



U.S. Department of the Interior Office of Inspector General



*Photo Left: Pohnpei
Department of Education
(Office of Inspector
General Photo)*



*Photo Right: Pohnpei
State Hospital (Office
of Inspector General
Photo)*

Pohnpei State, Federated States of Micronesia

Property Accountability Process Needs To Be Established

Report No. P-EV-FSM-0001-2006

October 2007



United States Department of the Interior

Office of Inspector General

Washington, D.C. 20240

EVALUATION REPORT

October 17, 2007

The Honorable Johnny P. David
Governor of Pohnpei State
Federated States of Micronesia
Kolonia, Pohnpei FM 96941

Re: Final Evaluation Report *Pohnpei State, Federated States of Micronesia, Property Accountability Process Needs To Be Established*
(Report No. P-EV-FSM-0001-2006)

Dear Governor David:

This report presents the results of our evaluation of Pohnpei State Government's property accountability process (Report No. P-EV-FSM-0001-2006). The objective of our evaluation was to determine whether the accountability process safeguarded supplies and equipment to minimize the risk of fraud, waste, and mismanagement. The scope and methodology of our evaluation are detailed in Appendix 1.

Pohnpei State, as one of the Federated States of Micronesia (FSM), is aligned with the United States in a Compact of Free Association. Under the Compact, the United States, through the Department of the Interior's (DOI) Office of Insular Affairs (OIA), is committed to providing financial assistance, targeted at high priority areas. In 2006, financial assistance to FSM totaled \$76 million. Subgrants to Pohnpei State totaled \$14.2 million, of which \$11.9 million was for health and education.

In accepting this financial assistance, FSM agreed to "maintain effective controls and accountability for all Grant and Sub-Grant cash, Real Property, and personal property, and other assets to safeguard and ensure uses are solely for authorized purposes."¹ The specific design of the property accountability process is largely left to FSM and Pohnpei State. The Fiscal Procedures Agreement, however, does establish minimum requirements for managing equipment. First, property records, which include the property description, serial number (or other identification number), acquisition date and cost, percentage of U.S funding, location, condition, and other information, must be

¹ Fiscal Procedures Agreement – *Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the Compact of Free Association, as amended, Between the Government of the United States of America and the Government of the Federated States of Micronesia*

maintained. Second, a physical inventory of the property and reconciliation with property records must be performed at least every 2 years.

Results of Evaluation

Pohnpei State has not implemented an effective property accountability process to ensure that acquired supplies and property were properly used and safeguarded to minimize the risk of fraud, waste, and mismanagement. We identified serious deficiencies in accounting for supplies and equipment in three major areas: the hospital, schools, and State-owned equipment. Establishing internal controls in these areas would help ensure that employees detected or prevented errors and irregularities in a timely manner during the normal course of business. We made four recommendations to help improve property accountability. We believe that implementation of these recommendations will help Pohnpei State develop an effective, accountable, and transparent local government.

Hospital

We determined that the Pohnpei State Hospital (Hospital) failed to adequately account for drugs, particularly controlled substances, stocked in the pharmacy pending distribution to hospital wards and patients. The Controlled Substances Act² is the legal foundation for the U. S. Government's fight against drug abuse. Under the Act, certain narcotics, stimulants, and depressant drugs, which have safe and accepted medical uses but which also have high potential for abuse, are designated as controlled substances. Despite the mandate for strict controls over controlled substances, the Hospital has not developed a strong internal control environment.

The pharmacy maintained a hand-written logbook to record receipts, issuances, and on-hand balances for controlled substances. We tested the reliability of the logbook and found significant mathematical errors, unrecorded receipts, and unsupported inventory adjustments. It was the pharmacy's practice to balance its records to the physical count of pills, injectibles, and solutions through inventory adjustments without ascertaining the causes of discrepancies. Identifying the causes for inventory variances provides management with the information needed to evaluate internal control system deficiencies and identify possible thefts. After eliminating recording errors, we found either an overage or a shortage for all 14 controlled substances listed in the logbook. Seven drugs had overages ranging from 14 to 2,078 units, and seven had shortages ranging from 5 to 4,667 units. Figure 1 shows the significant differences between the recorded balance, our corrected balance, and the resulting shortages based on our corrected balance and physical count for three controlled substances.

