

**OFFICE OF THE NATIONAL PUBLIC AUDITOR**  
**FEDERATED STATES OF MICRONESIA**

---

**Chuuk State Department of Health Services: Poor Procurement  
Practices & Inventory Management System Led to Excessive Costs**

**REPORT NO. 2015-01**



**Haser H. Hainrick**  
**National Public Auditor**



# FEDERATED STATES OF MICRONESIA

## *Office of The National Public Auditor*

P.O. Box PS-05, Palikir, Pohnpei FSM 96941

Tel: (691) 320-2862/2863; Fax: (691) 320-5482;

CID Hotline: (691) 320-6768; E-mail: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

November 10, 2014

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

RE: Our Audit on Chuuk Department of Health Services Found That Poor Procurement Practices & Inventory Management System Led to Excessive Costs

We have completed the audit of the Chuuk Department of Health Services procurement process of pharmaceuticals and medical supplies for the fiscal years 2011 to 2013. The audit objective was to determine whether the procurement process allows the receipt of quality pharmaceuticals and medical supplies in a timely manner and at the lowest cost.

We concluded that the DHS procurement process did not allow the receipt of quality pharmaceuticals 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, it could increase the quantities of procured pharmaceutical and medical supplies more than twofold during the period covered by this audit had the procurement process been efficient. 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

Furthermore, we 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 due to DHS's inaction to enforce them.

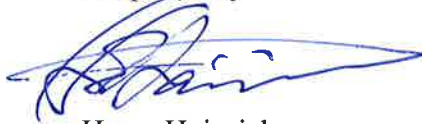
Lastly, we found that the internal controls on the inventory of pharmaceutical and medical supplies were weak. For example, the system failed to establish the accuracy of the custodians' accountability of the inventories. The custodians were not held accountable for any missing inventory and there was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

We found the following weaknesses during our audit:

- 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 pharmaceuticals 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 78%;
- Lack of accountability on pharmaceuticals and medical supplies inventory increased the risks of inventory theft, loss, misuse and abuse; and,
- Many pharmaceuticals and medical supplies with short-shelf life were bought.

We provided copies of this report to the Chuuk State Governor as the Contracting Officer, the Director of the Department of Health Services (DHS), the Chuuk State Bidding Committee members, and the Chief of Planning for their management responses. The DHS Director submitted his management response. The management response is included in the report.

Respectfully submitted,



Haser Hainrick  
National Public Auditor

Xc: Chuuk State Governor  
Lt. Governor  
Members of the State Legislature – Senate and House of Representatives  
DHS Director  
Chief of Planning  
Members - Chuuk State Bidding Committee

## TABLE OF CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
Background.....	1
Objectives, Scope and Methodology.....	3
Prior Audit Coverage.....	4
Conclusion .....	4
<b>FINDINGS AND RECOMMENDATIONS .....</b>	<b>6</b>
Finding 1 – Noncompetitive Procurement Increased the Costs of Buying Pharmaceutical and Medical Supplies by About \$379,000.....	6
Finding 2: Potential Savings of Over \$300,000 Not Realized in Fiscal Years 2012 & 2013 .....	10
Finding 3: Over \$324,000 Worth of Paid Pharmaceuticals and Medical Supplies Not Timely Delivered .....	11
Finding 4: Frequent Emergency/Regular Purchases Significantly Increased the Costs of Procuring Pharmaceutical and Medical Supplies by an Average of 76%.....	12
Finding 5 – Lack of Accountability on Pharmaceutical and Medical Supplies Inventory Increased the Risk of Inventory Theft, Loss, Misuse and Abuse.....	13
Finding 6 – Many Pharmaceutical and Medical Supplies with Short-Shelf Life Were Bought .....	16
<b>APPENDICES.....</b>	<b>17</b>
Appendix A: Members of the Bidding Committee and Evaluation Committee .....	17
Appendix B: Details of Medicines with Lone Bidder – FY 2011 .....	18
Appendix C: Details of Medicines with Lone Bidder – FY 2012 .....	19
Appendix D: Sample of Deliveries Beyond the Agreed 60-Day Delivery Terms.....	20
Appendix E: FY 2012 Bidding Notification.....	21
Appendix F: FY 2012 Bid Negotiation for Pharmaceutical and Medical Supplies.....	22
Appendix G: Prior Audit Findings.....	25
<b>MANAGEMENT RESPONSE .....</b>	<b>30</b>
<b>NATIONAL PUBLIC AUDITOR’S COMMENTS.....</b>	<b>34</b>
<b>ONPA CONTACT AND STAFF ACKNOWLEDGEMENT .....</b>	<b>35</b>

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

## **INTRODUCTION**

### **Background**

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.

### **Budget**

During fiscal years (FY) 2012-2013, the Chuuk DHS was operating at an average annual budget of \$8,613,264 (Table 1). Of the total budget, pharmaceuticals and medical supplies budget amounted to \$1,793,520 in FY 2012 and \$1,754,000 in FY 2013 under line item for Other Current Expenditure (Table 2).

**Table 1: Chuuk State DHS Budget FY 2012 – 2013**

<b>Category</b>	<b>2012</b>	<b>2013</b>
Personnel	\$ 4,355,794	\$ 4,022,794
Travel	134,277	165,477
Contract Services	1,062,926	942,250
Other Current Expenditures (Table 2)	3,064,817	3,466,193
Fixed Assets	0	12,000
<b>Total</b>	<b>\$ 8,617,814</b>	<b>\$ 8,608,714</b>
<b>Average Annual Budget</b>		<b>\$ 8,613,264</b>

**Table 2: Other Current Expenditures**

<b>Account</b>	<b>2012</b>	<b>2013</b>
Pharmaceuticals and medical supplies	\$1,793,520	\$1,754,000
Utilities	410,000	550,695
POL	207,000	427,500
Equipment Maintenance	54,617	42,700
Communication	14,850	12,350
Other	123,700	88,603
Food Stuff	175,000	200,000
Office Supplies & Materials	69,058	114,645

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

<b>Account</b>	<b>2012</b>	<b>2013</b>
Med/Evac Program & Delivery of Supplies	200,000	200,000
NCD Pilot Project	0	45,000
Printing & Reproduction	7,072	30,700
Freight	10,000	0
<b>Total</b>	<b>\$3,064,817</b>	<b>\$3,466,193</b>

*Source: Department of Administrative Services*

Procurement / Bidding Process

The DHS has been purchasing pharmaceuticals and medical supplies using either competitive bidding or request for quotation (normally three price quotations). The purchases thru bidding can take place at a maximum of four times a year or on a quarterly basis. The purchases thru 'request for quotation' can take place at any time based on the department's needs.

The bidding process begins with the DHS transmitting a purchase request of its estimated bulk consumption to the Chuuk State Planning and Statistics Office<sup>1</sup>. The Planning Office reviews the request and prepares the invitation to bid for public announcement. Both the Compact Funds Control Commission (CFCC) and the Attorney General Offices review the invitation to bid before the Planning Office can publicly announce it by way of email, radio announcement and postings in public areas. The detailed bid requirements are set forth in the instruction to bid, which includes the date, time and place of opening of the bids. The deadline for the submission of bid proposal is normally 30 days from the date of announcement. At the specified time of opening the sealed bids, the Public Contract Review Committee (Bidding Committee) opens and examines the bid proposals to ensure that all bidders comply with the terms and conditions provided in the "Invitation". Then, the Bidding Committee forwards all the bid documents to the Sub-Committee (Bid Evaluation Committee) designated to evaluate the bids for award. The Bid Evaluation Committee evaluates the bids then submits its recommendation to the Bidding Committee for the decision to award the bid. For the winning bidder(s), the Planning Office prepares the notification to award as well as the procurement contract and have them reviewed by all concerned before finally releasing them to the winners. Likewise, the Planning Office formally notifies the non-winning bidders on the results of the bidding evaluation.

Members of the Bidding Committee

Section 11 of the Act<sup>2</sup>, which provides for the establishment of the 'Public Contract Review Committee', requires that the Bidding Committee shall be composed of three members to serve for four years as follows:

- A Contracting Officer who shall serve as ex-officio as member and chairman of the committee;
- The second member who shall be appointed by the Governor; and,
- The third member who shall be appointed by the Speaker of the Chuuk State Legislature

<sup>1</sup> Planning Office, a division within the Department of Administrative Services

<sup>2</sup> TSL No. 5-83 provides the procedures for competitive bidding on public contracts of the Truk (Chuuk) government.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

The members who participated in the bidding process from FY2011 to FY 2014 are shown in Appendix A on page 17.

Request for Quotation

The procurement through request for quotation begins with the solicitation (by the Procurement Officer) of three or more price quotations from any vendor. Based on the lowest prices quoted, the Procurement Officer prepares a purchase requisition (PR) form indicating the items, quantity and price. The requestor signs the PR then forwards it to the DHS Fiscal Officer for review and to the DHS Director for approval. The approved document is forwarded to the Compact Funds Control Commission (CFCC) for review.

