

OFFICE OF THE YAP STATE PUBLIC AUDITOR &
OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA



JOINT PERFORMANCE AUDIT

By the



Public Auditors for Yap State and National Governments

**Governance System at the Yap State Department of Health
Services**

AUDIT REPORT NO. 2020-07

Achilles Defngin/Haser Hainrick
Yap State Public Auditor/National Public Auditor



**OFFICE OF THE YAP STATE PUBLIC AUDITOR
&
OFFICE OF THE NATIONAL PUBLIC AUDITOR
Federated States of Micronesia**



Thursday, June 18, 2020

Honorable Henry S. Falan, Governor
Honorable Speaker and Members of the 10th Legislature
Colonia, Yap FM 96943

&

His Excellency David W. Panuelo, President
Honorable Speaker and Members of the 21st Congress
Federated States of Micronesia
Palikir, Pohnpei FM 96941

RE: Joint Performance Audit on Yap State Department of Health Services

We have completed the joint performance audit on Yap State Department of Health Services (DHS). Our scope of work covered the department's legal framework, performance management, and procurement and inventory management system. The period covered by this audit is from October 01, 2015 to August 31, 2019.

This performance audit was decided by the Yap State Public Auditor and the National Public Auditor in conjunction with a memorandum of understanding (MOU) between their offices. The result of the audit had helped bring into focus the opportunities that exist to improve the governance and performance of the department in order to ensure that the citizens of Yap State receive good health services as intended.

The audit objectives were to determine whether: (i) Yap DHS existing and applicable laws, regulations and governance processes are appropriate and sufficient to ensure a fully functioning hospital/department; (ii) A system is designed and implemented to measure Yap DHS performance and (iii) Yap DHS implemented a procurement and inventory system that helped in ensuring the availability and quality of medicines and the efficient use of procurement funds for pharmaceuticals.

The results of the audit are as follows:

- Absence of Employment Contract and possible conflict of interest for former DHS Director;
- Yap DHS has been operating for many fiscal years without the existence of a Health Services Board;

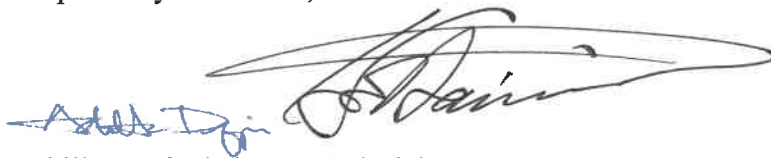
- Yap DHS had no performance management system in place; and
- Anomalies noted in the accounting and management of pharmaceutical products at DHS.

Based on our findings we came up with twelve (12) recommendations which are shown under each of the four (4) findings. By implementing these recommendations, we expect that there will be improvement in the processes relating to governance, internal controls, risk management and operations of the department.

We discussed the findings and recommendations with the Director and Deputy Director of the Department of Health Services and requested for formal management response.

The Office of the Yap State Public Auditor is issuing the report as Audit Report No. 2020-01 and the FSM Office of the National Public Auditor is issuing the same report as Audit Report No. 2020-07.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Achilles Defngin' or 'Haser Hainrick', with a large, sweeping flourish extending to the right.

Achilles Defngin/Haser Hainrick
Yap State Public Auditor/National Public Auditor

CC: Director of Yap State Department of Health Services
Secretary, FSM Department of Health and Social Affairs

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1. INTRODUCTION

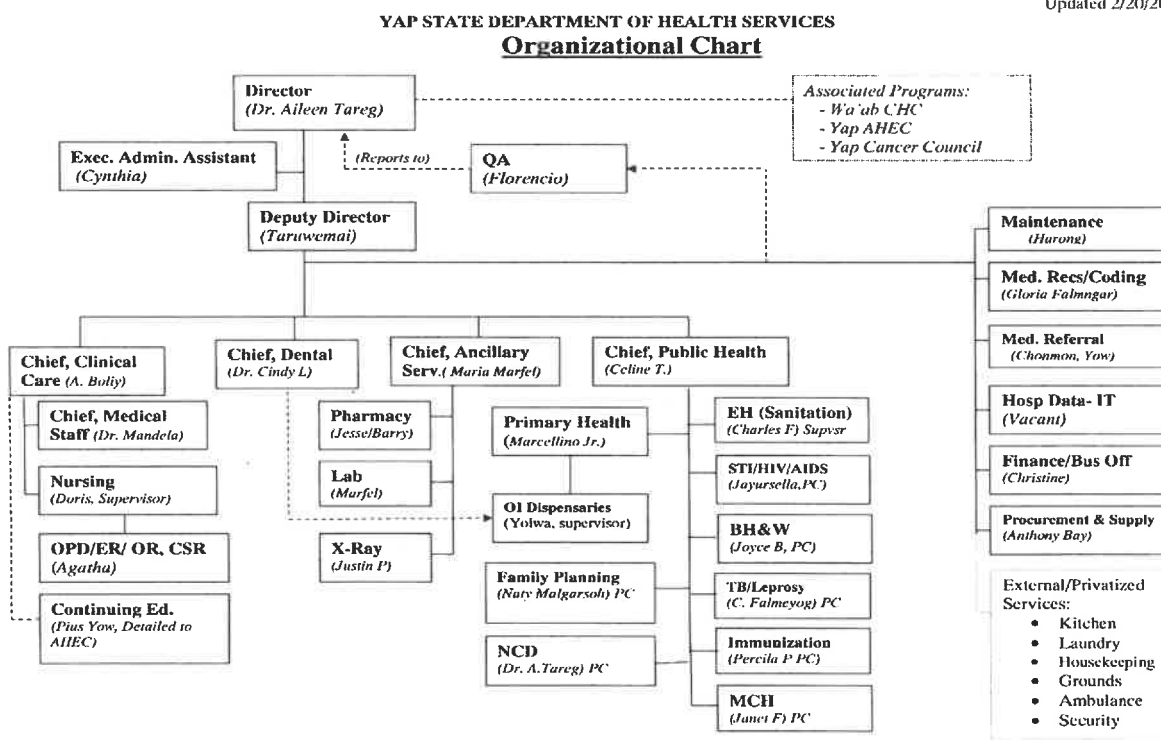
The Yap State Public Auditor and the FSM National Public Auditor in conjunction with a Memorandum of Understanding (MOU) between their Offices decided to conduct a joint performance audit on the Yap State Department of Health Services.

