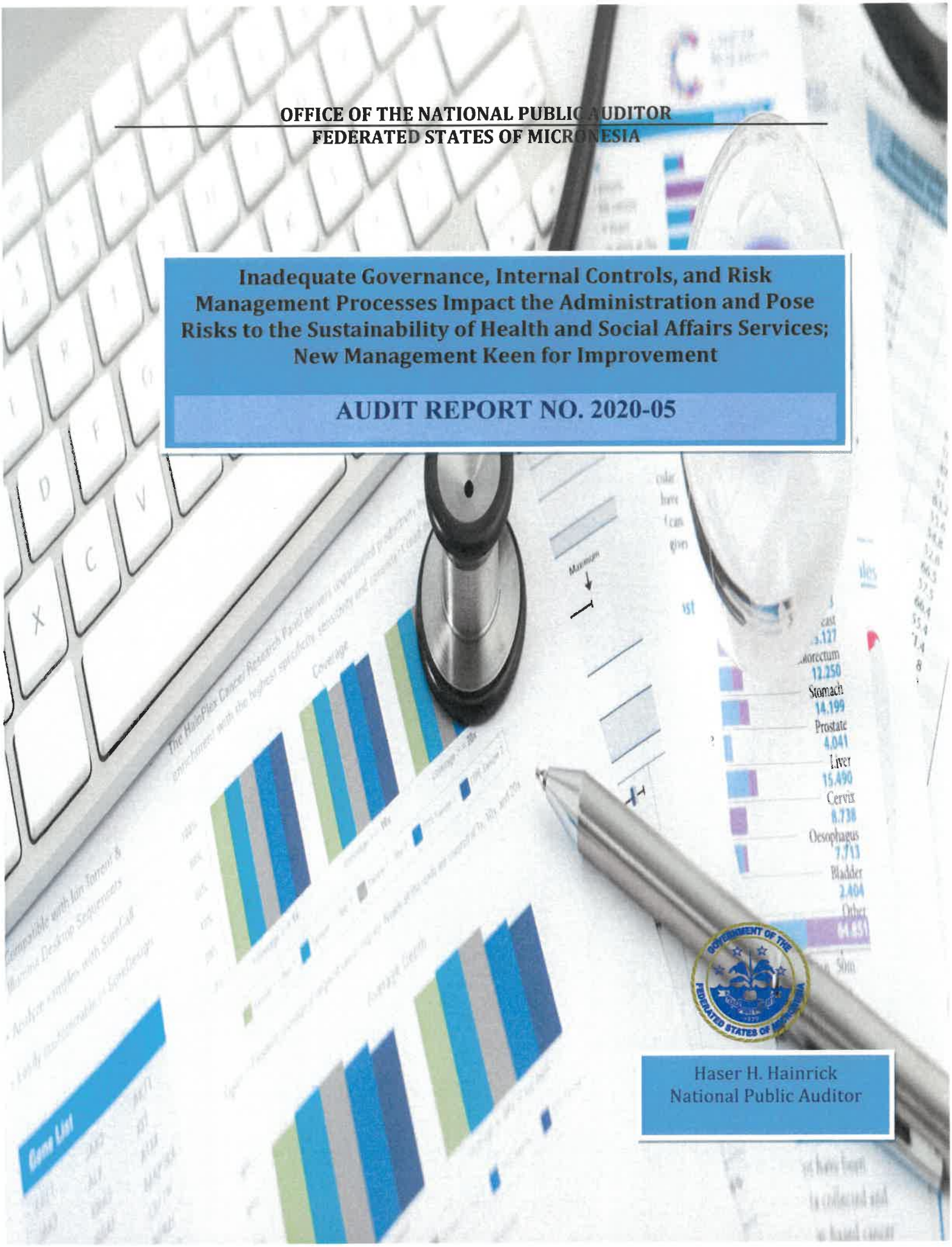

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

Inadequate Governance, Internal Controls, and Risk Management Processes Impact the Administration and Pose Risks to the Sustainability of Health and Social Affairs Services; New Management Keen for Improvement

AUDIT REPORT NO. 2020-05

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April 17, 2020

His Excellency President David W. Panuelo
Honorable Members of the 21st Congress
Federated States of Micronesia

RE: PERFORMANCE AUDIT ON FSM DEPARTMENT OF HEALTH AND SOCIAL AFFAIRS (DHSA)

We have completed the performance audit on the FSM Department of Health and Social Affairs. Our scope of work covered fiscal years 2015-2018 and the main focus was on governance structure, effectiveness of internal controls, risk management, efficient and effectiveness of operations and whether there is future sustainability of health services that are currently funded almost 100% by development partners.

This performance audit was requested by the Secretary of FSM Department of Health and Social Affairs in December 2016. The Office of the National Public Auditor commenced the audit review on January 17th, 2017 however due to resignation of some of ONPA's key staffs, the audit was put on hold until November 28th, 2018.

The audit objectives were to determine whether:

- DHSA existing and applicable laws, policies, procedures mandates and other internal controls are in line with Article 41 of FSM Code and are complete and sufficient to ensure that the department promote and protect health and wellbeing of the FSM citizens; and;
- Performance management and measurement systems were developed, implemented and are sufficient for guiding, monitoring, evaluation and reporting.

This audit was conducted in accordance with the generally accepted government auditing standards (GAGAS). 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.

Based on our audit, we concluded that the Department of Health and Social Affairs has:

(i) Deficiencies in governance structure which includes the lack of alignment to the Establishment Act (FSM Code Title 41) and implementation of applicable laws and mandates;

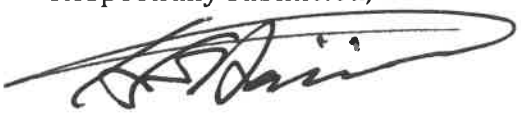
(ii) Insufficient internal controls in place to guide the entire operations/programs of the Department of Health and Social Affairs;

(iii) Failed to develop sufficient performance management and measurement systems for guiding, monitoring, evaluation and reporting; and

(iv) Failed to develop risk management process and contingency plan in order to abreast with any uncertainty in the future, monitored and teamwork environment is fostered at all departmental levels.

We discussed the findings and recommendations with the Secretary of the Department of Health and Social Affairs and requested for formal management response which is attached as part of the report.

Respectfully submitted,



Haser Hainrick
National Public Auditor

CC:

Vice President Honorable Yosiwo P. George

Secretary, Department of Health and Social Affairs: Honorable Livingson A. Taulung

Secretary, Department of Justice: Honorable Joses R. Gallen

Secretary, Department of Finance and Administration: Honorable Eugene Amor

Acting Director, Office of Personnel: Mr. Dwight Edwards

Office of the National Public Auditor
Inadequate Governance, Internal Controls, and Risk Management Processes Impact the Administration and Pose Risks to the Sustainability of Health and Social Affairs Services;
Audit Report No. 2020-05

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1.0 INTRODUCTION

This performance audit was conducted following the request of the Secretary, Department of Health and Social Affairs through her letter to the Office of the National Public Auditor, dated December 28th, 2016.

2.0 BACKGROUND

2.1. Department of Health and Social Affairs

According to Executive Order No.1 as amended in April 2008 and then again was re-amended in September 2016, the Office of the Secretary for the Department of Health and Social Affairs is mandated to carry out the following functions and responsibilities:

- To develop suitable and effective health policies for the nation as a whole that are relevant to all levels of the national government. The office of the Secretary shall advance the national interest of the FSM on public health matters through all the national, international, and regional organizations.
- To ensure stakeholders participation in health program matters by activating stakeholders' councils and associations that may complement the national government in executing designated functions when called upon by the Secretary.
- To ensure compliance with standards set by law and regulation relevant to professional standards of licensing through the regulatory bodies (Medical, Nursing and Food Import Board of Directors).
- To oversee the overall administrative and financial responsibilities of the department through the Administrative Officer, Executive Secretary, and the Office Receptionist.

The overall mandate and responsibilities of the department are required to be fulfilled through the established Divisions of Public Health Prevention and Promotion; and Healthcare and Human Services.