**Objectives, Scope and Methodology**

Objective –The objective of the audit was to determine whether the procurement process allows the receipt of quality pharmaceuticals and medical supplies in a timely manner and at the lowest cost.

Scope – The audit scope covered the procurement/bidding process for pharmaceuticals and medical supplies including the receipts, issuances and inventory control activities at Chuuk Department of Health Services for FYs 2012-2013. We conducted this audit pursuant to Title 55 of the FSM Code, Chapter 5, which states in part:

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

While reviewing the purchases for narcotics and antidotes medicines in FY 2012, we found that the Bidding Committee awarded the contract to a single source supplier even though there was opportunity for bid competition. Thus, we decided to extend the audit of bids for this category of medicines to cover the fiscal periods from FY 2011 to FY 2014 instead of limiting it within the defined audit scope period covering fiscal years 2012 and 2013.

Methodology – We designed the audit procedures to test whether the DHS implemented a procurement process that allowed the receipt of quality pharmaceuticals and medical supplies in a timely manner and at the lowest costs.

- To determine whether there was timely delivery of pharmaceuticals and medical supplies, we obtained, reviewed and analyzed bidding documents, contract agreements, purchase orders, payment vouchers, receiving reports and inventory reports. We selected a sample of transactions to test the actual delivery of ordered items versus the agreed delivery terms. We discussed the results of the test with the concerned staff at the DHS and Supply & Procurement, Department of Administrative Services.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

- To determine whether the DHS received pharmaceuticals and medical supplies at the lowest costs, we obtained the expenditure reports to analyze the purchases made during the period covered by the audit. We reviewed the bidding process to determine whether there was competition and the evaluation of bids had considered all the factors that would allow the determination of lowest possible costs in the awarding of bid that was economically advantageous to the state. We also tested the reasonableness of prices for regular and emergency purchases by comparing them with prices on the bids. Finally, we interviewed the concerned staff at the DHS and Supply and Procurement and members of the Bidding Committee.
- To determine whether the DHS received quality pharmaceuticals and medical supplies in terms of medicines expiration dates, we obtained the contract agreements and payment vouchers from Finance and CFCC and the Receiving Report Forms and Inventory Reports from the DHS Store Room for review and analysis. We selected a sample of stock receiving reports to determine whether the expiration of medicines upon receipt complied with the agreement.

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

### **Prior Audit Coverage**

This is the second audit conducted by the ONPA related to medicines procurement. The last report was issued on February 10, 2010 - *Audit of Chuuk State Department of Health Services' Procurement and Inventory Management System – FY 2006-2008, Audit Report # 2010-03*

We summarized the findings on previous audits/reviews in Appendix G on page 28.

The results of this audit indicated that the major issues and concerns in the previous audits **have not** been corrected.

### **Conclusion**

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

The DHS has been buying its pharmaceuticals and medical supplies at a very high cost. With the same amount of budget, it could increase the quantities of procured pharmaceutical and medical supplies more than twofold during the period covered by this audit had the procurement process been efficient. 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



**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

charged by the single source. In addition, the DHS did not have a purchase plan in place to ensure that inventories of pharmaceuticals 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 pharmaceuticals and medical supplies.

Furthermore, we 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 due to DHS's inaction to enforce them.

Lastly, we found that the internal controls on the inventory of pharmaceuticals 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, which could lead to the loss of inventories thru theft, misuse, waste and abuse.

We found the following weaknesses during our audit:

- Non-competitive procurement / lone-bidder increased the costs of procuring pharmaceuticals 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 pharmaceuticals 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 pharmaceuticals and medical supplies with short-shelf life were bought.

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

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1 – Noncompetitive Procurement Increased the Costs of Buying Pharmaceuticals and Medical Supplies by About \$379,000**

The amended Compact<sup>3</sup> fiscal agreement<sup>4</sup> requires that the state shall perform all procurement transactions in a manner providing full and open competition. However, the agreement also specifies that *"noncompetitive proposal methods" could be resorted through solicitation of only one source (single<sup>5</sup>/sole<sup>6</sup>) or when competition is determined inadequate after soliciting a number of sources. The method shall be used only when the award of a Contract is infeasible under either procedures for small purchase, sealed bids or competitive proposals, and when one of the following circumstances applies:*

- 1) *The item is available only from a single source;*
- 2) *The public emergency will not permit a delay resulting from competitive solicitation; or*
- 3) *Competition is determined to be inadequate after the solicitation of a number of sources;*
- 4) *Cost analysis shall be required to verify the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits.*

Furthermore, it is prudent practice to award contracts continually to more than one supplier to remove the possibility of corruption and ensure that a country is not reliant on just one supplier for its nation's requirements. In addition, many governments publish quite strict regulations that must be adhered to before single source procurement can be authorized.

In FY 2012, we found that the Bidding Committee awarded the contract for the supply of narcotics and antidotes medicines to a single source supplier even though there was opportunity for bid competition. This issue prompted us to extend the audit of the awarding of the bid contracts, at least for narcotics and antidotes medicines only, to cover the fiscal years from 2011 to 2014 instead of limiting the audit of bids within the defined scope of audit covering fiscal years 2012 & 2013. The audit disclosed the following matters:

- 1) From FY 2011 to FY 2014, the Contracting Officer awarded the contracts for the supply of narcotics and antidotes to the same vendor.
- 2) In FYs 2011 and 2012, the Bidding Committee disqualified vendors to bid for the narcotics and antidotes medicines leaving a single source for their supply.
- 3) In FY 2011, though there were three bidders for narcotics and antidotes, not one bid was announced during the opening of bid. The other bidders were disqualified due to their failure

---

<sup>3</sup> Compact of Free Association between the United States and the Federated States of Micronesia

<sup>4</sup> Section 1(1).10.V1 Article V1 Post-award requirement of the 2002 FSM/US – Fiscal Procedures Agreement.

<sup>5</sup> Single source purchasing refers to purchases from one selected supplier, even though there are other suppliers that provide similar products

<sup>6</sup> Sole source is a term used to designate that only one supplier exists that is capable of providing a particular product or service. Usually these are unique products that you cannot find anywhere but only thru one supplier/manufacture.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

to provide FSM Permit<sup>7</sup> to import narcotics. The total amount of bid submitted by the single source as well as the amount awarded by the Contracting Officer to the vendor was \$239,855. Based on researched prices and the amount awarded, had competition been allowed and line-item evaluation was used by the bidding committee, we estimated that the DHS could have obtained a lower aggregate cost for the same category of items for only \$118,548 with a potential savings of \$121,307.75 (50%). In addition, we noted that the purchase price for an analgesic medicine called “Acetaminophen with Codeine 500/30mg tablet-50s” at the cost of \$84,590 (100 bottles x \$845.90/bottle) or \$16.92 price per tablet contributed to the significant increase in costs. We estimated that this particular medicine could be purchased for \$4,738 (100 bottles x \$47.38<sup>8</sup>) with a possible savings of \$79,852 (94%). Refer to **Appendix B** on page 18 for the quantities and the prices awarded for narcotics and antidotes in FY 2011.

- 4) In FY 2012,
- a) Thru the ‘Bidding Notification’, the other bidders were disqualified from participating in the bid for narcotics and antidotes that resulted in a single source. The notification did not indicate though the reason for the disqualification. However, according to a member of the bidding sub-committee, the disqualification was due to lack of license to import narcotics medicines. Refer to Appendix E on page 21 for the sample of Bid Notification issued in FY 2012 disqualifying a supplier to bid for the supply of narcotics and antidotes medicines.
  - b) The total amount of bid submitted by the single source was \$367,623 while the amount awarded by the contracting officer was \$328,638.05. Based on researched prices and the amount awarded, had competition been allowed by the bidding committee, we estimated that the hospital could have obtained a lower aggregate costs for the same items for only \$49,562.94<sup>9</sup> with a possible savings of \$279,075.11 (85%). Considering that, the vendor gave a discount upon payment amounting to \$18,320.40; the estimated amount of the potential savings was reduced to \$260,754.71 as a result.

As in the previous year, the purchase price of an analgesic medicine called “Acetaminophen with Codeine 500/30mg tablet-100s”<sup>10</sup> with a cost of \$45,596.40 (30 bottles x \$1,519.88/bottle) or about \$15.20 price per tablet contributed to the significant increase in cost. We estimated that this medicine could only be purchased for \$648 (30 bottles x \$21.60) with a potential savings of \$44,948.40 (99%). Refer to **Appendix C** on page 19 for the quantities and the prices awarded for narcotics and antidotes in FY 2012.

---

<sup>7</sup> The requirement was only optional based on the document called ‘Instruction to Bidders’. In addition, the permit to import narcotics is given only upon approval of purchase order (after bidding) to continuously regulate the importation and entry of controlled drugs in FSM.