2. BACKGROUND

The Department of Health Services was established under the Title 3 Chapter 1 Section 123 of Yap State Code, and the Department shall be comprised of the Divisions of Public Health, Clinical Care, Dental Health, and Ancillary Services. The Department is required under these statutes to provide for the protection and promotion of public health and administration of medical and dental facilities in the State of Yap.

DHS General Description:

The Department of Health Services has four (4) major divisions under the Administration namely, the **Division of Clinical Care Services** which oversees the clinical nursing, medical doctors, labor & delivery unit, CSR, OR, ER, and OPD; **Division of Ancillary Services** which oversees the Pharmacy, laboratory, and X-Ray; **Division of Dental Services** which oversees dental services in both Yap main-island and the Neighboring Islands; and the **Division of Public Health** which oversees various Federal Programs, Primary Health Care unit, Environmental Health and Sanitation.¹



¹ Updated information on DHS Divisions obtained from the current DHS Director dated 2/21/20.

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In Yap Proper, there is a total of five Waab Community Health Centers (WCHC) namely: Marbaa' Community Health Center; Maap/Rumung Community Health Center; Tomil Community Health Center; Gagil Community Health Center; and Ningil Community Health Center. These community health clinics work in collaboration with DHS to provide primary health services in the municipalities/villages.

In the outlying islands (OI), there is a total of 18 dispensaries that are part of the state health department. Services that can be provided at the dispensaries through the health assistants are mainly diagnosis and treatments of common ailments. The more advanced cases are referred to the central hospital (Yap Proper).

2.1. Yap State Health Services Board

The Department of Health Services should consist of a five-member Board as follows;

- (a) Chief of Planning and
- (b) Four members appointed by the Governor.

The Board's powers and responsibilities as stated in 15 YSC Section 107 are as follows:

- (i) Consult with the DHS Director, review plans, programs, projects and policies of DHS, and recommends changes or alternatives;
- (ii) Review budget requests and proposals for DHS including all US Congress grant funds, and recommend changes or alternatives;
- (iii) Promote greater understanding and cooperation between providers and consumers of health care services and promote public health care education to accomplish the same;
- (iv) Conduct public hearings and serve as a liaison between the DHS and concerned persons and organizations;
- (v) Submit findings and recommendations to the Governor, Legislature, DHS, Councils of Pilung and Tamol, including evaluation of health care services, upon its own initiative or upon request; and
- (vi) Perform other functions consistent with the purpose of this chapter.

2.2. Financial History

The Department of Health Services incurred a total expenditure of \$17,163,738 for the fiscal years 2016, 2017 and 2018 against a total budget of \$17,391,869 resulting in a budget savings of \$228,131. The department received most of their funding from the Compact Sector and US Direct Grants. Refer to Table below for more details.

Fiscal Year	Budget	Expenditures	Budget Savings
2016	5,587,632	5,538,249	49,383
2017	5,894,989	5,864,424	30,565
2018	5,909,248	5,761,065	148,183
Total	17,391,869	17,163,738	228,131

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3. OBJECTIVES, SCOPE AND METHODOLOGY

3.1. Objectives

The audit objectives are to determine whether:

- (i) Yap DHS existing and applicable laws, regulations and governance processes are appropriate and sufficient to ensure a fully functioning hospital/department;
- (ii) A system is designed and implemented to measure Yap DHS performance; and
- (iii) Yap DHS implemented a procurement and inventory system that helped in ensuring the availability and quality of medicines and the efficient use of procurement funds for pharmaceuticals.

3.2. Scope

The audit covered the period of October 01, 2015 to August 31, 2019 at Yap State Department of Health Services. The focus of the audit was on the legal and institutional framework which established DHS and the performance management system and procurement and inventory management at DHS.

We conducted this audit pursuant to the authority vested in the Yap State Public Auditor and FSM National Public Auditor as codified under Chapter 7, Title 13 of the Yap State Code and Chapter 5, Title 55 of the FSM Code respectively

Yap State Code Title 13 Chapter 7 states that, *“The Public Auditor shall inspect and audit all accounts, books, and other financial records of the State Government, to include but not limited to, every branch, department, office, political subdivision, board, commission and agency, and other public legal entities or non-profit organizations receiving public funds from the State Government, and to prepare written reports of such inspections and audits for presentation to the Governor and the Legislature.”*

FSM Code Title 55 Chapter 5 states that, *“The Public Auditor shall inspect and audit transactions, accounts, books and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government.”*

3.3. Methodology

We conducted this performance audit in accordance with the generally accepted government auditing standards. Those 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 audit objectives. We believed that the evidences we obtained provide a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether Yap DHS existing and applicable laws, regulations and governance processes are appropriate and sufficient to ensure a fully functioning hospital/department, we (a) assessed the laws

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establishing Yap DHS, (b) evaluated the Yap State Law to determine the duties and responsibilities of DHS Director, (c) verified whether a DHS Board was established, and (d) made comparison with leading practices..

