

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**MiCare Plan Challenged by Oversight and Management Issues;
New Team Optimistic About Future Prospects**

Audit Report No. 2019-01



Haser H. Hainrick
National Public Auditor



FEDERATED STATES OF MICRONESIA

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November 28, 2018

Excellency Peter M. Christian, President
Honorable Members of the FSM Congress

RE: MiCare Plan Challenged by Oversight and Management Issues; New Team Optimistic About Future Prospects

We conducted an audit of the MiCare operations pursuant to the Public Auditor's authority as codified under Chapter 5, Title 55 of the FSM Code. This audit was focused on the Plan's administration, including oversight and monitoring arrangements, for the Health Insurance Plan.

The objectives of this audit were to determine whether (a) the management and oversight systems provide adequate assurance that operational goals and objectives are achieved, and (b) MiCare has implemented a proper system for monitoring, reviewing and reporting, including assessing priorities, consistent with the aims and objectives of the Health Insurance Plan.

Based on our audit findings, we conclude that the Board and Management exposed the Plan and took risks that had no corresponding internal controls to mitigate them to an acceptable level. The risks in various processes were not mitigated by systems in place (internal controls), that should have been expected to adequately identify, measure, monitor, and most importantly, control the risks to the acceptable level. As a result, the Board and Management did not adequately fulfill their responsibilities to ensure that the Plan operated in a safe and sound manner; the Plan's overall financial condition improved rather than declining and incurring substantial financial losses; and depletion of the Plan's capital leading to a need for a considerable capital infusion for the Plan to survive. Our audit has disclosed the following weaknesses:

- (i) There is inadequate Corporate Governance;
- (ii) Management had inadequate annual budget that failed to implement Strategic Plan of the organization in order to achieve goals and objectives promulgated therein;
- (iii) Lack of risk management policy and framework;
- (iv) Lack of performance evaluations for the Administrator and Senior Management;
- (v) There was absence of effective information and communication technology (ICT) controls resulted in breakdown of MiCare's operations and loss of critical data;

- (vi) Absence of performance results/measures to implement monitoring and reporting controls;
- (vii) Management has not developed adequate internal policies to provide necessary direction and guidance in managing their day-to-day operations;
- (viii) There was absence of code of ethics and independence declaration for Senior Management and Board of Directors; and
- (ix) The Board and Management failed to provide effective oversight and guidance on management of the Plan's accounts receivable.

Our recommendations are as follows:

1. Corporate Governance

- (i) The Board of Directors of the Plan should ensure that meetings aimed at reviewing the performance of the Plan are held after the end of every financial quarter and before the end of the following quarter; and
- (ii) Board Meeting Minutes should be appropriately documented to ensure that their intended purposes are met, which include, but not limited to, decision making and corporate memory.

2. Annual Operation Plan and Budget

The Plan prepare a comprehensive 'annual operational plan and budget' based on the approved Strategic Plan to guide the management in utilizing the limited resources especially for priority areas. The operational plan will also ensure that all activities are aligned with the overall vision of its current Strategic Plan (2014-2018) and clearly show anticipated performance results (both financial and non-financial) over the period of the Plan.

3. Risk Management

- (i) The Plan to develop and adopt an appropriate formal risk management policy and framework and procedures;
- (ii) Conduct awareness through capacity building to members of the Board, Management and entire staff; and
- (iii) To ensure that the developed and adopted Risk Management Policy and Framework and Procedures are used for strategic and operational plan and implementation thereon.

4. Performance Evaluation

Develop an annual performance evaluation process for senior management (including the Administrator) of the Plan to:

- (i) formally evaluate the senior management's performance against the established duties and objectives that were agreed to by the Board and the Administrator at the start of the year;
- (ii) discuss and agree on performance measures for the subsequent year; and
- (iii) communicate the results of the evaluation.

5. Information Technology

- (i) Develop, test and implement business continuity and recovery plan including backup procedures for ICT systems; and

- (ii) Employ qualified ICT personnel to ensure management information system is adequately managed, supported and maintained.

6. Performance Monitoring and Reporting

The Plan to establish appropriate performance indicators or targets, and implement adequate measurement, monitoring and reporting of the Plan's performance to ensure an effective service delivery through the achievement of goals and objectives.

7. Internal Policies and Procedures

The Plan to develop and establish internal policies and procedures and the related accountability requirements, as guidance to all MiCare's key activities and processes.

8. Code of Ethics

- (i) The Plan to develop a *Code of Ethics* to provide guidance on the ethical behavior required for Members of the Board of Directors; and
- (ii) To develop a process to ensure that all new Board Members sign 'independence declaration forms' to confirm their independence before commencement of board duty.

9. Collection of Accounts Receivable

- (i) The Plan to assign and build the capacity of staff responsible for monitoring, reporting and collection of accounts receivables;
- (ii) The Plan to ensure Accounting Division submit accurate and timely accounts receivable information on weekly and monthly basis annually; and
- (iii) The Plan to develop and implement policies and procedures for credit and collection for all receivables.

We discussed the contents of the report with the Board and Management and provided them with copies of this report for their response. Management provided their response, which appears on pages 23 to 25, and they generally agreed with the findings and recommendations.

Respectfully yours,



Haser Hainrick

National Public Auditor

- Xc:
- Vice President, Government of Federated States of Micronesia
 - Chairman of the Board of Director, MiCare Health Insurance Plan
 - The Administrator, MiCare Health Insurance Plan

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1.0 INTRODUCTION

1.1. Background of the MiCare Health Insurance Plan (the Plan)

The FSM National and State governments have been responsible for providing subsidized healthcare to their citizens. However, the pressure on budgets arising from population growth increased the need to share the cost with health recipients. In 1984, the FSM National Government passed Public Law 3-82 to provide for a National Government Employees' Health Insurance Plan (NGEHIP). The original health plan was limited to government employees for the FSM National Government, and enrollment was optional. Over time further Public Laws were passed to extend the coverage to:

- Employees of the FSM State Governments and Agencies (1990, PL 8-53)
- Employees in private businesses, their dependents and household members (1994, PL 8-133)
- All FSM workforce (2007, PL 15-52)

Previously the day-to-day administration for the NGEHIP was carried out by the FSM Department of Finance and Administration. However, in 2002 the administration was transferred to a seven (7) member Board of Directors with day-to-day management authority delegated to an 'Administrator' who is appointed by the Board (PL 12-77). The NGEHIP was also renamed the MiCare Health Plan (the 'Plan').