2.2. The Division of Public Health Prevention and Promotion is comprised of the following six (6) units and associated programs with corresponding functions and areas of coverage:

(i) Behavioral Health and Community Mental Health program to promote and maintain behavioral and mental health services through the implementation of:

(a) Substance Abuse Prevention & Treatment Program

(b) Community Mental Health Services
(c) SPF Program

(ii) Environmental Health and Food Security to prevent environmental-related diseases through the implementation of:

(a) Food Security and Food Safety
(b) Vector Control Program
(c) Climate Change Health Impact
(d) Sanitation and Hygiene

(iii) Immunization & Vaccine Preventable Diseases to prevent diseases through immunization and vaccination carried through the implementation of:

(a) Children Immunization Program
(b) Adult Immunization Program
(c) Pandemic Influenza Immunization

(iv) Communicable Disease Prevention to prevent diseases through the implementation of:

(a) Tuberculosis Prevention and Control
(b) Leprosy Prevention and Control
(c) Sexually Transmitted Disease
(d) HIV/AIDS Prevention and Control
(e) Emerging and Re-emerging Disease Control

(v) Family Health Services to promote health through the life course programs as follows:

(a) Maternal and Child Health
(b) Family Planning
(c) Disabled Individual Services
(d) Adolescents Health

(vi) Non-Communicable Disease Prevention to prevent lifestyle and chronic diseases through the implementation of:

(a) Diabetes Prevention Program
(b) Cancer Prevention Program
(c) Tobacco Prevention and Control Program
(d) Lifestyle Diseases Prevention Program

2.3. The Division of Healthcare and Human Services shall be comprised of the following six (6) units and programs and their respective functions and areas of coverage:

(i) Health Planning and Data Management Unit to collect and manage data to support decision making on health matters through the implementation of:
  (a) Vital Statistics & Health Information System
  (b) Epidemiology and Surveillance
  (c) Health and Medical Research (IRB)

(ii) Health System Development to evaluate and develop health improvement and quality control through the implementation of:
  (a) Ancillary (Laboratory, Pharmacy, Radiology) Services Standard and Protocol
  (b) Information Technology
  (c) Public Health Infrastructure Development

(iii) Public Health Emergency Response to facilitate and coordinate health and medical readiness and response through the implementation of:
  (a) Public Health and Healthcare Emergency Preparedness & Response
  (b) Specialty Medical Services Program
  (c) Medical Reserve Corp Registry
  (d) Healthcare Coalition Development
  (e) International Health Regulations

(iv) Health Regulations & Licensing to oversee health licensing and regulatory compliance through the implementation of:
  (a) Health, Medical and Nurse Professional Licensing
  (b) Health and Medical Provider Accreditation
  (c) Food Importers Licensing

(v) Human Resources Development to build and sustain health workforce needs through the implementation of:
  (a) Health Workforce Development Program
  (b) Health Volunteer Services Management
  (c) In-Service Training Program & Support

(vi) Special Population Development Program to develop, promote, and coordinate select population welfare through the implementation of:
  (a) Gender Development

(b) Youth Development
(c) Sports Development
(d) Geriatric Program
(e) Disabled Individual Program

According to the FSM Strategic Development Plan, the roles of DHSA are limited to health planning, donor coordination, technical and training assistance for the health departments at the state level.

2.4. Current functions and roles of DHSA

The roles and functions of the Department of Health and Social Affairs are as delineated under Title 41 of the FSM Code.

2.5. Financial History

Table 01: Financial History for the Fiscal Year 2015-2018

Fund	Fiscal Year 2015		Fiscal Year 2016		Fiscal Year 2017		Fiscal Year 2018	
Budget & Expenditure								
	Budget	**Expenditure**	**Budget**	**Expenditure**	**Budget**	**Expenditure**	**Budget**	**Expenditure**
General	764,713	1,270,314	1,082,955	1,013,623	811,898	1,274,592	828,930	1,937,146
Federal	5,992,747	4,723,166	5,016,528	4,423,141	4,800,437	4,868,411	3,809,214	4,689,332
Foreign	404,771	465,938	614,880	360,569		313,713		467,836
CIP	323,000	311,338	188,000	145,748	729,000	509,460	548,500	303,455
Totals	**8,027,233**	**6,770,756**	**6,902,363**	**5,943,080**	**6,341,335**	**6,966,176**	**5,186,644**	**7,397,769**
Licensing Fee (Revenue)								
Medical		2,985		5,665		2,720		4,475
Nursing		4,365		1,825		3,445		3,335
Food Import								
Total		**7,350**		**7,490**		**6,165**		**7,810**

3.0 OBJECTIVES, SCOPE AND METHODOLOGY

3.1. Objectives

There are two main objectives and 13 sub-objectives of this audit. The main objectives are indicated below, however the sub-objectives are highlighted in each of the findings found under section 7.0.

3.1.1 Determine whether DHSA existing and applicable laws, policies, procedures mandates and other internal controls are in line with Article 41 of FSM Code and are complete and sufficient to ensure that the department promote and protect health and wellbeing of the FSM citizens; and

3.1.2 Determine whether a performance management and measurement systems were developed, implemented and are sufficient for guiding, monitoring, evaluation and reporting.

3.2. Scope

The audit covered fiscal years 2015 -2018 at FSM Department of Health and Social Affairs. However, in some cases, information was extracted from period preceding to fiscal year 2015 or after fiscal year 2018. The focus of the audit was on DHSA's governance processes, internal controls, risk management, performance management and sustainability of the health services.

We conducted this audit pursuant to the authority vested in the National Public Auditors as codified under Chapter 5, Title 55 of the FSM Code stating that, "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."

3.3. Methodology

We conducted this performance audit in accordance with generally accepted auditing standards. 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether DHSA existing laws, policies and procedures, mandates, internal controls are in line with Article 41 of FSM Codes and there is performance management mechanism in place , we had ((a) obtained, reviewed, analyzed and documented relevant documentations (b) interviewed management and key personnel to verify and confirm any deficiency and (c) conducted physical inspections of the DHSA warehouse to verify the condition and safety of the warehouse and medical supplies.

4.0 Prior Audit Coverage

This is the first performance and compliance audit on FSM DHSA conducted by ONPA. However, there are audits already conducted for single audit and we would like to reiterate the implementation of the recommendations given in this report.

5.0 Commendation

In most cases government departments, agencies and units have negative perspectives whenever it comes to being audited, but this was not the case with the management of the Department of Health and Social Affairs. The department requested for performance and compliance audit from the Office of the National Public Auditor in order to know where they are and where they need to improve their processes. The Office of the National Public Auditor commends this move as the right practice that need to be emulated by other public institutions, practically, since the public auditors are partners in improving public sector for effective and efficient service delivery. The focus of ONPA is to assist the government and its institutions in improving governance processes, performance, internal controls and the risk management.

Through our various meeting with the members of management of the department, we observed a true desire from the former and current Secretaries for change and to make the department one of the best performers in FSM. However, without consented efforts aimed at developing these tools, the issue will remain a thorn in the department.

6.0 CONCLUSION

Based on our audit, we concluded that the Department of Health and Social Affairs has:

(i) Deficiencies in governance structure which includes the lack of alignment to the Establishment Act (FSM Code Title 41) and implementation of applicable laws and mandates;

(ii) Insufficient internal controls in place to guide the entire operations/programs of the Department of Health and Social Affairs;

(iii) Failed to develop sufficient performance management and measurement systems for guiding, monitoring, evaluation and reporting; and

(iv) Failed to develop risk management process and contingency plan in order to abreast with any uncertainty in the future.

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

7.0 FINDINGS AND RECOMMENDATIONS

7.1. Governance and Internal Controls

7.1.1. Finding 01: The Current Organization Structure has Deficiencies and is not Aligned to the Establishment Act

Governance is the combination of processes and structures implemented by any institution, department, agency, etc. in order to inform, direct, manage and monitor the activities of the department toward the achievement of its objectives.

During our review *to determine whether the Department of Health and Social Affairs has established a* formal *and approved organization structure for the department, divisions and section in line with the Establishment Order*, we observed that:

(i) The department name is different from the Act establishing it, Title 41 of FSM Code, where it is called Health Services.

(ii) The department has established its organization structure, which is yet to be approved where divisions and sections are clearly shown. It does not correspond to the mandated structure as per Title 41 of FSM Code;

(iii) Though the department has strived to delineate its functions, however the Act that established it remains silent on issues relating to Social Affairs;

(iv) Functions relating to Social Affairs and other supporting services have been marginalized;

7.1.1.1 Causes

(i) The department did not seek guidance from the Division of Personnel and Chief of Staff on procedure to follow in establishing the department's organization structure;

(ii) While ***Section 8*, of Article X of the FSM Constitution states that** executive departments shall be established by statute, there seems to be a knowledge gap on how to update the FSM Code and changes made to organization structure of executive departments; and

(iii) Lack of awareness and capacity in the DHSA's division of administration.

7.1.1.2 Potential Effects

(i) Confusion to internal and external stakeholders as to the role and responsibilities of DHSA;

(ii) Potential negative challenges from stakeholders to DHSA's authority during enforcement of rules and regulations relating to social affairs; and

(iii) Marginalization of the duties relating to social affairs and supporting services.

7.1.1.3 Recommendations

We recommend that the Secretary of the Department of Health and Social Affairs should ensure that:

(i) A comprehensive organization structure is developed and approved;

(ii) The Establishment Act (Title 41 of FSM Code) for the department of Health and Social Affairs is revised and accommodate Social Affairs and other supporting functions; and

(iii) There is comprehensive delineation of roles and functions for each division and section.

7.1.2. Finding 02: Inadequate Instrument of Delegation of Power to Secretary, DHSA.

The nomination of Secretary, Department of Health and Social Affairs is made by the President and confirmed by the Congress. After the appointment of the Secretary of DHSA is confirmed by the Congress, we noted that he/she entered into a contract agreement with the National Government of Federated States of Micronesia. Upon review of this contract we observed that:

(i) There were no job descriptions – specifically what is expected of the position;

(ii) There was no instrument of delegation of power, beside the contract; and

(iii) The contract focused mainly on the term of service and benefits.

Based on our review of Title 41 of FSM Code, we noted that the functions of the Department of Health and Social Affairs were vaguely documented and the role of the Secretary was not clearly delineated, even to the point of describing the title as Director of Health Services and in other areas as Secretary of Human Resources. This is an indication of a failure to review and ensure that those details correctly reflect the Health and Social Affairs services.