To determine whether a system was designed and implemented to measure Yap DHS performance, we verified whether such a system was in existence and implemented to measure DHS performance, including whether there is developed and operationalized Strategic Plan; Annual Plans; Budgets; quarterly reports; semi-annual reports and annual reports; policies and procedures; etc.

To determine whether Yap DHS implemented a procurement and inventory system that could provide reasonable assurance on the availability and quality of medicines and the efficient use of procurement funds for pharmaceuticals, we (a) obtained and reviewed DHS expenditure reports, judgmentally select related pharmaceutical transactions to test for compliance with the procurement processes; (b) conducted an inspection on the pharmaceuticals (including controlled substances) at the warehouse and took pictures; and (c) interviewed key staffs regarding inventory management.

4. APPRECIATION

Our sincere appreciation is extended to the Director and staff of the Department of Health Services for their assistance and cooperation during our audit. We are looking forward to the continuation of such professional relationship.

5. PRIOR AUDIT COVERAGE

Yap OPA had previously conducted a performance audit and an evaluation on Yap State Department of Health Services which included the DHS Program Income Performance Audit in 2006 and the Mobile Health Clinic evaluation in 2016. The Program Income performance audit cited the DHS for the lack of comprehensive written policies and procedures for billing and collection of program income while the Mobile Health Clinic evaluation reported non-compliance with contract terms, and applicable laws and regulations as a result of inadequate monitoring.

6. CONCLUSION

Based on the results of this audit, we concluded that:

- (i) The Department of Health Services and its Divisions was established under the Title 3 Chapter 1 Section 123 of Yap State Code. However, the Department's regulations and operational policies and procedural manual is yet to be made aware to the DHS Management and staffs and to be formally approved.
- (ii) There was no effective and efficient performance management and measures at the Yap Department of Health Services that could provide a reasonable assurance on the availability and quality health services;

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- (iii) Yap Department of Health Services did not maintain an approved procurement and inventory system which could endanger the health of the users of the medical materials provided by the government. There is also no approved policy for the usage of expired drugs for six months after expiry date;
- (iv) There are deficiencies in the employment of former DHS Director which include conflict of interest and absence of defined duties and responsibilities; and
- (v) The Yap State Governor has not implemented the requirement of Yap State Code Title 15, Chapter 1, to appoint a DHS Board which lead to ineffective governance at the DHS.

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

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7. FINDINGS AND RECOMMENDATIONS

7.1. FINDING 1: ABSENCE OF HEALTH SERVICE BOARD

Yap State Code Title 15, Chapter 1, Section 103 states that the Yap State Health Services Board shall consist of five-member Board as follows:

- (i) Chief of Planning and
- (ii) Four members appointed by the Governor.

The Board's powers and responsibilities as stated in 15 YSC Section 107 are as follows:

- (a) *Consult with the DHS Director, review plans, programs, projects and policies of DHS, and recommends changes or alternatives;*
- (b) *Review budget requests and proposals for DHS including all US Congress grant funds, and recommend changes or alternatives;*
- (c) *Promote greater understanding and cooperation between providers and consumers of health care services and promote public health care education to accomplish the same;*
- (d) *Conduct public hearings and serve as a liaison between the DHS and concerned persons and organizations;*
- (e) *Submit findings and recommendations to the Governor, Legislature, DHS, Councils of Pilung and Tamol, including evaluation of health care services, upon its own initiative or upon request;*
- (f) *Perform other functions consistent with the purpose of this chapter.*

Based on our verification with the Yap State Chief of Planning, Governor, DHS Director and Attorney General, we noted currently there was no Yap State Health Services Board in place and also there had never been any active Board at DHS in previous years.

7.1.1. Cause

The Governor has not appointed members of the Board as stipulated in the Yap State Code Title 15 Chapter 1, Section 103(b) and there is also lack of regular follow up by the DHS.

7.1.2. Potential Effect

As a result, Yap DHS operated with no Health Service Board to provide advisory roles including the review and give recommendations on plans, programs, projects and policies of the DHS and recommend appropriate actions or perform the Board's duties and responsibilities as defined in Yap State Code Title 15 Section 107.

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7.1.3. Recommendation

We recommend that DHS to follow up with the Yap State Governor on the appointment of the members of the Yap State Health Services Board pursuant to Title 15 YSC, Chapter 1, Section 103(b).

7.1.4. Management Response

We agree with this finding as the Department has been operating without a Board for over 20 years or so; however, we want to acknowledge for the record that there must be a reason why the Board became inactive and hence there is a critical need to find that reason (s).

Further, we supported the OPA recommendations to this finding and thankfully, the Director had already submitted a written courtesy follow-up with Governor on the appointment of the members of the Yap State Health Services Board pursuant to relevant Yap State codes. A copy of the communication is attached for your reference.

In spite of that said, we will continue to follow up on this matter, especially now that an Assistant AG has become available who would be able to assist in how we can better initiate the process and seat the board accordingly.

7.2 FINDING 2: ABSENCE OF EMPLOYMENT CONTRACT FOR DHS DIRECTOR

Pursuant to the State Public Service System Regulations, Chapter VI, Section 6.4, Sub Section c; Management Officials and Supervisors are responsible for assuring that assigned duties and responsibilities do not duplicate or overlap with those of other positions.