The Plan's main office is located in Kolonia, Pohnpei and also has offices in the other FSM states and in Manila, Philippines.

1.2. General Powers and Duties of the Board of Directors

The Board has responsibility for overall governance, to promote the soundness, stability, growth and development of the Plan. The responsibilities of the Board include setting the entity's strategic aims, providing leadership to implement the strategic goals, supervising management and reporting to members and stakeholders on their stewardship.

1.3. Responsibility of the Plan Administrator

The current Administrator, who assumed office in February 2017, is responsible for the proper day-to-day operations of the Plan, has power to delegate duties and responsibilities to such employees of the Plan as she deems feasible and desirable to carry out the provisions of the law. There are twenty-three (23) employees working under her direction as of May 2018.

1.4. The Program

Participation in the Plan is optional for employees and employers, both public and private entities in the FSM, with the exception of FSM National Government employees whose enrolment in the program is mandatory. Premiums are paid on a fixed bi-weekly rate for the five plan options. The Plan pays up to a maximum amount of \$50,000 for a medical claim. MiCare has five types of plans:

- (i) Basic Plan (BA) which covers the primary insurer and up to four (4) dependents. Additional dependents are priced accordingly.
- (ii) The Supplemental Resident (SR) Plan provides basic health care coverage, plus supplemental health care coverage, to the primary insurer and up to four (4) dependents. Additional dependents are priced accordingly.
- (iii) The Non-Referral (NR) Plan provides basic health care coverage to the primary insurer, without off-island referrals. No dependents are covered as part of this Plan. Each dependent added is priced accordingly.
- (iv) The Supplemental, Non-Resident (SNR) Plan provides basic health care coverage to the primary non-resident insurer and up to four (4) dependents. Additional dependents are priced accordingly.
- (v) The Regional/International Resident Worker (RI) Plan provides basic health care coverage to resident workers of regional or international organizations located in FSM.

Premiums are based on fixed bi-weekly rate of \$10 for Basic Plan, \$25 for Supplemental Resident, and \$35 for Supplemental Non-Resident paid by the employers and employees in the following manner: National Government – 52% and the employee – 48%. Other employers may choose to pay 54% or more.

1.5. Health care providers for the Plan

The local state hospitals are the primary health care providers for the Plan. A Memorandum of Agreement (MOA) that provides the 'terms and conditions' between the Plan and state hospitals are in place. The program works with all the state hospitals and with private providers like medical clinics, optical, dental clinics and pharmacies in providing these services to Plan members. State hospitals are being paid through a monthly capitation fee based on the actual numbers of enrolled members in each state. Private clinics and pharmacies are compensated through a reimbursement type of payment. The capitation payments involved disbursement of 30 percent of total premiums collected for that month from residents of each State. In FY 2017, the Board directed management to include premiums collected from the National Government employees domiciled in each State to the calculation of the 30 percent capitation payout. This increases the payments to the State

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Hospitals from \$1,226,270 in FY 2016 to \$1,367,843 in FY 2017. Capitation Contract between MiCare and the state hospitals do not require the submission of any supporting documentation for the services provided. There are no reports on medical billings and services provided under the capitation arrangements from the state hospitals.

1.6. MiCare's Second Five-Year Strategic Development Plan (2014-2018)

1.6.1. MiCare's Vision

The MiCare Health Plan envisions itself to be a deficit-free program, providing health insurance coverage to at least 75% of the FSM residents and qualified FSM citizens currently residing in other jurisdictions.

1.6.2. MiCare's Mission

MiCare Health Plan is dedicated to the providing of quality health insurance services in partnership with the National, State, Municipal Governments and Private Sector. It continually strives to be a prominent role model in the delivery of excellent and comprehensive health insurance coverage in the Micronesian region in close collaboration and coordination with all the affiliated in-country and off-island affiliated health care providers.

The MiCare Strategic Goals and associated Objectives for the five (5) years (FY2014 to FY2018) are to strengthen MiCare's financial solvency and operational efficiency, and to universalize enrolment of the Plan. The Plan is organized into the following Strategic Goals:

The Strategic Goal 1 is designed to strengthen the financial position of the Plan. It carries 11 objectives addressing issues that include net assets growth, claim audits, chronic refill modifications, diagnostic facilities endorsement and implementations.

The Strategic Goal 2 seeks to intensify efforts to increase memberships. Its five objectives include participation of Yap State Government and COM students in MiCare enrolment, mandatory enrolment at the states, and the endorsement and implementation of a universal coverage policy.

The Strategic Goal 3 addresses initiatives to diversify coverage benefits, including the addition of life, travel, and funeral program benefits. Additionally, there are specific planned activities to establish separate "household" and "referral" funds for each enrollee, enabling them to include an unlimited number of dependents while exercising self-control in utilizing the funds.

1.7. Current challenges

1.7.1. Change in senior management

MiCare has recently filled the vacant 'Administrator' position in February 2017. This is a key post that will take some time to orient on the key issues facing MiCare

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and establishing a way forward. In addition to that, the Board of Directors has been operating with some vacant positions i.e. Chuuk State and private sector representatives.

1.7.2. Change in information technology

In 2015, MiCare implemented a new automated billing system that replaced the QuickBooks system they were using and also integrated their system with their service providers and claims. The Medical Assistant Software (MAS) monitors members' utilization and allows them to access their eligibility status relative to the following:

- (i) The system can allow access and data build-up functionality for their accredited provider networks;
- (ii) The system can allow the accredited provider to directly encode the claims for MiCare to view and reports in real time; and
- (iii) The general ledger system that can streamline business processes to eliminate work duplication which increases efficiency. It also provided management and users with accurate and real time business information relevant in making timely and well-informed decisions.

Medical Assistance Software (MAS)/SAP One system is a single, integrated solution that provides clear visibility into the entire organization and complete control over every aspect of MiCare's operations. It captures all critical business information for immediate access and use company-wide, including:

- (i) Accounting and Finance
- (ii) Customer/Provider Management
- (iii) Purchase Operations
- (iv) Reporting and Administrations

New and innovative technology brings with its many benefits, but also increases the risk of the unknown and also failure. The new system would be central to MiCare operations, and hence it was important that the project be appropriately managed to protect the data being migrated and ensure that the technology would deliver what was envisaged.

