OFFICE OF THE NATIONAL PUBLIC AUDITOR

FEDERATED STATES OF MICRONESIA

THE POHNPEI STATE DEPARTMENT OF HEALTH SERVICES PROCUREMENT AUDIT (FISCAL YEAR 2010-2013)

REPORT NO. 2014-06

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FEDERATED STATES OF MICRONESIA

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May 7, 2014

His Excellency Manny Mori, President
Honorable Members of the FSM Congress
Federated States of Micronesia

RE: The Pohnpei State Department of Health Services Procurement Audit

We have completed a ***Performance Audit on the Pohnpei State Department of Health Services Procurement Activities for Fiscal Years 2010 – 2013.*** The audit on the Pohnpei State Department of Health Services was conducted due to a complaint received regarding undelivered medical and pharmaceutical supplies.

We performed an audit survey that led to identification of the focus area: Procurement on Medical and Pharmaceutical Supplies. Therefore, our audit objective was to determine if the procurement process ensures timely receipt of the highest quality and at the lowest cost of medical and pharmaceutical supplies.

The Pohnpei State Department of Health Services (DHS, also known as Pohnpei State Hospital), established under Article 7 Section 4 of the Pohnpei State Constitution, is responsible for providing health care and health education in Pohnpei. It coordinates all planning, organizing, implementing, monitoring and evaluating all public health-related functions, and assures that health care is available at all times. The DHS mission is to improve the health of the people through provision of sustainable, accessible, affordable, and culturally acceptable health care services. There are four divisions under the Department: the Division of Administration and Health Development, Division of Medical Services, Division of Primary Health Care, and the Division of Dental Health Services. Each division is administered by a Division Chief.

Based on our audit, we conclude that the management needs to act with promptness to improve the procurement process and ensure the timely receipt of high quality and lowest cost medical and pharmaceutical supplies. Five years after it was last audited, the results of our audit showed that Pohnpei Department of Health Services is still experiencing the same major operational problem as regards to procurement and management of medical and pharmaceutical supplies. The management did not implement the necessary procurement and inventory controls in bringing about significant positive improvements on the procurement process and on warehouse inventory operation to provide efficient and effective services for the interest of the citizens.

The lack of purchase planning caused the hospital to procure medical and pharmaceutical supplies at a high cost. Consequently, purchasing frequently through high-priced emergency/regular orders has been an ongoing practice. It was estimated that the hospital could save a significant percentage of the total money spent for purchases had the procurement planning been in place and strategies were adopted to obtain the best value in purchases. For example, establishing an accurate quantification of the requirements for the year and purchasing greater portion of the annual requirement thru the competitive bidding that provides the best prices.

Despite the significant yearly spending on medical and pharmaceutical supplies (yearly average of $1.2 million for the period FY2010-2013), the hospital did not make it a priority to restore and sustain the maintenance of an inventory management system, a crucial key to procurement planning and inventory control. This resulted in the department's inability to monitor the timely receipt of medicines and provide ready and accurate management information on inventory such as undelivered purchases, re-order point, expiry, inventory balance, historical prices, supplier delivery lead-time and others. The situation also unnecessarily exposed the hospital to additional costs associated with the risks of fraud, theft, misuses, stock outs, losses and others.

We found the following weaknesses during our audit:

- Absence of Inventory Management System resulted in $3.8 million purchases of medical and pharmaceutical supplies for FY 2011-2013 not fully tracked, controlled and provided with inventory accountability
- Deliveries of paid medical and pharmaceutical supplies approximately worth $415,000 for FY 2012 – 2013 cannot be accounted
- Frequent use of emergency orders increased the cost of buying medicines during FY 2010 – 2013
- Approximately $400,000 could have been saved in bids awarded from FY2010 – FY2013
- Quality assurance did not consistently ensure receipt of quality medicines

The audit report discusses the detail findings along with the recommendations made to facilitate corrective improvements. The Pohnpei State Hospital and Pohnpei State Department of Treasury and Administration's management responses combined in one is included in the report.

Respectfully yours,

Haser Hainrick
National Public Auditor

XC: Vice President
Governor and Lt. Governor, Pohnpei State
Director, Department of Health Services, Pohnpei State

Director, Department of Treasury & Administration, Pohnpei State
Public Auditor, Pohnpei State
Secretary, Department of Health and Social Affairs, FSM
Secretary, Department of Finance & Administration, FSM
Director, Office of SBOC, FSM

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INTRODUCTION

BACKGROUND

The Pohnpei State Department of Health Services (DHS, also known as Pohnpei State Hospital), established under Article 7 Section 4 of the Pohnpei State Constitution, is responsible for providing health care and health education in Pohnpei. It coordinates all planning, organizing, implementing, monitoring and evaluating all public health-related functions, and assures that health care is available at all times. The DHS mission is to improve the health of the people through provision of sustainable, accessible, affordable, and culturally acceptable health care services. There are four divisions under the Department: the Division of Administration and Health Development, Division of Medical Services, Division of Primary Health Care, and the Division of Dental Health Services. Each division is administered by a Division Chief.

Budget

Table 1 below shows the total budget by category for fiscal years 2010 – 2013. The line item budget category for "*Consumables*" includes medical and pharmaceutical supplies accounting nearly half of the department's total budget for the four fiscal years.

Table 1: Pohnpei State DHS Budget FY2010 – 2013

Budget Categories	Budget			
	FY 2010	FY2011	FY2012	FY 2013
Personnel	$2,605,311	$2,628,535	$2,572,169	$2,514,875
Travel	152,174	144,118	150,837	127,930
Consumables	2,631,751	2,801,923	3,250,633	2,854,477
Contracts	533,048	249,726	279,503	237,270
Fixed Assets	289,841	502,389	(30,400.00)	33,594
TOTAL	**$6,212,125**	**$6,326,691**	**$6,222,742**	**$5,768,146**

Source: Fund Status Report from Pohnpei State Finance

Procurement Process

The Pohnpei State Financial Management Regulations (FMR) requires that at least three price quotes are to be solicited from suppliers for the selection of a vendor. Once price quotes are received from the vendors, the procurement officer will make the selection based on price and availability of items. The procurement Officer prepares a Purchase Requisition (PR) then submits it to the Fiscal Officer and Director for review and approval. Afterwards, they forward the approved PR to the Pohnpei State Finance for the processing of the Purchase Order (PO). The Procurement Officer or the Fiscal Officer picks up the processed PO for distribution to vendor. Once delivered, the Warehouse Supervisor signs on the packing list (vendor delivery receipt) and the original copy of the PO, acknowledging the receipt of ordered items.