Yap State Resolution No. 9-8 was adopted on April 21, 2015, confirming the former Director of the Department of Health Services (DHS). However, our review revealed the following anomalies with regards to the former Director's employment:

- (i) There was no employment contract on file that may specify the duties and responsibilities of the DHS Director. The Yap State Resolution was the only legal document on file supporting her employment as DHS Director;
- (ii) The only employment contract available was the Director's employment contract for the Waab Community Health Center (WCHC) as the Program Director for the Yap Comprehensive Cancer Control Program, a U.S. Federal program, for the period of June 30, 2016 to June 30, 2017;
- (iii) The existing Personnel Action Form indicated she was employed as the Program Coordinator in contrary to her employment contract as the Program Director and none on file as the DHS Director; and
- (iv) The DHS Director was earning her income from the US federal program as the Program Director while working as the DHS Director.

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7.2.1 Causes

- (i) Recruitment requirements of the Yap State Public Service System Regulation, Chapter VI, Section 6.4, Sub Section (c) were not properly followed; and
- (ii) Employment contract was not properly reviewed prior to signing.

7.2.2 Potential Effects

- (i) Noncompliance with the provisions of the Yap State Public Service System Regulation, Chapter VI, Section 6.4;
- (ii) The former Director might not be efficiently and effectively discharging her expected duties and responsibilities as the DHS Director as they were not reflected in her employment contract.

7.2.3 Recommendations

We recommend that:

- (i) Responsible management officials and supervisors should follow the requirements of the Yap State Public Service System Regulation to ensure that assigned duties and responsibilities do not duplicate or overlap with those of other positions; and
- (ii) All employment contracts be properly reviewed and vetted by State Solicitors prior to being finalized and signed.

7.2.4 Management Response

DHS Response

We agree to this finding and our response will rest with the fact that the former Director in question held a position of higher salary when she was nominated and confirmed for the position. Department's Director's salaries are set by State Laws and as such, the Executives head at that time of this anomaly should have worked diligently to enable salary increases so that the Director could assume the Director's position as budgeted and approved under compact sector grants. Unfortunately, that particular administration has already been replaced by a new administration.

Office of the Administrative Services Response

- (i) *It is correct that there was never any employment contract on file that may specify the duties and responsibilities of the DHS Director. The Yap State Resolution 9-8 was the only legal document on file supporting her employment. For explanation, copy of the Yap State Resolution No. 9-8 confirming the former Director of the Department of Health Services (DHS) was received by the Division of Personnel on April 24, 2015 from the Office of the Governor without the employment contract. Upon inquiry, the Division of Personnel was informed that the employment contract was going to be provided when ready. At that point, the Division of Personnel was told that DHS was working on the contract with the*

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Assistant Attorney General (AAG) assigned to DHS. Numerous time the Division of Personnel pressed and followed up with DHS on status of the employment contract and each time, the response was the same - it would be provided when ready. On July 16, 2015, a signed copy of the Oath of Office was submitted to the Division of Personnel without the employment contract.

- (ii) *It is true that the only employment contract available on file is the Director's employment contract for the Waab Community Health Center (WCHC) as the Program Director for the Yap Comprehensive Cancer Control Program, a US Federal program, for a period of June 30, 2016 to June 30, 2017. For explanation, on August, 18, 2015, the Division of Personnel received a renewal contract for the Cancer Program Coordinator which was occupied by the then confirmed DHS Director. The employment' contract for the Cancer Program Coordinator submitted for renewal was not renewed and was instead returned to DHS. The Division of Personnel requested the employment contract for the DHS Director to be submitted for processing. The AAG assigned to DHS intervened and met with the Chief of Personnel and the Acting Director, OAS. In this meeting, the AAG said that Office of the Administrative Services, Division of Personnel had no authority to demand from DHS an employment contract for the Director. Resolution No. 9-8 along with the signed Oath of Office form were sufficient to fulfill and cover the requirements for the Director. Furthermore, the Division of Personnel was also informed that it had no legal basis for returning the renewal employment contract for the Cancer Program's Program Director/Coordinator unprocessed. The Division of Personnel was informed that the decision had already been made by the Department of Health Services to retain their Director in her current position as Program Director/Coordinator for the Cancer Program to save the state some money. When Division of Personnel questioned DHS Director's authority in signing off on personnel documents, the AAG said that Resolution No. 9-8 confirming the DHS Director and the signed Oath of Office essentially gave the DHS Director legal authority for the management of the Department of Health Services. Based on this, the DHS Director employment contract for WCHC as Program Director for the Yap Comprehensive Cancer Control Program was renewed and signed by all required signatories.*
- (iii) *It is correct that the existing Personnel Action form she was employed as the Program Coordinator in contrary to her employment contract as the Program Director and none on file as the DHS Director. For explanation, the position of the Program Director was indicated on the Personnel Action and was filled on December 31, 2007 with the title as Program Director. Over the years the position title changed from Program Director to Program Director/Coordinator. Comparatively with the other federal programs in existence within the State Government, Waab Community Health Center Office and Cancer Program were advised by the Division of Personnel to use the position title Program Coordinator for Cancer Program's supervisory position. This was the only position within the State Government with such position title; Director is used by the State Government for the head of a Department. Again, the DHS Legal Counsel stepped in and said the position is exempted from the PSS, and therefore Division of Personnel had no authority to request the change in title. This led to the mismatch of titles on the contract and the personnel action documents.*
- (iv) *For reasons stated in paragraphs ii and iii, salary for DHS Director was never changed. The employment contract and personnel action executed were for the WCHC Cancer Program as Program*

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Director/Coordinator. The salary for the DHS Director continued to be paid out from the Cancer Program.

7.3 FINDING 3: YAP DHS DID NOT HAVE A PERFORMANCE MANAGEMENT SYSTEM IN PLACE

Performance measurement system monitors, evaluates and communicates the extent to which various aspects of the health system meet their key objectives. Performance measurement offers policy makers a major opportunity to make informed decisions that lead to health system improvement and accountability and feedback to other stakeholders.