1.7.3. Financial results

The latest financial results recorded the following highlights:

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Table 1.0: Financial highlights

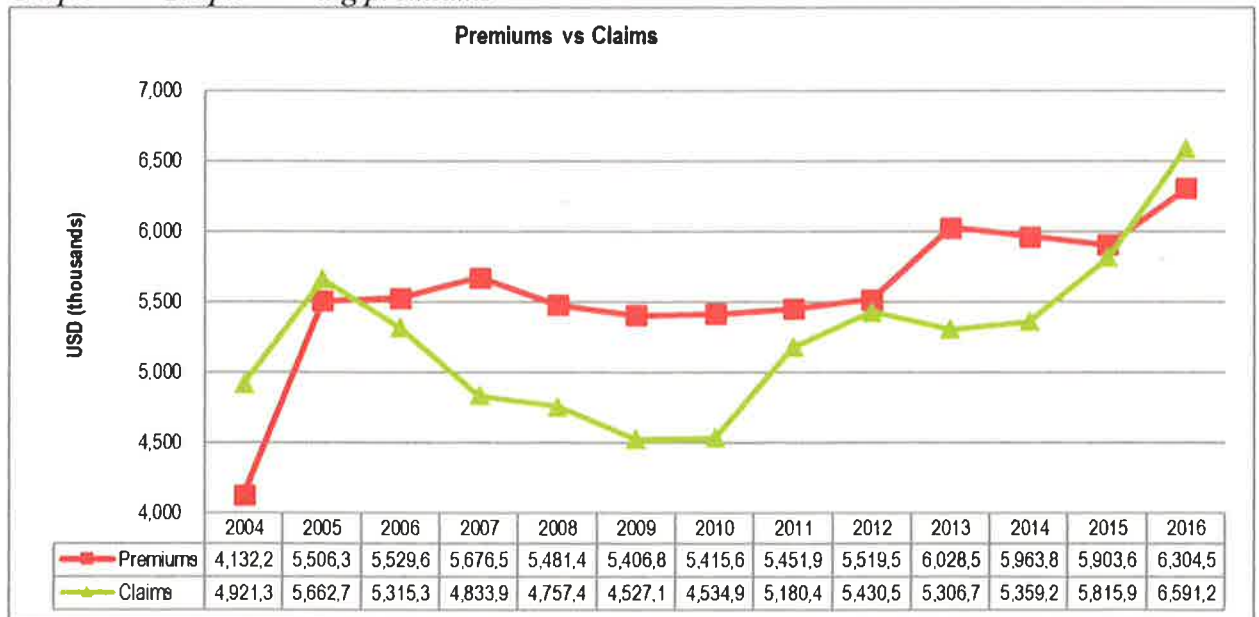
Balance	2017	2016	2015	Increase/ (decrease)	Increase/ (decrease)
	A	B	C	(A-B)	(B-C)
<i>Net position</i>	(1,143,942)	(449,795)	367,805	(694,147)	(817,600)
<i>Total liabilities</i>	5,284,856	3,059,856	2,012,979	2,225,120	1,046,877
<i>Gross receivables</i>	522,558	485,822	383,126	36,736	102,696
<i>Allowance for doubtful debts</i>	493,961	466,742	357,395	26,949	109,347
<i>Total operating revenue</i>	6,420,104	6,307,516	5,941,554	112,588	365,962
<i>Other non-operating revenue</i>	503,665	96,519	97,793	407,146	(1,274)
<i>Total medical claim expenses</i>	7,137,451	6,591,273	5,815,946	546,178	775,327
<i>Total other operating expenses</i>	480,465	630,362	553,178	(149,897)	77,184

From the results above, there are a number of matters impacting the financial performance and financial position of the Plan:

(i) Claim payouts exceeding premiums collected

In each financial year, the Plan should ensure that ‘premiums collected’ exceed ‘claim payouts’. This is to enable the financial sustainability of the Plan and in particular allow for any excess to be invested. In 2016 ‘total medical claim expenses’ exceeded ‘total premiums collected’. The Plan is unable to sustain this shortfall and will require management intervention to actively manage this situation consistent with its Vision to be deficit-free.

Graph 1.0: Graph showing premiums vs claims



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(ii) Chronic Refill Option Program

Section 7.8 (d) of the MiCare Regulations describes the **Chronic Refill Option** as “*option for covered person who requires medication on a regular basis*”. Under this Option, the Plan covers a 30 days’ supply of as many prescriptions as necessary, per month, per year. To access this Option, the covered person must pay an annual deductible of \$200 to the Plan. The patient charges per prescription still apply under this Option. This Option may be renewed every year for as long as the insured person chooses. Again, the program is not ‘self-funding’ i.e. we found that there are only 162 individuals of the MiCare members who received chronic medication refills in FY2016 and 257 individuals in FY 2017.

We also found that the *annual payments for chronic refills are heavily subsidized*, by about \$313,662.27, assuming there is no increase in the number of chronic patients. For each patient, the Plan pays an annual average of at least \$2,136.19. The patient contributes \$200.00 to this average cost. The reported amounts of chronic refill option utilization only reflect utilization from the private health providers due to absence of documented utilization from the *States hospitals*. Overall, this benefit has been viewed financially as not viable and eliminating the benefits was considered at one point. However, it was opted to increase the fee as a step forward to eventually having the **chronic refill** integrated into the pharmaceutical fee schedule. The average annual subsidy to the chronic refill program is \$283,898 over the last four fiscal years and places further pressure on the financial performance of the Plan as it is running in a deficit situation. Table 2.0 below summarizes the results under this program:

Table 2.0: Chronic refill option summary

<i>Description</i>	<i>2017*</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>
<i>No. of Participants</i>	257	162	235	282	344
<i>Annual Deductibles</i>		\$200	\$200	\$200	\$200
<i>Total Deductibles</i>		\$32,400	\$47,000	\$56,400	\$68,800
<i>Claims Paid</i>		\$346,062.27	\$190,540	\$305,112	\$293,876
<i>Claims Paid above Deductibles</i>		(\$313,662.27)	(\$143,540)	(\$248,712)	(\$225,076)
<i>Utilization per Member</i>		\$2,136.19	\$811	\$1,082	\$854

*Data on the cost of Chronic Refill Program was not recorded by MiCare for FY 2017.