² Controlled Substances Act, Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, 21 U.S.C. §§ 801-971

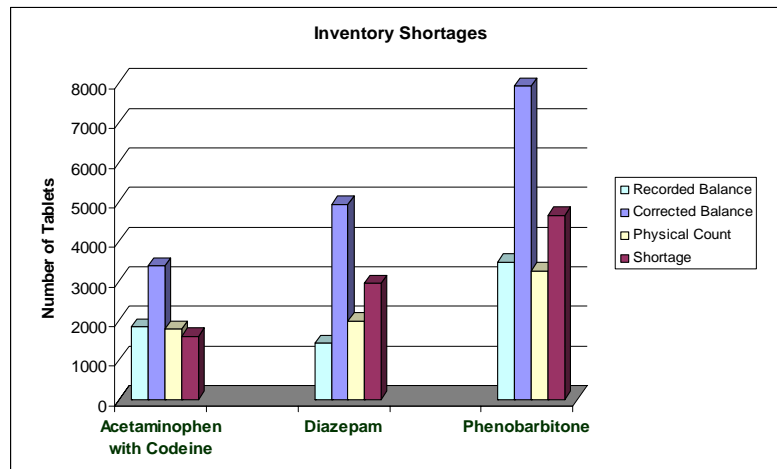


Figure 1

Source: Hospital Records and Inventory

Inadequate internal controls in key areas, such as segregation of duties and physical inventories, contributed to the lack of accountability over drugs.

Segregation of Duties. At the most basic level, segregation of duties means that no single person should have control over all key aspects of a transaction or operation. Such duty segregation reduces the possibility of fraud, since two or more people would need to collude to circumvent established controls. In instances where segregation of duties and responsibilities is not possible, mitigating or compensating controls to reduce the risk of errors or fraud need to be established. For instance, if a person is responsible for both recordkeeping and custody, the supervisor could review the records and oversee the physical inventory to provide additional control.

We found that two of the Hospital staff were collectively responsible for the custody of, recordkeeping for, and reconciliation of controlled substances. This protocol lacked the necessary checks and balances provided by a segregation of duties to reduce the risk of error or fraud.

Physical Inventory. A physical inventory involves physical counts, comparison of counts to records, reconciliation to resolve differences, and evaluation of results to identify control deficiencies and inventory theft. In the case of the pharmacy, however, the inventory served more as a counting exercise rather than as an internal control mechanism to validate the integrity of the pharmacy records and to detect problems.

For the period March 17, 2005, to July 2006, we found significant unsupported entries to the pharmacy inventory log. Twenty-three entries resulted in the deletion of 85,965 units and the addition of 18,901 units to the inventory log. The pharmacy also stocked over 200 other non-controlled substance drugs that were not included in the inventory. Instead, we found multiple, unorganized drawers of prescription orders without a system to track receipts, issuances, on-hand balances, and reorders. Pharmacy personnel relied on visual inspections to determine when these drugs should be reordered.

The lack of an inventory system has resulted in expensive emergency purchases of drugs because of stock shortages.

In addition, we found excessive quantities of expired controlled substances. For example, as of July 2006, the pharmacy had over 11,000 expired pills, injectables, and solutions on hand. Although physically segregated, the expired products pose additional risk of loss or abuse if not disposed of timely. Despite previous incidents of theft and abuse involving Hospital staff described for us by the Director of Health, the Hospital has not established adequate controls to reduce its vulnerability.

Schools

At the Department of Education (DOE), essential supplies were not adequately controlled to ensure that they were available for use in classrooms. School principals at six of the seven elementary schools in Pohnpei State stated that their schools did not receive requested supplies for the previous or current school years as of August 2006. Principals at most of the schools stated that donations from parents, teachers, and the community were used to purchase needed supplies.

We judgmentally selected \$64,452 of the \$149,992 expended by DOE's central office under the School Improvement Program component of the Supplemental Education grant for instructional materials and supplies. Only one purchase for \$1,408 could be confirmed as having been received by a school. We could not determine the disposition of the balance of the supplies and materials purchased by DOE because of the lack of proper recordkeeping. For example, most supplies, such as printer/copier toner cartridges and paper, were ordered in bulk for use by the schools and DOE. We observed that these types of items were being stored in an open area accessible to employees and visitors in the central office. A DOE official told us that school representatives who pick up the supplies should sign the logbook to acknowledge receipt of the supplies. We found, however, that DOE's central office staff did not maintain an up-to-date logbook or other records showing the disposition of supplies.