For purchases involving more than $15,000, the regulation requires the conduct of a public bidding process. The regulation allows at least thirty (30) days for the submission of bids, or a

reasonable and necessary shorter period that maybe determined by the Director. Open competitive bidding by sealed bids is also required for the following:

a. Contracts for tangible property for which the estimated obligation of Government funds is expected to be $25,000 or greater, or such other amount as may be prescribed by law;

b. Contracts for construction projects involving obligation of $10,000 or more or such other amounts as may be prescribed by law

The procurement officers for Medical Supplies and Pharmaceuticals are responsible for all procurement activities at DHS in their respective areas. All the inventory of medical supplies is stored at the Hospital Warehouse, whereas all the inventory of pharmaceuticals is stored at the Pharmacy for proximity and easy access.

Inventory System

With the assistance of a World Health Organization consultant, an inventory system called the *Project Management Information System* (PMIS) was installed in 2008 and fully implemented in 2009 at the Pohnpei State Hospital. The purpose of the inventory system is to keep track of all the medical and pharmaceutical supplies received, stored, and issued; and to provide accountability for managing inventory balances. The system has been operational without any contingency, backup, and restores procedures in the event of an emergency such that according to the Warehouse Supervisor it has never been restored since it crashed in late 2011. The Warehouse Supervisor further informed us that there was no alternative stock monitoring system in use since then. During our visit to the hospital together with the ONPA IT Specialist, we requested to see the computer and the hard drive where the system was installed to make an assessment but was not shown the system. Instead, we were told that the computerized inventory system was totally damaged including the hard drive and the only data that the IT was able to save was for 2008[1].

Receiving Process

The vendors deliver the supplies with the packing list (vendor delivery receipt) to compare against the actual items. The warehouse personnel inspect and count the delivered items, compare them with PO and packing list, and sign on the packing list and the original copy of the PO, acknowledging the receipt of ordered items. The warehouse agent then enters the amount in their log-sheet (excel spreadsheet) to monitor the deliveries per PO.

[1] We actually received conflicting information on the status of the system. First, we were informed that it crashed in 2011 but then we encountered receiving reports being printed from the system dated June 2012. Thus, we verified again the system status with the concerned person and were told that at one point they were using it to generate receiving reports only, however, they no longer use the system.

OBJECTIVES, SCOPE AND METHODOLOGY

Objective – The objective of this audit was to determine if the procurement process ensures timely receipt of the highest quality and at the lowest cost of medical and pharmaceutical supplies.

Scope – Our audit covered the purchase of medical and pharmaceutical supplies for Fiscal Year 2010 – 2013 using compact funds. We noted that there were also purchases of medical and pharmaceutical supplies using the Pohnpei State Hospital Revolving Fund and by the FSM National Department of Health & Services using federal funds but they were not covered by the scope of our audit. Based on the FY 2013 expenditure reports, purchases using revolving fund and federal grants were approximately $428,000 and $44,000, respectively.

The hospital has developed quality assurance program for its operation involving several attributes of quality. The focus of this audit on quality was limited to receiving of short-shelf life and the process of maintaining expired medicines.

The hospital has not been using controlled documents (e.g. sequentially numbered documents) to document the inventory movements like inventory receipts and issues. Thus, the auditors have no means to perform cut-off procedures on the forms to establish the inclusive documents and transactions that should be accounted for in the period covered by the audit. This weakness imposed then a limitation on the finding related to unaccounted deliveries. In the determination of this finding, the auditor was limited to the documents presented and which cannot be accounted for as to completeness due to absence of controlled numbering system. If a custodian failed to present the necessary documents during the audit fieldwork then the finding on unaccounted deliveries would be incorrect.

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 obtained provided a reasonable basis for our findings and conclusions based on our audit objective. In addition, 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."*

Methodology – To satisfy our objectives, we performed the following:

To determine if the procurement process ensured the timely delivery of medical and pharmaceutical supplies:

- We reviewed contract agreements and purchase orders that indicated the delivery of medical and pharmaceutical supplies. We then summarize the required delivery dates of orders that ensured all items are received and recorded in a timely manner.
- We also obtained the expenditure reports, and judgmentally selected sample of purchase order for FY 2010 – 2013 to test the receiving of items for selected purchase orders.
- We interviewed the key staffs at Pohnpei DHS Administration Division and Medical and Pharmaceutical Division regarding issues on timely delivery of ordered items.

To determine if the procurement process ensured the receipt of quality medical and pharmaceutical supplies for intended users/recipients:

- We obtained and reviewed relevant laws and regulations, including the relevant policies and procedures for quality. We also obtained their expenditure reports for FY 2010 – 2013, and judgmentally selected samples of purchasing orders and corresponding receiving orders to check expiry of received pharmaceutical supplies.
- We inspected the medicines on the shelves to determine existence of expiry items. In addition, we observed the procedures in receiving pharmaceutical supplies to determine if the quality inspection requirements were complied.
- We interviewed key staffs at Pohnpei DHS Administration Division and Medical and Pharmaceutical Division and Doctors on the quality of the supplies received.

To determine if the procurement process achieved the lowest possible costs in the purchase of medical and pharmaceutical supplies:

- We obtained and reviewed the relevant laws and regulations, policies and procedures supporting the procurement of medical and pharmaceutical supplies that considers the lowest possible costs. We also obtained and analyzed all bids for FY 2010 – 2013 to determine if the bidding committee decided the purchases based on the lowest possible costs. In addition, we judgmentally selected emergency/regular purchase orders to determine the total amount of price difference with bid price. The high price amount identified in the judgmental sample (non-statistical) emergency/regular orders cannot be projected to the total universe of emergency/regular orders. However, the findings established trends and provided useful insights into the cost of procuring medical and pharmaceutical supplies using emergency/regular purchase orders.
- We interviewed key staffs at the Pohnpei Hospital's administration division, the medical and pharmaceutical staff and, the Chief of Finance at the Pohnpei State on the purchasing process. We reviewed the bidding committee minutes and we inquired on whether the bidding committee followed the requirements on the bidding process and considered the lowest costs.

PRIOR AUDIT COVERAGE

This is the first audit conducted by ONPA for Pohnpei Department of Health Services. However, the entity's procurement process was last audited by Pohnpei Office of the Public Auditor with audit report number 006-09 issued last September 30, 2008. The audit findings were as follows:

- DHS did not fully comply with the Pohnpei State Financial Management Regulations on procurement;
- Medical and Pharmaceutical supplies purchased were not properly accounted; and
- Weak internal control in issuance of pharmaceutical and medical supplies from the Central Medical Supply to the other sections of DHS.

The results of our audit disclosed that the hospital has been having the same issues.

