware Store
 - Storage 1 was a 4 minutes drive or 1.4 kilometers from the hospital. It was situated in a rental unit that cost \$1,200 per month; housing both purchased and donated supplies. Some of these donations have already passed their expiry date and are occupying space (Picture 7). The unit was more spacious, and supplies were placed on pallets.
- 4. Storage 2 was located beside Kurassa Store
 - Storage 2 was an 8 minutes drive or 2.9 kilometers from the hospital. It was also located in a rental unit of \$1,000 per month. Donated supplies such as detergent, scrubs, and hygiene products were mixed with some purchased items. Despite having additional space, the storage area was not kept clean and well-maintained.

The DHS stored its pharmaceutical products in a secured room beside the Storeroom Office. We noted the multiple maintenance and sanitation issues. Termites have damaged the medicines (Appendix D.5, Picture 10), an open hole was left uncovered (Picture 11), a dead cockroach was left on the floor (Picture 12), and water was leaking from the ceiling (Picture 13). Boxes of pharmaceutical products were spread out and stacked up wherever there was available space. We found out that there was no schedule of inspection on the cleanliness of the storages and warehouses.

Due to the poor storage management, the facilities have become a risky environment for the pharmaceutical and medical supplies. The blocked walkways and absence of airflow contributed to the accumulation of mold and damaged supplies. Supplies were forgotten and passed their useful period. Expired items were occupying needed spaces as well as causing additional rental expenses. The inconvenience arose from the storage areas being spread out across four different locations. The termites and water leakage have already damaged the medicines, which will be disposed of before being used for their initial purposes. The uncovered hole in the wall invited rats and other unwanted insects/pests into the store room.

Cause and Recommendation

There was space limitation to accommodate all pharmaceutical products and medical supplies. Also, there was a shortage of manpower to maintain the cleanliness of the storages and monitor the supplies properly. We recommend that:

- The DHS management invests in one big and spacious unit to accommodate all medical supplies by March 2025. This will alleviate storage issues and enhance inventory efficiency. Also, this will help in minimizing the monthly rental cost of \$2,200 for the two off-site warehouses.
- The DHS management to work with the storeroom staff to dispose all the expired items, make use of the useable donations, and distribute the unneeded supplies to the community by February 2024.
- For proper arrangement purposes, the DHS should segregate the donated items from the purchased medical supplies. The DHS should place its pharmaceutical and medical supplies on

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

shelves and pallets, instead of directly putting them on the floor. These should be resolved by March 2024.

- The DHS management should hire temporary janitors to clean the storage and warehouses. By February 2024, the DHS management should develop a periodic inspection schedule (e.g., weekly or monthly) to ensure that the areas are clean, maintained and free from unwanted pests.

3. Improper Segregation of Duties

Best practice⁶ dictates that personnel recording transactions that affect the inventory level should not be in charge of the physical custody of the inventory or approving adjustments. The incompatible duties⁷ in the warehouse are as follows:

1. Authorization or approval
2. Custody of assets
3. Recording transactions
4. Reconciliation/Control Activity

These tasks should be assigned to different person or group to minimize the possibility of errors or fraud. Also, there should be clear responsibilities and close supervision. For example, one person checks the packing list against the purchase order, another approves inventory entering and leaving the warehouse, a third inputs item into the system, and a fourth counts the inventory and reconciles it with the system. This will prevent an employee from manipulating data and hiding error or fraud in their daily work.

We found out that there was no segregation of duties in the DHS storeroom. The job descriptions of existing personnel were as follows:

- Storeroom Supervisor
- Inventory Manager
- Supply Specialist I
- Supply Technician I

From the job descriptions, we noted that the storeroom supervisor oversees the ordering, receiving and product replenishment. This employee supervised all functions of inventory control, which can include accessing the current inventory system. Furthermore, counting and reconciliation duties were not being assigned to any employee.

From our observation, the inventory manager was involved in almost all the internal controls within the storeroom. This employee assisted in or prepares the purchase requisitions/bidding for pharmaceutical products and medical supplies, received incoming inventory, issued inventory, inputted them in the system, performed physical counts of inventory, reconciled data, and approved the disposal of damaged/expired products or supplies.

Without the proper segregation of duties, the inventory is susceptible to error, theft and fraud. Furthermore, this can also result in employee burnout and underperformance.

Cause & Recommendation

There was a lack of skilled staff to handle assigned tasks. Also, there was no clear job description and segregation of duties for the staff in the storeroom.