Section 175 of Title 3 of Yap State Code states, “*The heads of departments and offices shall submit annual reports to the Legislature at the commencement of each regular session. The reports shall embrace the transactions, projects, programs, and operations of the department or office for the preceding year*”.

Our inquiry revealed the following anomalies:

- (i) There was no strategic plan in place that officially establishes the department’s mission, vision, goals and objectives, which is essential for implementing the performance measurement system;
- (ii) The performance plan and budget included the department’s desired mission but were not linked to any source document and the goals, objectives and activities could not be linked to any source document. The performance plans and budgets were submitted annually to Yap State Office of Planning and Budget for the purpose of resource allocation;
- (iii) There was no annual report for the DHS to reflect transactions, projects, programs, and operations of the department for the preceding year. Further inquiry revealed that the DHS Director was not aware of the reporting requirement. However, Quarterly reports were prepared and submitted to the Office of Planning and Budget mainly for the purpose of resource (budget) allocation;
- (iv) Based on our review, a total of \$17,163,738 was expended on DHS’s operations for the fiscal years 2016, 2017 and 2018 and according to the DHS’s Director, funds were expended based on DHS needs and not in accordance with any plan;
- (v) Employee performance evaluation especially of key employees such as the Chiefs of each DHS Division was not conducted during the period under review;
- (vi) DHS’s Quality Assurance Reports did not include all planned quarterly submissions to the DHS Director due to insufficient staff to perform the quality assurance audits. Moreover, Incident Reports for improving safety at the hospital had no supporting documents to indicate that the incidents reported were discussed during any management or committee’s meetings and were resolved.

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7.3.1 Causes

- (i) The Management of DHS was not aware of the mandatory reporting to the Legislature established under Section 175, Title 3 of the Yap State Code;
- (ii) No follow up by Legislature for compliance by departments on submission of Annual reports;
- (iii) Absence of State policies requiring all State Departments to prepare Strategic Plan;
- (iv) Lack of policy on employee performance evaluation.

7.3.2 Potential Effects

- (i) Failure to establish realistic annual plan and budgets;
- (ii) Inability to guide programs and human resources efforts toward the desired State's goals;
- (iii) Failure to synchronize DHS's activities with other government departments;
- (iv) Failure to achieve State's SDP, National SDP and Millennium SDGs; and
- (v) Inability to monitor and measure department's achievements

7.3.3 Recommendations

We recommend that the DHS Director should ensure that:

- (i) Strategic Plan for the DHS is developed, linked to the Sustainable Development Goals (SDG) and FSM National Strategic Development Plan (SDP), and operationalized;
- (ii) Performance measures are established within the department in respect of service delivery, financial management and human capital;
- (iii) Annual reports are prepared and submitted to the Governor and Legislature as required under Section 175, Title 3 of the Yap State Code; and
- (iv) Appropriate actions are taken with respect to planning, organizing and directing, and monitoring the performance of the DHS in order to provide reasonable assurance that the objectives and goals of DHS will be achieved.

7.3.4 Management Response

We fully agree with this finding as we have not had any submission of this type of reporting to the legislature. However, moving forward and as also raised during our meeting, there needs to be a report format that would be standard in its structure for all government departments/agencies/office to do their reporting as required by State Laws. As soon as that for is generated, the Department will make sure that it gets the right materials to be shared on the report to the State stakeholders.

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7.4 FINDING 4: ANOMALIES NOTED IN THE ACCOUNTING AND MANAGEMENT OF PHARMACEUTICAL PRODUCTS AT DHS

Leading practice requires that hospitals should have a well-established procurement and inventory system in place to ensure the availability and quality of pharmaceuticals and efficient use of procurement funds for pharmaceuticals. A procurement plan should be established to ensure proper planning of procurement funds. Policies and procedures for procurement and inventory should also be developed and established, and periodically reviewed and updated to ensure proper guidance, accountability and efficient use of procurement funds and inventory as well as receiving, stocking and disposing of pharmaceuticals.

Based on our verification on DHS procurement and inventory system, we noted the following:

- (i) The FSM Medicine Policy 2012 was adopted on November 20, 2015 by the FSM Congress and is ready for implementation throughout the FSM. However, the DHS only had an electronic copy with the Officer in Charge of the pharmacy while the rest of the DHS officers and Management including the pharmacy staffs and drugs supplies officers were not aware of this policy or had no access to a copy of the policy;
- (ii) There was no Procurement Plan established. The procurement of medicine follows an 'essential listing' maintained by the Supply and Inventory Section; however, if a specific type of medicine material needs to be procured that is not part of the essential listing, it goes through a process which involves the approval of the Formulary Committee. This procedure was not documented or officially declared in writing;
- (iii) The process of procuring pharmaceuticals was in accordance with the Yap State *Financial Management Regulations* and an unofficial *Procurement Policy and Procedures*. The procurement and inventory policy and procedure had been updated numerous times as deemed fit but had not been officially approved by management;
- (iv) Expired medicines dated back to 2012 and 2014 were still kept on shelves until a new stock was received. Refer to Appendix I for photos taken from the storeroom. DHS issued expired medical materials (drugs, etc.) for use by patients or practitioners even when such materials were already expired. An interview with the Officer in Charge with the pharmacy revealed that, in accordance with the internal policy, expired drugs can still be issued for use within a period of six months after their expiry dates. However, the management could not provide approved policy to attest to this assertion; and
- (v) There was no approved guideline or policy and procedure on how to dispose of expired medicines.

7.4.1 Causes

- (i) Lack of awareness of its existence or access to a copy of the FSM medicine policy was not carried out at DHS; and.

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- (ii) Internal policies within DHS including Supplies policy is yet to be reviewed and approved to be in line with the FSM Medicine Policy.