A controlled inventory environment and accurate recordkeeping not only ensure that books and supplies are purchased and distributed properly, but also provide the critical basis for future budget projections. For example, Pohnpei State's annual budget for fiscal year 2006 included prior-year actual revenue and expenditure information for each school, but lacked detailed breakdowns of actual and budgeted expenditures by type of cost for each school (e.g. salaries, equipment, instructional materials, and supplies). If such information had been available and provided to the Director of Education and the State Board of Education, we believe it could have alerted them of the serious accountability problems within DOE and allowed them to better plan for future years.

State-Owned Equipment

Pohnpei State has yet to correct the significant property accountability problems identified in the 1999 report by its Public Auditor's Office.³ According to that report, the physical inventory showed that 575 items (or 35 percent) of the 1,634 items sampled, were not found. The missing items, including computers, printers, video recorders, and cameras, had a cumulative value exceeding \$1 million. DOE, in particular, could not account for 211 items valued at over \$200,000.

The Fiscal Procedures Agreement and Pohnpei State regulations require Pohnpei to account for items valued at \$1,000 or more, with a useful life exceeding 1 year, on its property inventory and to conduct a property inventory every 2 years. In addition to these regulations, sound business practices dictate that sensitive items, regardless of value, should be controlled and accounted for because of their susceptibility to loss, theft, or misuse. However, Pohnpei State's Department of Treasury, Division of Property and Supply did not effectively carry out this responsibility. For example, in 2004, the Division performed a physical inventory and found significant differences between the books and counts, but failed to resolve these differences. In 2005, the Division did not even conduct physical inventories, and no property control procedures were in place for sensitive "walkaway" items, such as digital cameras, printers, and cell phones, which did not meet the \$1,000 value and 1-year useful life threshold.

In September 2006, at our request, the Division conducted a physical inventory of property held by DOE. As in the 1999 Public Auditor's Office report, significant accountability problems were identified: 363 (or about 45 percent) of 811 property items could not be found. The missing items, including computers and printers, were valued at about \$750,000. Conversely, during the inventory, Division personnel also found 281 items that were not on the property records. Among the reasons for the significant inventory differences were DOE's failure to report items transferred, lost, or discarded; clerical errors in recording asset receipt, transfer, or disposal; and theft.

A 2002 Government Accountability Office (GAO) report⁴ identified best practices for conducting physical inventories compiled from seven large leading-edge private sector companies. (See Appendix 2 for the full text of these practices.) These best practices include:

- ❖ Enlisting knowledgeable staff, segregating duties, and providing adequate supervision over the inventory process.
- ❖ Performing research to resolve inventory differences.
- ❖ Evaluating count results to identify the root causes of differences.

³ Pohnpei State Public Auditor's Office: *General Fixed Assets Account Group Audit Report Year Ended September 30, 1999*

⁴ GAO: *Executive Guide - Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, GAO-02-447G, March 2002

Recommendations

We recommend that the Governor of Pohnpei State establish an effective property accountability process by:

1. Establishing an effective inventory system to account for drugs dispensed by the pharmacy, which includes adequate segregation of duties and meaningful physical inventories to ensure proper use and safeguards are in place to prevent abuse and theft.
2. Establishing an inventory control and recordkeeping system to account for school supplies issued by the Department of Education to ensure proper safeguards are in place to prevent abuse and theft.
3. Revising the property book policy to include a requirement to conduct and reconcile a physical inventory at least annually to include sensitive items under the \$1,000 threshold on the property records.
4. Applying the best practices in Appendix 2, which have been identified as critical for achieving accurate physical inventories.

In your September 5, 2007 response to our draft report and the September 19, 2007 supplementary correspondence (Appendix 3),⁵ you concurred with the report's findings and recommendations and described actions being taken, including issuance of Executive Order No. 02-2007, to address the deficiencies and to improve overall property accountability. We commend your decisive action to address the deficiencies identified in this report and your commitment to make significant improvements in Pohnpei State Government's property accountability process.

As part of your response, the Departments of Treasury and Administration, Health Services, and Education provided information describing corrective actions they plan to take to address the recommendations. Based on the information they provided, we consider Recommendations 1 and 3 resolved, but not implemented, and require additional information before Recommendations 2 and 4 can be considered resolved.