We recommend that:

⁶ *The Landover Warehouse Internal Controls: Progress Made, But Additional Improvements Needed.*

⁷ *Operational Internal Controls* by Office of Internal Audit, Penn Audit, Compliance and Privacy

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

- The DHS management revisits the duties in its storeroom and ensures that there is proper segregation of duties by December 2024. The duties should clearly state the functions of each staffs and delegate the incompatible duties to different persons. For instance, the monitoring of inventory system and custody of asset should be assigned to different employees. The staff managing the inventory system must not have access to the warehouses, and the staff overseeing the custody of assets must not gain access to the inventory system.
- The DHS management to ensure that all staff acquire the necessary skills and are competent in their assigned duties (e.g., conduct staff training) by April 2024.
- By December 2024, DHS management should transfer the data entry duty from the storeroom office to an outside staff. This staff should input data according to the approved transaction forms provided by the storeroom.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

APPENDICES

Appendix A: DHS Divisions' Functions

Dental Division Function

The dental division ensures that high quality and efficient oral health services are available to individuals and the Chuukese community. This division administers preventive, curative and rehabilitative dental services. It conducts and reports on dental surveys. The dental division provides dental health education to schools, home-visit care to patients, extends services to remote areas, and offers emergency care outside regular hours. Additionally, it monitors that staff comply with policies, develops systems to promote the efficiency of operation, hires and trains staff, and ensures the availability of dental resources. The chief of dental oversees the dental activities and reports to the Hospital Administrator. Overall, the dental division plays a critical role in promoting oral health and providing essential services to the community.

Dispensary Division Function

The dispensary division is responsible for managing and dispensing medication to patients, including the dosage, labeling, and verification of prescription orders. The chief of dispensary ensures that operation is maintained regularly, prepares work schedules for sections, formulates annual budgets and reports to the Director of DHS. The dispensary division is essential in ensuring inventory level and that patients receive the correct medication.

Management and Administrative Division Function

No documented functions...

Nursing Division Function

The nursing division plays a vital role in providing quality patient care by developing, adhering to, and monitoring compliance with regulatory standards and procedures. This includes visiting ward patients regularly, reviewing records and reports, and providing effective care with the available resources. This division oversees the recruitment, hiring, training, and retention of nurses and staff. The chief of nursing works with the executive team to allocate resources and support plans for the division's maintenance and enhancement. Overall, the nursing division is critical in ensuring that staffs are competent and equipped to provide quality services to patients.

Public Health Division Function

The Public Health division is responsible for promoting and protecting the health of the community. This division monitors community and environmental health needs, advocates for public health issues, and implements primary health care activities. Also, it manages the recruitment, hiring, training, and development of its staff. The chief of public health participates in public functions and meetings to promote department programs as well as prepares quarterly performance reports. Overall, the public health division ensures that the community is healthy and resilient.

Sanitation Division Function

No documented functions...

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Appendix B. DHS Funds Details

1. Health Sector Fund (Compact II Fund)

Divisions	FY 2020			FY 2021			FY 2022		
	Allotted Budget (A)	Actual Exp. (B)	Difference (A-B)	Allotted Budget (A)	Actual Exp. (B)	Difference (A-B)	Allotted Budget (A)	Actual Exp. (B)	Difference (A-B)
Hospital & Management	\$6,300,929.85	\$6,004,638.79	\$296,291.06	\$6,362,926.00	\$5,863,808.19	\$499,117.81	\$6,298,578.00	\$6,603,434.47	\$(304,856.47)
Nursing	1,159,151.00	1,122,028.75	37,122.25	1,194,908.00	1,189,139.52	5,768.48	1,313,947.00	1,264,391.97	49,555.03
Public Health	663,935.00	634,814.25	29,120.75	714,582.00	592,653.93	121,928.07	751,079.00	707,632.59	43,446.41
Health & Sanitation	232,742.00	214,930.33	17,811.67	252,742.00	216,992.59	35,749.41	224,241.00	239,139.90	-14,898.90
Dental	537,966.00	522,367.49	15,598.51	595,526.00	542,656.58	52,869.42	612,489.00	635,515.10	-23,026.10
Dispensary	991,177.15	951,989.41	39,187.74	1,001,910.00	960,799.27	41,110.73	1,034,160.00	993,180.40	40,979.60
Total	\$9,885,901.00	\$9,450,769.02	\$435,131.98	\$10,122,594.00	\$9,366,050.08	\$756,543.92	\$10,234,494.00	\$10,443,294.43	\$(208,800.43)