CONCLUSION

Based on the results of our audit, we conclude that the management needs to act with promptness to improve the procurement process and ensure the timely receipt of high quality and lowest cost medical and pharmaceutical supplies. Five years after it was last audited, the results of our audit showed that Pohnpei Department of Health Services is still experiencing the same major operational problem as regards to procurement and management of medical and pharmaceutical supplies. The management did not implement the necessary procurement and inventory controls in bringing about significant positive improvements on the procurement process and on warehouse inventory operation to provide efficient and effective services for the interest of the citizens.

The lack of purchase planning caused the hospital to procure medical and pharmaceutical supplies at a high cost. Consequently, purchasing frequently through high-priced emergency/regular orders has been an ongoing practice. It was estimated that the hospital could save a significant percentage of the total money spent for purchases had the procurement planning been in place and strategies were adopted to obtain the best value in purchases. For example, establishing an accurate quantification of requirements for the year and purchasing greater portion of the annual requirement thru the competitive bidding that provides the best price.

Despite the significant yearly spending on medical and pharmaceutical supplies (yearly average of $1.2 million for the period FY2010-2013), the hospital did not make it a priority to restore and sustain the maintenance of an inventory management system, a crucial key to procurement planning and inventory control. This resulted in the department's inability to monitor the timely receipt of medicines; and provide ready and accurate management information on inventory such as undelivered purchases, re-order point, expiry, inventory balance, historical prices, supplier delivery lead-time and others. The situation also unnecessarily exposed the hospital to additional costs associated with the risks of fraud, theft, misuses, stock outs, losses and others.

We found the following weaknesses during our audit:

- Absence of Inventory Management System Resulted in $3.8 Million Purchases of Medical and Pharmaceutical Supplies for FY 2011-2013 Not Fully Tracked, Controlled and Provided with Inventory Accountability
- Deliveries of paid medical and pharmaceutical supplies approximately worth $415,000 for FY 2012 - 2013 cannot be accounted
- Frequent use of emergency orders increased the cost of buying medicines during FY 2010 – 2013
- Approximately $400,000 Could Have Been Saved in Bids Awarded From FY2010 to FY2013
- Quality assurance did not consistently ensure receipt of quality medicines

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

FINDINGS AND RECOMMENDATIONS

Finding 1: Absence of Inventory Management System Resulted in $3.8 Million Purchases of Medical and Pharmaceutical Supplies for FY 2011–2013 Not Fully Tracked, Controlled and Provided With Inventory Accountability

Best practice indicates that a warehouse should implement an inventory management information system that would provide the tracking and monitoring of goods ordered, received, stored, issued and in inventory.

Currently the Pohnpei State Hospital's warehouse and pharmacy personnel could not fully account on their spreadsheet whether all of the purchased medical and pharmaceutical supplies on the POs were received, stored, issued or remaining in inventory. There was no record to provide the complete and accurate accountabilities of the inventories under their custody. The contents of the inventory spreadsheets were limited to items on the PO as well as detailed receipts/pending deliveries but none on detailed beginning inventory balances, subsequent issues, and computation of detailed ending inventory balances for purposes of establishing the custodian's accountability for the inventory. According to the Warehouse Supervisor, when the PMIS system was operational, the tracking and accounting of their stocks was efficient. However, the system was not restored to account for inventories since it crashed late 2011.

We also noted that internal accountable forms (sequentially issued) were not used to evidence the receipts and issuances of items. Receipts of items were instead acknowledged using the commercial invoice/packing list from the vendor while the issuances were documented using the uncontrolled internal requisition slips (not sequentially numbered). We were further informed by the Warehouse Supervisor/Pharmacist that some of the issuances were not documented, most especially during weekends when they are off duty. Thus, accounting the completeness of transactions for receipts and issuance has proven to be rather difficult.

As a result, about $3.8 million[2] worth of purchases of medical and pharmaceutical supplies in FY 2011 – 2013 was not fully tracked, controlled and, thus, cannot be fully accounted for whether fully received, issued or what remained in the inventory was correct thus exposed to high risk of fraud, abuse, misuse, theft and losses. In addition, the correctness of the custodian's accountability for the inventories cannot be established. Monthly physical inventory count was being conducted to determine the stock level and for ordering purposes but such inventory count cannot be reconciled with the corresponding accountability to determine any discrepancy in the count. In the absence of inventory reconciliation control, missing and stolen inventories were unknown to management.

[2] This amount was based on Expenditures in Table 4 as follows: FY11-$1,194,569, FY12-$1,488,590, and FY13-$1,145,818; or a total of $$3,828,978.

The absence of controlled forms[3] (accountable) documenting the receipt and issuance of purchased items coupled by the absence of an inventory control system resulted in lack of transaction trail and means to account the completeness of the movements of items (receipt, issues, disposal of obsolete/expired items, adjustments, returns, balance, etc). This exposed the purchases and inventories to high risk of inventory fraud, abuse, misuse and theft. In the absence of transaction trail to account for the subsequent movement of received items, the possibility is also increased that items may not be actually received yet acknowledged as received on the suppliers invoice and packing list (vendor delivery receipt) and presented for payment processing (Finding 2 discussed cases of paid purchases but with unaccounted deliveries). On the other hand, the lack of inventory management system as well as the lack of accountability for the accuracy of inventories made it hard to account the subsequent movements of delivered purchases and unnecessarily exposed the hospital to undetected misuse, abuse, theft and losses.

Cause and Recommendation

The hospital management did not make it a priority to mitigate and address the lack of an inventory management system or to install a reliable alternative system to account and manage the inventory. What the custodians have, were spreadsheets that do not provide a complete trail of all the transactions from receipt to issuance to inventory balance. Considering the high volume of the yearly purchases of medical and pharmaceutical supplies and the number of items on the inventory, the use of spreadsheets to monitor inventory movements may not be reliable and sustainable. In addition, the Pharmacist and Warehouse Supervisor were not being held accountable for the insufficient tracking of the goods ordered/purchased as there was no consequence for not having a system in place to provide full accounting of all the items purchased, received, issued and remaining in inventory.

We recommend that the Department of Health Services management should:

- Prioritize the restoration of the inventory management system that would provide accounting/trail[4] of purchases of items from the time of receipt, to issuance, and up to inventory balance.
- Evaluate the ability of the custodian/warehouse supervisor to maintain/manage an inventory system and provide accountability for inventory.
- Implement the procedures to control the issuance and other stock movements to provide transaction trail in the inventory system. For example, implement the use of accountable forms (with control number captured by the system) to provide for accounting of the completeness of receipts, issues and adjustments of inventory.

[3] Numbered forms when numerically issued would allow checking of the completeness of transactions by means of a cut-off and then accounting the numerical sequence of the form issued within the period. Missing forms in the range are also to be accounted for and the original copy should be on file when cancelled.