<sup>8</sup> Using ONPA’s researched prices

<sup>9</sup> The Bidding Sub-Committee’s estimate of the total price of the lot for narcotics and antidotes in FY 2012 was \$95,904.98

<sup>10</sup> The packaging was 100 tablets per pack compared to 50 tablets per pack in FY 2011. This explained why the vendor price moved from \$845.90/bottle in FY2011 to \$1,519.88/bottle to FY 2012.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

- c) Because of the very high prices of the items on the bid, the Bidding Sub-Committee requested its member, the Attorney General (AG), to negotiate with the winning bidder to lower the prices further. However, the AG was not successful in the negotiation due to various reasons<sup>11</sup>. The AG accepted the vendor's explanation for the high prices, made further justification and recommended to the committee to award the bid to the vendor. Without documentation on file, it was unknown whether the Bidding Committee deliberated to determine the reasonableness of the recommended bid. It accepted and awarded the bid without adjustments. The AG's report on the results of the negotiation with the vendor is attached as **Appendix F** on page 22.
- 5) In FYs 2013 and 2014, the Bidding Committee allowed competition (by accepting two bidders) for the supply of narcotics and antidotes medicines and awarded the bid based on the results of evaluation by category total amounting to \$17,220 in FY 2013 and \$48,582 (negotiated amount) in FY 2014. With open competition, the price of the very expensive medicine (Acetaminophen with Codeine 500/30mg tablet-100s) by the same vendor significantly went down from \$1,519.88/bottle in FY 2012 to only \$51.72/bottle in FY 2013.
- 6) In FY 2014,
- a) Two bidders submitted their bids amounting to \$98,582 and \$13,835, respectively.
  - b) The Bidding Committee could have realized a potential saving of about \$34,000 had the committee evaluated the bid on a per line-item basis (\$13,772) or the bid awarded to the low bidder (\$13,835).
  - c) The Bidding Sub-Committee (Evaluation Committee) recommended the award to the lower bidder (\$13,835). The Bidding Committee, instead of accepting the recommendation, negotiated with the high bidder to lower its bid by deducting \$50,000 from the original bid amount. It awarded the adjusted bid amounting to \$48,582 to the higher bidder. There was no documentation on file justifying the action to negotiate and award the bid to the higher bidder.
  - d) The lower bidder filed a protest (January 17, 2014) to the Governor requesting for the review of the decision of the Bidding Committee with regard to the awarding of the contract.
  - e) In response, the Chairman/Contracting Officer of the Chuuk State Public Contract Bidding Committee justified the decision by explaining that the lower bidder was not a qualified bidder for failing to comply with some of the bid requirements.
  - f) The lower bidder made a counter response. However, there was no clear resolution of the protest. Furthermore, we noted that the Chairman/ Designated Contracting Officer of the Chuuk State Public Contract Bidding Committee, being involved in the decision to award the bid, could be impaired to evaluate the complaint and render a fair and objective judgment on the case.

---

<sup>11</sup> One of the reasons cited to justify the high prices was that the medicines were branded. However, this claim was not verified upon the delivery of the items. Based on records, the items received were recorded on the basis of generic name or using the old purchased brand names (e.g. Paracetamol and Codeine or Tylenol with Codiene)

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

As a result, the use of single source supplier significantly increased the cost of procuring narcotics and antidotes medicines by more than \$379,000<sup>12</sup>. In addition, the Bidding Committee's failure to use other options in evaluating the bids in FY 2014 increased the cost of procuring medicines by \$34,000 (potential savings opportunity).

Additionally, the unresolved vendor complaint/protest could erode the confidence of the vendors in the government's procurement system.

### **Cause and Recommendations**

There was no contingency plan in place when the prices on bids were found to be unreasonable and the negotiation failed to lower those unreasonable and unfair prices.

Furthermore, the Bidding Committee did not assign the responsibility to evaluate alternative sources of supply and to document the reasons when an award is directed to a particular supplier or when alternative sources are available.

Lastly, the process of handling complaint did not provide adequate internal control procedures to ensure prompt resolution and achieve fair and objective decisions on bid complaints/protests.

We recommend that:

The Bidding Committee should:

- Develop a contingency plan to assure the availability of medicines in case the prices on bids are unreasonable and when negotiation to lower those prices fail; and,
- Procure all goods and services in a manner that allows for full and open competition. When single/sole source purchase cannot be avoided, the Bidding Committee should appoint a responsible person to conduct due diligence<sup>13</sup> to verify the reasonableness of prices to be paid for single/sole source purchases.

The Governor should require the implementation of a protest procedure that would provide inexpensive, informal, procedurally simple and expeditious resolution of vendor protest. When necessary, there should be an independent review of a protest at a level above the Contracting Officer or that the officials to conduct the review should not be within the Contracting Officer's supervisory chain of command.

---

<sup>12</sup> \$18,729 (Appendix B) in FY2011 and \$260,754.71(Appendix C) in FY 2012 or a total of \$379,483.71

<sup>13</sup> Generally, due diligence refers to the care a reasonable person should take before entering into an agreement or a transaction with another party. There should be efforts to confirm all material facts in regards to a sale.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Finding 2: Potential Savings of Over \$300,000 Not Realized in Fiscal Years 2012 & 2013**

Prudent practice requires that procurement activities should allow flexible options in evaluating bids to achieve the lowest costs for its purchases. In the case of procuring pharmaceuticals and medical supplies, there should be flexibility to select the winning bidders through the bid evaluation process that include, but not limited to, comparing the grand totals, category totals<sup>14</sup>, and line item amounts<sup>15</sup>.

For fiscal years 2012 and 2013, the Bidding Committee categorized the pharmaceuticals and medical items, invited the interested bidders to submit proposals, required bidders to indicate the price per item including the total amount per category, and then evaluated the bids to determine the winners for each category based on the lowest amount by category total. However based on our analysis, we found that this method did not yield the lowest responsible cost most favorable to the state. We analyzed the bid proposals and found that the DHS could have saved \$308,930.55 (42%) during the two fiscal years 2012 and 2013 had it used the line item option to evaluate the bids and select the winners. The details of this potential savings are illustrated below.

<b>Fiscal Year</b>	<b>Award Based on Lowest Amount Per Category</b>	<b>Based on Item- By-Item</b>	<b>Potential Savings</b>
2012	\$319,069.63	\$157,014.17	\$ 162,055.46 (51%)
2013	\$412,770.92	\$265,895.83	\$ 146,875.09 (36%)
Total	\$731,840.55	\$423,910.00	\$308,930.55 (42%)

Source: ONPA's Analysis

**Cause and Recommendations**

The Bidding Committee did not use other options to analyze the bids to select the lowest cost bidder. The Committee has been awarding contracts based on the *evaluation by category total* due to its convenience. According to a Committee member, this method is quicker and easier for them to use.

We recommend that the Bidding Committee should use all the options to evaluate the bids (i.e. by grand total, category total, and by line item basis) to determine the lowest costs as one of the various selection criteria to identify the most responsible bidder for the purchase of pharmaceuticals and medical supplies.

During the exit conference to discuss the results of the audit findings, the DHS Director informed the audit team that "line item evaluation" of bids has been implemented during the second bidding in fiscal year 2014.

<sup>14</sup> Similar items are grouped together to form several lots that should be evaluated and awarded as separate contracts.

<sup>15</sup> Each item in the bid is evaluated and compared with the same item in other bids. The evaluation might result in awarding of multiple contracts.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Finding 3: Over \$324,000 Worth of Paid Pharmaceuticals and Medical Supplies Not Timely Delivered**

The contract agreement specified that the delivery of all items under the award be within 60 days after the complete execution of the contract agreement or upon receipt of the "Notice to Proceed" by the seller whichever is the later date.

We found several instances of delayed deliveries of pharmaceuticals and medical supplies in fiscal years 2012 and 2013. For both fiscal years, we have accumulated a sample of pharmaceuticals and medical supplies worth \$324,226.04 (refer to Table 3 below) that were received beyond the required timeframe for delivery. For example, we found that delays in the delivery of items ranged from 3 to 66 days beyond the agreed upon delivery terms as shown in Appendix D on page 20.

<b>Table 3</b>			
<b>Summary of Deliveries Beyond the 60-Day Agreed Delivery Term</b>			
<b>Year</b>	<b>Vendor</b>	<b>Agreed Delivery Term</b>	<b>Amount</b>
<b>2012</b>	Vendor A	90-day	\$ 99,344.54
<b>2012</b>	Vendor B	90-day	95,353.53
<b>2013</b>	Vendor C	60-day	116,718.45
<b>2013</b>	Vendor B	60-day	18,809.52
<b>Total</b>			<b>\$ 324,226.04</b>

Source: ONPA's Analysis

As a result, DHS had to procure items via emergency purchases due to out-of-stock caused by untimely deliveries, and hence paid higher prices. Refer to the discussion under Finding 4 for the analysis of emergency purchases.