For Recommendation 2, DOE responded that it plans to purchase storage containers to temporarily house education supplies and that new distribution forms would be used to improve recordkeeping. However, sufficient information was not included to allow us to determine how an inventory control and recordkeeping system would be designed and implemented. As for Recommendation 4, sufficient information was not included concerning the physical inventory process that will be established. Accordingly, Appendix 4 describes the status of each of the recommendations and the actions required to consider the recommendations implemented and resolved.

⁵ Appendix 3 does not include various property forms and documents proposed for use by the Department of Health Services and DOE, which accompanied the Governor's response.

The legislation, as amended, creating the Office of Inspector General requires that we report to Congress semiannually on all audit reports issued, actions taken to implement recommendations, and recommendations that have not been implemented.

Please provide a response by November 30, 2007, to Mr. Kevin Graves, Acting Field Supervisor, Honolulu Field Office, 2800 Cottage Way, Suite E-2712, Sacramento, California 95825. Your response should provide the information requested in Appendix 4.

We appreciate the cooperation shown by Pohnpei State during our evaluation. If you have any questions regarding this report, please call me at (202) 208-5745.

Sincerely,

A handwritten signature in black ink, appearing to read "Earl E. Devaney", with a stylized flourish at the end.

Earl E. Devaney
Inspector General

cc: Honorable Miriam K. Hughes, Ambassador, Federated States of Micronesia
Chairman, Joint Economic Management Committee
David B. Cohen, Deputy Assistant Secretary for Insular Affairs
Nikolao Pula, Director, Office of Insular Affairs
Marina Tinitali, Audit Liaison Officer, Office of Insular Affairs
Honolulu Field Office, Office of Insular Affairs

Appendix 1

Objective, Scope, and Methodology

The objective of our evaluation was to determine whether Pohnpei State's property accountability process safeguarded supplies and equipment to minimize the risk of fraud, waste, and mismanagement. We conducted our evaluation from June 2006 to October 2006. Our evaluation was conducted in accordance with the January 2005 *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. To accomplish our objective, we:

- Reviewed the regulatory framework, including Compact II, their subsidiary agreements, the U.S. implementing legislation, grant documents, and Pohnpei State regulations. These documents establish numerous reporting and accountability requirements.
- Reviewed FSM's *Strategic Development Plan*, *Institutional Capacity Building Roadmap*, *Education Reform Strategy*, and various budget and financial and single audit reports.
- Interviewed OIA, FSM, and Pohnpei State officials.
- Reviewed DOI's *Fiscal Year 2005 Performance and Accountability Report*, including information required by the Federal Manager's Financial Integrity Act.
- Reviewed internal controls related to property accountability.
- Reviewed reports by GAO and the Pohnpei State Auditor that were applicable to our evaluation of property accountability.
- Performed tests of property records to evaluate the adequacy of property controls and to verify the accuracy of property records.

Appendix 2

GAO Best Practices for Accurate Physical Inventories



Source: GAO: *Executive Guide – Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, GAO-02-447G, March 2002

Appendix 3

Pohnpei State Government Response



OFFICE OF THE GOVERNOR

9/16/07
FAXED

STATE OF POHNPEI
KOLONIA, POHNPEI FM 96941
TEL: (691) 320-2235/5238 FAX: (691) 320-2505

September 5, 2007

Ms. Anne L. Richards
Assistant Inspector General for Audits
U.S. Department of the Interior
1849 Street, NW, MS 5341
Washington, D.C. 20240

Re: Draft Report: Pohnpei State, Federated States of Micronesia: Property
Accountability Process Needs to be Established
(Assignment No. P-EV-FSM- 0001-2006)

Dear Assistant Inspector General Richards:

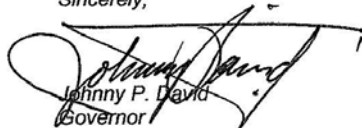
In connection with the evaluation report issued by your honorable office on Pohnpei State Government's property accountability process, we are respectfully transmitting herewith the responses from each respective office that were identified in the report.

Pohnpei State has already achieved an unqualified rating for the past 2 single audits (Fiscal years 2005 and 2006) and we are determined to accelerate as well in the performance of developing an effective, accountable and transparent Property Accountability Process. Overall, we agreed to your findings and recommendations. In fact, corrective actions are currently being implemented to resolve the deficiencies cited in the evaluation report.