2. General Fund

Line Item	FY 2020			FY 2021			FY 2022		
	Allotted Budget (A)	Actual Exp. (B)	Diff (A-B)	Allotted Budget (A)	Actual Exp. (B)	Diff (A-B)	Allotted Budget (A)	Actual Exp. (B)	Diff (A-B)
Salaries & Benefit	\$69,750.00	\$66,163.15	\$3,586.85	\$69,750.00	\$70,539.08	(\$789.08)	\$69,750.00	\$70,800.73	\$(1,050.73)
Travel	-	-	-	-	-	-	-	-	-
Consumables	59,500.00	60,828.04	(1,328.04)	58,750.00	39,357.45	19,392.55	67,100.00	63,226.24	3,873.76
Contractual Services	34,500.00	24,435.93	10,064.07	31,500.00	18,928.45	12,571.55	26,900.00	6,315.00	20,585.00
Fixed Assets	-	-	-	-	-	-	-	-	-
Total	\$163,750.00	\$151,427.12	\$12,322.88	\$160,000.00	\$128,824.98	\$31,175.02	\$163,750.00	\$140,341.97	\$23,408.03

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

3. Carryover Fund

	2020	2021	2022
Revenue	\$927,833.06	\$867,605.71	\$788,950.23
Expenditure	927,833.06	867,605.71	788,950.23
Net revenue over (under)	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>

The table below shows the line items that account for the majority of the expenditures under the Carryover Fund. For three consecutive years, DHS spent most of its revenue on Overtime and General Contractual Services amounting to \$212,627.68 and \$1,028,617.26, respectively.

	2020	2021	2022
Line Items			
Overtime	\$31,357.88	\$78,353.06	\$102,916.74
Food			95,649.53
Office Supplies			65,546.55
Medical Supplies		128,892.08	79,779.51
General Contractual Service	825,852.36	88,387.30	114,377.60
Vehicles		74,962.99	95,400.00
Heavy Machinery		69,999.22	86,920.00
Total	<u>\$857,210.24</u>	<u>\$440,594.65</u>	<u>\$640,589.93</u>

4. Revolving Fund

	2020	2021	2022
Revenue	\$145,921.74	\$283,653.24	\$227,192.62
Expenditure	56,818.38	123,320.41	186,286.34
Net revenue over (under)	<u>\$89,103.36</u>	<u>\$160,332.83</u>	<u>\$40,906.28</u>

The table below outlines the highest expenditure line items for DHS under the Revolving Fund: \$40,634.15 for food in 2021 and \$40,506.32 for utilities in 2022.

	2020	2021	2022
Line Items			
Salaries			\$39,770.57
Food	\$21,584.06	\$40,634.15	
POL			23,676.50
Utilities			40,506.32
Miscellaneous Goods & Services		38,389.52	
Total	<u>\$21,584.06</u>	<u>\$79,023.67</u>	<u>\$103,953.39</u>

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Appendix C: DHS Procurement Process

The DHS purchase for its pharmaceutical products, medical supplies, and other needs through Purchase Requisition (PR), Miscellaneous Payment Request (MPR), or Competitive Bidding. A requested amount of \$99,999 and below will trigger a PR form; an amount of \$100,000 and above will demand a competitive bidding. The DHS procurement process follows the Chuuk State Financial Management Regulation.

Purchase Requisition requires not less than three quotations to be attached to the request form and submitted to the Department of Finance for approval. If the PR is complete and funds are available, the Director of Department of Administrative Services (DAS) will prepare a Purchase Order (PO) and select the most qualified vendor, usually the least costly. The Supply Office will split the amount requested from tax payable to the Chuuk State Tax Revenue and transfer the supplier's invoice to Accounts Payable (A/P) Office. If the requested amount is more than \$10,000, the Governor of Chuuk State is required to approve by signing. Upon delivery of the requested supplies or services, the Supply Office and CFCC, if Compact funded, will inspect and attach a Receiving Report (RR). In the event that the PO, Suppliers Invoice, and RR matched, the A/P Office will prepare the payment request and DAS will release the check payment to the supplier.

The MPR is quite similar to the process of PR. However, MPR form is used under the following circumstances:

1. For payment of services provided by sole source (e.g., CPUC, Telecom)
2. For reimbursement requests supported by receipts (e.g., emergency situation for medical evacuation)
3. For small purchases that do not exceed \$100 and supported by receipt and approved by the appropriate allottee.

In this case, the MPR does not require a PO but an attached invoice to indicate the requested or provided supplies or service.

Another type of request is through competitive bidding. DHS will send its purchase request for its estimated quantity of consumption to the Chuuk State Planning and Statistics Office. The Planning Office examines the request and prepares the invitation to bid for public announcement. The CFCC and the Attorney General Offices will review the invitation to bid before the Planning Office can publicly announce it through email, radio announcement and public postings. The detailed bid requirements are set forth in the instruction bid, which includes the date, time and place of opening the bids. The deadline for the submission of a bid proposal is normally 30 days from the date of announcement. At the appointed time of opening the sealed bids, the Public Contract Review Committee (Bidding Committee) opens and examines the bid proposals to ensure that all bidders comply with the terms and conditions provided in the invitation. Then, the Bidding Committee forwards all the bid documents to the Sub-Committee (Bid Evaluation Committee), who are designated to evaluate the bids for award. The Bid Evaluation Committee reviews the bids then submits its recommendation to the Bidding Committee for the decision to award the bid. For the winning bidder(s), the Planning Office prepares the notification to award as well as the procurement contract and have them review before finally releasing them to the winners. Similarly, the Planning Office formally notifies the non-winning bidders on the results of the bidding evaluation.