[4] The system should be able to capture the document control number to provide trail and accounting of the completeness of entered receiving report and issuance slip.

Finding 2: Deliveries of Paid Medical and Pharmaceutical Supplies Worth $415,000 for FY 2012 - 2013 Cannot Be Accounted

According to the bid contracts with vendors, the due dates for delivery of the items ordered range from *30 to 60 days*. In addition, the bidding requirements on the bidding notices issued to the public indicated that: "*no advance payment should be paid out without the delivery of goods*".

Furthermore, FMR 6.9.*b requires that government funds shall not be disbursed to pay obligations under Purchase Order unless a receiving report confirming the receipt of goods or services is transmitted to the Director (Director of Treasury and Administration) by the head of the acquiring agency.*

From the random testing of purchase orders delivered in FY 2012 - 2013, we found some medical and pharmaceutical supplies that were paid but cannot be accounted for whether fully delivered. Upon examination of supporting documents, we noted that all payments for the POs were duly supported by signed purchase orders, vendor's sales invoice and user requisition slips. The vendor's sales invoice, wherein the amount equals to the PO amount, was signed both by the vendor and by the Warehouse Supervisor/Pharmacist. We noted however, that the signatures on vendor invoice did not necessarily signify the actual receipt of the delivered items since the acknowledgment of actual deliveries was being documented using the vendor's packing-list (vendor delivery receipt). We also learned that partial delivery of paid purchase orders used to be a practice in the hospital thereby allowing advance payment of purchase orders, which was against the policy on "*no advance payment*". When inquired as to the reason why the vendors' sales invoices were signed despite the fact that the items on them were not yet fully delivered, the Warehouse Supervisor said that, *in the past, full payments were made even before goods were delivered.* Hence the practice of partial delivery of paid purchase orders remains.

Considering that the management did not comply with the policy on payments, the deliveries of paid purchases to vendors[5] amounting to approximately $415,000 (net of unreleased check payment) cannot be accounted for during fieldwork due to absence of receiving reports/packing lists (vendor delivery receipt) on the inventory custodians' file for audit examination. However, this amount indicated discrepancy with the corresponding custodians' monitor of un-delivered items with an aggregate total of only about $173,000[6] (net of unreleased check payment) or $242,000 discrepancy. We had visited the custodians more than three times during fieldwork to reconcile and obtain the packing-lists/ vendor delivery receipts but to no avail.

[5] We noted that a vendor with cases of pending delivery, partial deliveries or undelivered items has been repeatedly awarded with contract.

[6] Both the inventory custodians (Warehouse Supervisor for Medical Supplies and Pharmacist for Pharmaceutical supplies) signed statements provided to the auditor certifying the correctness of amount of undelivered purchases based on their monitors and available documents and records. The total amount of undelivered purchases certified by the custodians was actually $241,148.41. From this amount, $67,848 unreleased check to vendor was deducted, thus, reducing the balance of paid POs with unaccounted deliveries from about $241,148.41to $173,000.

While finalizing the audit to discuss the results with management, additional delivery receipts were provided representing goods receipts for PO#L132220[7] amounting to $229,598.10. This particular PO alone has pending deliveries based on custodians' records and based on audit amounting to $145,148.41and $229,598.10, respectively. The subsequent presentation of packing lists (vendor's delivery receipts) effectively reduced the total net unaccounted deliveries based on custodian's records from about $173,000 to only about $36,000.

For audit purposes however, we consider the total PO amount of $229,598.10 as totally unaccounted deliveries since appropriate additional verification procedures has to be performed regarding the subsequent movements (issues/usages and inventory balance) of items to rule out the risk where items were documented but not actually received and/or issued. These cases of undelivered items were referred to the CID for further investigation (The POs with unaccounted deliveries are shown in Appendix C).

Considering further that our audit was done on sampling basis, there could be more cases of purchase orders with undelivered items but not covered by the audit testing.

Cause and Recommendation

The Pohnpei State Department of Health and Services did not implement adequate internal control procedures to track the delivery of ordered medical and pharmaceutical supplies and ensure that only delivered purchases were processed for payments. In addition, there were no procedures to ensure that un-deliveries were timely reconciled with vendors and reported to management for prompt action.

In addition, the Department of Treasury and Administration did not comply with the regulations that a receiving report confirming the receipt of goods or services is transmitted to Finance before using the government funds to pay for obligations under Purchase Order.

We recommend that:

- The Director of the Department of Treasury and Administration should implement internal control procedures that would ensure that only those delivered POs be processed for payments (e.g. attaching not only the original PO and the vendor invoice but also the sequentially issued receiving report evidencing receipt of delivered items).

- Pohnpei State Department of Health Services management should

  - Study whether the current computerized purchase order system could be linked to the inventory system as well as to the computerized payable system to improve the control by providing automatic monitoring of purchase orders, matching of receipts

[7] Apparently, an ongoing reconciliation was being made for PO # L132220 by the hospital management but such reconciliation was not disclosed to ONPA for consideration while auditing PO deliveries during audit fieldwork. ONPA only learned about the presence of packing lists for PO#132220 after the audit fieldwork and not during the times while ONPA were reconciling its figure for unaccounted deliveries with the custodians.

versus purchase orders, and allowing the payment only for fully delivered purchase orders.

- Implement adequate monitoring and regular reporting of undelivered purchase orders to ensure the timely deliveries of ordered items and resolution of issues on delivery.

We also recommend that the Pohnpei State Department of Health Services management should enforce the reconciliation of records of deliveries against the vendors' records and demand the delivery of paid and yet undelivered orders. If evidence of receipts on these orders would later be presented during the reconciliation then the management should require an independent person to account for and verify the subsequent movements (issues/usages and inventory balance) of the deliveries to rule out the risk where items were documented but not actually received and/or issued.

Finding 3: Frequent Use of Emergency/Regular Purchase Orders Increased The Cost of Buying Medicines During FY 2010 –2013

Best practice requires a purchase plan that includes strategies to obtain the best value in purchases, and avoid frequent purchases and the use of emergency orders[8]. The plan must also include an accurate quantification of requirements needed to avoid costs[9] of stock-outs and excessive stocks.

We found that the Pohnpei Hospital did not have a purchase plan that would guide them in procuring medical and pharmaceutical supplies. Consequently, purchasing frequently through high-priced emergency/regular orders had an average of approximately $881,000 per year (Refer to Table 4) which represents a high 69% of the $1,282,160.75 (Table 4) yearly average spending for medical and pharmaceutical supplies. This left only a small portion or 31% of the total spending used for procuring supplies thru competitive bidding that provides for better prices.