Furthermore, I have signed an Executive Order No. 02-2007 to address in depth the concerns cited in your report. This executive order is also enclosed for your reference. At this point, I would like to extend our utmost appreciation to you and your staff for your report and please rest assured that a tangible and significant improvement over property accountability process for Pohnpei State in the ensuing years will be realized.

Thank you.

Sincerely,


Johnny P. David
Governor
State of Pohnpei

Enclosures



OFFICE OF THE GOVERNOR

9/16/09

STATE OF POHNPEI
KOLONIA, POHNPEI FM 96941
TEL: (691) 320-2235/5238 FAX: (691) 320-2505

Executive Order No. 02-2007

PROVIDING FOR ENHANCED GUIDELINES AND POLICIES TO ACHIEVE MORE EFFECTIVE CONTROL AND ACCOUNTABILITY OVER GOVERNMENT ASSETS AND PROPERTIES.

WHEREAS, the Office of Inspector General of the Department of Interior has conducted an inquiry or survey of the current practices and status of Pohnpei State assets and equipment that have been acquired with the use of Federal Grant, and certain discrepancies in the reporting and inventory of the assets were discovered; and

WHEREAS, as a result of the survey, it was recommended to the Pohnpei State Government that effect inventory system and control be put in place to correct the discrepancies; and

WHEREAS, it is at the same time to the best interest of Pohnpei State to strictly monitor its tangible assets and properties regardless of funding sources to minimize loss of property and needless spending.

NOW THEREFORE, I, Johnny P. David, by the authority vested in me as the Governor of the State of Pohnpei, do hereby order as follows:

Section 1. Purpose of this Executive Order. The purpose of this Executive Order is to call upon and direct all officers and employees of the Pohnpei State Government to observe and comply with the current State statutes pertaining to proper procurement, handling, maintenance and inventory of equipment and tangible assets of the State. While this Executive Order has been primarily prompted by the recent report released by the Office of Inspector General of the US Department of Interior concerning property accountability, this Executive Order is intended to also apply to all tangible assets, supplies and properties acquired by or donated to Pohnpei State Government regardless of their value and funding source.

The term "Director", as referred to in this Executive Order, shall mean the Director of the Department of Treasury and Administration, or his designee.

Section 2. Policy Statement. This Executive Order reaffirms the policy of responsibility, accountability and transparency in all matters pertaining to acquisition of assets, equipment, supplies and tangible properties. Acquisition of said assets and properties shall be based upon real needs and availability of funds and must be utilized



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solely for legitimate Government purposes. Responsible Government officials designated under Section 6 shall constantly monitor and conduct periodic inventory and maintain accurate recordings to avoid the risks of loss, misuse, abuse and destruction of State properties.

Section 3. Statutory provisions. The Pohnpei Code provides that:

11 PC 2-113. Director as Procurement and Property Management Officer. The Director of the Department of Treasury and Administration shall be the Procurement and Property Management Officer for the Pohnpei Government. As such, the Director shall be responsible for the establishment and administration of a centralized system for procuring, inventorying, inspecting, testing, storing, accounting, and disposing of all tangible personal property of the Pohnpei Government. The acquisition and disposal of such property shall be by competitive public bidding in accordance with procedures set forth in regulations adopted pursuant to the authority granted by 11 PC 2-114; PROVIDED that such regulations may include reasonable exceptions to the bidding requirement when the circumstances warrant.

Rules have been issued by the Director and were duly approved by the Governor pursuant to the provisions of 11 PC 2-114 as follows:

11 PC 2-114. Rules and regulations. The Director is hereby authorized to issue and promulgate rules and regulations implementing this chapter which, upon public notice and hearing as required by law and upon review and approval of the Governor, shall have the force and effect of law. All rules and regulations heretofore adopted by and for the Department pursuant to the authority granted by prior laws (including those laws that are repealed by this chapter) shall continue in full force and effect until amended, repealed or superseded hereafter.

Despite the current laws and rules in place governing property accountability, the proper implementation thereof has remained questionable. Therefore, it is imperative that the present guidelines and policies be strengthened and be made more effective.



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Section 4. Acquisition of Government Properties. All matters pertaining to the acquisition, purchase and disposition of any Government supplies and tangible properties, regardless of their value and quality, shall continue to be governed by applicable laws and regulations.