7.1.2.1 Causes

(i) Lack of effective oversight mechanism within the government; and

(ii) Lack of capacity within the Department of Health and Social Affairs: the department failed to work with the

(iii) Chief of Staff and Department of Justice to ensure that Title 41 of FSM Code is clear, appropriate and adequately defines the roles and functions of the department and various positions and units.

7.1.2.2 Potential Effects

(i) Inability of appointees for various positions in the department to develop and implement goals and objectives in a timely manner;

(ii) Management and staff may opt for copying goals, objectives and activities from other sources even where they are not applicable to FSM environment; and

(iii) Different priorities and agenda with each new Secretary of Department of Health and Social Affairs.

7.1.2.3 Recommendations

The Secretary of the Department of Health and Social Affairs should:

(i) Form a team of experts to review and update Title 41 of FSM Code by capturing appropriately the roles and functions of DHSA and various agencies under its purview;

(ii) Liaise with the Department of Justice and Chief of Staff on approval process for the recommended updates to Title 41 of FSM Code; and

(iii) Liaise with the Chief of Staff to ensure that legally sufficient instrument of delegation of power is developed and operationalized for current and future use.

7.2. Implementation of the Establishment Order for the Department of Health and Social Affairs

7.2.1. Finding 03: DHSA Management did not Address High Risks on Food as Required by The National Food Safety Act

Based on Title 41 of FSM Code Chapter 101, Section 1004-1032, the Secretary of the Department of Health and Social Affairs is required to establish Food Working Group. Executive Order no. 1 of September 2016 established regulatory bodies for DHSA which include: Food Import Licensing Board.

During our review *to determine whether performance management and measurement systems were developed, implemented and are sufficient for guiding, monitoring, evaluation and reporting thereon*, we observed that:

(i) The Food Working Group was established and was active for some years before 2010. However, from year 2010 the group became inactive and the DHSA management cited lack of funds as the reason for being inactive;

(ii) The department has not established Board of Directors for the Food Import Licensing Board; and

(iii) The Food Import Licensing register could not be availed by the program manager;

7.2.1.1 Causes

(i) Laissez-faire attitude in public service at management and operational level;

(ii) The department does not have a Risk Management Policy and Register in place and does not conduct annual risk assessment for its various activities which could have shown that absence of regulatory service on food imports may lead to non-reversal effects to residents of FSM; and

(iii) Limited funding from the FSM Government which may be due to belief that there is no need for food import regulatory services.

7.2.1.2 Potential Effects

(i) Uncontrolled importation of food;

(ii) Dumping of unsafe food, adulterated, unfit food, food with deceptive representation, food imported under unsanitary conditions, food that do not meet international standards and expired food from other parts of the world; and

(iii) Health negative side effects and death as a result of consuming imported foods that are not fit for human consumption.

7.2.1.3 Recommendations

We recommend that the Secretary of the Department of Health and Social Affairs should ensure that the:

(i) Food Working Group's functions and duties are funded, operational and updated where necessary;

(ii) Board of Directors for the Food Import Licensing Board is established and operationalized; and

(iii) Food Import Licensing register is established and maintained up-to-date throughout the fiscal year.

7.2.2. Finding 04: Deficiencies in the Implementation of The FSM Nursing Practice Act

Based on Title 41 of FSM Code, Chapter 09, Section 904, the President of the Federated States of Micronesia is required to establish National Board of Nursing within the Department of Health and Social Affairs.

Under section 910 of the chapter, the Secretary of DHSA is tasked with the responsibilities of employing an Administrator and other employees (at the request of the Board of Directors) for the Board.

During our review *to determine whether the Department of Health and Social Affairs has implemented the FSM Nursing Practice Act.*, we noted that:

(i) The employment contract of the Administrator defines the relationship between the Administrator and the Secretary DHSA as 'Independent Administrator-Employer' relationship. At the same time the Administrator report on daily basis to the Assistant Secretary of Health Services and also to Secretary, Department of Human Resources (Quarterly progress reports) and also reports to the Administrator, Division of Medical Care.

(ii) The Board of Directors of the National Board of Nursing is required under section 911 to meet at least twice annually but funds allocated to meet the operations of the Board enabled it to meet only once;

(iii) There was no adequate mechanism to ensure that institutional memory for the Board is maintained; and

(iv) There was no up-to-date contract for the Board Administrator who doubles as HIV/AIDS Program Manager.

7.2.2.1 Causes

(i) Lack of guidance from the Office of Personnel and lack of capacity within DHSA's Administration division, especially on preparation of employment contract agreement;

(ii) Absence of self-assessment mechanism within DHSA; and

(iii) Inadequate funding from the national government.

7.2.2.2 Potential Effects

(i) Lack of effective and efficient management, due to duo-roles and multiple reporting line/bosses;

(ii) Confusion to the Administrator and employees of the Board as to which department has oversight over the Board; and

(iii) Absence of oversight over National Nursing Board, thus affecting its regulatory role.

7.2.2.3 Recommendations

We recommend that the Secretary of the Department of Health and Social Affairs should:

(i) Review and recommend changes and deletions of sections of the Act that do not promote or are contrary to good governance; and

(ii) Ensure that the Board is adequately funded and supervised in order to deliver its duties and responsibilities effectively and efficiently.

7.2.3. Finding 05: There are Deficiencies and Conflict of Interest in the Implementation of the FSM Medical Licensing Act

Based on Title 41 of the FSM Code, Chapter 2, Sub-chapter I, Section 203, on the FSM Medical Licensing Act, the Medical Licensing Board was established. Two members of the Board of Directors are appointed by the President, while the Secretary of DHSA would be a member of the Board representing the government of FSM. The duties of the Board are described as follows:

(a) To advise and assist the Secretary of Health, Education and Social Affairs in carrying out his/her duties under section 207 of this chapter;

(b) To examine, study, review, and make recommendations with respect to the issuance, renewal, suspension, or revocation of licenses issued or in effect pursuant to the provisions of this chapter in accordance with the regulations promulgated hereunder; and

(c) To perform such other duties and functions as may be assigned by the President, the Secretary of Health, Education and Social Affairs, or by law.

During our review *to determine whether the Department of Health and Social* Affairs *has implemented the FSM Medical Licensing Act*, we observed that:

(i) There is a conflict of interest for the Secretary of DHSA based on Chapter 2, sub-chapter I, section 203 item (i) and (iii) of Medical Licensing Act:

(a) The Board (where the Secretary of DHSA is also a member) is directed to "carry out the duty of "advising and assisting Secretary" or

(b) "to perform duties and functions the Secretary may assign to the Board".

Good governance requires segregation of duties between those with oversight roles and management. It will be a conflict of interest to have the Secretary of DHSA participating in the Board's matters and at the same time be the one to make the final decisions on the matters. The Secretary cannot advise himself/herself;

(ii) The Board of Directors of the Medical Licensing Board is required under section 203 of the Medical Licensing Act (Health Services Personnel) to meet regularly annually but funds allocated to meet the operations of the Board enabled it to meet only once;

(iii) No adequate mechanism is in place to ensure that institutional memory in respect of the Medical Licensing Board is maintained: no minutes of the Board of Directors' meeting were availed to our audit team.

(iv) There was no reliable database established for medical healthcare licensees;

(v) There was no evidence availed to indicate that the Administrator issued notices to licensee for renewal of their license as prescribe in the laws; and

(vi) The Nursing Program Coordinator is also the Administrator for the Medical Licensing Board;

7.2.3.1 Causes

(i) Lack of guidance from the Office of Personnel and lack of capacity within DHSA's Administration division;

(ii) Failure to conduct annual self-assessment at the level of department, divisions and units;

(iii) Inadequate funding from the national government; and

(iv) Failure to involve stakeholders in the preparation of policies and regulations which would have made it easier to cite ambiguity, conflict of interest or weakness in various issues.

7.2.3.2 Potential Effects

(i) Lack of effective and efficient management;

(ii) Existence of ineffective Board of Directors for Medical Licensing Board;

(iii) Conflict of interests (Secretary of DHSA); and

(iv) The Secretary of the DHSA usurping or overruling the roles and functions of the Board of Medical Licensing.

7.2.3.3 Recommendations

We recommend that the Secretary of the Department of Health and Social Affairs should:

(i) Review and recommend changes and deletions of sections of the Act that do not promote or are contrary to good governance; and

(ii) To review and recommend improvement to the Act by involving stakeholders in order to ensure that it captures all issues relating to Medical Practice Licensing.

7.2.4. Finding 06: Deficiencies in the Implementation of Registration of Medical Practitioners and Nurses

Medicine profession deals with life and health of people; therefore, a minor error may lead to catastrophic consequences for an individual or a group of individuals. Drugs provisions, immunization, maternal health, family planning, nursing, treatment, etc. all deals with life and health of people. This therefore call for an efficient and effective mechanism for certification and monitoring of medical practitioners' capacity to offer quality professional services.

