



OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

PRESS RELEASE #2015-01

ONPA Releases New Audit on Chuuk State Department of Health Services: Poor Procurement Practices and Inventory Management Led to Excessive Costs (FY 2012 - 2013)

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2015-01, *Chuuk State Department of Health Services: Poor Procurement Practices and Inventory Management Led to Excessive Costs (FY 2012-2013)*. A digital copy of the report is available for public review online at www.fsmopa.fm and printed copies are available at the ONPA offices in Palikir, Pohnpei and Weno, Chuuk. The audit was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

The objective of the audit was to determine whether the procurement process allows the receipt of quality pharmaceutical and medical supplies in a timely manner and at the lowest cost. It covered the fiscal years 2012 and 2013.

Article X Sections 6 and 7 of the Chuuk State Constitution provide for the establishment of Chuuk State Department of Health Services (DHS). The Constitution mandated that the State Government shall provide for the protection and promotion of health, and shall ensure, within the limits of its resources, that no person is discriminated in the distribution of medical care, or refused medical care because of inability to pay. The DHS mission is to promote and maintain a holistic system of health care that will improve the health and longevity of the people. In order to achieve its mission, DHS established two strategic goals: 1) improve the primary and secondary health services and 2) develop a sustainable health care financing mechanism. The Department has five divisions: Public Health, Dental, Dispensary, Nursing and Administration under the Director who oversees the operation of the Department. A Chief of Division heads the division.

Based on the audit, we conclude that the DHS procurement process did not allow the receipt of quality pharmaceutical and medical supplies in a timely manner and at the lowest cost.

The DHS has been buying its pharmaceutical and medical supplies at a very high cost. With the same amount of budget and had the procurement process been efficient, the DHS could increase the quantities of procured pharmaceutical and medical supplies more than twofold during the period covered by the audit. By not considering all the factors that could achieve the lowest costs for its purchases, DHS has lost the opportunity to save significant amount of money paid for the awarded bids. In addition, it did not conduct all the procurement transactions in a manner that would provide for full and open competition. For example, the DHS awarded the bid for narcotics to a single source (single bidder) in FYs 2011-2012 that resulted in a very high cost of medicines due to very unreasonable prices charged by the single

source. In addition, the DHS did not have a purchase plan in place to ensure that inventories of pharmaceutical and medical supplies were available at all times. Thus, it purchased a significant number of items thru high-priced regular and emergency purchases that further increased the costs of procuring pharmaceutical and medical supplies.

Furthermore, our audit found that the DHS did not strictly require the delivery of bid items to comply with the contract terms and conditions. For instance, it did not impose the penalties required by the terms and conditions of the contract for delayed deliveries. Hence, the vendors became accustomed to violating the delivery terms and conditions.

Lastly, we found that the internal controls on the inventory of pharmaceutical and medical supplies were weak. For example, the system failed to establish the accuracy of the custodians' accountability of the inventories. The custodians were not held accountable for any missing inventory and there was no inventory reconciliation done to verify the existence of recorded inventory and regular reporting of expired medicines.

Our findings are summarized as follow;

- Non-competitive procurement / lone-bidder increased the costs of procuring pharmaceutical and medical supplies by about \$379,000;
- Potential savings of over \$300,000 not realized in fiscal years 2012-13;
- Over \$324,000 worth of paid pharmaceutical and medical supplies not timely delivered;
- Frequent emergency/regular purchases had significantly increased the costs of procuring pharmaceutical and medical supplies by an average of 76%;
- Lack of accountability on pharmaceutical and medical supplies inventory increased the risks of inventory theft, loss, misuse and abuse; and,
- Many pharmaceutical and medical supplies with short-shelf life were bought.

We provided the copies of the report to the Chuuk State Governor as the Contracting Officer, the Director of DHS, members of the Chuuk State Bidding Committee, and the Chief of the Office of Planning & Statistics for their management responses. Only the DHS Director submitted the management response, which we included as an appendix in the final audit report.

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