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(iii) Other Operating Expenses

Other operating expenses include the costs of administration, i.e. Personnel, Travel, Contractual, OCE and Fixed Assets. Title 52 FSM Code states that “a sum representing not more than ten percent of the estimated income for that year from contributions and income on investments may be expended for cost of administration. During the FY2016, the total operating expenses increased to \$630,362 from \$553,178, in FY 2015, an increase of \$77,184, without any corresponding increase in revenue to cover such costs. This was a 14% increase in other operating expenses over the two-year period. This has placed more pressure on the *net result* at the end of the year given the fact that *medical claims* exceeded premiums by \$286,764.

(iv) Gross Receivables and Doubtful Debts

Accounts receivable mainly include *patient's share* of the medical billings paid by the Plan. The Plan establishes an allowance for uncollectible accounts based on the credit risk of specific customer, historical trends and other information. The allowance for uncollectible accounts is stated at an amount which Management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

As noted above, ‘Gross receivables’ increased to \$522,558 and there was also a corresponding increase in the ‘Allowance for doubtful debts’ to \$493,961. This means that MiCare has deemed that only \$28,597 is collectable. The receivables are made up of costs that MiCare members are required to cover personally and repay MiCare i.e. some travel costs (referral program) and also other costs relating to medical conditions/procedures not covered by MiCare (Promissory Notes Program). However, regardless of how the debt is incurred, further interventions are required to follow up outstanding debt and also consider whether the Plan should be incurring such debts on behalf of their members.

(v) Referrals

Part 5 of the MiCare Regulations establishes the manner and procedures for review and approval of referral treatments. As of FY2015, several amendments were made, including the Veteran Referral Benefit, Cost-Sharing of airfare, and coverage of patients during referrals. In such cases, patients are requested to share some of the travel costs to reduce the burden on the Plan.

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(vi) Promissory Notes Program

In 2010, the Plan instituted an easy repayment approach to assist referral patients who encounter difficulties in advancing 50% of prosthesis costs (artificial hips, stent, etc.). The approval process included a notarized Promissory Note committing a patient and/or family member(s) to repay the amount owed upon returning from referral treatment. The promissory note program is available to the approved 'basic referral' patients who are required to pay 50% of their prosthesis treatments. It is restricted for use in the following situations:

- (a) Payment of patient's 5% share of the air fare;
- (b) Payment for \$100 co-payment;
- (c) Equipment and services not covered by MiCare; and
- (d) Medical services not approved for basic referrals.

The period of repayment, as stipulated in the signed Promissory Note, is six (6) months. Table 3.0 below presents the balances of the Promissory Notes Program for FY's 2013 to 2016.

Table 3.0: Promissory Notes Payment vs. Outstanding

Description	2017	2016	2015	2014	2013
Total Amount of Promissory Notes	455,873.08	439,675.70	625,503	259,672	157,178
Amount Paid Off	21,418.17	20,346.81	63,085	96,336	63,082
Amount Not Paid Off	434,454.89	419,328.89	\$562,418	163,336	94,096
% Paid Off	5%	5%		37%	40%
% Not Paid	95%	95%	10%	63%	60%

The longer such debts are not collected, the less likely the Plan will be able to recover these funds. This Program places further pressure on the financial situation of the Plan. The Plan needs to implement procedures to recover debts timely and completely or else consider whether they should be taking on such debt on behalf of its members.

2.0 OBJECTIVES, SCOPE AND METHODOLOGY

2.1. Objective

The objectives of this audit were to determine whether the Plan:

- (i) Implemented effective oversight and management systems to ensure that operational goals and objectives are achieved.
- (ii) Implemented a proper system for monitoring, reviewing and reporting, including assessing priorities and their consistency with the aims and objectives of the Plan.

2.2. Scope

This audit covered the Plan's operations for fiscal years 2013 to 2017.

This audit focused on the Plan's administration, including oversight and monitoring arrangements.

We performed the audit fieldwork at the Plan's Main Office located in Kolonia, Pohnpei.

We conducted this audit pursuant to the authority vested in the Public Auditor as codified under Chapter 5, Title 55 of the FSM Code, which states in part:

"The Public Auditor shall inspect and audit transactions, accounts, books and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government."

2.3. Methodology

To accomplish our audit objectives, we performed the following:

- (i) To determine whether management and oversight systems provide adequate assurance that operational goals and objectives are achieved, the audit team:
 - (a) Reviewed CFSM's intents and purposes for the Plan as stated in PL 10-82 as amended;
 - (b) Reviewed minutes of Board meetings;
 - (c) Interviewed Board members;
 - (d) Reviewed regulations, policies and procedures;
 - (e) Reviewed financial and operational reports;
 - (f) Obtained, summarized, and analyzed various operating data including cost structures; and,
 - (g) Obtained and summarized premium collections.

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- (ii) To determine whether the Plan has implemented a proper system for monitoring, reviewing and reporting to the President and Speaker of Congress including assessing priorities for the Health Insurance Plan, consistent with the aims and objectives of the Plan, the audit team:
 - (a) Obtained and reviewed the related provisions of the laws, regulations, policies and procedures regarding the Plan's reporting and monitoring requirements;
 - (b) Obtained and reviewed the documentations and the activity reports related to the Plan services and activities;
 - (c) Reviewed the performance measurement, monitoring and reporting requirements with respect to the Plan's services; and,
 - (d) Interviewed key management officials to obtain their views on the existing reporting and monitoring activities.

We conducted this audit in accordance with the standards for performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence that we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

2.4. Prior Audit Coverage

This is the first performance audit conducted by ONPA on the performance of the Plan and its operations.

3.0 AUDIT CONCLUSION

Based on our audit findings, we conclude that the Board and Management exposed the Plan and took risks that had no corresponding internal controls to mitigate them to an acceptable level. The risks in various processes were not mitigated by systems in place (internal controls), that should have been expected to adequately identify, measure, monitor, and most importantly, control the risks to an acceptable level. As a result, the Board and Management did not adequately fulfill their responsibilities to ensure that: the Plan operated in a safe and sound manner; the Plan's overall financial condition improved rather than declining and incurring substantial financial losses; and the depletion of the Plan's capital leading to a need for a considerable capital infusion for the Plan to survive. Specifically, we found that:

- (i) Corporate governance was inadequate;
- (ii) Annual budget was inadequate and failed to implement strategies and activities of the organization in order to achieve goals and objectives promulgated therein;
- (iii) Risk management policy and framework was lacking;

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- (iv) Internal policies were lacking to provide necessary direction and guidance in managing the day-to-day operations;
- (v) Effective information and communication technology controls were lacking and resulted in the breakdown of the Plan's operations and loss of critical data;
- (vi) Code of ethics and independence declaration for Senior Management and Board of Directors were lacking;
- (vii) Performance results/measures to implement monitoring controls was lacking;
- (viii) Performance evaluations for the Administrator and Senior Management were lacking;
and
- (ix) Effective oversight and guidance on the Plan's accounts receivable was lacking.