**Cause and Recommendations**

The DHS management failed to monitor the delivery of the pharmaceuticals and medical supplies. Additionally, the management DHS did not strictly require the delivery of bid items to comply with the contract terms and conditions. For instance, the contract stated that "*Seller shall be liable to pay the buyer with liquidated damages of one tenth of 1% of the total contract amount" (not including taxes and fees) per day for each and every day for failure to deliver with the prescribed time until all items are fully delivered.*"<sup>16</sup> However, the DHS management neglected to impose the required penalties on vendors not delivering the pharmaceuticals and medical supplies in a timely manner. Hence, the vendors have been accustomed to violating the contract delivery terms and conditions.

We recommend that the DHS management should:

<sup>16</sup> Contract Agreement Witnessed: 6. Liquidated Damages: 6:1

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

- Implement internal control procedures to track and to monitor the delivery of pharmaceuticals and medical supplies; and,
- Impose the penalty clause on vendors that do not observe the timeframe for delivery.

During the exit conference to discuss the results of the findings, the DHS Inventory Manager informed the audit team that control procedures are now implemented to track and monitor the delivery of pharmaceuticals and medical supplies. In addition, penalties on delivery delays are now imposed through coordination with the Department of Administrative Services.

**Finding 4: Frequent Emergency/Regular Purchases Significantly Increased the Costs of Procuring Pharmaceuticals and Medical Supplies by an Average of 76%**

Best practice requires a purchase plan that includes strategies to obtain the best value in procurement, and avoid frequent purchases and the use of emergency orders<sup>17</sup>. The plan must also include an accurate quantity of requirements needed to avoid the costs of stock-outs<sup>18</sup> and excessive stocks.

We found that Chuuk DHS has been purchasing pharmaceuticals and medical supplies without the benefit of a purchase plan. Because of the absence of a purchase plan, the DHS resorted to purchasing high-priced emergency/regular items that increased the costs of procuring pharmaceuticals and medical supplies. From the analysis of the purchases during the period, we noted that DHS spent \$1,516,720 (58% of its total spending (Table 8) on emergency/regular orders leaving \$1,077,700 (42%) for procuring supplies thru competitive bidding that provided for better prices.

**Table 8: Total Bids vs. Regular/Emergency Purchases**

Description	FY 2012		FY 2013		Total	
Total Expenditure Report	\$ 1,315,395	100%	\$ 1,279,023	100%	\$ 2,594,418	100%
Total Bids	667,708	49%	429,992	34%	1,077,700	42%
Emergency/Regular Orders	\$ 667,687	51%	\$ 849,031	66%	\$ 1,516,720	58%

*Source: Expenditure Report(unaudited)/Bid Document and ONPA's Computation*

We judgmentally selected a sample of payment vouchers representing purchases of pharmaceuticals and medical supplies to compare the prices of emergency/regular purchase orders against the related bid prices. The results of the test-comparison of prices (Table 9) indicated that the DHS could have saved 76% of the total amount spent for emergency/regular orders had competitive bid been used for those purchases.

<sup>17</sup> The hospital did not identify emergency POs, so, we deducted the total amount of POs subjected to bidding from the total expenditures for pharmaceuticals and medical supplies to arrive at the balance supposedly spent for emergency and regular purchases. From this, we selected our sample to test the price difference between the bid and the emergency/regular purchases.

<sup>18</sup> The cost of stock-outs could be the high priced emergency purchases or the life of the patient not treated timely with the right medicine. The price of over stocking could be the expired medicine and inefficient use of storage facility.



**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Table 9: Price Comparison of Regular/Emergency Purchases vs. Bid Price**

Description	Amount	Analysis	
		%	%
Sampled Emergency/Regular Purchase	\$173,297	414%	100%
Total Amount Based on Bid Prices	\$ 41,837	100%	24%
Price Difference, Emergency/Reg. Prices Over	\$131,460	314%	76%

Source: ONPA's Analysis

Although some of the bid prices were almost close to the prices indicated in the emergency prices, most of the prices of the sampled items were higher as compared to bid prices. The following illustrates some of the examples taken from the audit test sheets:

Medicines/Medical Supplies	Qty	UM	Emergency Price		Bid Price		Price Difference	
			UP	Amount	UP	Amount	Amount	%
Vitamin B Complex with C tab. 1000's	72	bottle	\$ 48.00	\$3,456	\$3.12	\$224.64	\$3,231.36	94%
Surgical Gloves	20	box	50.00	1,000.00	12.00	240.00	760.00	76%
Gentamycin Eyedrop 5ml	288	bottle	6.00	1,728.00	.39	112.32	1,615.68	94%
Sterile Gauze 4x4x8ply	15	case	480.00	7,200	10.94	164.10	7,035.90	98%
Syringe, 3cc, 100boxes	300	case	8.64	2,592	5.75	1,725.00	867.00	33%
Insulin 70/30 10s	10	pack	205.00	2,050	77.00	770.00	1,280.00	62%
Hand Sanitizer Refill, Purell 1L, 33.8fl"	288	Box	40.00	11,520	18.91	5,446.08	6,073.92	53%

Source: ONPA's Analysis

### **Cause and Recommendations**

DHS did not have a purchase plan to ensure that pharmaceuticals and medical supplies were available at all times for the hospital and dispensaries use.

#### We recommend that:

- The DHS Director should implement a yearly procurement plan for the purchase of pharmaceuticals and medical supplies;
- The Bidding Committee should procure significant percentage (e.g. 75% - 80%) of the yearly requirements for pharmaceuticals and medical supplies thru bidding or other optimal methods of obtaining the lowest possible costs and with due consideration to other factors such as quality and timeliness of delivery.

During the exit conference, the DHS Director acknowledged that improvement is needed in their current procurement planning.

### **Finding 5 – Lack of Accountability on Pharmaceuticals and Medical Supplies Inventory Increased the Risk of Inventory Theft, Loss, Misuse and Abuse**

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

Prudent practice in inventory management requires that entity should keep complete and reliable information on inventory and should verify their existence on a periodic basis.

Upon delivery, the purchased pharmaceuticals and medical supplies are stored as inventory at the storeroom and/or at the pharmacy area until they are finally issued to end-users or patients. In the course of our audit, we reviewed both of the inventory management systems maintained at the storeroom and pharmacy to determine the adequacy of internal control procedures in place. We reviewed the documentations for receiving and issuing of inventory as well as the processes in reporting and verifying the inventory. We found the following weaknesses:

For the Storeroom Inventory

- No verification of inventory has been done since the inventory system became operational in July 2012. According to the Inventory Manager, physical counts of inventory in the past were conducted twice. The results of such counts were not reconciled with the corresponding balances in the system.
- Signed copies of the storeroom stock receiving reports (receipt of stocks) and stock issuance forms for the year (stock issues) were not chronologically and sequentially filed for reference purposes. For example, signed documents evidencing transfers (to Pharmacy area) of narcotics and antidotes medicines in the FY 2012 were not on file. It should be noted that this deficiency in the filing system was cited in the previous audit report dated February 10, 2010<sup>19</sup> that led to the finding then on undelivered but paid medicines.
- There were no internal control procedures in place for regular reporting and disposal of expired medicines.

Pharmacy Inventory

- Monitoring and tracking of inventory was not adequate. Manual stock ledgers were maintained only for narcotics items but not for other inventories transferred from the storeroom. In addition, only issuances were monitored using spreadsheets for inventories without the manual stock ledgers.
- Signed copies of storeroom stock receiving reports (receipt of stocks) and stock issuance forms for the year (stock issues) were either not on file or not filed chronologically and sequentially.
- Some of the manual stock ledgers for the narcotics were missing e.g. Nalbuphine Hydrochloride 10mg/2ml, Phenobarbital 200mg/ml Injection, Ipepacc Syrup 70mg/ml - 30ml and Pyridoxine Hydrochloride Injection - 1mg/ml.
- There were no internal control procedures for regular reporting and disposal of expired medicines.
- There were no internal control procedures to conduct physical count and reconciliation of inventory, including the reconciliation of pharmacy sales to ensure that the inventories are regularly accounted for any discrepancy.

---

<sup>19</sup> Audit Report # 2010-03- Audit of Chuuk State Department of Health Services' Procurement and Inventory Management System – FY 2006-2008.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

For the lack of reliable information and inventory accountability, the DHS management was impaired regarding its ability to:

- Know the quantity, location, condition, and value of inventories it owns;
- safeguard its inventories from physical deterioration, theft, loss, or mismanagement;
- Prevent unnecessary storage and maintenance costs or purchase of inventories already on hand

Consequently, because of unaccounted inventories, there is a high risk that inventories might be lost due to theft, misuse and abuse without management knowing. For example, we were unable to account for the paid medicines in Table 10:

Table 10 – Example of Unaccounted Deliveries						
Description	UM	Qty	Unit Price	Amount	Date Received	Received By
Tetanus Toxoid Injection	Amp	300	\$313.20	\$93,960	5/28/12	Medical Supply Specialist
	According to the Storeroom Manager, the items were fully transferred to the Pharmacist upon receipt of the items but there was no documentation on file evidencing the transfer and the Pharmacist cannot account them					
Phenobarbital 200mg/ml Injection	Amp	25	\$229.52	5,738	5/28/12	Medical Supply Specialist
	According to the Storeroom Manager, the narcotics were fully transferred to the Pharmacist upon its receipt from the vendor but there was no documentation on file evidencing the transfer. There was no manual Stock Ledger kept by the Pharmacist to account the items.					