The results of audit testing as shown in Table 3 below, comparing the regular/emergency prices of 208 items on 29 randomly selected emergency/regular purchase orders with the related bid prices indicated that frequent emergency/regular purchase orders increased the purchasing cost by at least $137,000 due to higher prices of items in the sampled emergency orders. This increased cost was 149% higher on average in prices, or 249% above the bid prices. The other way of analyzing the price difference is that the hospital could have only spent about 40% of the total amount spent for emergency/regular purchases during the year and thereby could have saved as high as 60% of the funds had competitive bid been obtained for its substantial yearly requirements of pharmaceutical and medical supplies.

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[8] The hospital did not indicate a label to identify emergency POs, so, we deducted the total amount of POs subjected to bidding from the total expenditures for pharmaceutical and medical supplies to arrive at the balance supposedly spent for emergency and regular purchases. From this, we selected our sample to test the price difference between the bid and the emergency/regular purchases.

[9] The cost of stock-outs could be the high priced emergency purchases or the life of the patient not treated timely with the right medicine. The price of over stocking could be the expired medicine and inefficient use of storage facility. The planning guidelines also include the process for selection, procurement, storage, distribution, and usage of pharmaceuticals and hospital supplies.

Table 3: Results Price Comparison of Emergency Purchases Vs Bid Price

Description	Amount	Analysis	
		%	%
Sampled Emergency/Regular Purchase	$ 228,610.53	249%	100%
Total Amount Based on Bid Prices	92,238.94	100%	40%
Price Difference, Emergency/Regular Prices Over	$ 136,371.59	149%	60%

Although there were isolated cases in the 208 sampled items in which the bid prices were higher, most of the prices of items in the sampled emergency/regular purchase orders were higher compared to corresponding prices in the bid. For example:

- The cost of 100 units of "Celecoxib 200mg 30s" during emergency/regular purchase was $1,768 ($17.68 x 100), while the same item using bid price would only cost $775 ($7.75 x 100) thus, making the emergency price **228%** over the bid price.
- The cost of 200 units of Amoxicillin (250mg) during emergency/regular purchase was $760 ($3.80 x 200), while the same item using bid price would only cost $272 ($1.36 x 200), thus, making the emergency price **279%** over the bid price.
- The cost of 200 units of 'Albuterol Inh, Solution" during emergency/regular purchase was $1,500 ($7.50 x 200), while the same item using bid price would only cost $262 ($1.31 x 200), thus, making the emergency price **573%** over the bid price.
- The cost of 50 units of a supply 'Needle 23G 100s" during emergency/regular purchase was $3,000 ($60 x 50), while the same item using bid price would only cost $200 ($4 x 50), thus, making the emergency price **1500%** over the bid price.

Furthermore, we noted as shown in Table 4 that the total amount of emergency orders for FY2010-FY2013 more than doubled the total amount of bids, except for FY 2011. Considering that emergency/regular purchase orders could be highly priced, the hospital could save as high as 60% (Table 3) of the amount spent for emergency/regular orders. This saving could be significant in terms of absolute amount[10] considering that $3.5 million (refer to Table 4) was spent for emergency/regular purchase orders during the period covered by our audit.

[10] We cannot, however, provide an estimate of the total amount of possible savings because our sampling methodology (non-statistical sample) cannot be projected to the total universe of emergency/regular orders. The results of the sample testing though had established trends and provided useful insights into the cost of procuring medical and pharmaceutical supplies using emergency/regular purchase orders.

Table 4: Total Bids vs. Emergency Purchases					
	FY10	**FY11**	**FY12**	**FY13**	**Total**
Total Expenditure Report	$1,299,665.08	$1,194,569.22	$1,488,590.44	$1,145,818.26	$ 5,128,643.00
Average yearly expenditures					1,282,160.75
Total Bids	313,844.22	729,823.94	242,416.59	317.274.76	1,603,359.51
Emergency/Reg Orders	$ 985,820.86	$ 464,745.28	$1,246,173.85	$ 828,543.50	$ 3,525,283.49
Average yearly emergency/regular purchases					$ 881,320.87

Source: Pohnpei State Hospital Expenditure Report/ Bid Document/ONPA computed amount for emergency orders

We referred this finding to CID for further investigation.

Cause and Recommendations

The hospital management failed to develop and implement a purchase plan to improve the procurement activities in terms of cost efficiency, quality and timeliness. In addition, there was no inventory management system in place that would provide information for managing inventory and for purchase planning purposes including providing information on inventory balance, expiry dates, reorder point, yearly actual consumption, delivery lead time, buffer, overstocking, and stock-outs.

There were no control procedures implemented to identify and process emergency purchase orders from regular purchases.

We recommend that:

- The Pohnpei State Department of Health Services management should
  - Develop purchase plan and requires all Health Divisions to implement the plan. Furthermore, implement an adequate monitoring system for all of the procurement activities to ensure that effective procurement controls are in place supported by an inventory management system that would enable adequate management of inventories in both the hospital warehouse and the pharmaceutical supply area.
  - Implement control procedures to identify and process emergency purchase orders based on appropriate justification according to regulations.
- The Bidding Committee should
  - Procure thru bidding or other optimal methods of obtaining the lowest possible cost the significant percentage of the yearly requirements for pharmaceutical and medical supplies with due consideration also to other factors such as quality and timeliness of delivery.
  - Implement control procedures to guard against inside information and protect the integrity of bid and/or quoted prices.

Finding 4: Approximately $400,000 Could Have Been Saved in Bids Awarded From FY2010 to FY2013

Best practice requires that options that are advantageous and will serve the best interest of the state should be considered to achieve maximum cost savings for the organization. In the case of procuring pharmaceutical and medical supplies, an option could be bidding and selecting a winning bidder through the process of evaluation that include, but not limited to, *lump sum, by category,* or *item-by- item basis*. Generally, bids are evaluated based on the lowest total cost for all the items (lump-sum basis), and awarded to one winning bidder. For the item-by-item basis, bids are evaluated based on each line item with the lowest cost possibly resulting in multiple contracts being awarded.

For fiscal years 2010–2013, we found that the bidding committee did not explore possible cost-efficient options in deciding to award the bids. During the period, the bid contract was consistently awarded based on lump-sum evaluation despite the fact that in FY2013 the Director[11] of DHS requested that bids be evaluated on per line item basis. Fifteen bids amounting to approximately $1.6 million were awarded based on the lowest total cost. We obtained and reviewed all bids to verify the total difference in amount between lump sum versus item-by-item selection. Based on the result of our testing, we estimated that approximately $400,000 could have been saved had the bids been awarded on an item-by-item basis as shown in the computation in Table 5 below.