7.4.2 Potential Effects

- (i) The accounting and management of drugs and pharmaceutical products were not handled properly including the lack of awareness of the FSM Medicine Policy 2012;
- (ii) Risk in areas of quality assurance, rational selection and use, dispensation, procurement, supply and management and related human resource management;
- (iii) Hospital deals with human lives and wellbeing at its core and therefore there is no room for low performance and occurrence of unplanned scenarios. These would have dire ramifications on the communities and would thus compromise the hospital's fiduciary duty towards society.

7.4.3 Recommendations

We recommend that the Director of Department of Health Services should ensure that:

- (i) There is awareness of the FSM Medicine Policy at DHS management, pharmacy section, and procurement and supplies section levels and strict compliance;
- (ii) DHS Internal policies with regards to handling, disposal, procurement and supplies of drugs and pharmaceutical products should be reviewed and aligned with the FSM Medicine Policy;
- (iii) There are approved policies and procedures for disposing of expired drugs including dangerous drugs;
- (iv) The stores officers prepare monthly reports on expired drugs and submit the report to DHS management; and
- (v) The policy on the usage of expired drugs within a period of six months after their expiry date should be developed and approved.

7.4.4 Management Response

We agree to this finding that few of our medicines were long expired but continued to sit on our medical supply shelves. However, the reason why those medicines were still in our shelves was because at times when we would receive advices that medicines are in short supply or that they are still in production, there is a need to keep those meds on shelf so that we can follow up on their status as oppose to disposing them and forgot about them. The point is that while those meds are being stocked, they are not being prescribed or issued to our pharmacy for prescription to the patients. They are being placed on the shelf strictly for monitoring and follow up purposes.

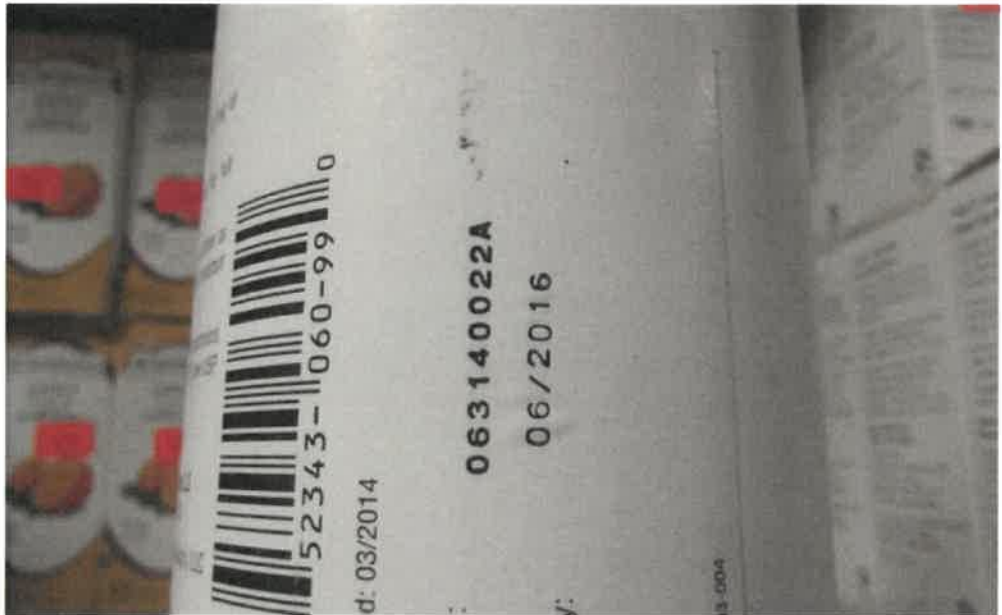
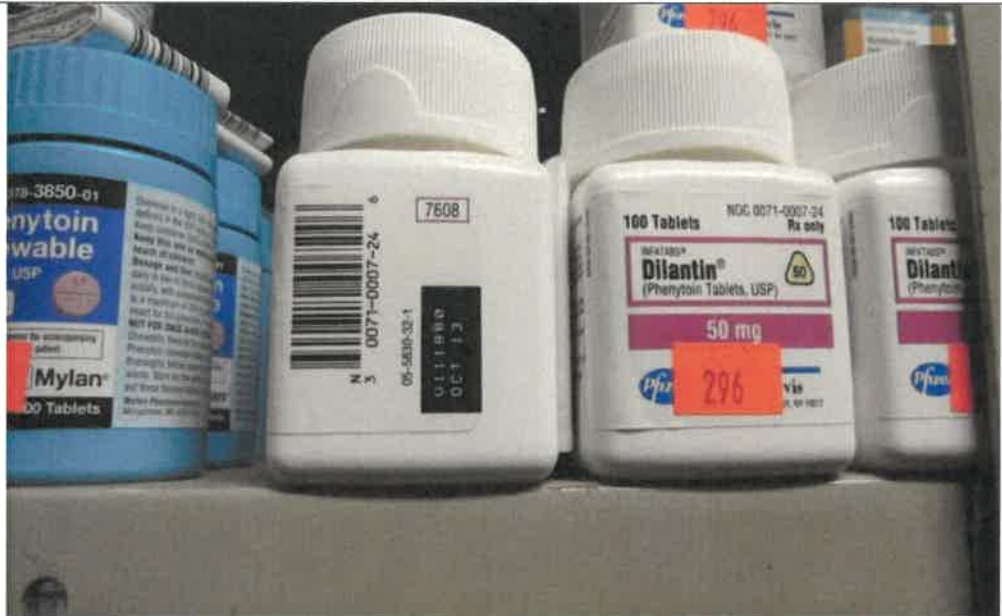
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Office of the National Public Auditor**