*Source: Signed Supplier Packing List (Delivery Receipt). The computerized system started on 6/11/12, so, there was no computer-generated stock receiving report (receipt), stock issuance form (issues), and stock card (balance) to account the movement of the items within the system for the above items.*

### Cause and Recommendations

The DHS management did not monitor to determine whether the inventory systems at the storeroom and at the pharmacy were producing reliable information and providing accurate custodians' accountabilities of its inventories. This is a management's negligence.

We recommend that;

- The DHS Director should:
  - Require regular inventory reporting from the system (e.g. monthly) to ensure that the inventory systems (warehouse and pharmacy) are producing reports that are reconciled and signed off as correct by the storeroom manager/pharmacy or responsible party;
  - Require an independent count and reconciliation of inventories on a periodic basis (e.g. yearly) to establish the accuracy of the custodians' accountabilities on inventories; and,
  - Require regular reporting (e.g. monthly) and disposition of expired medicines.
- The Inventory Manager and the Pharmacist should ensure that the filing system of the inventory documents allow prevention of missing documents and should facilitate the tracing of inventory transactions against the supporting documents. The signed copies of the internal receiving reports (stock receiving report) and issuance slips (stock issuance form) should be

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

chronologically and numerically filed monthly with proper references on its face of the related purchase order, supplier's invoice and delivery receipt (packing list), if any.

**Finding 6 – Many Pharmaceuticals and Medical Supplies with Short-Shelf Life Were Bought**

The 'Instruction to Bidders' as well as the contract agreement specified that *"all medicines shall carry an expiration date of not less than two years from the date of delivery"*.

We found, from the test-review of receiving report, that 105 different types of pharmaceuticals have expiration dates of less than two years as required. In addition, we noted that the storeroom has accumulated large quantities of expired medicines that were not segregated from the unexpired medicines.

As a result, receiving of medicines with less than two years expiry dates increased the risk that medicines would expire even before they become useful as intended. Further, they could add to the high level of inventory of expired medicines.

**Cause and Recommendations**

There were no quality control procedures in place to provide guidance in receiving pharmaceuticals and medical supplies. In addition, the storeroom personnel did not implement the requirements of the contract regarding the expiry of medicines that should be received from the vendor.

We recommend that the DHS Director should;

- Require the implementation of an inspection guide to enhance the quality assurance activities involving procurement and receipt of pharmaceutical products. For medication with normal shelf life of less than two years, there should be an agreed upon exception list as part of the contract indicating the minimum expiration dates.
- Require regular reporting and management approval of the disposition of expired medicines.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**APPENDICES**

**Appendix A: Members of the Bidding Committee and Evaluation Committee FY 2011-14**

Name	Department	Position Title	FY11	FY12	FY13	FY14
<b>Bidding Committee</b>						
Wesley Simina	Administration	Governor	√			
Johnson Elimo	"	Governor		√		
Eliseus Henzel Akapito	Chuuk Planning Office	Chief of Planning / Designated Contracting Officer		√	√	√
Masaki Mori/Masatomo Mori	Chuuk State Legislature	Administrative Officer	√	√	√	√
Julio Marar	Department of Health	Director	√	√	√	√
<b>Evaluation Committee</b>						
Johnny Apostol	Planning Office	Consultant	√	√	√	√
Eliseus H. Akapito	Planning Office	Chief of Planning	√			
Dr. Bosco Buliche	DHS	Procurement Officer	√	√	√	√
Leo Macaraeg	DHS	Inventory Manager		√	√	√
Marlyn Albert	CFCC/DHS	Staff	√	√	√	√
Alan Burnham	CFCC	CPA	√	√	√	
Nick Andon	CFCC	Manager/ Internal Auditor				√
Joses Gallan	Attorney General Office	Attorney General	√	√		

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Appendix B: Details of Medicines with Lone Bidder – FY 2011**

Medicines	Preparation		UM	Qty	Lone Source		Researched Prices		Potential Savings
	Strength				Unit Price	Total	UP	Total	
1 Acetaminophen with Codeine Tab	500/30mg	50's	Btl	100	845.90	84,590.00	47.38	4738.00	79,852.00
2 Fentanyl Citrate Injection	.05mg/2ml		Amp	300	96.75	29,025.00	59.05	17,715.00	11,310.00
3 Phenobarbital Injection	150 mg/ml		Amp	75	24.60	1,845.00	24.60	1,845.00	0.00
4 Phenobarbitone Elixir 100ml	15mg/5ml		Btl	25	129.75	3,243.75	92.00	2,300.00	943.75
5 Acetycysteine -Oral Solution - 10ml	800mg/4ml		Btl	25	28.65	716.25	28.50	712.50	3.75
6 Acetycysteine Injection	200mg/5ml		Amp	50	118.50	5,925.00	14.61	730.50	5,194.50
7 Ipecac Syrup- 30ml	70mg/ml		Btl	100	180.00	18,000.00	180.00	18,000.00	0.00
8 Naloxone Injection	0.4mg/ml		Amp	300	35.40	10,620.00	21.84	6,552.00	4,068.00
9 Protamine Sulfate Injection-5ML	10mg/ml		Vial	75	29.10	2,182.50	29.10	2,182.50	0.00
10 Pyridoxine Hydrochloride Injection	1mg/ml		Amp	75	29.61	2,220.75	29.61	2,220.75	0.00
11 Pethidine tablet	50mg	100's	Btl	50	285.00	14,250.00	205.14	10,257.00	3,993.00
12 Pethidine Injection	50mg ml		Amp	1000	4.95	4,950.00	4.95	4,950.00	0.00
13 Pethidine Injection	100mg/2 ml		Amp	50	9.90	495.00	9.9	495.00	0.00
14 Morpihne Injection	10mg/ml		Amp	1000	4.05	4,050.00	4.05	4,050.00	0.00
15 Diazepam tablet -	5mg	100's	Btl	25	7.80	195.00	7.80	195.00	0.00
16 Diazepam Injection	10mg/2ml		Amp	500	4.35	2,175.00	4.35	2,175.00	0.00
17 Ketamine Injection	200mg/2ml		Amp	500	77.88	38,940.00	57.32	28,660.00	10,280.00
18 Midazolam Injection	5mg/ml		Amp	300	14.85	4,455.00	14.85	4,455.00	0.00
19 Propofol 50ml vial	10mg/ml		vial	200	57.00	11,400.00	41.58	8,316.00	3,084.00
20 Thiopental Sodium Injection	1gm/ml		Amp	150	3.85	577.50	3.85	577.50	0.00
<b>Grand Total</b>						<b>\$239,855.75</b>		<b>\$121,126.75</b>	<b>\$118,729.00</b>

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Appendix C: Details of Medicines with Lone Bidder – FY 2012**

Description		Preparation		Order		Winning Bid		Researched Prices		Potential Savings
Narcotics		Strength		UM	Qty	UP	Total	UP	Total	
1	Acetaminophen with Codeine tablet	500/30mg	100's	Btl	30	1,519.88	\$ 45,596.40	21.60	648.00	44,948.40
2	Fentanyl Citrate Injection	100mcg/2 ml		Amp	300	116.10	34,830.00	53.68	16,104.00	18,726.00
3	Nalbuphine Hydrochloride	10mg/2ml		Vial	500	162.00	81,000.00	5.24	2,620.00	78,380.00
4	Phenobarbital Injection	200 mg/ml		Amp	25	229.52	5,738.00	17.50	437.50	5,300.50
5	Phenobarbital -100ml	15 mg/ 5cc		Btl	12	555.70	6,668.40	19.62	235.44	6,432.96
Total							\$173,832.80		\$ 20,044.94	\$125,287.25
Antidotes							-			
1	Acetylcysteine Oral Solution - 10ml	200mg/ml		Btl	25	34.38	859.50	19.00	475.00	384.50
2	Acetylcysteine Injection	1 gm/5ml		Amp	50	142.20	7,110.00	9.74	487.00	6,623.00
3	Flumazenil 500mcg/5cc	500mcg/5cc		Amp	100	90.00	9,000.00	15.68	1,568.00	7,432.00
4	Ipecac Syrup- - 30ml	70mg/ml		Btl	50	432.00	21,600.00	5.98	299.00	21,301.00
5	Naloxone Injection	0.4mg/ml		Amp	200	84.96	16,992.00	17.42	3,484.00	13,508.00
6	Protamine Sulfate Injection-	50mg/5ml		Vial	75	34.92	2,619.00	16.20	1,215.00	1,404.00
7	Pyridoxine Hydrochloride Injection-	1mg/ml		Amp	75	35.53	2,664.77	18.32	1,374.00	1,290.75
8	Tetanus Toxoid Injection	40iu/0.5ml		Amp	300	313.20	93,960.00	68.72	20,616.00	73,344.00
Sub-total							\$ 154,805.25		\$ 29,518.00	\$ 125,287.25
Total							\$ 328,638.05		\$ 49,562.94	\$279,075.11
						Total		\$ 49,562.94	18,320.40	
						FY 2012 Bid Award		\$ 328,638.05		
						Less: Discount given upon payment		18,320.40		
						Adjusted Bid Amount		\$ 310,317.65		
						Potential Savings		\$ 260,754.71	\$260,754.71	

