

INSPECTION REPORT

***MEDICAL REFERRAL
PROGRAM ACCOUNT***

**OFFICE OF ADMINISTRATIVE
SERVICES**

September 25, 2020



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Honorable Henry S. Falan, Governor, State of Yap
Honorable Vincent A. Figir, Speaker, and Members of the 10th Legislature, State of Yap
Gabriel Ramoloiug, Director of the Office of Administrative Services
Aileen C. Tareg, Director Health Services

RE: Yap State Medical Referral Program Account Inspection

We are pleased to submit the inspection report on the Yap State Medical Referral Program Account.

This inspection was carried out to determine the correctness of the amount collected under the Medical Referral Program Account since its establishment using the correct rates as per Yap State Law 9 – 46 and whether funds have been properly maintained, reconciled and utilised for the purpose it was established.

The inspection was conducted pursuant to the authority vested in the Public Auditor and in accordance with *Quality Standards for Inspections and Evaluations* issued by the US Council of the Inspectors General on Integrity and Efficiency.

A total of \$700,401 was collected under the medical referral program from 2017 to December 2019, out of which only \$19,899 was utilised for medical referral, leaving a balance of \$680,502 as at 31 December 2019. This has defeated the purpose of establishing the Program Account. The Medical Referral Program at the Department of Health Services was mainly funded from the Program Income and CFMS funds.

Furthermore, our inspection could not establish the existence of the balance of the fund of \$680,502 as at 31 December 2019 as there is no separate bank account for the Program Account and all funds were deposited in the General Funds.

The findings and recommendations are described in detail in the report.

Respectfully submitted,

Achilles Defngin
Public Auditor

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1.0 INTRODUCTION

This inspection report contains findings and recommendation following our inspection of the Medical Referral Program Account maintained by the Office of Administrative Services (OAS).

2.0 MANDATE

The mandates for this inspection are as follows:

- Pursuant to the authority vested in the Public Auditor as codified under Title 13, Chapter 7, and Section 703 of the Yap State Code, which states in part:

“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;”

3.0 OBJECTIVES AND SCOPE

3.1 Objectives

The primary objective of this inspection is to determine the correctness of the amount collected under the Medical Referral Account since its establishment using the correct rates as per Yap State Law 9 – 46 and whether funds have been properly maintained, reconciled and utilised for the purpose it was established.

This also included determining whether there is a State policy or regulation governing the award of medical referral and whether they have been properly complied with.

3.2 Scope

This inspection comprised of examination of transactions for the Medical Referral Account from December 2017 to December 2019.

4.0 METHODOLOGY

Our inspection was conducted in accordance with the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE).

Our inspection included physical inspection of the accounting and subsidiary records maintained by the Office of Administrative Services, interviewing key personnel, and data analysis on the status of the Medical Referral Program Account.

We also verified the files of recipients of Medical Referral funds to ensure that all recipients met the requirements of the Medical Referral policy.

5.0 APPRECIATION

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

6.0 CONCLUSION

Medical Referral Program Account comprises of the total funds collected from the taxes levied on tobacco products as stipulated in the Yap State Legislation YSL 9 – 46. We have inspected the formula in-built in the Fundware Accounting System at the Office of Administrative Services for the collection of the Medical Referral Program Account and concluded that they are accurate and in compliance with the legislated tax rates.

Out of the total collection of \$700,401 from 2017 to December 2019, only \$19,899 was utilised for medical referral. This has defeated the purpose of establishing the Program Account. The Medical Referral Program at the Department of Health Services was mainly funded from the Program Income and funds from the FSM Congress.

Furthermore, our inspection could not establish the existence of the balance of the fund of \$680,502 as at 31 December 2019 as there is no separate bank account for the Program Account and all funds were deposited in the General Funds.

7.0 BACKGROUND OF MEDICAL REFERRAL PROGRAM ACCOUNT

On December 01, 2016, Section 103 of Title 13 of the Yap State Code was amended to increase taxes on tobacco products for the purpose of the Yap State Scholarship Program Account and Yap State Medical Referral Program Account – Yap State Law No. 9 – 46.

Section 2 refers: -

The following amounts collected pursuant to Section 103, Subsection (a) paragraphs 4 (I) of this Title shall be deposited into the General Fund of the State of Yap for future appropriation and shall be specifically allocated to the Medical Referral Program Account as follows:

(2) Yap State Medical Referral Program:

- (a) Seventy – five cents (\$0.75) per twenty (20) cigarettes;
- (b) Fifty – cents (\$0.50) per cigar; and
- (c) Fifty – cents (\$0.50) per one-ounce tobacco products.