Table 5: Lowest Total Cost vs. Lowest Line Item Cost

	FY10	FY11	FY12	FY13	Total
Total Bid Cost	$313,844.22	$729,823.94	$242,416.59	$317,274.76	$1,603,359.51
Total Lowest Line Item Cost	219,222.48	617,277.15	161,419.25	176,310.00	1,174,228.88
Difference	**$94,621.74**	**$112,546.79**	**$80,997.34**	**$140,964.76**	**$429,130.63**

Source: FY 2010 to FY 2013 Bids received from Pohnpei State Finance

As a result, DHS was not able to maximize potential savings using their current method of selecting a winning bidder.

We referred this finding to CID for further investigation.

Cause and Recommendations

The Bidding Committee did not explore other cost-saving options (e.g. item-by-item) in deciding the winning bid. Furthermore, the bidding process did not provide flexibility to Bidding Committee in evaluating the lowest possible cost that would yield to greater amount of savings for the benefit of the government.

[11] The DHS Director who is a member of the DHS Bidding Committee said that the Bidding Committee Chairman did not accommodate his request for line item evaluation because such method of evaluation was not provided for as part of the requirement in the bidding request for proposal issued to bidders.

We recommend that the Bidding Committee should ensure that the bidding process should allow flexibility during the evaluation of bid proposals (lump sum, category total, item-by-item, etc.) to achieve the best possible savings to the government.

Finding 5: Quality Assurance Did Not Consistently Ensure Receipt of Quality Medicines

Best practice in quality assurance for the procurement of pharmaceuticals requires activities such as selection of medicines, dosage forms, and packaging; prequalify suppliers; providing appropriate storage, transport, dispensing and use; inspecting of medicines; laboratory testing when necessary; and not receiving expired or close to expiry pharmaceutical products.

Furthermore, a Black Box warning, also known as "black label warning" or "boxed warning", is the sternest warning by the United States Food and Drug Administration (USFDA) that a medication can carry and still remain on the market in the U.S. This warning appears on the label of a prescription medication to everybody about any important safety concerns, such as serious side effects or life threatening risks such as permanent damage to organs and death.

Lastly, Pohnpei State Hospital Pharmacy manual requires that expired medications should be segregated from usable stock to avoid accidental use and should be disposed of accordingly.

Our audit focused on certain areas in quality and the conditions noted on these areas were discussed in the following paragraphs.

Quality Assurance Program
We found that Pohnpei Hospital currently has a Quality Assurance program but it was lacking quality control practices in the procurement of pharmaceuticals. For example, the quality assurance program did not provide for the following activities:

1. Inspection of medicines

   We noted that the hospital did not have any written inspection guideline for receiving pharmaceuticals. Furthermore, we observed during the process of receiving that items were only counted but not consistently inspected for quality issues (e.g. expired, about to expire, and others).

2. Laboratory testing on defective medicines

   Currently the Pohnpei DHS does not have a laboratory testing facility on site for defective medicines.

As a result, the condition increases the risk of receiving sub-standard or below quality medical supplies and pharmaceutical as proven by the conditions noted in the following paragraphs.

Expired Medicines / Receipt of Medicine with Short-Shelf Life

We found during our inspection of the pharmacy area that expired medicines on the shelves amounting to about $9 thousand were mixed with good medicines (Refer to Appendix A). Furthermore, regular inventory of medicines on the shelves and stocks were not done, thus, expired medicines were not disposed of as well.

As a result, this condition increases the risk that expired medicines may be accidentally used for patients.

We also found based on our random testing of expiry dates those pharmaceutical supplies with short-shelf life amounting to about $10 thousand were received. These medicines have expiry dates on the same or within a year they were received.

As a result, this condition increases the risk that newly procured items add to the level of expired medicines in the warehouse. Without the process of regularly identifying and reporting the expired items and without proper inventory accountability, the quantities of yearly expired items in the warehouse were likely unknown to management.

Black Box Medicines

We found that Pohnpei Hospital's Essential Drug List[12] contains drugs that are considered black box medicines (Refer to Appendix B). Since the medicines (e.g. Atenolol, Ciprofloxacin, Enalapril, Ibuprofen and Warfarin) are labeled as high risks medicines, it is crucial that their prescriptions be monitored. Based on our interview with some Doctors at the hospital however, we learned that some patients using drugs on the black box list were verbally told on the possible side effects of each medicine, however, were not consistently being monitored by the hospital before, during and after using the medication.

As a result, the un-monitored prescription of black box medicines may have unreasonably exposed patients to possible serious and permanent damage to organs.

Cause and Recommendations

The hospital's quality assurance program did not include some key quality control procedures for procurement, receipt and storage of medicines. Furthermore, there were no written inspection-guidelines in use to ensure that products being received are of the highest quality.

As for the black box medicines, there were no written and monitoring procedures that include regular (e.g. monthly) updating of the current status of black medicine in the market (e.g. recalled), providing awareness on black medicine and their side effects, and performing appropriate and complete testing procedures to patients using or continuously using black box medicines. Without the written procedures, the hospital, in general, cannot assert that it has been monitoring black box medicines. The absence of written procedures would also lead to inconsistent practices among the doctors, pharmacist and other medical workers.

[12] Medicines that satisfy the priority health care needs of the population. The hospital copy of essential drug list was last updated on May 8, 2009.

Lastly, DHS did not consistently comply with its own procedures for segregating and disposing of expired medicines.

We recommend that the DHS Director develop and implement the following:

- An inspection guide to enhance the quality assurance activities involving procurement and receipt of pharmaceutical products.
- Control procedures to ensure compliance with the hospital's quality assurance program.
- Regular reporting and management approval of the disposition of expired medicines.
- Written procedures to handle the black-box medicines should:
    - Increase the awareness and product monitoring of information and status of black box medicines in the market;
    - Increase the awareness of all medical workers on information and procedures when prescribing/administering black box medicines to patients; and
    - Increase the concerned patient's awareness about the side effects of black box medicines especially for medicines prescribed on long-term/ life-time uses.