During our review to *determine whether the Department of Health and Social Affairs has an efficient and effective mechanism for Registration of Medical Practitioners and Nurses*, we observed that:

(i) Registration of Medical Practitioners and Nurses is conducted without vetting the certificates and documents provided by the applicants;

(ii) There is no documented registration process/ procedures and oral explanations provided show that there is no vetting, especially confirmation from the issuer of the academic and professional certificates and related documents; and

(iii) There are high chances that some of the documents provided to the Administrator maybe forged, belonging to someone else, downloaded from internet and edited, etc.

7.2.4.1 Causes

(i) The administrator and employees responsible for registration of Medical Practitioners and Nurses failed to develop procedures that give

reasonable assurance that imposters are prevented from engaging in a profession that deals with health and life of the people;

(ii) Failure to exercise fiduciary duty; and

(iii) Insufficient funding for the activities of the Medical Licensing Board and National Board of Nursing.

7.2.4.2 Potential Effect

(i) Employment of unqualified medical employees including medical doctors and nurses who will administer immunization, treatment, drugs and other medical materials contrary to prescribed procedures;

(ii) Death of patients;

(iii) Incapacitation of patients; and

(iv) Censure and loss of funding from development partners.

7.2.4.3 Recommendation(s):

We recommend that the Secretary of Health and Social Affairs should ensure that:

(i) The Board of Directors of the Medical Licensing Board and National Board of Nursing develop and operationalize policies and procedures that will guide the management in carrying out their duties and responsibilities; and

(ii) The Medical Licensing Board and National Board of Nursing develop mechanism for vetting all certificates and professional experiences of applicants for license for practicing medical health care in FSM.

7.3. Performance of the Department

7.3.1. Finding 07: DHSA Failed to Develop and Operationalize Strategic Plan, Annual Plans and Action Plans

Planning aims at setting direction and priorities; getting every division, section and individual on the same page before and during implementation; simplifying decision making; driving alignment within the components of the department; and communicating the message. It is generally known that 'failure to plan is planning to fail'.

Our review to *determine whether the Department of Health and Social Affairs has developed internal controls (policies and procedures) to guide its employees in*

implementing various activities aimed at achieving mission, goals and objectives of the department revealed that:

(i) The Strategic Plan was yet to be completed because management believed that there was a need for input from professional public health lawyer and human resource expert in public health (the department claim that Joint Economic Management Committee (JEMCO) has declined to fund the hiring of the two experts);

(ii) There were no inputs from the two states (Yap and Chuuk) to the Strategic Plan;

(iii) Absence of Strategic Plan resulted into having no Action Plan for the department, divisions, sections and individual staff;

(iv) The department had established the Family Planning Workplan for July 01, 2015 to June 30, 2016; and

(v) The department had established the Public Health and Hospital Preparedness Program (PHHEP).

However, most of these plans did not indicate whether they were approved and by whom.

7.3.1.1 Causes

(i) Laissez-faire attitude within management and employees where almost everyone chooses how to do things and without too much controls;

(ii) Limited capacity of existing divisional staff and administration staff to lead the exercise; and

(iii) Dependence of funding from external development partner.

7.3.1.2 Potential Effects

(i) Failure to establish realistic annual plan and budgets;

(ii) Inability to guide programs and human resources efforts toward the desired national goal;

(iii) Failure to synchronize DHSA's activities with other government's departments and organizations; and

(iv) Failure to achieve National SDP and Millennium SDGs.

7.3.1.3 Recommendations

We recommend that the Secretary of the Department of Health and Social Affairs should ensure that:

(i) The Strategic Plan for DHSA is developed, operationalized and synchronized with the UN Sustainable Development Goals 2030 (especial Goal no. 3 and 5) and National's Strategic Development Plan 2014-2023; and

(ii) Each DHSA's division prepare divisional Annual Action Plan based on the Strategic Plan and cascaded down to individual employees.

7.3.2. Finding 08: Weak Financial Management Practices within DHSA

Financial Management means planning, organizing, directing and controlling the financial activities such as utilization of funds and procurement; it focuses on applying general management principles to financial resources of the institution.

The department manage its financial related process based on the Financial Management Act (FMA) of 1979 and its regulations. The FMA and its regulations are focused on the broader policies and procedures for management of financial related matters and they lack industrial and department specific needs for financial management and controls, therefore a need for customization. To facilitate good financial management practice that are in no conflict with the FMA and its regulation each department ought to establish financial procedures and seek approval of department of Finance and Administration for their use.

FMA does not specifically point out on the establishment of inventory management controls and records, e.g. the use of inventory register, bin cards, issue notes, inventory verifications forms, temperature controls and monitor for drugs, etc. However, FSM Title 55 Chapter 2 Section 205, requires appropriate book and accounting and financial records to be maintained, and at the same time, best practices and industrial specific standards require such documentation.

During our review *to determine whether the Department of Health and Social Affairs has developed effective and efficient financial management system*, we observed that:

(i) The department has not established record keeping that ensure that financial information availed are accurate and valid (refer to record keeping in warehouse): no Store Ledgers and Bin Cards for maintaining record in the warehouses and accounting; and

(ii) Annual reports were not prepared timely to facilitate decision making. Annual reports for fiscal year 2014, 2015 and 2016 were yet to be finalized. Practice elsewhere, the annual report is produced 5-months after the end of fiscal year to allow for the completion of financial statements audit.

7.3.2.1 Causes

(i) Lack of capacity in the department's Administration Section;
(ii) Failure to establish milestones and accountability for head of divisions, sections and special programs/projects;
(iii) Failure to realize the risks the management is exposing the public to, by its failure to act appropriately in relation to maintenance of inventory and related records as required; and
(iv) Failure to collaborate with the Department of Finance and Administration on developing and operationalization of industrial specific financial policies and procedures.

7.3.2.2 Potential Effects

(i) While we could not verify loss of properties and funds but weak internal control environment in various divisions, sections and units may lead to loss of properties and funds;
(ii) Loss or failure to account for public assets;
(iii) Expired drugs, vaccines and other medical to be passed over to users; and
(iv) Provision of erroneous financial information.

7.3.2.3 Recommendations

We recommend that the Secretary of the Department of Health and Social Affairs should ensure that the department:

(i) Comply with Financial Management Act and its regulations with respect to annual report and maintenance of appropriate accounting and financial records; and

(ii) Employ employees with the right qualifications and experiences in each position in co-ordination with the Office of Personnel.

7.3.3. Finding 09: DHSA did not Develop Prudent and Effective Inventory Management Policies and Procedures for Health-Related Materials

Inventory management is an important component in every sector, economic and social, especially those dealing with goods and supplies. However, when it involves medical materials that are used to sustain life of people, its quality, efficiency and effectiveness need to be given higher priority. This is due to the facts that foods, water, drinks or drugs and related medical materials, if handled carelessly, may results into loss of life of an individual or a group of individuals.

During our review *to determine whether the Department of Health and Social Affairs has established and implemented prudent, effective and efficient inventory management policies and procedures to adequately safeguard drugs, vaccines and other medical related materials,* we observed that:

(i) The warehouses that houses drugs for treating, immunization, etc. and other medical materials were not maintained to required standards.
(ii) Some of refrigerators that are used to store some of the medical materials which need low temperature were broken and therefore not in operation;
(iii) Some of the air-conditioners which are vital for maintaining the required temperature for various health related materials were not operating;
(iv) Expired items were kept in the warehouse floor (though separated from others) which may attract the attention of unscrupulous staff or lead to mix-up during inventory counting. Such environment can cause expired drugs, vaccine or other medical materials can be easily passed on to unsuspecting customer or patient;
(v) Some of the vaccines were not labelled and while others were not properly labelled;
(vi) Log-book documenting visits by employees monitoring temperature was not updated as required;
(vii) There was no inventory management specialist, the department hired only procurement specialist; and
(viii) There were no developed and operationalized inventory management policies and procedures.

7.3.3.1 Causes

(i) There is no national procurement and supplies regulations; and inventory management procedures that could be customized by departments and components units to their working environment;

(ii) The department did not employ inventory management specialist but supply (procurement) specialist which are two different disciplines;

(iii) Failure to establish monitoring and evaluation mechanism at the level of divisions and section within DHSA; and

(iv) Bureaucracy in repair and maintenance of government properties, equipment and tools within the department of Transport, Communication and Infrastructure.

7.3.3.2 Potential effects

(i) Loss of life to individuals or group of individuals and unquantifiable health effects.

(ii) Financial loss due to spoilage of drugs and vaccines;

(iii) Conduits for corruption practices; and

(iv) Loss of reputation leading to withdrawal of funding from development partners.

7.3.3.3 Recommendations

We recommend that the Secretary, Department of Health and Social Affairs should:

(i) Direct the head of division and employees responsible for warehousing to ensure that the facilities are properly maintained and drugs, vaccines and other health related materials are maintained in hygienic and safe conditions consistently;

(ii) Ensure that the department of Transport, Communication and Infrastructure outsource services from efficient and well-equipped contractors;

(iii) Employ inventory management professional; and

(iv) Develop and operationalize prudent and effective inventory management policies and procedures.

7.3.4. Finding 10: DHSA Failed to Meet Some Requirements of The Joint Economic Management Committee (JEMCO)

Based on Joint Economic Management Committee Resolution No. 2016-1, DHSA is required to develop a set of clear, simple, measurable, and verifiable performance indicator in the health sector.