Section 5. Donated properties for Government Use. All equipment and properties, such as computers, camcorders, cameras and fixed assets donated to any department, office or agency of the State Government that were intended to be held, utilized and employed for Government purposes shall be subject to the same rules and guidelines applicable to properties that were purchased by Government funds.

Section 6. Designation of Responsible Officer. The head of each department, office and agency of the State Government shall designate one of their existing staff members to be the responsible person or officer tasked with to strictly monitor, implement and ensure compliance with this directive. For purposes of coordination and monitoring, each responsible person or officer designated under this section shall made periodic report to the Director at such frequency as may be required herein. The report shall contain accurate accounting of assets and properties assigned to the department, office or agency and shall clearly indicate the description of their condition. The Director may require such additional information from the responsible officer as may be necessary to verify the accuracy and reliability of the report. Compliance of the Director's request shall be mandatory. The head of the department, office or agency shall ensure that the responsible officer reasonably and fully comply with the required reporting, including the requests issued by the Director. Failure to comply with the provisions of this section may be a ground for administrative action against the responsible officer.

Section 7. Purchase of Equipment and Property. Every instance of purchase or acquisition of Government property shall be made strictly on the basis of needs and availability of funding. No acquisition shall be made without a purchase order approved by the Director as required by existing procurement procedures. A person authorizing the purchase in violation of this requirement shall be personally liable for the cost of the purchase. The Government shall not become obligated to pay for such unauthorized purchase. The Director shall ensure that this policy is observed at all times and that such policies be made known to all vendors providing supplies and equipment to the Government.

Section 8. Supplies. While supplies, consumables or fungible properties are not necessarily reported under Section 4, specific guidelines as provided in the succeeding sections shall apply.



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Section 9. Delivery of Supplies, Equipment and Properties. Delivery of supplies, equipment and tangible properties by a vendor pursuant to a duly approved purchase order under Section 7, shall be made directly to the department, office or agency that initiated the purchase order. Any delivery made in violation of this section shall be the personal liability of the person accepting the delivery and, in such event, Government funds shall not be expended for their payment.

Section 10. Distribution and Assignment of Supplies, Equipment and Properties. Every fungible supply that, by their nature, are intended to be distributed for use shall be properly documented. Regardless of their value, any assignment or transfer of equipment and properties, other than fungible supplies, from one department, office or agency to another or to any local government or entity shall be properly recorded. Upon assignment or transfer, the responsibility shall accordingly transfer to the recipient.

Section 11. Distribution of Pharmaceutical Supplies. Dispensing of pharmaceutical items at the State hospital and public dispensaries shall be made in accordance with doctor's prescription duly issued after a legitimate and documented consultation by a licensed physician or medical practitioner recognized by existing policy and procedure. No person, other than the person in charge of the pharmacy or the person designated as the responsible officer under Section 6, shall be allowed to release the pharmaceutical supplies pursuant to a valid prescription issued by licensed physician or medical officer. The responsible officer or the pharmacist in charge of the pharmaceutical supplies shall strictly monitor the correct amount dispensed.

Section 12. Monitoring of Level of Pharmaceutical Supplies. The Responsible Officer or the person in charge of the pharmacy for the State Hospital or public dispensaries shall constantly keep track of all pharmaceutical supplies to determine advisability and need for reorder. Consideration shall be given to the average quantity or level or usage for the preceding month or quarter. Reorder shall be made immediately before needed pharmaceutical supplies decrease.

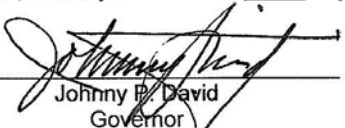
Section 13. Implementation of this Executive Order. This Executive Order shall be construed as a supplement to enhance the effectiveness of the implementation of existing laws, regulations and policies. This is not intended to supersede, supplant, amend or modify the existing laws and regulations. To the extent that it may later be found that said laws and regulations should be so amended or modified, appropriate law shall be proposed and necessary amendments to regulations promulgated.



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Section 14. Force and Effect of this Executive Order. This Executive Order shall take effect upon its issuance. Copies of this Executive Order shall be immediately distributed to all branches, departments, offices, agencies and local governments of the State of Pohnpei.

IN WITNESS WHEREOF, I set my hand on this 5th day of September, 2007.



