



OFFICE OF THE NATIONAL PUBLIC AUDITOR

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ONPA releases the Pohnpei State Department of Health Services Procurement Audit (FY 2010 – 2013)

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2014-06, The Pohnpei State Department of Health Services Procurement Audit (FY 2010-2013). 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 (GAGAS) issued by the Comptroller General of the United States.

The Pohnpei State Department of Health Services Procurement Audit was conducted due to a complaint received regarding undelivered medical and pharmaceutical supplies. We performed an audit survey that led to identification of the focus area: Procurement of Medical and Pharmaceutical Supplies. Therefore, our audit objective was to determine if the procurement process ensures timely receipt of the highest quality and at the lowest cost of medical and pharmaceutical supplies.

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

Based on our audit, we conclude that the DHS management needs to act with promptness to improve the procurement process and ensure the timely receipt of high quality and lowest cost medical and pharmaceutical supplies. Five years after it was last audited, the results of our audit showed that DHS is still experiencing the same major operational problem with regards to the procurement and management of medical and pharmaceutical supplies. The DHS management did not implement the necessary procurement and inventory controls, which were indicative of the lack of consciousness in bringing about

significant positive improvements on the procurement process and on warehouse inventory operation to provide efficient and effective services for the citizens.

The lack of purchase planning caused the hospital to procure medical and pharmaceutical supplies at a high cost. Consequently, purchasing frequently through high-priced emergency/regular orders has been practiced. It was estimated that the hospital could save a significant percentage of the total money spent for purchases had the procurement planning been in place and strategies adopted to obtain the best value in purchases (e.g. establishing an accurate quantification of requirements for the year and purchasing greater portion of the annual requirement thru the competitive bidding which provides the best prices). Despite the significant yearly spending on medical and pharmaceutical supplies (yearly average of \$1.2 million for the period FY2010-2013), the hospital did not make it a priority to restore and sustain the maintenance of an inventory management system, a crucial key to procurement planning and inventory control, thus affecting the department's ability to monitor the timely receipt of medicines; and provide ready and accurate management information on inventory such as undelivered purchases, re-order point, expiry, inventory balance, historical prices, supplier delivery lead time and others. The condition also unnecessarily exposed the hospital to additional costs associated with the risks of fraud, theft, misuses, stock outs, losses and others.

We found the following weakness during our audit:

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

The audit report discusses the detail findings along with the recommendations to facilitate corrective improvement. The Pohnpei State Hospital and Pohnpei State Department of Treasury and Administration's responses are included in the report.