Table 1.1: History of Excise Tax Rates on Cigarettes and Tobacco Products

	Original Rate	YSL No.4-15 Increase Tax for Sports - 1995	YSL No. 6-73 Increase Tax for Collection Program - 2006	YSL No. 9-46 Increase Tax on Tobacco for Scholarship and Referral - 2016
Cigarettes per 20	\$0.20	\$0.30	\$0.33	\$1.83

	Original Rate	YSL No.4-15 Increase Tax for Sports - 1995	YSL No. 6-73 Increase Tax for Collection Program - 2006	YSL No. 9-46 Increase Tax on Tobacco for Scholarship and Referral - 2016
Cigarettes sticks				
Or Per Carton	\$2.00	\$3.00	\$3.30	\$18.30
Cigar Per Cigar	\$0.02	\$0.03	\$0.06	\$1.06
Tobacco Per Oz	\$0.04	\$0.06	\$0.09	\$1.09

The distribution of current tax rate for cigarettes, Cigar and tobacco products is shown in Table 1.2 below.

Table 1.2 Allocation of Current Tax Rate for Cigarettes, Cigar and Tobacco

Description	Medical Referral	Scholarship	General Fund	Sports Development Fund	Total
Cigarettes – 20 sticks (1packet)	\$0.75	\$0.75	\$0.23	\$0.10	\$1.83
Cigar Per Cigar	0.50	0.50	\$0.05	\$0.01	\$1.06
Tobacco Per Oz	0.50	0.5	\$0.07	\$0.02	\$1.09

8.0 PRIOR YEARS INSPECTION RESULTS

There was no inspection carried out for Medical Referral Program Accounts since its establishment in December 2016.

9.0 INSPECTION RESULTS

9.1 Funds Collected Under Medical Referral Program Account

Section 3 of the Bill stated that the Act shall take effect upon its approval by the Governor or upon its becoming law without such approval.

The Act was signed by the Honourable Speaker and Governor on 02/12/16 and 12/12/16 respectively.

The total funds collected for the Medical Referral Program Account for the calendar years 2017 to 2019 was \$700, 401.40. Details are shown in Table 1.3 below.

Table 1.3: Medical Referral Program Revenue Account

Account Description	2017	2018	2019	Total (\$)
Medical Referral	257,945.30	216,475.77	225,980.33	700,401.40

We have inspected the percentage allocation of taxes formulated in the Fundware Accounting System at the Office of Administrative Services and noted that the percentage allocations are accurate and in accordance with the amended tax rates as per Yap State Law 9 – 46.

9.2 Expenditure Account for Medical Referral Program Account

A total of \$19,899 was utilised from the Medical Referral Account from January 2017 to December 2019. Refer to Table 1.4 below for details.

Table 1.4: Medical Referral Program Expenditure Account

Program Account	2017	2018	2019	Total
Medical Referral	0	19,311.39	588.00	19,899.39

Our inspection is of the view that if the Program Account was not utilised effectively, it defeats the purpose that it was established for. During the period January 2017 to December 2019, we noted that the medical referral at the Department of Health Services was mainly funded from the Program Income and CFSM funds.

Furthermore, we could not establish the existence of the balance of the funds of \$680,502 as at 31 December 2019 under the Medical Referral Program Account as there is no separate bank account for the Program Account and all funds were deposited with the General Funds.

10.0 RECOMMENDATION

We recommend:

- Utilising the Medical Referral Account for the purpose it was established for, otherwise the purpose of the Program Account be reviewed and utilized for other purposes that would be beneficial for the health services and the people of Yap.
- A separate bank account to be considered for the Medical Referral Program Account.

11.0 RESPONSE FROM THE OFFICE OF ADMINISTRATIVE SERVICESOFFICE OF THE DIRECTOR
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September 17, 2020

Mr. Achilles Defngin
 Public Auditor
 Yap State Government
 Colonia, Yap FSM 96943

Dear Mr. Defngin,

Overall, I am pleased with the audit of the Medical Referral Program Account and the inspection report by your Yap State Public Auditor's Office. The inspection report has given transparency to the significant need for good accountability and sound financial controls for this account. The positive messages in your inspection report provide confidence and assurance that the account is accurately maintained.

Page 4, Section 6.0 (Conclusion) of the Inspection Report for the Medical Referral Program Account states that \$700,401 was collected from 2017 – December 2019. Of this total, only \$19,899 was utilized for medical referral. This has defeated the purpose of establishing the Program Account. The medical referral program at the DHS was mainly funded from the Program Income and CFSM funds.

How does this fund get disbursed? Funding from this Medical Referral Program Account is hardly ever utilized.

12.0 RECOMMENDATION


- Utilising the Medical Referral Account for the purpose it was established for, otherwise the purpose of the Program Account be reviewed and utilized for other purposes that would be beneficial for the health services and the people of Yap.

Strongly agree. However, the funding from Congress may not be sustainable on a regular basis. Additionally, the program income does not become available in the beginning of each fiscal year period which would present great challenge in referring patients without the use of the funds from this Medical Referral Account.

- A separate bank account to be maintained for the Medical Referral Program Account. *The taxes intended for the Medical Referral program were not segregated from General Fund revenues and thus would need to be separately accounted for and banked separately.*

Please let me know if you need any clarification.

Sincerely,



Gabriel M. Ramoloilug
Director

12.0 OPA CONTACT

OPA CONTACT Achilles Defngin, Public Auditor
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OPA MISSION To provide independent and credible assessments that promote accountability, transparency, and excellence in operations and management of the Yap State Government.

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