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

4.0 FINDINGS AND RECOMMENDATIONS

4.1 Inadequate Corporate Governance

4.1.1. Findings and Analysis

(i) Holding of Meetings

Based on the Act establishing the Plan (MiCare), the Board of Directors is required, in order to ensure that it effectively and efficiently deliver its oversight responsibilities to the Plan, to hold at minimum 2 meetings annually.

During the financial years (2013-2017) under review, the Board held board meetings as follows: FY2013 – 4 meetings; FY2014 - 2 meetings; FY2015 - 2 meetings; FY 2016 – 5 meetings; FY2017 - 4meetings.

The Financial Management Act of the Federated States of Micronesia, section 226 (1) (a) requires quarterly financial reports, which is in line with best practice. It is therefore prudent, where the Board intends to give effective and timely oversight guidance to the Management of the Plan, to hold meeting after every financial quarter.

It is our view that the trend shown by the Board in holding of its meetings does not meet the minimum requirements that would enable it to give effective and oversight guidance to the management of the Plan.

(ii) Minutes of Meetings

Our review of the Minutes of the meetings revealed the following:

- (a) Approval of the Minutes were either missing or signed only by the Administrator who also doubled as Secretary to the Board;
- (b) Issues discussed were vague, e.g. Minutes of Emergency meeting held on January 30th, 2013 under sub-item 'Old Businesses' reads as follows: Certain provisions of the revised MOUs are not in compliance with existing MiCare Regulations, so the Board met to make changes in order to conform to the regulations. While this may be understood by participants in that meeting, but it was not to other users of the information;
- (c) Poorly itemized Minutes: Minutes of the Board of Directors meetings are made to achieve the following: providing an accurate record of decisions taken, which are then the official authorities for specific actions; providing an accurate record of recommendations made and of the principal points made in the discussions preceding them, to be used as part of the information on which other bodies base decisions; making information available to stakeholders;

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and providing the Plan's official formal record of what took place at meetings (for use by present and future staff, and for the archives).

Our review of the Board Meeting minutes reveals that agenda items issues were, in most cases, not itemized properly to give a point of reference. The minutes also do not show members who did not attend the meeting or invitees.

- (d) Board of Directors' resolution: our review of the minutes reveal that the Board of Directors issued several directives/resolutions however the records in the minutes were short and were insufficiently precise, e.g. this was also approved by the Board (Minutes of meeting held on Feb 14-18, 2014).
- (e) Poor referencing on matters arising from previous meeting (Old business): In most cases items under Old Businesses heading do not indicate as to when they were originated.

4.1.2. Recommendations

- (i) The Board of Directors should ensure that meetings aimed at reviewing the performance of the Plan are held after the end of every financial quarter and before the end of the following quarter.
- (ii) Board Meeting Minutes should be appropriately documented to ensure that their intended purposes are met, which include, but not limited to, decision making and corporate memory.

4.2. Annual Operational Plan and Budget

4.2.1. Findings and Analysis

As noted in paragraph 1.6.1, MiCare envisions a 'deficit free Program'. However, this has proven to be a challenge with the current issues as discussed in paragraph 1.7. A way forward would be for the Board and Management to ensure that there is mechanism in place to ensure efficiency and effectiveness in the preparation of annual plan and budget, monitoring the annual plan and budget and reviewing thereon.

The annual budget should consider the Plan's anticipated capital, anticipated revenue and all of its expenses. Budgets should include well specified outcomes and meaningful deliverables that are linked to their respective goals, and have been appropriately costed. It appears that the current budget process focuses more on operational expenditure which is similar to a budget of a non-profit entity. MiCare should strive to make a profit for investment purposes to ensure the future sustainability of the Plan.

We noted that the new Administrator has a strong 'budget' background which will inject some much-needed skills in this area. Any shortfall in the required skills to prepare an annual operational plan and budget must be identified and appropriate training and coaching be addressed.

MiCare did not implement a meaningful budgeting system that focus on profit maximization. Without the supporting plan for revenue generating activities, its annual plan shows revenue and net profit but without substance.

4.2.2. Recommendation

The Management and Board should prepare and adopt a comprehensive 'annual operational plan and budget' based on the approved Strategic Plan to guide the management in utilizing the limited resources especially for priority areas. The operational plan should ensure that all activities are aligned with the overall vision of its current Strategic Plan (2014-2018) and clearly show anticipated performance results (both financial and non-financial) over the period of the Plan.

4.3. Risk Management Policy and Framework

4.3.1. Findings and Analysis

Risks are uncertain future events that could affect the entity's strategic objectives. They may arise from both external and internal events and are measured in terms of impact and likelihood. Risk management is a process to systemically identify, assess and quantify key risks faced by the Plan as well as a way of managing and controlling them through a documented risk management plan in order to provide reasonable assurance regarding the achievement of its objectives.

The risk management process entails the planning, arranging and controlling activities and resources to minimize the negative impacts of all risks to levels that can be tolerated by stakeholders (both internal and external) whom the Board has identified as relevant to the organization, as well as to optimize the opportunities, or positive impacts, of all risks.

The governance of risk is the responsibility of the Board by ensuring that a policy and plan for a system and process of risk management is developed and implemented. The Board's responsibility for risk governance should be manifested in a documented risk management policy and framework and plan that are approved by the Board. Management is then responsible for identifying and assessing the risks that MiCare may be exposed to and for developing procedures for managing risks in line with the Board policy.