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**APPENDIX I: INSPECTION PHOTOGRAPHS OF PHARMACEUTICAL AND
MEDICAL SUPPLY ROOM**

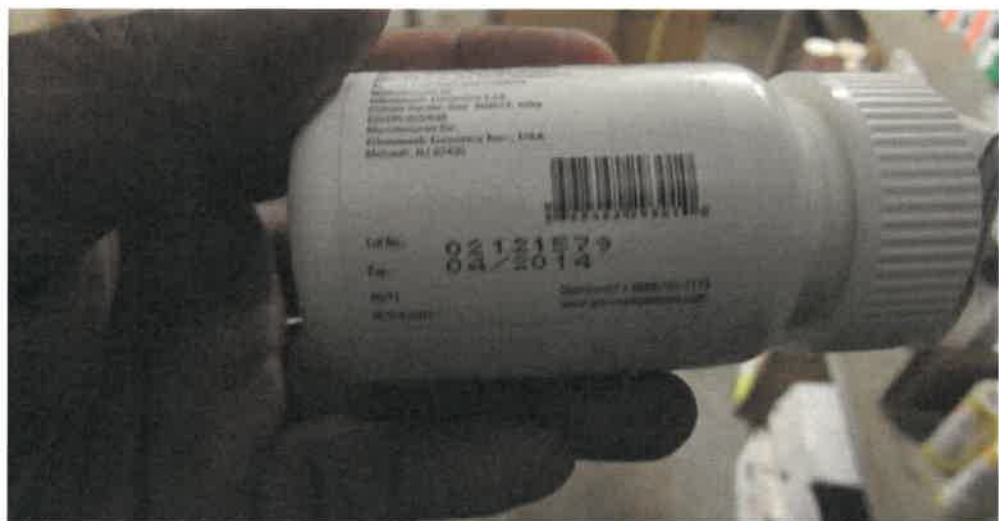
Expired Medicines



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MANAGEMENT RESPONSE




THE STATE OF YAP
DEPARTMENT OF HEALTH SERVICES
P.O. BOX 148, COLONIA, YAP
FEDERATED STATES OF MICRONESIA 96943



Cable: GovYap
Tel: (691) 350-2115
Fax: (691) 350-3444

April 12, 2020

To: Mr. Achilles Defngin, State Public Auditor

From: Acting Director/Deputy Director, DHS 

Subject: DHS Joint Performance Audit Response

At the outset, let me thank you and your staff for your diligent work and great effort in completing the much needed performance audit report that would certainly help guide and assist our Department in making improvements in our general and specific health care services to the people of Yap State.

Let me also thank you and your team for taking the time to meet with us last week to discuss those areas of deficiencies and how we can better address them moving forward. Further to that meeting and as also a requirement of your audit proceedings that we provide your office a written response to our performance audit findings, I beg leave to formally convey our collective responses to each of those audit findings as listed below:

- A. **Finding 1: Absence of Health Service Board** -We agree with this finding as the Department has been operating without a board for over a period of 20 years or so; however, we want to acknowledge for the record that there must be a reason why the board became inactive and hence there is a critical need to find that reason(s).

Further, we supported the OPA recommendations to this finding and thankfully, Director Aileen Tareg had already submitted a written courtesy follow-up with Governor on the appointment of the members of the Yap State Health Services Board pursuant to relevant Yap State codes. A copy of the communication is attached for your reference.

In spite of that said, we will continue to follow up on this matter, especially now that an Assistant AG has become available who would be able to assist in how we can better initiate the process and seat the board accordingly.

- B. **Finding 2: Absence of Employment Contract for DHS Director** – We agree to this finding and our response will rest with the fact that the former Director in question held a position of higher salary when she was nominated and confirmed for the position. Departments' directors' salaries are set by state laws and as such, the Executive head at that time of this anomaly should have worked diligently to enable salary increases so that the Director could assumed the director position as budget and approved under compact

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sector grants. Unfortunately, that particular Administration has already been replaced by a new Administration.

- C. **Finding 3. Yap DHS did not have a Performance Management System in Place** – We fully agree with this finding as we have not had any submission of this type of reporting to the legislature. However, moving forward and as also raised during our meeting, there needs to be a report format that would be standard in its structure for all government departments/agencies/office to do their reporting as required by state laws. As soon as that form is generated, the Department will make sure that it gets the right materials to be shared on the report for submission to the state stakeholders.
- D. **Finding 4: Anomalies noted in the Accounting and Management of Pharmaceutical Products at DHS.** – We agree to this finding that few of our medicines were long expired but continued to sit on our medical supply shelves. However the reason why those medicines were still on our shelves was because at times when we would receive advices that medicine are in short supply or that they are still in production, there is a need to keep those meds on shelf so that we can follow up on their status as appose to disposing them and forgot about them. The point is that while those meds are being stocked, they are not being prescribed or issued to our pharmacy for prescription to the patients. They are being place on the shelf strictly for monitoring and follow up purposes.

Thank you very much and if you have questions, please feel free to call us.

Sincerely,

/cc: file

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May 7, 2020

Mr. Achilles Defngin
Public Auditor
Office of the Public Auditor
Yap State Government
P.O. Box 927
Colonia, Yap FSM 96943

Dear Mr. Defngin,

I am writing in response to your letter of April 8, 2020 relative to your Joint Performance Audit with the FSM Office of the National Public Auditor on the Department of Health Services in which you are requesting my response to Finding No. 2 from your report. I reviewed and discussed the audit finding with the Chief of Personnel and based on our records, we are jointly providing the following as our response.