During our review *to determine whether the Department of Health and Social Affairs has implemented or started to implement JEMCO resolution No. 2016-1: Performance Indicators and Reliable Data -Health Sector of August 24th, 2016*, we observed that:

(i) DHSA has not yet developed these performance indicators to the satisfaction of our development partner;

(ii) The management did not provide any evidence to indicate that there are conceited efforts to ensure that the concerns and requirements of JEMCO are addressed timely and adequately;

(iii) The concern of JEMCO may further be aggravated by the inability of the management of DHSA to prepare comprehensive Strategic Plan linked to SDGs and FSM's SDP which could give grounds for establishing relevant performance indicators;

(iv) JEMCO's resolution number 2016-01 give a ground for the government of FSM to utilize up to $500,000 for building its capacity to establish performance indicators in the health sector;

(v) No indicators have been developed by individual division due to failure to develop division action plan based on DHSA Strategic Plan; and

(vi) The DHSA main activities are about 86% dependent on US Government and other development partners.

Table 02: DHSA Source of Funds for the Period of Fiscal Year 2014-2018[216-1]

#	Source of Funds	Total	2018	2017	2016	2015	2014
(i)	US Federal Grant	22,762,692	4,538,491	4,538,491	4,173,784	4,538,491	4,973,435
(ii)	Other Foreign Assistance	2,955,533	689,591	689,591	549,000	689,591	337,760
(iii)	External Funds	25,718,225	5,228,082	5,228,082	4,722,784	5,228,082	5,311,195
(iv)	Local Funds	4,038,136	784,793	784793	864,258	784,793	819,499
	Total	29,756,361	6.012.875	6,012,875	5,587,042	6.012,875	6.130.694

7.3.4.1 Causes

(i) Laissez-faire attitude within the management and employees where almost everyone chooses how to do things and without adequate much controls; and

(ii) Reliance on development partners for funding even those activities that could easily be financed from internal financial sources; and

(iii) Failure to establish comprehensive annual action plan and assigning of activities.

7.3.4.2 Potential Effects

(i) Withholding of funding from US Government resulting in suspension of various essential heath related projects which currently stands at about US$ 5.2 million annually;

(ii) Loss of funding from other development partners;

(iii) Inability to provide essential health related services to the people of Federated States of Micronesia and thus affecting other sectors as well; and

(iv) Death or negative health effects especially for patients whose medical care were mainly financed from the health projects funded by the USA Government.

7.3.4.3 Recommendations

We recommend that The Secretary of the Department of Health and Social Affairs should:

(i) Establish a team of experts or hire consultant to establish verifiable performance indicators in the Health Sector; and
(ii) Ensure that the department comply with all JEMCO's requirements with respect to Health Sector.

7.3.5. Finding 11: DHSA Did Not Develop and Operationalize Appropriate and Adequate Mechanism for Performance Monitoring and Reporting

In order to identify the performance efficiency and effectiveness of the department, divisions, sections and program (special and otherwise), there should be mechanism in place for monitoring and reporting, especially where the development partners are involved. This would have helped the department to determine exactly when a program or project was on track and when changes were needed. Efficient and effective Management makes decisions based on the availed information, whether quarterly, semi-annually or annually. Failure to report timely amounts to delay in making informed decisions and which normally lead to untimely and ineffective changes.

During our review *to determine whether the Department of Health and Social Affairs has developed mechanisms for monitoring and reporting performance at each organizational level*, we noted that:

(i) The Department Annual Reports for Fiscal Year 2014, 2015 and 2016 were not finalized;
(ii) Program Managers were not able to provide reports for the four States that were used for compiling consolidated report as per grant requirement;
(iii) Formation of Board of Directors for Food Import Licensing which is under the purview of the Department has not been finalized, thus undermining the intended independent oversight over licensing;
(iv) There was no independent verification of information given by the program managers;
(v) Registration records for medical practitioners and nurses were being updated once a year and no annual report was prepared to indicate how many practitioners were registered annually and their status as active or non-active; and
(vi) There were no quarterly, semi-annually performance reports for the department, its divisions, sections and individual staff; and

(vii) There was no mandatory requirement for monitoring, evaluation and reporting.

7.3.5.1 Causes

(i) Over-reliance on the Office of Personnel and the broader Public Service System Regulations which are generally the minimum requirements; and

(ii) Failure to establish comprehensive human resource policies and procedures for the department, a framework and sets of standards that guide how employees should perform their duties, make decisions, taking into account rewards and disciplinary measures.

7.3.5.2 Potential Effects

(i) Inability to monitor and measure performance of the departments at various levels;

(ii) Ineffective oversight decisions; and

(iii) Loss of reputation and goodwill to the development partners;

7.3.5.3 Recommendations

We recommend that the Secretary, Department of Health and Social Affairs should:

(i) Develop and operationalize customized human resources policies and procedures for the Department, that take into consideration rewards and disciplinary measures for employees' performance, for use after receiving the approval from the Office of Personnel.

(ii) Ensure that the registers for medical practitioners and nurses are maintained and updated consistently throughout the year;

(iii) Ensure that each project manager/coordinator's works are properly monitored by a specific supervisor of the respective Division under which the project's activities falls.

(iv) Ensure that annual reports are prepared and submitted timely; and

(v) Ensure that Project Managers and Coordinators submit periodic reports required by the financier(s) of each project.

7.4. Failure to Conduct Periodic Performance Evaluation for Employees of DHSA and Projects

Performance evaluation of employees is a tool for: monitoring and evaluating employees' performance in relation to expectations; providing a feedback to employees regarding their performance and related status; influencing working habits of the employees; and identifying the strengths and weaknesses of employees and thus to place the right people in the right jobs. The essence of performance evaluation is also to ensure or provide evidence that there was someone monitoring the work of another.

7.4.1. Finding 12: DHSA Failed to Conduct Periodic Performance Evaluation for Project Managers and Coordinators

During our review to *determine whether the Department of Health and Social Affairs has established and implemented performance evaluation measures for special program,* we observed that;

(i) The Department did not conduct consistently and adequately performance evaluation for project managers/ coordinators as indicated in the employment contract files for Project Managers and Coordinators. It was found that no performance evaluation was conducted for eleven (11) out of fifteen (15) project managers and coordinators.

These employees manage projects funded by development partners and FSM public funds. Failure to ensure that there is effective oversight over the performance of contracted employees, and that they deliver as required, may frustrate the development partners leading to reduction in financial support for the people of Federated States of Micronesia.

(ii) Project performance reports from program managers/coordinators were not independently verified;

(iii) Duties and deliverables in Job vacancies for various positions were not adequately defined;

(iv) Each contract seems to have been prepared based on the knowledge of the preparer but not on standard guidelines within the department and indicate absence of governance and control tools within the DHSA and FSM Office of Personnel;

(v) All 23-employment contracts reviewed showed no deliverables; and

(vi) All 23-employment contracts reviewed did not indicate to whom the position holder report to.

7.4.1.1 Causes

(i) There are cases where Management of DHSA deliberated that these are technical skills and therefore not subject to review;

(ii) Lack of comprehensive human resources and performance management policies and procedures manual that delineate duties and responsibilities of each head of divisions, sections and employees and expected deliverables thereon;

(iii) Some of the contracts do not even state to whom the contracted employee report to, which further complicate the issue of employee performance evaluation; and

(iv) Failure to define deliverables during recruitment.

7.4.1.2 Potential Effects

(i) Loss of funding from development partners; and

(ii) Misuse of public funds through projects that may collapse mid-way or fail to achieve the intended objectives.

7.4.1.3 Recommendations

The Secretary, Department of Health and Social Affairs should ensure that:

(i) There are comprehensive mechanisms in place to enable appropriate semi-annual and annual performance evaluation of all employees;

(ii) All contracted employees perform their duties as per the requirements of each project by establishing comprehensive terms of employment and oversight mechanism; and

(iii) Each Head of Divisions, Sections and individual employees have SMART (Specific, Measurable, Attainable, Relevant, and Time-bound) annual action plan based on the DHSA's annual fiscal plan and budget.

7.4.2. Finding 13: DHSA did not Conduct Periodic Performance Evaluation for DHSA Regular Employees

During our review to *determine whether the Department of Health and Social Affairs has established and implemented performance evaluation measures for regular employees*, we observed that:

(i) There was no performance appraisal to DHSA employees;

(ii) Out of the ten (10) regular employees whose files we reviewed, only four (4) had their performance evaluated, and mainly for categorization, promotion or confirmation after probation period purpose;

(iii) The department did not develop and operationalize customized Qualifications and Classification Operating Manual;

(iv) Duties and deliverables in Job vacancies for various positions were not adequately defined; and

(v) Performance evaluations were made only when there was imminent re-categorization, promotion, confirmation to permanent position from probation and renewal of contract.

7.4.2.1 Causes

(i) Lack of comprehensive human resource and performance management policies and procedures manual that delineate duties and responsibilities of each head of division, section and employees and expected deliverables thereon;

(ii) Lack of Strategic Plan, Annual Plan and Action Plan for division and sections;

(iii) Lack of incentives for conducting performance evaluation at the management and employees' level due to the fact that the government had frozen salary increase for all employees for more than 10 years; and

(iv) Lack of capacity in the DHSA's division of administration.