Members of the Bidding Committee

According to Section 11 of the Truk State Law 5-83, which provides for the establishment of the 'Public Contract Review Committee', requires that the Bidding Committee shall be composed of three members to serve for four years as follows:

- A contracting Officer who shall serve as ex-officio as member and chairman of the committee;
- The second member who shall be appointed by the Governor; and,
- The third member who shall be appointed by the Speaker of the Chuuk State Legislature.

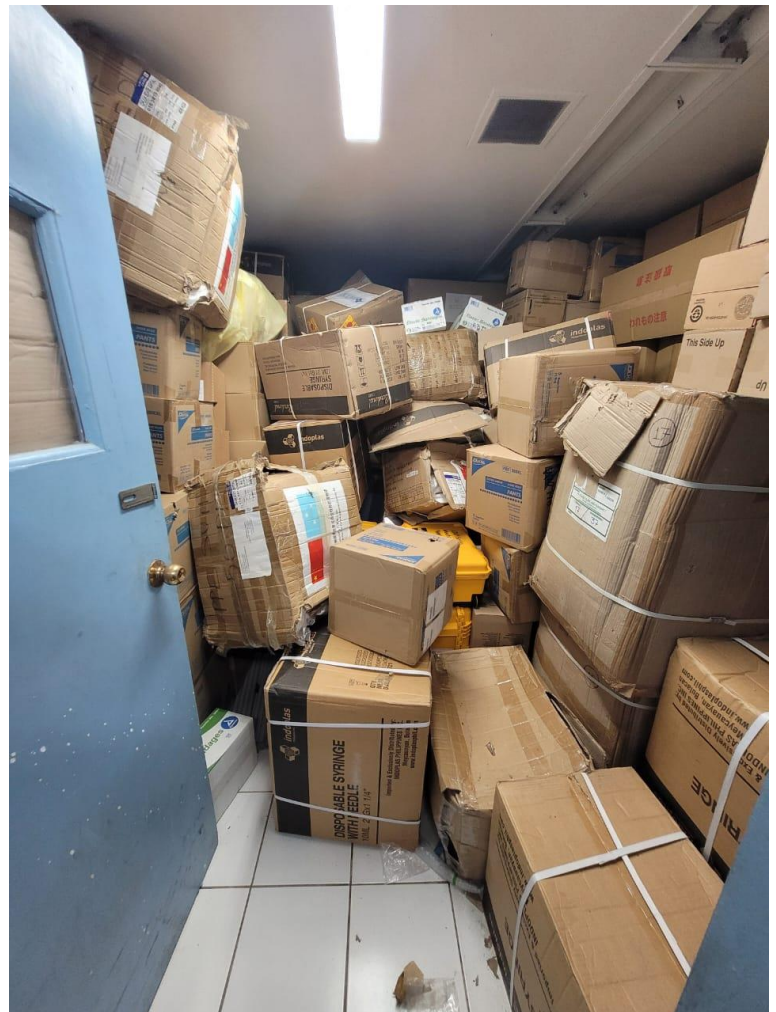
OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

Appendix D. Pharmaceutical & Medical Supplies Storages

1- Storage



Picture 1: Due to limited space, some supplies were stacked up at the walkway area that leads to the storage room.



Picture 2: Inside the storage room was disorganized and packed.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

2- Container



Picture 3: Container that holds some medical supplies and donated items was located outside the hospital.



Picture 4: Inside the container was dark, disorganized, and packed.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

3- Storage 1



Picture 5: Storage 1 was located beside the Ace Hardware Store.



Picture 6: Inside the storage 1 was dark, supplies were placed on pallets, and there is a clear walkway.



Picture 7: Some supplies in storage 1 have already expired.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

4- Storage 2



Picture 8: Inside storage 2 is not sanitized, and supplies are placed directly on the floor.

Picture 9: Termites and water leaks were destroying the supplies.



OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

5- Pharmaceutical Storage



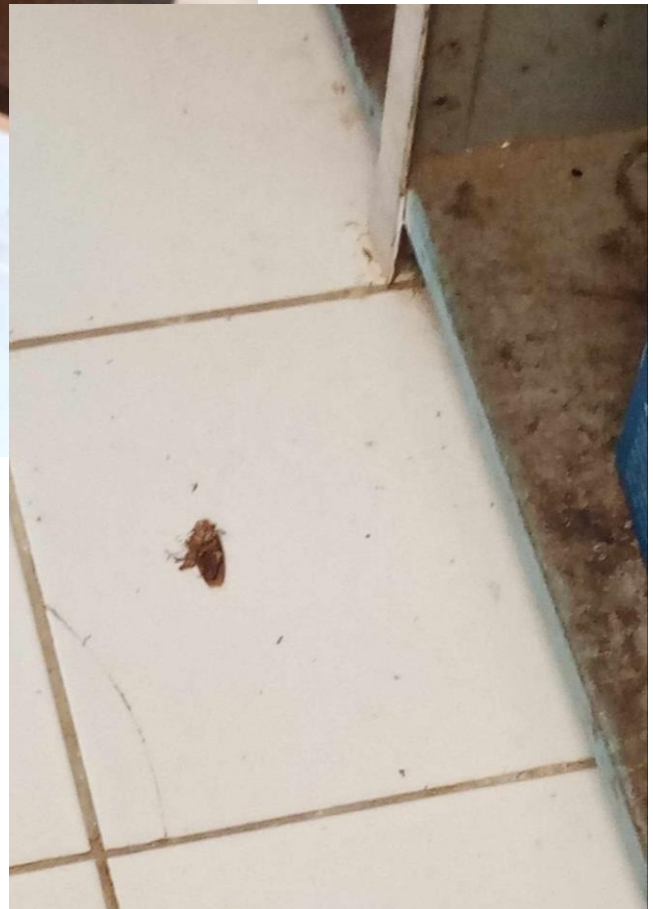
Picture 10: Inside the Pharmaceutical Storage, children medications were damaged from termites.



OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01



Picture 11: An open hole beside pharmaceutical drugs invited rats and other unwanted pests.



Picture 12: A dead cockroach was found on the floor.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01



Picture 13: Water leaked on the pharmaceutical products.



Picture 14: Mold was accumulated in the Pharmaceutical storage room.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

MANAGEMENT RESPONSE



CHUUK STATE GOVERNMENT
DEPARTMENT OF HEALTH SERVICES
State of Chuuk
Federated States of Micronesia 96942

P.O. Box 400
Phone. (691) 330-2216/2217
FAX. (691) 330-2320

Dr. Bosco Buliche : Director
Anthony Mori : Deputy Director
Friday Shomour : Hospital Administrator

November 20, 2023

MEMORANDUM

To : Public Auditor

From : The Director

Subject : Audit Response

Please find below the management response to your audit findings of the Department of Health Services which are as follows:

- a) For audit findings #1: Non compliance with Chuuk State Financial Management Act and Regulation
- i) Two samples, total of \$17,955.00 and \$23,019.90, were issued with checks without the approval from the Governor.
ANSWER: We have no control as to this particular incidence. The DAS is responsible to ensure that all signatories in the checks are signed accordingly.
- ii) A sample, total of \$19,908.80, includes a maintenance contract agreement and charge invoice from the vendor. There were missing important documents such as the requisition for each maintenance work and monthly report of vehicle (serial numbers) under maintenance.
ANSWER: We are going to ensure that in a maintenance contract agreement especially for vehicles, requisition for each maintenance work and report on the identification of the vehicles and work done on each vehicle. Lastly, we believe that this transaction was done during the COVID-19 emergency declaration which exempts us from the provisions of the Financial Management Act and its implementing regulations.
- iii) Six samples, amounting to \$125,756.40, have unclear to no justification of not selecting the vendor with the lower cost.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

ANSWER: In all our requisitions, we always provide for justification as to why the lower cost was not selected. Usually, in the procurement of medicines, reagents or those under exclusive distributorship, we select the immediate availability of stocks, comply with the contract and/or the exclusivity of the distributorship. Lastly, we believe that this transaction was done during the COVID-19 emergency declaration which exempts us from the provisions of the Financial Management Act and its implementing regulations.

- iv) A boat charter, total of \$40,000.00, was awarded to the vendor with the highest cost instead of the lower vendor. There was a justification for not selecting the vendor with the lowest price. However, there was no justification for not choosing the vendor with the second lowest cost. CSHS would have saved \$5,875.00 if it had offered the service to the second lowest vendor.

ANSWER: While this may be the case, we believe if we can check the records, the likelihood of selecting to a higher cost was justifiable, such as availability of other boat or vessels, the emergency nature of the charter or other factors that may justify for such selection. Lastly, we believe that this transaction was done during the COVID-19 emergency declaration which exempts us from the provisions of the Financial Management Act and its implementing regulations.

- v) A vehicle, with the amount of \$47,169.80, was processed without the three required quotations from different vendors.

ANSWER: We believe that this transaction was done during the COVID-19 emergency declaration which exempts us from the provisions of the Financial Management Act and its implementing regulations.