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The risk management policy is supposed to be distributed throughout the organization and the Board is supposed to review the implementation of the risk management plan at least once a year. The Board is supposed to ensure that the implementation of the risk management plan is monitored continually. To this end the Board is supposed to:

- (i) Understand management's process to identify events that put the entity at risk;
- (ii) Understand the entity's process to assess risks;
- (iii) Understand who is responsible for risk identification, assessment, and management throughout the entity;
- (iv) Understand and concur with the Board's appetite for risk and the policies established to ensure management operates within these parameters;
- (v) Review the entity's major risk profile and ensure that risk management strategies are in place to monitor and control those risks; and
- (vi) Review financial statements and other financial information and be alert to possible indications of fraud. Ultimately, the Board is responsible for risk management and it should ensure that all risks are monitored at Board level.

We found that the MiCare Board has not developed a risk management policy. Lack of a risk management plan places MiCare in a critical situation because key risks are likely not to be addressed since mitigating factors have not been put in place.

4.3.2. Recommendations

The Board and Management should:

- (i) Develop and adopt an appropriate formal risk management policy and framework and Procedures;
- (ii) Conduct awareness through capacity building to members of the Board, Management and entire staff; and
- (iii) Ensure that the developed and adopted Risk Management Policy and Framework and Procedures are used for strategic and operational plan and implementation thereon.

4.4. Performance Evaluations for Senior Management

4.4.1. Findings and analysis

The Board of Directors' primary responsibility is to hire a qualified Plan Administrator, and to ensure that the administrator engages senior management with the necessary skills, knowledge, and experience to manage the Plan's affairs in a sound and responsible manner. Ongoing evaluation of the Administrator and senior management by the Board of Directors is critical to the success of the Plan. Assessment of the Administrator's performance should be measured against clearly defined duties and responsibilities, as well as standards of performance and measurable performance targets. Performance standards and targets should be linked to the Plan's success in implementing its strategic and operational plans, including the achievement of both long and short-term financial performance goals, maintenance of a safe and sound condition, and the carrying out of its health insurance mission.

A proper performance evaluation promotes positive change and builds a road map to success for the Plan. Therefore, performance evaluation supports management in identifying its strengths and weaknesses and put in place processes to remedy the weaknesses.

We noted that the Board did not evaluate or conduct performance appraisals of the Plan Administrator for the entire duration of his service from 2012 to June 2016.

In the absence of regular performance evaluations, the Management may not perform to its full productive potential.

4.4.2. Recommendation

The Board should develop an annual performance evaluation process for senior management (including the Administrator) to:

- (i) Formally evaluate the senior management's performance against the established duties and objectives that were agreed to by the Board and the Administrator;
- (ii) Discuss and agree on performance measures for the subsequent year; and
- (iii) Communicate the results of the evaluation.

4.5. Information Technology

4.5.1. Findings and analysis

Best practice requires that security controls, in a form of a business continuity and recovery (contingency) plan, properly documented, must be in place for the organization to have the capability to process, retrieve and protect its information

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system (information and communication technology), and to react quickly in the event of interruption or failures from incidents, epidemic, and natural disasters, or catastrophes leading to temporary or permanent loss of Information and Communications Technology (ICT) processes and/or facilities. Therefore, the Board and Management, has an important stewardship responsibility for establishing an effective business continuity and recovery plan that provided assurance of quick recovery and business continuity during and after disaster.

In 2014, the Plan's Board of Directors and Management used earnings from the Plan's Investment account totaling \$323,000 to acquire and implement an integrated system called Medical Assistance Software (MAS)/SAP One. In December 2015, MiCare migrated from 'QuickBooks' to the new system. However, in September 2016, based on management assertion, the Medical Assistance Software (MAS)/SAP One system was corrupted causing total loss of records for FY2015 and the previous years. The system was still not in operation as of September 2018.

We were informed that the Plan disconnected the system from their service providers and is currently processing claims manually.

Based on our assessment the absence of effective ICT controls and maintenance (i.e. regular backups and suitably qualified IT staff to operate the system) resulted in significant loss and interruption to the Plan's operations and assets. For instance:

- (i) Information relating to accounting and finance, such as medical payments and premium collections, were lost;
- (ii) Critical processes that assist in decision making and compliance requirements, such as annual reporting to Congress and the annual financial audit were disrupted; and
- (iii) It is unclear whether there is recourse from the Medical Assistance Software (MAS)/SAP One supplier to restore the system.

4.5.2. Recommendations

Management should:

- (i) Develop, test and implement business continuity and recovery plan including backup procedures for ICT systems; and
- (ii) Employ qualified ICT personnel to ensure management information system is adequately managed, supported and maintained.

4.6. Performance Monitoring and Reporting

4.6.1. Findings and Analysis

Best practice indicates that monitoring controls are essential for a company to accomplish the intended goals, evaluate outcome and objective measures and strategize annually, or more frequently if data collection cycle permits, to track progress toward key outcomes and objectives. In the evaluation process, company assesses the effectiveness and efficiency of their operations and makes adjustments to its strategic plans, use of resources, and operating procedures to improve results.

We found that periodic activity reports (weekly, monthly, or quarterly) were not required to be submitted to Management by Managers and likewise, Management to the Board. We also found that Annual Report for FY 2016 to Congress was not submitted timely as required by law.

In addition, the Plan did not have performance targets/measures which resulted in inability to identify any improvement made and ascertain the achievement of goals and objectives.

The lack of performance information resulted in the management's failure to assess progress in achieving its goals and objectives and to take timely and effective actions and decisions to improve the service delivery.

4.6.2. Recommendation

The Plan's Management should establish appropriate performance indicators or targets, and implement adequate measurement, monitoring and reporting of the Plan's performance to ensure an effective service delivery through the achievement of goals and objectives.

4.7. Internal Policies and Procedures Framework

4.7.1. Findings and Analysis

The Board of Directors is responsible to design and formulate an effective management system, policies and processes for the Plan in order to guide implementation of the Plan's strategic, operational activities and programs by the management, and under its direct oversight (of the Board). Based on our observation of the Plan's daily operational activities and interviews with staff and members of the Board, we found that Board members, the Management and staff did not have the benefit of a clear guidance regarding their operational duties and responsibilities. Specifically, we found no written internal policies and procedures in place to guide the Plan's staff charged with performing various assignments. For example, the Plan

lacked policies and procedures for accounts receivable processes (Refer to Finding No. 4.8).

During interview, key staffs confirmed the absence of written policies and procedures in carrying out their day to day duties. Most of the staff interviewed also attested that they were only oriented verbally on their responsibilities and no working tools were given.