7.4.2.2 Potential Effects

(i) Perpetual incompetency and inefficiency within the DHSA;

(ii) Public complaints and anger over poor services in the health care and social affairs services due to lack of effective oversight; and

(iii) Poor performance within the DHSA.

7.4.2.3 Recommendations

The Secretary, Department of Health and Social Affairs should ensure that:

(iv) There are comprehensive mechanisms in place to enable appropriate semi-annual and annual performance evaluation of all employees;

(v) All contracted employees perform their duties as per the requirements of each project by establishing comprehensive terms of employment and oversight mechanism; and

(vi) Each Head of Divisions, Sections and individual employees have SMART (Specific, Measurable, Attainable, Relevant, and Time-bound) annual action plan based on the DHSA's annual fiscal plan and budget.

7.5. Finding 14: DHSA's Social Affairs Services were Marginalized

Title 41 of the FSM Code is titled Public Health, Safety and Welfare. However, in delineating various functions, safety and welfare activities were not clearly spelt out, e.g. occupational safety and health, etc.

Occupational Safety and Health policies and procedures aim at ensuring that all employees and non-employees' safety and health is guaranteed throughout the tenure of any economic or social activities at all cost. Policies form the written basis of social affairs operations: they represent the nation's position on the social affairs, prescribing the limits, identifying responsibilities, and indicate the parameters thereon. These are rules or expectations related to the FSM Government's mission, goals, and functions. Procedures should give directions and step-by-step instructions for carrying out policies and outline sequences of activities for interpreting those policies.

During our audit review, *to determine whether the Department of Health and Social Affairs has developed national policies and procedures for implementing Social Affairs' functions* we observed that:

(i) The management could not provide us with Social Affairs Policies and Procedures including those relating to Occupational Safety and Health for the FSM National Government;

(ii) Article 41 of FSM Code and *Executive Order no. 1 (April 2008) Amended*, did not indicate any national policies or procedures relating to Social Affairs; and

(iii) The management of DHSA has marginalized the Social Affairs functions.

7.5.1 Causes

(i) The health-related functions marginalized social affairs functions especially due to the fact that those selected to head the department have been mainly from medical professions; and

(ii) Changes in the structure and main functions of the department through Executive Orders with no corresponding changes in the Title Code.

7.5.2 Potential Effects

(i) Inability to carry out and deliver results relating to Social Affairs;

(ii) Inconsistencies after every change in management of the department and administration of the National Government; and

(iii) Inability to establish National Occupational Safety Health policies and procedures thus leaving the citizen of FSM unaware and vulnerable to occupational hazards.

7.5.3 Recommendations

We recommend that the Secretary, Department of Health and Social Affairs should:

(i) Develop and operationalize national policies and procedures relating to Social Affairs including Occupational Safety and Health; and

(ii) Liaise with the Department of Justice to seek legislative amendment to Title 41 in the FSM Code 41 to encompass Social Affairs functions, especially those relating to Occupational Safety and Health.

7.6. FINDING 15: DHSA Did Not Develop and Operationalize Contingency Plan for Sustainability of the Health Programs Currently Funded by Development Partners

All development partners have expectations that at a certain point of time, the future beneficiaries will be able to take over the programs that are financed in larger part by them. We observed that currently there are more than 18 programs financed by the United States government and more than (4) by other development partners.

The continuity of the following programs such as HIV/AIDS; Cancer Control; Tobacco and Diabetes; Cancer; Oral Health; Substance Abuse and Mental Health; etc. is of great importance to majority of people in FSM. In case of lack of funding from development partners, DHSA should have contingency plans as it may lead to loss of lives and incapacitation of people whose livelihood depend on such services.

During our audit review *to determine whether DHSA has developed and operationalize appropriate and effective contingency plan for sustainable health services,* we found out that:

(i) The Department of Health and Social Affairs could not provide any contingency plan(s) just in case external funds are discontinued: the department could not provide evidence that there are mechanisms in place to ensure sustainability of all essential health programs currently financed through grants from development partners;

(ii) Based on Public Laws, during the period of 2013-2016 the FSM Government received over US$ 24 million for various health related projects from the US Federal Government ($22,662,185.31) and from other development partners ($1,935,540); and

(iii) Based on Expenditure Report for the fiscal year 2014-2018 the department received an estimated US $25.7 million from US Federal Government and other development partners and only $4.04 million was from local sources.

Based on these facts, it is obvious that the Governments of the Federated States of Micronesia highly depend on the US Federal Government and other development partners for running its various national health programs. The implication of this is that without foreign assistance, the government of FSM cannot run its own health sector effectively and efficiently.

7.6.1 Causes

(i) Existence of scope creep;

(ii) Lack of Strategic Planning; and

(iii) Laissez-faire attitude within the management.

7.6.2 Potential Effects

(i) Curtailment of services to current patients and future patients whose livelihood depend on continuation of these programs; and

(ii) Death or permanent incapacitation of beneficiaries.

7.6.3 Recommendations

We recommend that the Secretary, Department of Health and Social Affairs should:

(i) Form a team of experts to develop a contingency plan for all essential health services; and

(ii) Identify and document all health-related risks and risk management plan.

7.7. FINDING 16: DHSA 's Internal Policies and Procedures Should be Approved and Broader National Policies and Procedures Customized to Its Working Environment

DHSA developed and operationalized various internal control tools, designed to provide reasonable assurance regarding the achievement of objectives relating to governance, risk management, operations, reporting, and compliance.

During our review *to determine whether the Department of Health and Social Affairs has developed internal controls (policies and procedures) to guide its employees in implementing various activities aimed at achieving mission, goals and objectives of the department*, we observed that:

The department has successfully established:

(i) Regulations for Labelling and Prepackaging of food (1985);

(ii) Regulations for quick froze blocks of fish fillet, minced fish, mixture of fillets and minced fish flesh;

(iii) Regulations for hygienic practice for low and acidified low acid canned food of 1994;

(iv) Regulation on Licensing: food importation, processing, exportation and distribution in interstate commerce (1993);

(v) Regulations of good practice for general principle of food hygiene (1993);

(vi) National Food Inspectors and Food Analysis (1993);

(vii) Nursing Practice Permanent Regulations of 2002;

(viii) FSM Medicine Policy of 2012;

(ix) Medical Licensing Regulations of 2011;

(x) National Evidence Based Service Guideline in Family Planning;

(xi) Standard of Practice for Breast and Cervical Cancer;

(xii) Standard of Practice for Imported Food Control;

(xiii) FSM Vessel Standard Sanitation Operating Procedure;

(xiv) Standard Operating Procedure on Immunization Cold Chain; and

(xv) In-House Policies and Procedures Manual: Travel Policy; Condolence Support for Coworkers Policy; Hiring Policy; Vehicle Policy; Leave Policy; Office Hours Policy; Appropriate Conduct Policy; Official Information to the Public Policy; Delegation of Authority Policy; Quarterly Report Submission Policy; Information Technology or Computing Policy; Phone Card Use Policy; and several procedures.

The department failed to do the following

Policies and procedures provided were not official (all of them were not approved) and some of those sighted in various documents were not in existence.

7.7.1 Causes

(i) Failure to conduct self-assessment and reliance on other departments like Finance & Administration for policies and procedures/guidelines in relation to human resources management, financial management, inventory and supplies management which are broader and not customized to each industry's specific environment, rather than own efforts to strengthen internal controls;

(ii) Limited capacity of existing divisional staff and administration staff to lead the exercise; and

(iii) Lack of awareness on the importance of customizing the broader national policies to departmental environment.

7.7.2 Potential Effects

(i) While we could not verify loss of properties and funds but the internal control environment in various division, sections and unit may lead to loss of properties and funds;

(ii) Failure to achieve the intended goals and targets timely and effectively; and

(iii) Loss of reputation to providers of grant especially with the attitudes of 'TECHINICAL WORK IS NOT NORMALLY REVIEWED' which may lead to underperformance of various special programs and even misappropriation of funds.

7.7.3 Recommendations

We recommend that the Secretary, Department of Health and Social Affairs should:

(i) Establish policies and procedures and performance measurements for externally and internally funded programs funded to enable the department to control its programs and operations and to improve where required;

(ii) Review all regulations to ensure that they are compatible with current trend in specific regulated areas; and

(iii) Customize the broader national policies and regulations to the department's working environment in order to ensure that divisions, sections and individual employees are properly guided in carrying out their responsibilities.

8.0 MANAGEMENT RESPONSE

DEPARTMENT OF HEALTH AND SOCIAL Affairs
FSM National Government
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February 20, 2020

Mr. Haser H. Hainrick
National Public Auditor
Office of the National Public Auditor
FSM National Government
Palikir, Pohnpei FM 96941

SUBJECT: FSM DHSA's Response on Audit Report

Dear Mr. Hainrick,

Per the exit conference on the performance audit for the FSM Department of Health & Social Affairs (DHSA), I'm pleased to submit our official response attached.

I want to thank your office for responding to the request of the office by the previous Secretary to audit the Department. Your audit findings are very timely to help support transformational changes that I would like to impress upon the Department to improve its functions and services.