APPENDICES

Appendix A - Expired Medicine on Shelf during Physical Inspection

Name of Medicine	Expiry	Type of Medicine	Stock Level	Price/Unit	Amount
Fentanyl Citrate	4/30/2013	Narcotics	15 amps.	$8.52/amp	$127.80
Promethazine	2/28/2013	Injections	60 amps.	$2.95/amp	177.00
Diazepam	8/30/2013	Oral	127 tabs.	$1.55/box	4.65
Acetaminophen 500mg + Codeine Phosphate	10/31/2013	Narcotics	1800 tabs.	$17.91/btl	71.64
Meperidine (Pethidine) HCl 50mg	9/30/2013	Narcotics	810 amps.	$11.00/amp	8,910.00
Hydralazine	8/30/2013	Injections	115 amps.	$2.95/amp	339.25
Ibuprofen	5/30/2013	Oral	2000 tabs.	$37.50/btl	150.00
				Total	**$9,780.34**

Appendix B - Sample of Black Box Medicines in the Essential Drug List

Medicine Name	Treatment	Boxed warning
Atenolol, Metoprolol	Reduces the heart rate and is useful in treating abnormally rapid heart rhythms.	Abrupt discontinuation may exacerbate angina (chest pain), myocardial infarction (heart attack), and arrhythmias (irregular heart beat).
Ciprofloxacin	Antibacterial for Urinary tract infection	Increased risk of tendonitis (inflammation of a tendon) and tendon rupture (breaking) in all ages, but higher if age 60 or older.
Enalapril	High blood pressure (hypertension) in adults and children.	Should not be used in pregnancy, especially in second or third trimester due to risk of fetal injury or death.
Ibuprofen	Relieve pain from various conditions such as headache, dental pain, menstrual cramps, muscle aches, or arthritis.	Increased risk of serious cardiovascular thrombotic events (incidents that may cause damage to the heart muscle e.g. heart attack), especially with long-term use, also increased serious gastrointestinal events (ulceration and bleeding)
Warfarin	Blood clots	Bleeding risk can cause fatal hemorrhage (excessive discharge of blood from the blood vessels). When stopped without the doctor's advice, there is a risk of developing blood clots and of having stroke.

Source: PNI DHS Essential Drug List/ Black Box listing

Appendix C – Unaccounted Deliveries of Paid Medical & Pharmaceutical Supplies for FY 2012 - 2013

Purchase Order Numbers	Purchase Order Amount	Payment		Unaccounted Deliveries			Subsequent Reconciliation-Unaccounted Per Custodian
		Check Number	Amount Paid	Per Custodian	Per ONPA	Difference	
L132639	$5,200.00	237084	$5,200.00A	$2,350.00	$5,200.00	($2,850.00)	$2,350.00
L132987	6,280.00	237749	6,280.00B	4,445.00	6,280.00	($1,835.00)	4,445.00
L133067	8,922.04	237749	8,922.04B	4,182.24	8,922.04	($4,739.80)	4,182.24
L132908	5,300.00	237749	5,300.00B	5,300.00	5,300.00	$0.00	5,300.00
L133010	15,219.30	33779	15,219.30C	3,798.25	15,219.30	($11,421.05)	3,798.25
L120680	171,880.50	25938	171,880.50D	50,541.20	145,142.20	($94,601.00)	50,541.20
L122066	33,067.81	232429	33,072.51	2,312.80	33,072.51	($11,877.38)	2,312.80H
L122048	37,463.58	232353	37,463.58	16,943.02	25,910.89	($8,967.87)	16,943.02
L122464	2,500.00	28796	2,500.00E	2,395.40	2,500.00	($104.60)	2,395.40
L121707	6,390.00	231973	6,390.00F	3,797.25	6,390.00	($2,592.75)	3,797.25
L132220	138,388.26	34917	67,848.47G				
		34616	70,539.79	82,441.01	138,388.26	($55,947.25)	
	91,209.84	32906	91,209.84	62,642.24	91,209.84	($28,567.60)	
Subtotal	**229,598.10**		**229,598.10**	**145,083.25**	**229,598.10**	**(84,514.85)**	$ 8,108.67i
Total	**$521,821.33**		**$521,826.03**	**$241,148.41**	**$483,535.04**	**($223,504.30)**	**$104,173.83**
Check payment not released -#34917			67,848.47	67,848.47	67,848.47		67,848.47
Total			**$453,977.56**	**$173,299.94**	**$415,686.57**	**($223,504.30)**	**$36,325.36**

Notes: A -part of check # 6676-237084-15 total amount $21,825.90

B -part of check # 6794-237749-7 total amount $43,213.29

C - part of check # 6769-33779-1 total amount $21,449.30

D - part of check # 4904-25938-1 total amount $221,133.20

E - part of check # 5580-28796-24 total amount $11,311.00

F - part of check # 5211-231973-11 total amount $9,679.07

G -check is on hold or not yet released by Finance

H –with unauthorized over delivery against approved quantities on PO amounting to $24,152.26. These were counted as deliveries per custodian but not per ONPA (L122066)

i – with unauthorized over delivery against approved quantities on PO amounting to $ 28,306.10. These were counted as deliveries per custodian but not per ONPA (L132220)

Source: Finance/Warehouse/Pharmacist/documents/delivery/control/monitor or spreadsheet

MANAGEMENT RESPONSE

POHNPEI STATE GOVERNMENT
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Office of the Director

April 17, 2014

Mr. Haser Hainrick
FSM National Public Auditor
FSM Office of the National Public Auditor
Palikir, Pohnpei, FSM

Dear Mr. Hainrick:

We write in response to your audit report on Department of Health Services (DHS) Procurement for Fiscal Years 2010 – 2013. Findings and recommendations were either for the DHS or the Department of Treasury and Administration (DOTA) or both. Our detailed response would be limited to DOTA.

Finding 1: Absence of Inventory Management System Resulted in $3.8 Million Purchases of Medical and Pharmaceutical Supplies for FY2011 – 2013 Not Fully Tracked, Controlled and Provided with Accountability

The management of the DHS shall implement the recommendations.

We had a meeting with the DHS management to discuss resolution of this finding. They implemented the following:

1. While awaiting for the concrete plan to either purchase an inventory management software or revive the PMIS, a spreadsheet shall be used to log in delivery and issuance of inventory. The Administration Division of the hospital shall oversee that this alternative recording is accomplished completely and accurately.
2. A physical inventory count shall be conducted to establish the beginning balances of medical and pharmaceutical supplies. An inventory count was done in March 2014 (*see Attachment 1*)
3. A receiving report shall be completed for every delivery of medical and pharmaceutical supplies, and medicines. DOTA will not process any check without the receiving report.
4. Requisition slips should be prenumbered and issuance shall be documented.

Finding 2: Deliveries of Paid Medical and Pharmaceutical Supplies Worth $480,000 for FY2013 Cannot Be Accounted For

We concur to this finding due to the absence of inventory management system as presented in Finding 1. This Department has relied on the DHS acknowledgement that DHS received their

items by signing off on the vendors' invoices, which was our basis to prepare the payment. However, in December, a check was not released because this department could not fully account the completeness of supplies delivered and not until the order was fully delivered when the check was released a few months after.

This Department will enforce submission of a receiving report confirming the receipts of goods.

Finding 3: Frequent Use of Emergency/Regular Purchase Orders Increased the Cost of Buying Medicines during FY2010 – 2013

The management of the DHS shall implement the recommendations.