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Appendix D: Sample of Deliveries Beyond the Agreed 60-Day Delivery Terms**

Appendix F Sample of Deliveries Beyond the Agreed 60-Day Delivery Terms						
Item Description	Qty Ordered	PO Reference / Date	Date of Notice to Proceed	Date Due	Date Received	Days Delay
Vendor B		84734	4/16/2013	6/15/2013		
Phenobarbitone 200 MG Injection 5's	100	84734	4/16/2013	6/15/2013	7/11/2013	26[
Vital signs, Infusable Pressure Infusion 500ml	12	84734	4/16/2013	6/15/2013	8/20/2013	66
Vendor C		84215	4/11/2013			
Calcipotriol Hydrate/Bethamethazone Dipropionate Ointment - 15mg	150	84215	4/11/2013	6/10/2013	6/14/2013	4
Ephedrine Sulfate 50mg/ml Injection	200	84215	4/11/2013	6/10/2013	7/29/2013	49
Isoflurane Inhalational Anesthetic - 100 ml	150	84215	4/11/2013	6/10/2013	6/14/2013	4



**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Appendix E: FY 2012 Bidding Notification**

**DIVISION OF PLANNING**  
**DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**CHUUK STATE GOVERNMENT**

P.O BOX 189 WENO, CHUUK STATE FSM 9642 TEL# 330-2598 FAX # 330-2233

---

*Eliseus Akapito*  
*Division Chief*

April 11, 2012

To: 

From: Eliseus Henzel Akapito  
Secretariat, CSPCRC

Subject: BIDDING NOTIFICATION

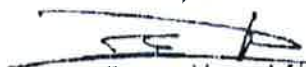
This is to notify that you are qualified to participate in a public bidding for the delivery and supply of Pharmaceuticals and Medical Supplies except Category VI (Narcotics and Antidotes Drugs) as categorized in the invitation to bid by the Contracting Officer dated February 28, 2012

Please be reminded that all bids are subjected for review and evaluation by the Chuuk State Public Contract Review Committee (CSPCRC) and the Department of Health in accordance with the requirements stated in the Invitation to Bid, Instruction to Bidders, Addendums and your pre-qualification documents. The authenticity of your pre-qualification documents are subjected to further examination and verification from source during the process of evaluation, and if found inaccurate, your bid maybe ineligible.

Nevertheless, The Contracting Officer reserves the right to waive any information or to reject any or all bids, including additives, or options, or alternatives in any order or any bid, and award the contract to the Contractor/Vendor/Supplier who in the judgment of the Contracting Officer will best serve the people of Chuuk State.

Should you have any query to the above stated notification and procedures, please do call upon us. Please keep in mind that bid submission will be closed exactly at 2:00 pm on April 17, 2012 and bids proposals will be opened at 2:30 pm same day at the Governor Conference Room. All eligible bidders are invited to attend.

Thank you

  
Eliseus Henzel Akapito  
Secretariat, CSPCRC

CC:

Attorney General  
Director, DHS  
File

Received by: \_\_\_\_\_

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Appendix F: FY 2012 Bid Negotiation for Pharmaceuticals and Medical Supplies**

*Office of the Attorney General*  
*State of Chuuk Federated States of Micronesia*

April 26, 2012

MEMORANDUM

TO : Chairman, Bidding Committee

FROM : Attorney General

SUBJECT : Negotiation with [REDACTED] Bid Pharmaceuticals and Medical Supplies

As per instruction from your committee, I have met with [REDACTED] for purposes of reconsideration of its bid amounts in the narcotics category.

The following explanations were given as the basis of [REDACTED] bid price:

1. In most of the categories, new medications were introduced compared to previous years listings.
2. There are more branded medicinal items in the categories in the current bids resulting in high prices.
3. In previous biddings, there were more first generation medication (antibiotics) compared to the current bid where there are more second and third generation medicine (stronger & more potent) resulting in high prices.

Specific to the category for narcotics medicines, and due to the special regulatory requirements and conditions for controlled substances and narcotic drugs, the following justifications were also submitted as added costs to the prices for these medications.

1. Incidental costs for permit applications from at least three source countries; US, Australia and the Philippines, i.e., import/export licenses/permits and other certification for possession, delivery, and reporting requirements from the respective jurisdictions.
2. Professional services fees for overseas narcotics handlers for purposes of shipments and mode of shipment including other reporting requirements needed for possession, use, sell, dispense, dispositions, storages, handling and deliveries prior to shipment and delivery to the FSM.
3. More than half of the narcotic drugs listed in this category, were newly introduced drugs.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

Based on our discussions and because of the other special regulatory requirements for the procurement of narcotics both within and outside of the FSM which are not within the control of the bidder, he is unable to go down on his bid amount originally submitted under the narcotics category. This may run a risk of his ability to deliver these narcotics to Chuuk in time for its urgent needs and uses. However, as a way forward and noting that [REDACTED] is the lowest bidder in category V, [REDACTED] offered and is willing, if awarded, that this category is awarded to next lowest responsive bidder or other bidders as the Committee may deemed appropriate.

The Attorney General offered the following Legal Analysis to aid the Committee on his deliberations.

Bidding Committee is advised of the following pertinent laws to the process of bidding by procurement by sealed bid applies:

Article VI (Post Award Requirement) I. (j), (10), (iv) of the Agreement Concerning Procedures for the Implementations of the United States Economic Assistance in the Compact of Free Association, as Amended thus provides:

The following requirements shall apply if sealed bids are used: (1) the invitation for bids shall be publicly advertised, solicited from a adequate number of known suppliers, and provided bidders with sufficient time to respond; (2) the invitation shall include any specifications and pertinent attachments, and define the items or services to allow the bidder to properly respond; (3) all bids shall be publicly opened at the time and place prescribed in the invitation for bids; and (4) a firm fixed price Contract award shall be made in writing, to the lowest responsive and responsible bidder. Any or all bids may be rejected if there is a sound documented reason.

Testing the current bid process against the above requirement, the question is whether or not the bid as advertised, we solicited from an adequate number of known suppliers. The bid as issued, the advertisement was sent out to more than 4 known suppliers for pharmaceuticals and medical supplies. Three suppliers were found to be qualified to bid for all of the six categories and submitted their bids for the procurement for the six categories. One bidder was found to be qualified for all of the seven categories and submitted his bid for the seven categories.

I found that the process complied with the above requirement.

Further, when the committee makes its awards, I invite the committee to note the additional requirement provided under Article VI (Post Award Requirement) I. (j), (4), of the Agreement Concerning Procedures for the Implementations of the United States Economic Assistance in the Compact of Free Association, as Amended thus provides:

(4) Award shall be made only to contractor who possess the ability to perform responsibly and successfully under the terms and condition of the proposed

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 - 01**


procurement. Selection must consider contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

The Committee however, must note further that two or more responsible bidders must be willing and able to compete effectively and for the business. In this bid process, we have had more than two qualified bidders for all of the six categories except the category on narcotics that it was found to be only one qualified bidder. It has been reported by the department of health time is of the essence and the need to procure the narcotics is imminent for treatment of patients at the hospital. Thus, the committee is now faced with a dilemma.

As I have noted in our earlier meeting this morning, this bid process as first initiated and advertised out to the public, it was a package deal and more than two interested bidders submitted and responded to the bid proposals. All but one bidder was qualified to bid for the whole package of the seven categories. The others that were not qualified to bid for category on narcotics, submitted their bids for the other six categories and were found to lowest in some categories. It is clear that there is no issue with the other six categories except the narcotics. The issue is relating to the price. The evaluation committee found that the bid price is too high and recommended that the Attorney General negotiate the price down as authorized by Section 10 of TSL 5-83. The basis of reaching that conclusion was based on some comparative analysis of the bid price vs. the previous prices of narcotics. The bidder had explained the basis of his bid price as indicated above. It is also clear that when the bidders submitted their bids for each category, their bid prices were calculated, determined, strategized and submitted based on the whole package of the categories that they were qualified to bid for.

Based on the above, I recommend that the Bid Committee accept the proposal submitted by [REDACTED] that he maintained his bid amount under category on narcotics and the Committee award the medications under category V to the next lowest bidder as a way forward to .

Thank you.