Thank you,

Dr. Livingston Taulung,
Secretary of Health & Social Affairs

DIVISION OF HEALTH SERVICES | DIVISION OF SOCIAL Affairs

FSM Department of Health & Social Affairs Response to Its Performance Audit Report

February 20, 2020

1. Introduction

The Department of Health & Social Affairs (DHSA) presents its response to the audit findings and recommendations per the Performance Audit Report No. 2017 on the department per Section 7.0 of the Report.

2. Findings and Recommendations and DHSA Responses

Finding 01: The Current Organization Structure has Deficiencies and is not Aligned to the Establishment Act.

DHSA RESPONSE: The Department agrees to this finding and acknowledges that it carries a different name from what was initially given in the Establishment Act; Title 41 that established this office. However the Presidential Executive Order No. 1 of 2008 made reference to the FSMC, title 2, § 206, which states that responsibilities, and functions of each department and office within the organization of the executive branch of the Government of the Federated States of Micronesia shall be as established by, and in accordance with, administrative directive of the President until amended or superseded by law. This referenced executive order had set up the different Departments of the National Government including what is known now as the Department of Health & Social Affairs per Section IV of the Executive Order No. 1 .

DHSA is working with the current Administration under Panuelo and George to reorganize the Department to be consistent with the Executive Order outlining the two divisions.

Action Steps and Timeframe:

- Review the organizational chart to ensure the two divisions of Health & Social Affairs are clearly defined and shown. By March 2020
- Consult with AG's office, Personnel and Chief of Staff to finalize the reorg chart. March 2020
- Submit reorg chart for endorsement to President. By April 2020
- Transmit to Congress the new restructure of the Department. By May 2020

Finding 02: Inadequate Instrument of Delegation of Power to Secretary

DHSA RESPONSE: DHSA agrees to this finding and recognizes this finding an issue and will work with appropriate line departments such as Personnel and AG's office to ensure that adequate instrument of Delegation of Power to Secretary is established.

Action Steps and Timeframe:

- Draft job description of the Secretary of DHSA. By March 2020
- Consult with AG Office, Personnel and Chief of Staff. By April 2020
- Submit for endorsement. By May 2020

Finding 03: DHSA Management did not Address High Risks on Food as Required by The National Food Safety Act (Survey Results Matrix)

DHSA RESPONSE: DHSA does not agree on this particular finding for the reasons stated below. Our National Food Safety Program places greater emphasis on high risks foods (refrigerated and frozen foods- perishable foods). Every year our inspection coverage of refrigerated foods is estimated to be 95%; frozen foods 85% and shelf-stable dry food products/ canned foods is 60%, sometimes less. We do recognize that we cannot have 100% inspection coverage of imported foods because we have limited resources. Our target is to inspect at least 70% of all containers of imported foods and we usually achieve around 67-68% annually. The Department also disagrees on the point that there is no registry for Food Import Licensing. There exists a registry and logbook for food import/export/and interstate. However DHSA acknowledges other areas of the finding on the National Food Safety Program that needs review and strengthening and will employ measures to address this finding.

Action Steps and Timeframe:

- Regroup the Food Working Group. By end of 2020
- Review/evaluate the relevancy and effectiveness of the Board of Directors for Food Import Licensing as it may be in conflict with the mandates of the existing Food Working Group. By end of 2020

Finding 04: Deficiencies in the Implementation of the FSM Nursing Practice Act (Survey Results Matrix)

DHSA RESPONSE: DHSA agrees to this finding and will employ appropriate measures to address the deficiencies in the implementation of the FSM Nursing Practice Act.

Action Steps and Timeframe:

- Review the FSM Nursing Practice Act & regulations and recommend changes, clarify roles, responsibilities and powers of the Board. By December 2020
- Propose budget and hiring of dedicated Administrator for Nursing Board. Submit proposals to Secretary. By December 2020

Finding 05: There are Deficiencies and Conflict of Interest in Implementation of the FSM Medical Licensing Act (Survey Results Matrix)

DHSA RESPONSE: DHSA agrees with this finding. In reviewing the citation on this finding, the Department is made aware of the causation of the deficiencies and conflict of interest in the implementation of the FSM Medical Licensing Act. The Department will work towards ensuring that this finding is addressed.

Action Steps and Timeframe:

- Review FSM Medical Licensing Act & regulations and recommend changes, clarify roles, responsibilities and powers of the Board. By December 2020

- Propose budget and hiring of a dedicated administrator for the Medical Board. Submit proposals to Secretary. By December 2020

Finding 06: Deficiencies in the Implementation of Registration of Medical Practitioners and Nurses (Survey Results Matrix)

DHSA RESPONSE: DHSA welcomes and agrees to the finding. However, the Department notes that an existing system is in place that does background and verification checks on expat employees via online systems when and if available. It's one of the requirements in order to process and issue license to the health practitioner specifically nurses and doctors.

Action Steps and Timeframe:

- Complete documentation of registration processes/procedures to include verification processes/procedures. By Jan 2021

Finding 07: DHSA Failed to Develop and Operationalize Strategic Plan, Annual Plans and Action Plans

DHSA RESPONSE: DHSA agrees and acknowledges that there isn't a specific Strategic Plan developed for DHSA but it derived its work from the FSM Strategic Development Plan (2004-2023) that is still in effect. And while this is being used to guide the department, plan is underway to develop a strategic plan that will encompass the idea of sustainable development planning for the health sector. As for the Department's annual plans and action plans, the programs look to their budget plan which has the activities that are planned out for the year with their corresponding budget line item for that activity. The federal programs follow what is requested in those grant requests to guide their implementation activities.

Action Steps and Timeframe:

- Seek consultant to review the progress of health sector relative to the Strategic Development Plan 2004-2023 particularly Chapter 08 on Health. Complete
- Developed the Department's strategic priorities and goals through a nation wide consultation (FSM Health Summit 2014). Complete
- Request for WHO to assist in the development of the Strategic Development Plan or the Sustainable Development Plan for Health. Complete
- Setting of Mission statement, vision and values with the assistance of ASTHO. Complete
- Plan with the states for the convening for the Strategic Development Plan to take place in the year. By end of 2020

Finding 08: Weak Financial Management Practices within DHSA

DHSA RESPONSE: DHSA acknowledges this finding as one area that weakens the implementation rates of activities for the Department. However, it recognizes that establishing its own financial procedures when there is already the Financial management Regulation that the whole of government adheres to will be a challenge. There is ambiguity of the processes and procedures at Finance that are not crystalized for all Departments to follow. Today papers can be

routed and approved while other days, similar papers may be returned to the Department. Nonetheless, the Department had developed its own policies and procedures manual (PPM) that is yet to be finalized and endorsed. The PPM outlines how payment requests and other documents ought to be packaged and endorsed by the Department before it goes to finance and other appropriate line departments for processing. The intent of the manual was also to serve as a guiding document for new hires that may come into programs/Department and may not know exactly how papers are processed and the internal processes that go with it.

Action Steps and Timeframe:

- Review the PPM for the Department. By October 2020.
- Consult with Finance Office to ensure that it aligns with the FMA and its regulations. By October 2020.
- Endorse the Department PPM which will subsequently strengthen the hiring process within the Department ensuring hiring of qualified people. By end of 2020.

Finding 09: DHSA did not Develop Prudent and Effective Inventory Management Policies and Procedures for Health Related Materials

DHSA RESPONSE: DHSA's agrees to this finding and will strive to address the recommendations to ensure improved inventory management particularly its warehouse and personnel. Due to limited financial resources to hire different professionals needed in the Department, it often resorts to one person taking up more than what his/her job calls for. This applies to the procurement specialist who also does inventory management with technical support and training from technical partners e.g. JICA and WHO.

Action Steps and Timeframe:

- Assess the state of the warehouse and handling of inventory for health related materials. By end of 2020
- Develop an inventory management policies and procedures to coincide with the review of the PPM with the insertion. By October 2020
- Operationalize the policies and procedures pertaining to inventory management by end of 2021.

Finding 10: DHSA Failed to Meet Some Requirements of the Joint Economic Management Committee (JEMCO)

DHSA RESPONSE: DHSA disagrees on this finding that it has failed to meet some requirements of the JEMCO particularly on the establishment of performance indicators. The Department has updated its key health indicators from what used to be the 14 health indicators to what is now 27 key performance indicators. However, it does acknowledge the need for a concerted effort of the programs under the Department to address concerns and issues relative to the health sector.

Action Steps and Timeframe:

- Roll out of the new health indicators; the performance indicators within the department. By end of 2020
- Establish link of each of the programs to the performance indicators. By end of 2020

Finding 11: DHSA Did Not Develop and Operationalize Appropriate and Adequate Mechanism for Performance Monitoring and Reporting

DHSA RESPONSE: DHSA agrees on this finding and see the merit in ensuring that a mechanism for performance monitoring and reporting system is established and operationalized. The Department had attempted in the past to establish a performance management system where key indicators of each program would be monitored. The system eventually stopped after the federal fund that supported this program ended in 2015. The Department acknowledges the importance of having an effective mechanism for performance monitoring and reporting and will employ measures to improve in this area.