As discussed with the management of the DHS, all emergency purchases were limited per Jan. 6, 2014 memo (*see Attachment 2*) and they were stopped as confirmed by the Chief of the Administration & Health Planning.

Finding 4: Approximately $400,000 could have been saved in bids awarded from FY2010 to FY2013

The Bidding Committee awarded all contracts to the lowest bidder, hence, we do not concur to the finding that we could have saved $400,000 in the process of bidding out per item-by-item due to the nature of the medical/pharmaceutical supplies. In the process of evaluating the bid price, choosing item-by-item is always lower when compared to the total amount of the bid because of the pricing differences from the bidders, but it is improbable to bid that way. This is not the essence of an open bid but considered as a Request for Quotation. The Financial Management Regulation (FMR) may not allow this.

The FMR states that:

> *6.1 Purpose. The purpose of these procurement policies, procedures, and practices are intended to require Pohnpei Government to acquire property and services of the requisite quality, **at the lowest reasonable costs**, within the requisite time frame, utilizing competitive procurement methods to the maximum extent possible.*

In addition, the FMR presented the steps to adhere to from the bidding requirements, evaluation of the bids to rejection or awarding of contract.

We followed all these procedures, and as a result the Bidding Committee evaluated the *lowest reasonable costs* based on the lump-sum amount. We will explore options to bid out per category depending on the nature of the supplies/medicines and whether the total amount falls under the minimum bid threshold of $25,000. Of course, bidding out using the item-by-item may not be possible because each medical/pharmaceutical item is normally below the bid threshold.

Finding 5: Quality Assurance Did Not Consistently Ensure Receipt of Quality Medicines

The management of the DHS shall implement the recommendations.

As discussed with the management of the DHS, a Quality Assurance Survey (*see Attachment 3*), which articulates the issues raised by the auditor, is being conducted to identify weaknesses at the Pharmacy and Supply. The DHS management will follow-up resolution of the problems identified in the survey.

We would like to thank the FSM National Public Office for reporting on the procurement of DHS.

Sincerely,

Christina Elnei
Acting Director
Department of Treasury and Administration

Enclosures

ONPA's EVALUATION OF MANAGEMENT RESPONSES

ONPA received the management response to the audit report which according to the Acting Director of Treasury and Administration (Finance) is a combined management response from both Finance and the hospital management. The management response generally agreed with all the findings and recommendations in the report except for Finding # 4.

Finding 4: Approximately $400,000 Could Have Been Saved in Bids Awarded From FY2010 to FY2013

The management did not concur with the finding that it could have saved $400,000 in the bidding process. They cited the following reasons:

1. It is improbable to bid on item-by-item since it is not the essence of procuring by bid. Item-by-item is only applicable to Request for Quotations.
2. The Pohnpei State Financial Management Regulations may not allow item-by-item bid (instead allowing total bid) since it had prescribed the bidding steps (for compliance) from bidding requirements specification, to evaluation of bids, to rejection of bids and finally to awarding of contracts.

ONPA Comments- ONPA would like to clarify that its recommendation was not item-by-item bid but flexibility in evaluation of bids (for award) that were submitted and containing a series of separately priced line items that contribute to a total price or a bid amount. These detailed items actually provide opportunity to analyze further the bidders' responses when it comes to price. From its analysis, ONPA demonstrated that a bidder with the lowest bid did not actually provide the **lowest reasonable costs**, hence, did not provide an award that is economically advantageous to the state. The computed yearly savings in costs averaging to about $100,000 ($400,000 for four fiscal years) is significant enough and unreasonably increased the procurement costs. It warrants serious consideration of other bid evaluation options rather than limiting the evaluation to a total-bid or lump-sum basis.

"Is FMR allowing an evaluation of bids other than by total bid amount?" ONPA believes that the FMR allows bid evaluation other than total bid amount. This was provided for in **FMR 6.30**, which states that other factors can be considered prior to making an award. These include such factors but not limited to considerations *of the advantages and disadvantages to the state that might result from making a different award*. If an item-by-item bid evaluation that may result into multiple awards (e.g. limit to 3 awards) would give advantages to the state in terms of costs savings then the multiple awards should be made rather a single award to the lowest bidder.

ONPA would also like to state that the process of evaluating bids for award is not only obtained thru getting the bidder with the lump-sum or total amount of bid. In fact, the evaluation of bids for multiple awards is also being practiced in sealed bidding. The U.S. Federal Acquisition Regulations (FAR)[13] System contained provision that *"Evaluation of Bids for Multiple Awards" be inserted in invitations for bids if the contracting officer determines that multiple awards might*

[13] FAR System governs the "acquisition process" by which the U.S. government purchases (acquires) goods and services.

be made if doing so is economically advantageous to the government[14]. In addition, FAR[15] also provides for factors that may be applicable in evaluation of bids for award. One of these factors would be *the consideration of the advantages or disadvantages to the Government that might result from making more than one award. The contracting officer shall assume, for the purpose of making multiple awards, that $500 would be the administrative costs to the Government for issuing and administering each contract awarded under a solicitation. The individual awards shall be for the items or combinations of items that result in* ***lowest aggregate costs*** *to the Government, including the assumed administrative costs.*

Regarding bid and evaluation by category (group of items), this has been practiced in Chuuk State.

Considering the above justification for providing flexibility to evaluate bids for award, ONPA is maintaining its findings and recommendations. It would be prudent to request a bid proposal by category and provide flexibility to evaluate it further in any manner that would result in the lowest aggregate costs to the Government.

[14] Subpart 14.201-6.q-(Sealed Bidding/Solicitation of Bids/Solicitation Provision)
[15] Subpart 14.201-8.c (Sealed Bidding/Solicitation of Bids/Price Related Factors)

NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff of Pohnpei Department of Health & Services (PDHS) and Pohnpei State Department of Finance and other departments for their assistance and cooperation during the course of the audit.

In addition to providing copies of the final report to the President and Members of the FSM Congress, we will also send copies to the following: Pohnpei State Governor, Pohnpei State Lieutenant Governor, Members of Pohnpei State Legislature, Pohnpei State Director of Finance and Administration, Pohnpei State Director of Department of Health Services, Pohnpei State Public Auditor, FSM Secretary of the Department of Health and Social Affairs, FSM Secretary of the Department of Finance & Administration and the FSM Director of SBOC. 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 National Public Auditor and staff that made major contributions to this report.

Haser Hainrick
National Public Auditor

May 7, 2014

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

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ACKNOWLEDGEMENTS	In addition to the contact named above, the following staff made key contributions to this report: Manuel San Jose CPA, CGAP, CIA, CISA, CRMA, Audit Manager Elina Paul, Auditor-In-Charge Mermina Mongkeya, Staff Auditor Clayton Eliam, Staff Auditor
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