As a result, Board Members, Management and staff may not have the appropriate formal guidelines that will enable them to efficiently and effectively carry out their duties and responsibilities. These weaknesses could potentially affect their ability to effectively and efficiently manage the Plan's resources and provision of quality services.

4.7.2. Recommendation

The Plan's Management should develop and establish internal policies and procedures and the related accountability requirements, as guidance to all Plan's key activities and processes.

4.8. Code of Ethics and Independence Declarations

4.8.1. Findings and Analysis

Board members must be independent and free of conflict of interest upon appointment. Members of the Board have to discharge their duties professionally, with due diligence and efficiency and to the best of their abilities. In discharging their duties to the Plan, Board members should endeavor to:

- (i) Comply with applicable laws and regulations and with rules, policies and guidelines;
- (ii) Only act in the interest of the institution, without allowing themselves to be influenced by personal interests or relationships;
- (iii) Avoid any situation which may give rise to a conflict of interest;
- (iv) Respect the obligation of confidentiality in respect of information received in the course of their duties and shall continue to be bound by this obligation after termination of their mandate;
- (v) Refrain from overstepping the powers conferred upon them;
- (vi) Respect the dignity and private lives of their colleagues, staff members and anyone whom they come in contact with during the discharge of their duties to the Plan; and
- (vii) Make use of the institutional name and resources only in the interest of the institution.

During the audit we noted that the Board of Directors had no Code of Ethics. Furthermore, Board members were neither required nor did they sign independence declarations before commencement of their service on the Board of Directors. Lack of a Code of Ethics implies that there is no ethical framework to guide Board members in performing their roles of oversight that may lead to lack of good governance.

In addition, failure of having documented and confirmed declaration of Board of Directors' independence may lead to selecting Board members who are not independent hence leading to potential conflicts of interest at Board of Director's level.

4.8.2. Recommendations

The Board should:

- (i) Develop a Code of Ethics to provide guidance on the ethical behavior required for Members of the Board of Directors; and
- (ii) Develop a process to ensure that all new Board Members sign independence declaration forms to confirm their independence before commencement of board duty.

4.9. Collection of Accounts Receivable

4.9.1. Finding and Analysis

The Board and Management did not monitor its Accounting Division to ensure that they properly accounted for and pursued collection of accounts receivable. Best practice requires the Management to establish policies and procedures for the recognition, tracking, reporting, and collection of debts owed to the Plan, staff responsible for monitoring and collection of accounts receivable, and performance measurements. Specifically, we noted the following:

- (i) The Board and Management has not established policies and procedures to assist the accounting division staff in the accounting for and collection of receivables, including requiring collection staff to report their accounts receivable quarterly to the Management.
- (ii) The Board and Management did not establish *internal controls* to segregate accounts receivable duties and functions. We found that the accounting division is responsible to perform all financial accounting and reporting, including monitoring and collection of accounts receivables. We further noted that there was no one specifically assigned to such responsibilities. This resulted in the observed minimal effort to pursue and collect all receivables.

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- (iii) Management has not established performance measurements, such as *credit and collection reports (weekly, monthly, quarterly, etc.), ratios or trends*, as required by best practices. The lack of performance measurements limited the management’s ability to provide adequate oversight of its receivables collection activities. The performance measurements would allow management to assess whether Accounting Division is adequately pursuing collection of receivables.
- (iv) Management did not ensure that accounting division reported their doubtful accounts receivable and did not review the documentation to ensure proper doubtful accounts determinations. We noted doubtful accounts included accounts dated back to 2013 for individuals who are current employees of the national and four states governments and private sectors. We also noted accounts for expired people in the same period. However, our interview with key staff in the accounting division revealed that there has been no predetermined mechanism for pursuing and collecting these receivables.
- (v) The Plan lacked adequate policies, procedures, and staff training necessary to have effective internal controls over its ***Accounts Receivable and Debt Collection Processes***. It is our view that lack of these policies and procedures lead to the Plan’s inability to ensure that its accounting division consistently recorded, monitored, collected, documented, and reported transactions affecting their accounts receivable balances. Had the Plan developed adequate policies and procedures, provided sufficient training, and monitored its staff to ensure that there was compliance with the policies and procedures, the Plan could have prevented its high accumulation of doubtful accounts for fiscal years 2016-2017 as shown in Table 4.0 below:

Table 4.0: Accounts Receivable and Provision for Doubtful Debts

	FY 2017	FY 2016
Accounts receivable	\$522,558	\$485,822
Allowance for doubtful accounts	(493,961)	(466,742)
<i>Balance as at September 30th</i>	<i>\$28,597</i>	<i>\$19,080</i>

4.9.2. Recommendations

Management should:

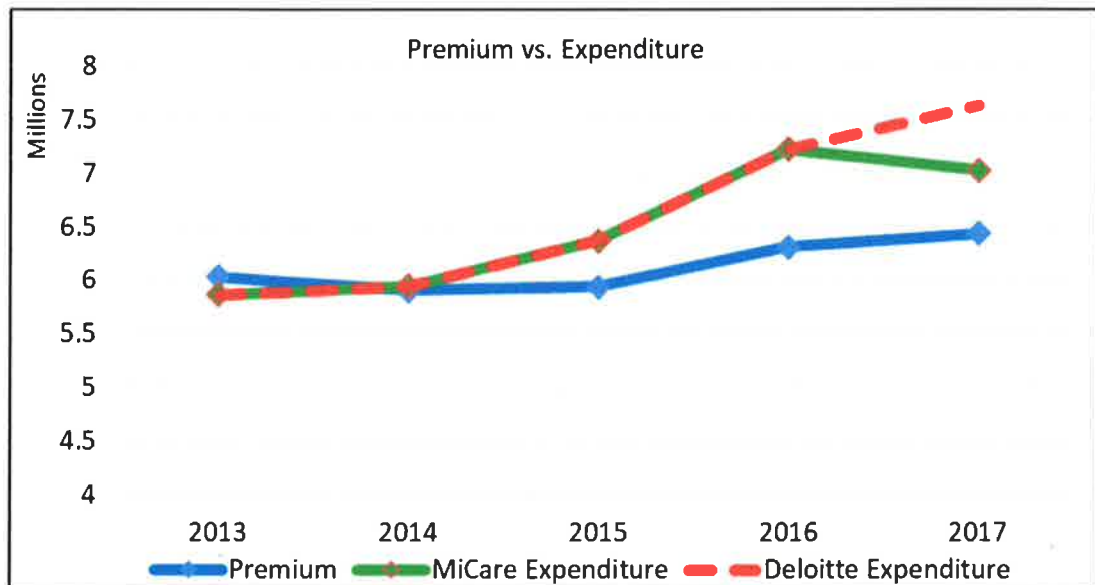
- (i) Assign and build the capacity of staff responsible for monitoring, reporting and collection of accounts receivables;
- (ii) Ensure Accounting Division submit accurate and timely accounts receivable information on weekly and monthly basis annually; and
- (iii) Develop and implement policies and procedures for credit and collection for all receivables.