Action Steps and Timeframe:

- Develop customized human services policies and procedures that will take into considerations rewards and disciplinary measures for programs and employees performance with the assistance of Personnel. By October 2020.
- Insert the customized human services policies and procedures in the PPM being developed for the Department before its endorsement. By October 2020.
- Operationalize the performance management and oversight mechanisms policies and procedures of the Department through timely update and reporting of clear key program indicators including program registries such as medical practitioners and nurses registry and etc. By end of 2021

Finding 12: DHSA Failed to Conduct Periodic Evaluation for Project Manager and Coordinators (Ref: To document the assessment if files maintained for project managers and coordinators)

DHSA RESPONSE: DHSA agrees to this finding particularly on the note that it fails to conduct periodic evaluation of its project managers (program managers) and coordinators. Manifestation of this failure is evident in Management overlooking programs that continue to struggle to perform. The Department will employ measures to provide effective oversight of programs including supervisors and staff to support their efforts to improve their performance.

Action Steps and Timeframe:

- Designate Assistant Secretary of Health and Social Affairs and the Health Planner to periodically evaluate the Program Managers and Coordinators of the sections within the Department. By March 2020.
- Develop a system of evaluation with clear criteria set for this evaluation. By end of 2022
- Develop and insert the policy and procedure for this evaluation in the PPM for the Department. By end of 2022.

- Institutionalize this system of evaluation for all program managers and coordinators in the Department. By end of 2023

Finding 13: DHSA did not Conduct Period Performance Evaluation for DHSA Regular Employees

DHSA RESPONSE: DHSA agrees to some extend that the Department does not conduct periodic performance evaluation on its regular employees and does not see the merit of performing such evaluations on employees who are not on contractual basis because there is no associated recognition or compensation for such excellence. Employees on contracts are subject to the standing policy or requirement of employee performance evaluation to be attached to any renewal of contracts. However, the performance evaluation system that will be setup for the section chiefs of the Department will be tweaked and cascaded down and applied to all employees of the Department.

Action Steps and Timeframe:

- Develop a system of evaluation with clear criteria set for this evaluation. By end of 2022
- Develop and insert the policy and procedure for this evaluation in the PPM for the Department. By end of 2022.
- Institutionalize this system of evaluation for all staff in the Department. By end of 2023

Finding 14: DHSA's Social Affairs Services were Marginalized

DHSA RESPONSE: DHSA agrees to this finding that it has marginalized the Social Affairs services and functions and plan to address it. The plan calls for a reorganization of the Department giving Social Affairs the visibility and prominence of a Division per the law that established the Dept. and per the Executive order No. 1 (As of Amendment April 2008).

In terms of national policies and procedures relating to Social Affairs, it subscribes to the general Department's policies that the audit cited that is existing but not formalized or endorsed. These policies and procedures pertain to governance and administration of all programs under the Department. However policies specific to Social Affairs that drive the work of the Division are the Human Rights Conventions that FSM is a state party to such as the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), Convention on the Rights of Child (CRC) and Convention on Persons with Disability (CRPD). These are national policies relevant to Social Affairs being that congress ratified them and as a country, FSM is obligated to comply to the provisions of these conventions. Coordination and oversight of FSM's implementation against these human rights instruments and national policies are done in the division of Social Affairs. Additional policies that guide the work of the division include the endorsed National Gender Policy , FSM Youth Policy, and Person's with Disabilities policy that have been endorsed by the President.

The work around reorganization of the Department with two divisions; Health and Social Affairs is underway. There is a proposed Assistant Secretary for Social Affairs similar to the structure for Health Division to elevate the Division. This will address the issue of Social Affairs Division being marginalized. Proposed changes will be done in close collaboration with AG's office, Personnel, Chief of Staff and key Dept. staff tasked to work on the Department reorganization.

Action Steps and Timeframe:

- Review the organizational chart to ensure the two divisions of Health & Social Affairs are clearly defined and shown. By March 2020
- Consult with AG's office, Personnel and Chief of Staff to finalize the reorg chart. March 2020
- Submit reorg chart for endorsement to President. By April 2020
- Transmit to Congress the new restructure of the Department. By May 2020

Finding 15: DHSA Did Not Develop and Operationalize Contingency Plan for Sustainability of the Health Programs Currently Funded by Development Partners.

DHSA RESPONSE: DHSA agrees to this finding that there needs to be a contingency plan for sustainability of the health programs currently funded by Development Partners. The Department has initiated some efforts towards the end of the Mori –Alik Administration and into the Christian – George Administration. This exercise had allowed the Department to look at the operations of its programs and their impacts and the foreseeable effects on the programs should funding opportunities are ceased. However, to date there has not been a contingency plan developed. DHSA will work on developing such a plan for future security of its programs to support for positive health and social outcomes of the people.

Action Steps and Timeframe:

- Revisit the said compiled report in the narrative for this audit finding and update it. By end of 2023
- Convene key staff of the department to develop a contingency plan for sustainability of the federal programs with the assistance of technical partners if needed. By end of 2023
- Develop and document all health related risks and risk management plan. By end of 2023

Finding 16: DHSA's Internal Policies and Procedures Should be Approved and Broader National Policies and Procedures Customized to Its Working Environment

DHSA RESPONSE: DHSA agrees on this finding and note that internal policies and procedures are necessary to govern the processes to facilitate implementation of the department programs and activities. The Department references the drafted PPM that currently sits with the program managers to complete this for finalization and endorsement.

Action Steps and Timeframe:

- Form a review team from the Department mainly the Chiefs and Management to review the draft PPM. October 2020

- Develop and insert all other outstanding policies and procedures cited in the Department's audit report such policies and procedures on inventory management for health related materials, performance evaluation, human resources and such following any prerequisite work that need to inform the development of such policy. By 2023.

9.0 ONPA EVALUATION OF MANAGEMENT RESPONSE

We requested for a management response from management of the Department of Health and Socials Affairs. Management generally agreed with the findings and recommendations in the report. However, we would like to clarify some statements made in the management response pertaining to the Introduction, Findings No. 3 and No.10 below:

9.1. Introduction: The Department of Health & Social Affairs (DHSA) presents its response to the audit findings and recommendations per the performance Audit Report No. 2017 on the department of per Section 7.0 of the report.

ONPA Evaluation: The audit team would like to clarify to management that this Performance Audit Report is No. 2020-05 and not Audit Report No. 2017 as stated in the introduction section of the management response.

9.2. Finding 03: DHSA Management did not Address High Risks on Food as Required by The National Food Safety Act

9.2.1 DHSA Management Response

DHSA does not agree on this particular finding for the reasons stated below. Our National Food Safety Program places greater emphasis on high risks foods (refrigerated and frozen foods – perishable foods). Every year our inspection coverage of refrigerated foods is estimated to be 95%, frozen foods 85% and shelf-stable dry food products / canned foods is 60%, sometimes less. We do recognize that we cannot have 100% inspection coverage of imported foods because we have limited resources. Our target is to inspect at least 70% of all containers of imported foods and we usually achieve around 67-68% annually. The Department also disagrees on the point that there is no registry for Food Import Licensing. There exists a registry and logbook for food import/export and interstate. However, DHSA acknowledges other areas of the finding on the National Food Safety Program that needs review and strengthening and will employ measures to address this finding.

Action steps and Timeframe:

- Regroup the Food Working Group. By end of 2020.
- Review/evaluate the relevancy and effectiveness of the Board of Directors for Food Import Licensing as it may be in conflict with the mandates of the existing Food Working Group. By end of 2020.

9.2.2 ONPA Evaluation:

We evaluated the Management Response and agreed to maintain the finding because there was no evidence provided to justify the assertion given and up to the time of issuing this report the management of DHSA could not provide the Food Import Licensing Register.

9.3. Finding 10: DHSA Failed to Meet Some Requirements of The Joint Economic Management Committee (JEMCO)

9.3.1 DHSA Management Response

DHSA disagrees on this finding that it has failed to meet some requirements of the JEMCO particularly on the establishment of performance indicators. The department has updated its key health indicators from what used to be the 14 health indicators to what is now 27 key performance indicators. However, it does acknowledge the need for a concerted effort of the programs under the Department to address concerns and issues relative to the health sector.

Action Steps and Timeframe:

- Roll out of the new health indicators; the performance indicators within the department, By end of 2020.
- Establish link of each of the programs to the performance indicators, By end of 2020.

9.3.2 ONPA Evaluation:

We evaluated the Management Response and we observed that:

- The management of DHSA had developed 14 health performance indicators for the period 2004 to 2013.
- The above 14 health performance indicators had been revised up to 27 health performance indicators for the period 2015-2019. However, the performance report based on these 27 set of indicators is still in progress.
- There was no evidence provided to confirm that performance reports were submitted to JEMCO.

11.0 NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff of the Department of Health and Social Affairs and Department of Finance and Administration for their assistance and cooperation during the course of the audit. We anticipate positive implementation results when we carry out the follow-up audit six (6) months from the date of issuing this report.

We have provided copies of the final audit report to the President and Members of the 21st FSM Congress. Furthermore, this report is made available to the public via our official website and copies will be made upon request.

If there are 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 the National Public Auditor and staff that made major contributions to this report.

Haser H. Hainrick
National Public Auditor

April 17, 2020

12.0 ONPA CONTACTS AND STAFF ACKNOWLEDGEMENT

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