- vi) Five samples have missing attachments for bidding (e.g., Term of Bidding, Notice of Award and Formulation of pharmaceutical certified by manufacturer/supplier) amounting to \$356,480.27.

ANSWER: DHS is not the custodian of these missing bidding documents. The Division of Planning and Statistics are responsible for the custody of all bidding documents.

- vii) Others include missing purchase requisition, receiving report, travel authorization, itinerary, and indication of vehicle being fueled amounting to \$57,852.15.

ANSWER: DHS could not process with missing purchase requisitions, receiving reports, travel authorizations and fuel for vehicles. The DAS is the custodian of all of those documents and they will not allow payment without the requisite documents.

- viii) A boat, with the total cost of \$20,000, was chartered to deliver supplies to the dispensaries. However, there was no supporting evidence that the supplies were actually received by the dispensaries.

ANSWER: We are 100% sure that supplies were delivered to the intended dispensaries. We will require reports from health assistants to report such receipts of supplies in their specific assigned dispensary.

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

The audit recommendation will be taken into consideration in all future transactions and ensure compliance with the Financial Management Act and its implementing regulations.

- b) For Audit findings # 2 Check Vouchers and Supporting Documents for Transaction Worth \$354,210.73 were not on File.

ANSWER: DHS are not the custodian of those documents. DAS should ensure proper custody of those documents and comply with the recommendations.

- c) For audit findings # 3 that certain expenditure are not in accordance with the Chuuk State Government Housing Regulation.

ANSWER: During our exit conference, and even before the draft audit report, we admitted that the housing policy regulations regarding the pricing is out of date or its out of actual realities since prices of houses or apartments are expensive nowadays, and the housing regulations was issued more than fifteen (15) years ago.

ANSWER: We will work with the Public Service Commission and the Governor's Office to increase or upgrade the pricing for the housing regulations, and make representations to harmonize the existing PSC regulations and the Governor's Directive.

Recommendation: Considering that DHS is not solely responsible for the causes in this audit findings but the PSC and the Governor's Office, March 2024 resolution may not be feasible. A feasible and achievable date is not later than July 2024.

- d) For audit findings # 4 Inadequate Management of Pharmaceutical, Medical Supplies, and Donated Items.

1. Lack of Accountability of Pharmaceutical, Medical Supplies and Donated Items Inventory On September 8, 2023, we selected 28 samples for physical count to test the accuracy of the pharmaceutical inventory. Out of the 28 samples, 14 do not equal the ending balance in the system, 50% exception (Appendix F). We were told that the system was partially updated in July 2023. To consolidate the data, we selected seven out of the 14 exceptions and requested for their receiving and issuance count from July to September. However, the consolidated ending balances for all seven samples do not equal to our physical count, 100% significant.

ANSWER: Considering the lack of manpower to assist the auditors, this finding is questionable. During those times, the storeroom was in the middle of receiving the bid items and could not attend to what the needs of the auditor's office.

2. Regarding medical supplies and donated items, the Chuuk State Health Services do not have an inventory system to account for and monitor them. The inventory manager was only keeping track of the receiving and issuance of supplies. In 2022, there was absolutely no monitoring of the purchases, receiving, or issuance of these items. The accountability for stock items may not be properly established due to the lack of an appropriate inventory system. The unaccounted pharmaceutical products amount to \$8,754.67. The CSHS inventory stock and

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

valuation were not accurate due to the untimely reporting and unaccounted pharmaceutical products from the current system.

ANSWER: The inventory system crashed and we are manually inputting any inventories received and issued.

3. Furthermore, a substantial amount of \$432,514.32 of medical supplies has not been accounted for (Refer to Appendix G). There was no way of monitoring if these purchased medical supplies had been received by the hospital or issued out from the storeroom.

ANSWER: We actually have the receiving reports duly checked and signed by Supply Office of DAS and issuance to pharmacy, dispensary, wards, units, CHC and other Divisions as to the medicines they received. However, we could not provide the summary of the inventories of the medical supplies since our storage are in three (3) different places.

Recommendation: We will comply with the recommendation to prioritize the purchase and installation of an inventory system with bar code scanner with a staff to exclusively input and update the system but considering these requires budget considerations, the recommended date of May 2024 may not be feasible since DHS current budget do not support such expenditures. May 2025 is doable since we will be including these proposed expenditures to our proposed FY 2025 budget.

In the meantime, we will try to use an alternative system (e.g., Microsoft Excel) to manually input and monitor the inventory data for medical supplies. This should be in place by April 2024. By April 2024, CSHS management should hire or designate an individual to solely be responsible for updating the Excel File for pharmaceutical and medical supplies.