Johnny B. David
Governor
State of Pohnpei



Office of the Director

POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

P.O. Box 1567
Kolonia, Pohnpei FM 96941
Tel: (691) 320-2243/2323, Fax: (691) 320-5505
Email: pndota@mail.fm

August 14, 2007

The Honorable Johnny P. David
Governor
State of Pohnpei
Peilapalap Pohnpei
FM 96941

Dear Governor David:

This is in connection with the draft of the evaluation report issued by the U.S. Department of the Interior, Office of the Inspector General (Evaluation Report on Property Accountability Process of Pohnpei State Government Assignment No. P-EV-FSM-0001-2006).

The Department of Treasury & Administration (DOTA) agrees with the finding and recommendation. We will therefore revise the State's policy requiring biennial physical inventory into annual. In addition, we will include in the count sensitive items valued less than the \$ 1,000 and 1-year useful life threshold. We will also review the audit report of the Office of the Public Auditor on Fixed Assets so that we can incorporate relevant recommendations in our revision. Furthermore, any major discrepancies in our count will be reconciled and investigated accordingly. The report of the differences in count will be submitted to your office, the office of the State Auditor and Attorney General's office for proper handling.

We will begin the fiscal year 2007 physical inventory in September 2007 and will be performed annually thereafter. The process including the revision of the policy as well as the report submission is targeted to be completed by January 2008. The Chief of Finance and Property Accountability is responsible in making sure that the deadline we set will be met.

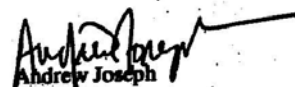
It is important to note that the draft of the Executive Order (EO) on Property Accountability that we received from Attorney General's Office; once finalized will help all the departments and offices understand what is required to properly account for fixed assets assigned in their respective offices.

9/16/07
The Hon. Johnny P. David
August 14, 2007
Page 2

Please let us know if you further discussion on the above.

Thank you.

Sincerely,


Andrew Joseph
Acting Director
Department of Treasury &
Administration



**Department of Health Services
Pohnpei State Government**

P. O. Box 189, Kolonia
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e-mail psdhs@mail.fm
Office of the Director

August 14, 2007

Honorable Johnny B. David
Governor, Pohnpei State
Kolonia, Pohnpei FSM 96941

Dear Governor:

I wish you the very best of both in health and spirit. I am writing on behalf of the Department of Health Services in regards to the Evaluation Report by the Office of Inspector Generals covering from the period of March 17, 2005 to July 2006. The report identified several weaknesses in the pharmacy operation which the Hospital needs to address immediately. Right after our meeting with Inspector General Staffs, we had put our heads together to try to resolve the problems identified. Below is our recommended corrective action plan.

Identified problems:

1. **Receiving of Controlled drugs** - The Department of Health Services, Division of Administration would identify two pharmacy staffs that would be responsible for keeping the inventory of the controlled drugs in the Hospital pharmacy. The first person would be responsible for receiving, counting and verifying of the packing slip of the incoming controlled drugs. This individual also in charge of the controlled drugs log book.

The second person will be responsible for the shelving and double checking of the receiving report and initial on the log book that the report is complete and accurate.

2. **Dispensing of controlled drugs** - The controlled drugs prescriptions/requests from the wards will be received and packed by the person in charge of the log book. We have also devised a control issuing sheet that must complete and signed by three parties (Person control the log book, person responsible for physical inventory and the receiving person).

The second person responsible will do an assurance quality check by recounting the items packed and verifying the form filled for completeness and accuracy and also check against the log book and signs (See attached form Exhibit A). The form has five columns which include; Name of drug or item description; Described requesting unit; quantity requested, quantity supplied by pharmacy and expiration date.

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3. **Internal Control** – One log book will be purchased for pharmacy which all the controlled drugs will be recorded in. Each drug will be on separate page. The page will have 9 columns that will include: date, control number, dispensed to, quantity issued, balance of the drugs, activity, issuing signature and receiving signature and requestor or physician name. (See attached sheet as Exhibit B)

At the end of every month the Chief of Administration and the Chief Nurse will conduct physical inventory on the shelves and compared against the log book record.

4. **Dispensing Schedule** – The wards, operation room and emergency will only request for controlled drugs from the pharmacy twice a week, Monday and Thursday only. Stat request will approve by the Chief of Administration or his designee.