- (i) It is correct that there was never any employment contract on file that may specify the duties and responsibilities of the DHS Director. The Yap State Resolution 9-8 was the only legal document on file supporting her employment. For explanation, copy of the Yap State Resolution No. 9-8 confirming the former Director of the Department of Health Services (DHS) was received by the Division of Personnel on April 24, 2015 from the Office of the Governor without the employment contract. Upon inquiry, the Division of Personnel was informed that the employment contract was going to be provided when ready. At that point, the Division of Personnel was told that DHS was working on the contract with the Assistant Attorney General (AAG) assigned to DHS. Numerous time the Division of Personnel pressed and followed up with DHS on status of the employment contract and each time, the response was the same – it would be provided when ready. On July 16, 2015, a signed copy of the Oath of Office was submitted to the Division of Personnel without the employment contract.
- (ii) It is true that the only employment contract available on file is the Director's employment contract for the Waab Community Health Center (WCHC) as the Program Director for the Yap Comprehensive Cancer Control Program, a US Federal program, for a period of June 30, 2016 to June 30, 2017. For explanation, on August, 18, 2015, the Division of Personnel received a renewal contract for the Cancer Program Coordinator which was

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occupied by the then confirmed DHS Director. The employment contract for the Cancer Program Coordinator submitted for renewal was not renewed and was instead returned to DHS. The Division of Personnel requested the employment contract for the DHS Director to be submitted for processing. The AAG assigned to DHS intervened and met with the Chief of Personnel and the Acting Director, OAS. In this meeting, the AAG said that Office of the Administrative Services, Division of Personnel had no authority to demand from DHS an employment contract for the Director. Resolution No.9-8 along with the signed Oath of Office form were sufficient to fulfill and cover the requirements for the Director. Furthermore, the Division of Personnel was also informed that it had no legal basis for returning the renewal employment contract for the Cancer Program's Program Director/Coordinator unprocessed. The Division of Personnel was informed that the decision had already been made by the Department of Health Services to retain their Director in her current position as Program Director/Coordinator for the Cancer Program to save the state some money. When Division of Personnel questioned DHS Director's authority in signing off on personnel documents, the AAG said that Resolution No.9-8 confirming the DHS Director and the signed Oath of Office essentially gave the DHS Director legal authority for the management of the Department of Health Services. Based on this, the DHS Director employment contract for WCHS as Program Director for the Yap Comprehensive Cancer Control Program was renewed and signed by all required signatories.

(iii)It is correct that the existing Personnel Action form she was employed as the Program Coordinator in contrary to her employment contract as the Program Director and none on file as the DHS Director. For explanation, the position of the Program Director was indicated on the Personnel Action and was filled on December 31, 2007 with the title as Program Director. Over the years the position title changed from Program Director to Program Director/Coordinator. Comparatively with the other federal programs in existence within the State Government, Waab Community Health Center Office and Cancer Program were advised by the Division of Personnel to use the position title Program Coordinator for Cancer Program's supervisory position. This was the only position within the State Government with such position title; Director is used by the State Government for the head of a Department. Again, the DHS Legal Counsel stepped in and said the position is exempted from the PSS, and therefore Division of Personnel had no authority to request the change in title. This led to the mismatch of titles on the contract and the personnel action documents.

(iv)For reasons stated in paragraphs ii and iii, salary for DHS Director was never changed. The employment contract and personnel action executed were for the WCHC Cancer Program as Program Director/Coordinator. The salary for the DHS Director continued to be paid out from the Cancer Program.

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Should you have any need to discuss the response further, please let me know and I am more than happy to find the time to meet with you.

Sincerely,



Gabriel Ramololug
Director

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YAP OPA/ONPA EVALUATION OF MANAGEMENT RESPONSE

We requested a management response from the Director, Yap Department of Health Services. The management response generally agreed with all the findings and recommendations in the report.

We had also requested the Office of the Governor and Office of Administrative Services for their responses to Finding 1 and 2 respectively. The Office of Administrative Services agreed with Finding 2, however, no response was received from the Office of the Governor as of the date of this audit report.

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YAP STATE/NATIONAL PUBLIC AUDITORS' COMMENTS

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

We have provided copies of the report to the President, Vice President, Members of the 21st Congress, Governor of the State of Yap, and Speaker and Members of the 10th Legislature of the State of Yap for their use and information. Copies will be available to other interested parties upon request and on our website at www.auditvap.org and www.fsmopa.fm

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



Achilles Defngin/Haser Hainrick
Yap State Public Auditor/National Public Auditor

Thursday, June 18, 2020

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Email: adefngin@audityap.org

ONPA CONTACT: Haser H. Hainrick, National Public Auditor
Email: hhainrick@fsmopa.fm

ACKNOWLEDGEMENTS: In addition to the contacts named above, the following staff made key contributions to this report:

Name	Title	Stages of Involvement
Manny San Jose, Jr.	Former ONPA Audit Manager	Survey & Planning
Erwihne David	ONPA Acting Audit Manager/Senior Auditor	Planning, Fieldwork, Reporting, & Reviewing
Vanessa S. Tareg	Former ONPA Auditor-In-Charge	Survey, Planning, Fieldwork, & Reporting
Ilaitia W. Walker	Yap OPA Audit Manger	Fieldwork & Reporting
Bryan Y. Dabugsiy	Yap OPA Senior Auditor	Survey & Planning
Irene Laabrug	Yap OPA Senior Auditor	Survey, Planning, Fieldwork, & Reporting
Berlinda M. Bay	Yap OPA Auditor I	Survey, Planning, & Fieldwork
Vallynna Gippin	Yap OPA Junior Auditor	Survey & Planning

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ONPA MISSION: We conduct audits and investigations to improve good governance and prevent fraud, waste and abuse for the public's benefit.

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