  
Jose R. Gallen

cc: Committee Members

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**Appendix G: Prior Audit Findings**

Findings	Recommendations
<p>1. Non-availability of medications at the dispensaries resulted in denial of treatments and possibly deaths</p>	<p>1. The Director of DHS should take action to ensure that dispensary management is aware of and competent to fulfill responsibilities related to the management of dispensary inventory levels including the development and implementation of policies and procedures relating to:</p> <ul style="list-style-type: none"> <li>a. The reordering of medicines and supplies</li> <li>b. The timely delivery of medicines to the outer islands</li> <li>c. The general record keeping and monitoring of inventories, dispensary requests for medicines and supplies, and deliveries</li> </ul> <p>2. The Chief of Dispensaries be held accountable for ensuring that essential medicines are available when needed by residents located on the outer island.</p> <p>3. The island dispensaries should be required to maintain inventory records and submit these records to the Dispensary Division on a monthly basis.</p> <p>4. The DHS should actively take steps to recruit and hire Chief of Dispensary.</p>
<p>2. Expired medicines were included in the inventory</p>	<p>DHS should develop and implement policies and procedures to ensure that expired medications are promptly identified and removed from the inventory. Specifically, policies should dictate that on routine basis, staff should review the inventory report to identify expired medications and that those medications then be removed from the inventory.</p> <p><i>ONPA Comment- The results of the current audit (Finding # 6) indicate that the DHS management has not yet taken corrective action to implement this audit recommendation.</i></p>
<p>3. Medicines purchased from immediate family members of DHS officials and staff</p>	<p>We recommend Chuuk State CFCC, DAS and DHS should:</p> <p>1. Develop the necessary control procedures to enforce the conflict of interest provision of the regulations and to ensure the integrity of the procurement processes from solicitation to evaluation and selection of the winning bid/quote for the procurement that would involve conflict of interest.</p>

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

Findings	Recommendations
	<p>2. Develop and implement policies and procedures that would also require supplier/vendor/contractor to identify employees to whom they are related.  <i>ONPA Comment- The DHS management has not yet taken corrective action to implement the audit recommendations # 1 and 2 above.</i></p> <p>We also recommend Chuuk State Personnel should:</p> <p>3. Develop and implement a code of conduct to set the standards for ethical and moral behavior of all the state employees.</p> <p><i>ONPA Comment- The DHS management has not yet taken corrective action to implement this audit recommendation.</i></p>
<p>4. Approximately \$700,000 worth of purchased medications not received</p> <p>Note: After the audit report was released, Chuuk's Financial Advisor said that they found proof of delivery of all but \$200,000.</p>	<p>We recommend that the:</p> <ol style="list-style-type: none"> <li>1. Chuuk DAS/DHS should account for all advance payments to off shore suppliers and should recover any accounted advances to suppliers.</li> <li>2. Chuuk DAS/DHS should implement policies and procedures to ensure accreditation process including background checks are completed for potential vendors. This process should include verifying that potential vendors are registered businesses capable of supplying specific products and services.</li> <li>3. Chuuk DAS/DHS/CFCC should develop and implement control procedures for the processing and liquidating of advance payments to off shore suppliers. These control procedures should include temporary treatment of advance payments as receivable account in the books subject to subsequent monitoring of delivery of goods paid in advance and reversal upon liquidation.</li> </ol> <p><i>ONPA Comment- DAS/DHS/CFCC has implemented the procedures to control the advances to suppliers.</i></p>
<p>5. Unsound procurement practices likely circumvented competitive procurement requirement</p>	<p>1. The CFCC, DAS and DHS office should be more diligent in its documentation to secure PO. Adequate support, and explicit override approval with justification should <u>be attached</u> to the voucher when</p>

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

Findings	Recommendations
	<p>any procurement is done outside of the requirements of the regulations or FPA agreements. Without such documentation, the offices cannot support that it has been following its own policy to obtain competitive pricing.</p> <p>2. DAS should develop and implement the selection procedures for awarding of PO to the supplier.</p> <p><i>ONPA Comments – The current audit findings indicate that the DHS Management still needs to improve its procurement processes especially in getting competitive price for its purchases of pharmaceutical and medical supplies.</i></p>
<p>6. Absence of accountability and poor inventory management led to various inefficiencies</p>	<p>We recommend that the DHS and DAS improve the warehouse inventory management by implementing inventory and warehousing policies and procedures that would include but not be limited to the following:</p> <p><u>DHS</u></p> <ol style="list-style-type: none"> <li>1. Guidance on proper warehouse housekeeping, organizing, securing and storing of inventories. These guidelines would ensure orderliness, safety and efficient retrieval of items inside the warehouse.</li> <li>2. Warehouse access and security; inventory record keeping; receipting; storing; issuing; periodic counting; and reducing loss and wastage through expiry, theft, damage, and others.</li> <li>3. Safe disposal of unwanted/expired medicines. Among others, such policies and procedures should address the need to physically segregate expired medicines from good medicines and requiring prior approval before expired/unwanted medicines are disposed of.</li> <li>4. Training sessions to strengthen the capacity of the staff on warehouse inventory control and management.</li> </ol> <p><u>DAS</u></p> <ol style="list-style-type: none"> <li>5. Forms for receipts and issuances be properly authorized and used for posting to the perpetual inventory records to assure correctness and properly establish custodian's accountability</li> <li>6. Pre-numbering of receiving report and issuances forms</li> </ol>

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

Findings	Recommendations
	<p>should be implemented to enable accounting of the completeness of inventory transactions. This would ensure that movements of goods is recorded and records are accounted for.</p> <p>7. Physical inventory at least once a year and compare the results of the physical count with perpetual inventory records to establish responsibility for any missing items in the inventory.</p> <p><i>ONPA Comment- The DHS management has not fully implemented the audit recommendations.</i></p>
<p>7. Lack of control over fuel purchases resulted in 70% increase in fuel spending during two year period</p>	<p><u>We recommend</u> the concerned department to:</p> <ol style="list-style-type: none"> <li>1. Reconcile Fuel Payments With Supporting Documents</li> <li>2. Negotiate Credit Line with Gas Companies</li> <li>3. Implement Internal Control Procedures for Fuel Inventory Control</li> </ol> <p><i>ONPA Comments – This was not covered by the current audit but we learned that the log to monitor the fuel usages was discontinued.</i></p> <p>4. Diligent Review of Fuel Budget</p>
<p>8. Lack of accountability led to questionable uses of revenue funds earned by DHS</p>	<p><u>We recommend</u> that:</p> <ol style="list-style-type: none"> <li>1. The Administrative Order 12-2005 creating medical fund account should be presented for review by the executive office to appropriate branches of government to ensure compliance with the requirements of the constitution, state laws and regulations. The type of fund should be approved by the legislature so that appropriate fund accounting could be implemented, as whether this fund would be accounted for as enterprise<sup>20</sup> or proprietary fund or another government funds within health sector grant. Furthermore, the executive office should obtain authorization and appropriation of medical fund account budget (revenues and expenditures) before the</li> </ol>

<sup>20</sup> Enterprise Fund Accounting – Used when a government wants to recoup all or a portion of the cost of providing services.



**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

Findings	Recommendations
	<p>funds can be used for disbursement.</p> <ol style="list-style-type: none"> <li>2. The DAS Director should ensure that the terms of conditions of the Compact grant are complied with in the implementation of the medical fund account. These should include implementing of internal control policies and procedures for collecting of revenues, depositing of collections, accounting of receipts and sales of medicines at the pharmaceutical area, accounting of inventory at the pharmaceutical area to tie-up sales and inventory, spending of funds, budget control, bookkeeping, monitoring and reporting of financial activities.</li> <li>3. The CFCC should review all payments from the medical fund account to provide greater control in ensuring that payments are appropriate.</li> <li>4. The DAS to record the revenues and expenditures for the medical fund account in the same financial bookkeeping system that accounts for the funds of health sector grant. This would also ensure that the transactions from the fund account are properly reported.</li> </ol>

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**MANAGEMENT RESPONSE**



**CHUUK STATE GOVERNMENT**

**DEPARTMENT OF HEALTH SERVICES**

*State of Chuuk*

*Federated States of Micronesia 96942*

P.O. Box 409  
Phone: (691) 330-2216/2217  
FAX: (691) 330-2320

Julio M. Marar, Director  
Resty Shetiro, Deputy Director  
Junior Nomau, Acting Administrator

October 8, 2014

Mr. Haser H. Hainrick  
Officer-In-Charge  
Office of the National Public Auditor  
P.O. Box PS-05, Palikir  
Pohnpei, FSM 96941

*Haser*  
*10.8.2014*

**Subject: Response to your Audit Findings / Report for Chuuk State Department of Health Services Procurement Policies and Procedures for Fiscal Years 2012 & 2013.**

Dear Mr. Hainrick,

On the above mentioned subject matter we would like to make some clarifications or comments as follows:

