



OFFICE OF THE NATIONAL PUBLIC AUDITOR

PRESS RELEASE # 2012-04

ONPA RELEASES AUDIT ON FSM PAYROLL CONTROLS COVERING THE FISCAL YEARS 2010, 2011 AND 2012 THROUGH MAY 2012 ONLY

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2012-04, Audit of the FSM Payroll (PR) Operating Controls. A digital copy of the report is available for public review online at www.fsmopa.fm and printed copies are available at the ONPA's offices in Palikir, Pohnpei and in Weno, Chuuk. The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

The objectives of the audit were determined:

1. If management is adequately monitoring the internal control activities over PR operations.
2. If there is reasonable assurance that pay checks are issued:
 - a. Only to current, authorized employees,
 - b. At the authorized pay rates, and
 - c. Only for time authorized.
3. If the PR Function is generally operating in compliance with laws and regulations.

The audit scope covered fiscal years 2010 through May 2012. During each of these years approximately 25,000 checks totaling more than \$15 million were issued. Included were approximately 201 employees of the State Government (SG) of Chuuk and Kosrae that are funded by the US discretionary funds. The SG employees are entered to the computer and are processed the same as FSM employees. The FSM departments are submitting hours for SG employees. For example, the States' Health Department employee hours are submitted by the FSM Department of Health.

Based on the audit testing, the auditors found:

- Significant over payments were made to active employees for hours not authorized and not requested. The over payments were not detected or corrected by Department of Finance & Administration (DF&A).
- Significant wrongful payments were made to terminated employees. The wrongful payments were not detected by DF&A.

- Changes to pay rates in the computer were not verified by Personnel or DF&A. The pay rates entered by the hands-on operators were not verified by anyone else to ensure that only legitimate pay rates were entered as authorized by management. Changes to pay rates were performed by both DF&A and Personnel. Some of the pay rates tested could not be verified to Personnel Action Forms (PAF's) on file in Personnel.
- Not all key duties are segregated and thus the system is vulnerable to mistakes and improper acts. For example, the persons who print the paychecks (none are pre-numbered) are system experts having administrative privileges. In other words, the DF&A employees who are printing checks could modify their own checks and then delete or modify all record of wrong doing.
- Lack of monitoring of changes to employee payroll master records may have resulted in illegitimate pay increases and premiums.
- The operating departments, agencies, offices who submit their time summary reports – signed by the allottee, to DF&A for payroll processing are not ensuring the integrity of the information. Hours not worked were approved by the allottee. Also, the summary of hours approved does not always agree with the detail hours (regular, vacation, sick, other) reported.
- A plan for payroll continuity in the event of a computer failure has not been formalized or documented by DF&A.

Ultimately, the significance of the findings and the nature of the findings should be adequately alarming to motivate the implementation of strong controls. The gravity of the findings if not corrected, will eventually erode the integrity of the payroll system, if such has not already occurred.

On July 13, 2012 we discussed the report during an exit conference with the Acting Secretary of DF&A and the Personnel Administrator, both of whom expressed general agreement with the findings and recommendations.

The DF&A and office of Personnel management responses indicate that they concurred with the findings and agreed to the recommendations. They also indicate some corrective action plans that they would implement at their offices.

To access the full audit report, click on this linkhttp://www.fsmopa.fm/files/onpa/2012-04_FSM-Payroll_Operating-Controls.pdf

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