Mr. Governor, we hope that the corrective action plan would ensure effective controls and accountability of controlled drugs stocked in the pharmacy pending distribution to the hospital wards and patients as identified in the report. Nonetheless, if further information or clarification is needed, my staff and I will be more than happy to provide any assistance either in writing or in person as you deem best.

Sincerely,



Dr. Maxcelle Gallen
Acting Director
Department of Health Services



Office of the Director

POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

P.O. Box 1567

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Email: pnidota@mail.fm

September 21, 2007

Mr. Chad B. Jaffe
Evaluator DOI-OIG
733 Bishop St.
Makai Tower, Suite 1400
Honolulu, Hawaii 96813
Facsimile no. 808-525-5322

Dear Chad:

This is to submit the copy of the response from the Director of Education concerning the evaluation report that you have performed per assignment no. P-EV-FSM-0001-2006 on Pohnpei State's Property Accountability.

We apologize if this submittal was not included in the original response that we have sent on September 5, 2007.

Thank you.

Sincerely,


Andrew Joseph
Acting Director

Attachment



Office of the Director
E-mail: Shanibero@mail.fm

Pohnpei State Government
Department of Education
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September 19, 2007

The Honorable Johnny P. David
Governor
Pohnpei State Government
Kolonias, Pohnpei State FSM 96942

Subject: Responses on OIG's Evaluation Draft Report

Dear Governor David:

we are happy to provide our responses to the OIG's draft audit report dated July 11, 2007 and our response is as follows:

1. Finding paragraph #1:

Essential supplies were not adequately controlled to ensure that they were available for use in classroom.

Our comment to this finding:

We believe this is not a finding but verbal comments from School Principals who felt they are unfairly treated in the distribution of school supplies. Although staffs responsible for distribution of school supplies in timely manner sometimes do not maintain accurate record of supplies, all schools remain functional until the end of the school year.

Our corrective Action Plan #1:

With no safe storage space to house the needed supplies, We are putting into our carry over plan to purchase 2 storage containers to safely store these supplies before actual distribution to each school. Staffs responsible for purchasing has been selected and all supplies purchased will brought to the main office, recorded and distributed according to distribution criteria established. We have the listing of supplies that is mostly used in the classroom daily and will do bulk purchasing for frequent used supplies to be stored in these containers and will do our replenishment to make sure that these supplies are available when needed and use the newly developed forms for distribution of all materials to the schools.

2. Finding to paragraph #2:

Could not determine the disposition of the balance of the supplies and materials purchased

Corrective Action Plan:

We will reinforce the usage of the newly developed forms for the distribution of these supplies, materials and equipment to the schools. In addition, there is an acknowledgement part where the school principal or his designee should signed to acknowledge receiving these supplies.

3. Finding to paragraph #3:

The DOE central office staff did not maintain an up-to-date logbook or other records that showed disposition of the supplies.

Corrective Action Plan:

The developed forms for the distribution of these supplies, materials, equipment will assist on this matter where each program will record what has been distributed and compared with the DOE master distribution list.

4. Finding to paragraph #4

A controlled inventory environment and accurate recordkeeping not only ensure that books and supplies are purchased and distributed properly, but also provide the critical basis for future budget projection.

Corrective Action Plan:

We are looking into incorporating our inventory system into our existing database system where can extract data when needed for multiple purposes. We have an allocation in our School Improvement Plan to expand our database system and we believed we can build this mechanism into it or cost share the amount the programs.

If additional clarification is needed, please let us know

Kalahngan of Kupwuromwi,

Casiano S. Sionber
Education Director

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Appendix 4

Status of Recommendations

Recommendations	Status	Action Required
1	Resolved, not implemented.	Provide documentation demonstrating that the organizational responsibilities and inventory control processes identified in the corrective action plan recommended by the Acting Director, Department of Health have been implemented.
2	Management concurs, but additional information needed.	Provide a plan of action for establishing an inventory control and recordkeeping system to account for school supplies issued by DOE. The plan should identify the procedural and organizational controls that will be implemented and should include target dates and titles of the officials responsible for implementing corrective actions.
3	Resolved, not implemented.	Provide a copy of the revised State policy requiring annual physical inventories that include sensitive items valued at less than \$1,000.
4	Management concurs, but additional information needed.	Provide documentation demonstrating that the best practices for achieving accurate physical inventories are employed in conducting monthly physical inventories of controlled drugs and annual physical inventories of equipment and other sensitive items.

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Revised 07/06