5.0 MANAGEMENT RESPONSES TO ISSUES RAISED

The Board of Directors and Management of the Plan responded to all the Findings and Recommendations and the same were delivered to the Office of the National Public Auditor (ONPA) through e-mail on October 29th, 2018. The details of the responses are as documented below:

5.1. Response to the Performance Audit in General

- (i) Some recent changes to the law are worth noting as they are tied with the goals of MiCare including eligibility criteria for enrollment
- (ii) The audit report issued by Deloitte for FY2017 changed the financial picture for MiCare. In FY2016, Deloitte did not send a confirmation letter to any of MiCare’s providers. By then, it was determined that MiCare was in deficit for the first time since the early years at the turn of the century. In working on FY2017 audit, they decided to send a confirmation letter to The Medical City which claimed that MiCare still owed \$593,816 to them. Note that MiCare had already paid off close to \$1million in outstanding debt which both parties had reconciled and agreed to. While Management can understand the need to send confirmation letters to providers based on some set of best practices, management vehemently contests the nature in which Deloitte conducted the two audits. Indeed, by failing to report the disputed claims in 2016 but report the in 2017 drastically changed the financial picture. The following diagram explains the aforementioned text, comparing management’s figures with Deloitte’s and what inconsistency can lead to.



5.2. Response to Audit Findings

5.2.1. Finding 4.1: Inadequate Corporate Governance

Management agrees with the finding. It should be noted that during a Board Meeting in March 2017, the Board directed management to change the format of the Minutes, in particular to indicate discussion item conclusion, action item, if applicable, responsible party, timeline, etc.

Documentation of Minutes, once adopted by the Board, are now filed electronically onto the office server. They are accessible to staff and available to anyone upon request.

Additionally, the Board has resolved to have quarterly financial performance reports submitted by the Administrator. The Board is also mindful of the cost associated with having numerous meetings in a year that require the presence of all members.

5.2.2. Finding 4.2: Annual Operational Plan and Budget

Management agrees with the finding. It should be noted that MiCare's budget for medical claims is unique especially the referral program. The budget for administering the Plan is manageable as we can control over the expenditures. Whereas, medical claims are unknown in a given year until they are confirmed (i.e. reviewed and processed). We utilize estimates based on past trends but even then, by Regulations, MiCare has little control over referral cases. Most importantly and critically is that domestic public health services are crying out loud for improvement in virtually all aspects of care.

Moreover, MiCare is a non-profit entity. MiCare has an investment but charging unreasonable premiums to members for purpose of profit may decrease enrollment, thus greatly contribute to financial woes.

5.2.3. Finding 4.3: Risk Management Policy and Framework

Management agrees with the finding.

5.2.4. Finding 4.4: Performance Evaluations for Senior Management

Management agrees with the finding.

5.2.5. Finding 4.5: Information Technology

Management agrees with the finding. Attempts to have the contractor (vendor that procured the ABS for MiCare) provide assistance in reviving the ABS were unsuccessful. The plan is to recover the funds used to purchase the system including seeking legal recourse.

5.2.6. Finding 4.6: Performance Monitoring and Reporting

Management agrees with the finding. Management has already begun setting up mechanisms for performance measurement. The goal is to establish a comprehensive performance management system for MiCare that include planning, appraisal, feedback, rewarding, etc.

5.2.7. Finding 4.7: Internal Policies and Procedures Framework

Management agrees with the finding. Management recognizes the importance of written standard operating procedures for the various components of MiCare operations. We have begun the process, starting with the referral process, outlining step by step actions to be taken and by whom.

Additionally, the Board has a very clear overarching policy guidance, that is, to ensure people's premiums are safeguard, protected and to be used for covered expenses.

5.2.8. Finding 4.8: Code of Ethics and Independence Declarations

Management agrees with this finding. It would be helpful to provide areas in which the Board may have or is likely to contravene laws or regulations in regards to the absence of a code of ethics and independence declarations.

5.2.9. Finding 4.9: Collection of Accounts Receivable

Management agrees with this finding. Since the beginning of FY2018, one of our accountants has been assigned solely to work on accounts receivables—to send out invoices on a timely basis and to follow up. Accounts receivables for patients' shares and payments made on each account are being updated and made available to Administrator.

Department of Justice has provided guidelines for which to use to transmit delinquent accounts to DOJ for collection.

The immediate goal is to collect on these delinquent accounts quicker than MiCare is issuing out notes. There is no decision yet for MiCare to do away completely with issuing notes.

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6.0 ONPA EVALUATION OF MANAGEMENT RESPONSE

The Board of Directors and Management Responses from MiCare that appear on page 22 and 25 were received by the Office of National Public Auditor. Management has agreed to all nine (9) findings, the causes of issues, and the corresponding sixteen (16) recommendations to rectify the issues.

It is the expectation of the Office of the National Public Auditor that the Board of Directors and the Management of the Plan will give appropriate timeline and allocate funds and other resources for implementation of all sixteen (16) recommendations in order to ensure that the Plan is operated effectively and efficiently to guarantee its financial and service sustainability.

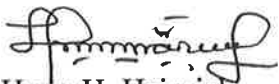
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7.0 NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff of the MiCare Plan for their assistance and cooperation during the course of the audit.

We have provided copies of the final audit report to the President and Members of the FSM Congress. Furthermore, we will make copies available to other interested parties upon request.

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


for Haser H. Hainrick
National Public Auditor

November 28, 2018

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8.0 APPENDIX ONE: ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT: Haser H. Hainrick, National Public Auditor
 Email: hhainrick@fsmopa.fm

ACKNOWLEDGEMENTS In addition to the contact named above, the following staff made key contributions to this report:

 Leonce Anthony, Audit Manager
 Erwihne David, Auditor-In-Charge
 Rosadelima Alfons, Staff Auditor

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