- 1) The title of your report should be ***“Chuuk State Department of Health Services Procurement and Inventory Management System Audit - 2012 & 2013”*** NOT ***“Chuuk State Hospital: Poor Procurement Practices and Inventory Management System Led to Excessive Cost”***. We find this unprofessional and unacceptable. Please note that you are preparing an ***Audit Report*** not a ***News Report*** for a tabloid or a newspaper.
- 2) ***Finding #1: Noncompetitive Procurement Increased the Costs of Buying Pharmaceutical and Medical Supplies by about \$382,000.*** The Department with the cooperation of the Office of Planning Statistics, Office of the Attorney General, CFCC and members of the Chuuk State Public Contract Bidding Review Committee did everything in good faith to conduct a fair bidding process during the bid in question. But due to some provisions in the pre-qualification requirements “a vendor should have a history of delivering the narcotics” that is out of our control we end up having a sole bidder in the narcotics & antidotes category. But as you can see, we tried to correct the problem in the next bid thus increasing the qualified bidders. (see attached Instruction to Bidders for the 2013 Bid)
- 3) ***Finding #2: “Potential Savings of Over \$300,000 Not Realized in Fiscal Years 2012 & 2013”.*** This might be true that is why we have started to have two (2) bids in a year and have started awarding bids per line item. We also have started getting price quotations from all our vendors and not limit ourselves to only three vendors when processing a regular purchase requisition thus reducing the costs significantly. (see attached sample contract for the 2012 Bid)

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

- 4) **Finding #3: "Over \$368,000 Worth of Paid Pharmaceuticals and Medical Supplies Not Timely Delivered"**. Your figure of \$368,000 might not be correct because the bid for 2012 requires the vendors to deliver within 90 days not 60 days. It was only the bid for 2013 that the vendors were given 60 days. But then again we agree that there were some items delivered beyond the deadline because of acceptable reasons presented by the vendors and again these extensions are reviewed and agreed by the Office of Planning Statistics and the Attorney General Office. Please note that we only agreed to the extensions because we put the patient's interest first before anything else. At those times, it is beneficial for the patients that we agree to the extensions than to process another requisition or another bid. For your information, we already started penalizing our vendors by not awarding them anything in some of the procurements we are processing and also started collecting from one of the vendor penalties for not delivering.
- 5) **Finding #4: "Frequent Emergency/Regular Purchases Significantly Increased the Costs of Procuring Pharmaceutical and Medical Supplies by an Average of 82%"**. Again this might be true that is why we have started to have two (2) bids in a year and have started awarding bids per line item. We also have started getting price quotations from all our vendors and not limit ourselves to only three vendors when processing a regular purchase requisition. We now have a computerized inventory system in place so we now have a way to collect the data that we need to do our projections more accurately and hope that we avoid doing a lot of this emergency orders as we do realize that they are costly.
- 6) **Finding #5: "Lack of Accountability on Pharmaceutical and Medical Supplies Inventory Increased the Risk of Inventory Theft, Loss, Misuse and Abuse"**. While the accountability maybe an issue to a certain extent we have started delegating authorities and assigned responsibilities and accountabilities of the department's inventory and fixed assets not only pharmaceuticals and medical supplies. We really are not comfortable with the words theft, misuse and abuse because this is not our intent.
- 7) **Finding #6: "Many Pharmaceuticals and Medical Supplies with Short-Shelf Life Were Bought"**. If you are asking us not to purchase pharmaceuticals and medical supplies that have short life, then I don't think that's beyond our control. Please note that there are many pharmaceuticals that have less than or have only two years expiration. There was already an instruction given to the store room personnel that expired medicines should not be kept in the medical supply store room but should be disposed properly by the maintenance department. It has been our policy practice not to accept medicines that have less than two years expiration but from time to time due to the emergency needs of the patients and we know that we can consume the medicines before expiration we do accept such deliveries otherwise we do return the items and have the vendors replace them.

We do accept that we still need to do a lot of things to get into par or improve our procurement and inventory system and we would like to thank you for helping us pinpoint our weaknesses. We already have formulated an inventory procurement plan and will be implementing it this fiscal year. Rest assured that we will do everything we can to comply with your recommendations and hopefully we will be in compliance on your next audit.

Sincerely,



Julio Marar  
Director

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

## **ONPA's EVALUATION OF MANAGEMENT RESPONSE**

We requested for formal management response from both the Director of DHS and the Chief of Division Planning but only the Director of DHS provided the management response. Thus, we are issuing this report without any management response from the Chief of the Division of Planning.

Our comments on the management response follow:

### **1. Title of the Report**

Management Response - The title of the report should be "Chuuk State Department of Health Services Procurement and Inventory Management System Audit - 2012 & 2013" Not "Chuuk State Hospital: Poor Procurement Practices and Inventory Management System Led to Excessive Cost." We find this unprofessional and unacceptable. Please note that you are preparing an Audit Report not a News Report for a tabloid or a newspaper.

ONPA Comments – The audit title gives a quick snapshot of the problems and issues, which are discussed in detail in the body of the audit report. In a few words only, the audit title tells the readers what they will find in the report. The specific findings in the report fully support the audit title. Just by reading the audit title, one gets a clear idea of what the audit found. ONPA is utilizing the best method of formulating audit titles, one that is widely used by many professional audit offices everywhere. The readers will judge.....

### **2. Finding 1 – Noncompetitive Procurement Increased the Costs of Buying Pharmaceutical and Medical Supplies by About \$382,000**

Management Response - The Department with the cooperation of the Office of Planning Statistics, Office of the Attorney General, CFCC and members of the Chuuk State Public Contract Bidding Review Committee did everything in good faith to conduct a fair bidding process during the bid in question. But due to some provisions in the pre-qualification requirement "a vendor should have a history of delivering the narcotics" this is out of our control we end up having a sole bidder in the narcotics & antidotes category.

ONPA Comments – There was nothing in "Invitation to Bid", "Instruction to Bidders" or in any other documents for FYs 2011 and 2012 requiring that "a vendor should have a history of delivering the narcotics". Based on our audit, there were greater opportunities for competition and for cost savings. The Bidding Committee should be more proactive in managing the hindrances to competitive sourcing.

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**3. Finding 3: Over \$368,000 Worth of Paid Pharmaceuticals and Medical Supplies Not Timely Delivered**

Management Response – The figure of \$368,000 might not be correct because the bid for 2012 requires the vendors to deliver within 90 days not 60 days. It was only the bid for 2013 that the vendors were given 60 days.

ONPA Comments - We revisited our working paper and came up a new audited figure of \$324,000 worth of pharmaceuticals and medical supplies not timely delivered.

**4. Finding 6 – Many Pharmaceutical and Medical Supplies with Short-Shelf Life Were Bought**

Management Response - If you are asking us not to purchase pharmaceuticals and medical supplies that have short life, then I don't think that's beyond our control. Please note that there are many pharmaceuticals that have less than or have only two years expiration.

ONPA Comments - In the procurement contracts for fiscal years 2012 and 2013, all medicines shall carry expiration dates of not less than two years from the date of delivery. Based on the audit, the ONPA found some exceptions to this requirement. The ONPA did not suggest that the DHS should not buy pharmaceuticals and medical supplies with shorter shelf life. Instead, it recommended that there should be an inspection guide to enhance the quality assurance activities involving procurement and receipt of pharmaceutical products. For medication with normal shelf life of less than two years, the ONPA further recommended that there should be an agreed upon exception list as part of the contract indicating the minimum expiration dates.


**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank the management and staff at the Chuuk Department of Health Services for their assistance and cooperation during the course of the audit.

We have provided copies of the final report to the President, Vice President and Members of the Congress for their use and information. Further, copies were provided to the Governor and Lt. Governor and Members of the Senate and the House of Representatives as well as the Heads of departments/offices/other agencies at the National and State governments. Additional copies will be made available to other interested parties upon request.

If there are any questions or concerns regarding this audit, please do not hesitate in contacting our Office. Contact information for the Office appears on the last page of this report along with the staff that made major contribution to this audit.



Haser Hainrick  
National Public Auditor

November 10, 2014

**Office Of The National Public Auditor**  
**Chuuk State Department of Health Services: Poor Procurement Practices & Inventory**  
**Management System Led to Excessive Costs**  
**Audit Report 2015 – 01**

**ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

ONPA CONTACT:	Haser H. Hainrick, National Public Auditor Email: hhainrick@fsmopa.fm
ACKNOWLEDGEMENTS	In addition to the contact named above, the following staff made key contributions to this report:  Manuel San Jose CPA, CGAP, CIA, CISA, CRMA, Audit Manager Evelyn Paul, Auditor-In-Charge Evangeline Eko, Staff Auditor Clayton Eliam, Staff Auditor
ONPA MISSION	We conduct audits and investigations to improve government operations, efficiency, and accountability for the public's benefit.
Copies Available at:	The fastest and easiest way to obtain copies of ONPA documents at no cost is through the ONPA website: <a href="http://www.fsmopa.fm">http://www.fsmopa.fm</a>
Copies by mail or phone:	Office of the National Public Auditor P.O. Box PS-05 Palikir, Pohnpei FM 96941 Phone: (691) 320-2862/3
CONTACT	Website: <a href="http://www.fsmopa.fm">www.fsmopa.fm</a> Hotline: (691) 320-6768