4. Packed Warehouses

ANSWER: The existing storeroom are just inadequate for the storage of medicines and medical supplies either donations or otherwise. That's the reason why we use containers and lease other storage areas.

Recommendation: While waiting for the construction of the new Hospital, we requested funding for the improvement of the existing storeroom, expansion and construction of a warehouse. However, funding for this has been declined. We will include in our proposed FY 2025 budget the construction, improvement and expansion of the storeroom. However, the recommended date of March 2024 is highly improbable since this project requires substantial budget. A practical date is March 2025 to source funding and complete construction.

5. Improper Segregation of Duties

ANSWER: We do not have sufficient staff to do all the required duties.

Recommendation: We will consider the recommendation and work with PSC and our Human Resources to streamline the duties and responsibilities hire new employees, conduct trainings and workshops. However, the recommended date of February 2024

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

and May 2024 is not feasible considering budget is required to hire additional staff. We will include in our proposed FY 2025 budget the hiring of additional staff for the store/supply room. Hence, we can initiate the hiring of additional staff by December 2024 if the budget will be approved.

Thank you and let us know if you have any questions.

Cc : Director, DAS
: Executive Director, PSC
: Administrator

File

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

OCPA's EVALUATION OF MANAGEMENT RESPONSES

Public Auditor's counter response to RIC's Final Management Response

1. Regarding the audit samples with missing approval of the Chuuk State Governor on payments exceeding \$10,000, the Department of Health Services (DHS) stated that the Department of Administrative Services (DAS) is solely responsible to ensure that all signatories in the checks are signed accordingly.
 - **The DHS agreed to our findings and recommendations.**
2. Pertaining to the audit sample including a maintenance contract agreement with incomplete supporting documents of vehicles under inspection, DHS stated that it will ensure that maintenance contract agreements, especially for vehicles, should include requisition for each maintenance work, report on the identification of the vehicles and work done on each vehicle. DHS claimed that this transaction was done during the COVID-19 emergency declaration, which exempt them from the provisions of the Financial Management Act/Regulation.
 - **The purchase order for the maintenance contract was created on 12/18/2019, which was dated before the COVID-19 Declaration of State Emergency. Therefore, this transaction was not exempted from the Financial Management Act and its implementing regulations. The DHS agreed to implement the audit recommendation.**
3. Pertaining to the absence of justification on why vendors with the higher costs were selected over the vendors with the lower costs, DHS stated that it will ensure that justifications were provided as to why the vendor with the lower cost was not selected. It also claimed that this transaction was done during the COVID-19 emergency declarations, which exempt the DHS from the Financial Management Act/Regulation.
 - **In one of the audit samples, the DHS provided the justification for not selecting the vendor with the lowest cost but failed to justify why the second lowest vendor was not selected. In a similar transaction, the DHS in fact obtained three quotations, which was a requirement in the financial regulation. Since DHS already attached these required information per the financial regulation, the COVID-19 Declaration of State Emergency cannot be used as an excuse to ignore other provisions, such as justifying the choice of selecting the highest quote.**
4. Regarding the audit sample including a vehicle without the required three quotations, DHS claimed that the transaction was done during the COVID-19 emergency declaration, which exempt the DHS from the Financial Management Act/Regulation.
 - **Almost all our sampled transactions were done during the COVID-19 emergency declaration and almost all of the requisitions include at least three quotations, as required by the financial regulations. Therefore, the emergency declaration cannot be used as an excuse for not obtaining quotations for the transaction noted.**
5. Pertaining to the samples with missing attachments for bidding (e.g., Term of Bidding, Notice of Award, and Formulation of pharmaceutical) amounting to \$356,480.27, the DHS stated that all bidding documents were collected at the Division of Planning and Statistics.
 - **The DHS agreed to our findings and recommendations. We will obtain this document from the Division of Planning and Statistics. However, in the future, any required supporting document filed elsewhere should be noted in the document checklist attached to the check voucher package.**

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

6. Regarding the audit samples including missing purchase requisition, receiving report, travel authorization, itinerary, and indication of vehicle being fueled amounting to \$57,852.15, the DHS stated that the DAS is the custodian for these documents and should not allow payment without the requisite documents.
 - **The DHS agreed to our findings and recommendations.**
7. On Audit Finding #2, Check Vouchers and Supporting Documents for Transaction Worth \$354,210.73 were not on file. DHS indicated that DAS should ensure proper filing and documentations of transactions and should comply with the recommendations.
 - **The DHS agreed to our findings and recommendations.**
8. Regarding the finding on housing allowances and regulation, DHS stated that the housing directive and regulation were out of date or out of actual realities of current housing pricing. Also, it agreed to coordinate with the Public Service Commission and the Governor's Office to upgrade the government housing rates. DHS requested for an extension to no later than July 2024.
 - **The DHS agreed to our findings and recommendations. To accommodate the DHS request, we have changed the date of implementation from March 2024 to no later than July 2024.**
9. Pertaining to the audit finding on discrepancies in amounts for pharmaceutical products between the retrieved data from the inventory system and the auditors' physical count, DHS stated that the storeroom was busy and short-staffed; therefore, it was difficult to assist the auditors during their fieldwork.
 - **If the DHS had the sufficient manpower to constantly update the system and properly organize its inventories, finding the certain products would not have been an issue. They agreed to our findings and recommendations.**
10. Pertaining to the lack of an appropriate inventory system that effectively capture and generate accurate data on pharmaceutical products, medical supplies, and donated items, the DHS confirmed that its previous inventory system was crashed. Therefore, the store room was manually inputting data for pharmaceutical products only.
 - **The DHS agreed to our findings and recommendations.**
11. Pertaining to the lack of accountability for medical supplies that resulted in a substantial purchases amount of \$432,514.32 left unaccounted, the DHS stated that they have the receiving reports for these supplies duly checked and signed by DAS and issuance reports indicating that supplies were issued to pharmacy, dispensary, wards, units, CHS and other divisions. However, there was no summary (inventory system) for such exchanges given that the storages were in three different places.
 - **This finding was focused on the *lack of accountability for medical supplies and donated items*. Accountability, in this context, refers to the existence of actual balances of beginning and ending inventories. It does not allude to only the collection of documents such as receiving and issuance reports. Without the inventory system, it will be difficult to ascertain the custodian's accountability for the inventory at a given time of the year.**
 - **The DHS agreed to our recommendations. However, it requested that the implementation date of purchasing and installing the inventory system with bar code scanner be changed from May 2024 to May 2025. We also changed the dates for DHS to utilize an alternative system and hire a designated individual to update the inventory system from February and March 2024 to April 2024. Although we have changed the dates, we believe this will be an**

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

issue given that the annual inventory of pharmaceutical and medical supplies was estimated to worth \$1 million; thus, it is crucial that a reliable inventory system be implemented in 2024 that would effectively manage and track inventory, determine the re-order point, and identify excess inventory, slow, non-moving, and expired items. The inventory system would also ensure protection of inventory from theft. The inefficiency and ineffectiveness of managing the inventory would unnecessarily continue if the DHS would wait for 2025 for the installation.

12. Pertaining to the audit finding on packed warehouses/storages, DHS attested that the existing storages were inadequate.
 - **DHS agreed to our findings and recommendations. To accommodate the DHS request, we have changed the implementation date of constructing a new warehouse from March 2024 to March 2025 due to budget restraints. However, as suggested, the contents in the existing four packed warehouses/storages should be investigated for possible disposition of certain items.**

13. Pertaining to the audit finding on improper segregation of duties, DHS affirmed that it does not have the sufficient staff to do all the required duties.
 - **DHS agreed to our findings and recommendations. To accommodate the DHS request to extend the date, we have changed the implementation date of hiring additional staffs from February and May 2024 to December 2024. However, we believe that if the implementation of this recommendation (to hire additional staff for proper segregation of duties and increase productivity of work) is further postpone, the DHS will continue to be at risk of inventory error, theft, and fraud as well as neglect other duties due to the shortage of staff. Proper segregation of duties and sufficient manpower would provide accurate, efficient, and effective protection, control, and management of inventory of pharmaceutical and medical supplies which are considered valuable assets given the total inventory cost.**

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff DHS and the DAS I for their assistance and cooperation during the course of the audit.

We have provided copies of the final report to the Governor, Senate and Members of the Representatives for their use and information. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office can be found on the last page of this report along with the Public Auditor and staff that made major contributions to this report.



Manuel L. San Jose Jr.
Public Auditor
Chuuk, State

December 5, 2023

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
Audit of the Chuuk State Department of Health Services
FY 2020-2022
ASSIGNMENT No.: 2023-01

OCPA CONTACT AND STAFF ACKNOWLEDGMENT

OCPA CONTACT:

Manuel L San Jose Jr.
Public Auditor
Telephone: (691) 330-8832/5

ACKNOWLEDGEMENTS

In addition to the contact named above, the following staff made key contributions to this report:
Rosalinda Mori, Auditor-In-Charge
Shannaleen Braiel, Assisting Auditor

OCPA MISSION

We conduct audits and investigations to promote good governance, accountability and transparency and to prevent fraud, waste and abuse in the use of public funds

Copies by mail or phone:
Office of the Chuuk State Public Auditor
P.O. Box B Weno, Chuuk FSM 96942

CONTACT Email: rmori@fmocpa.com Telephone: (691) 330-8832/5 Hotline: (691) 330-8845