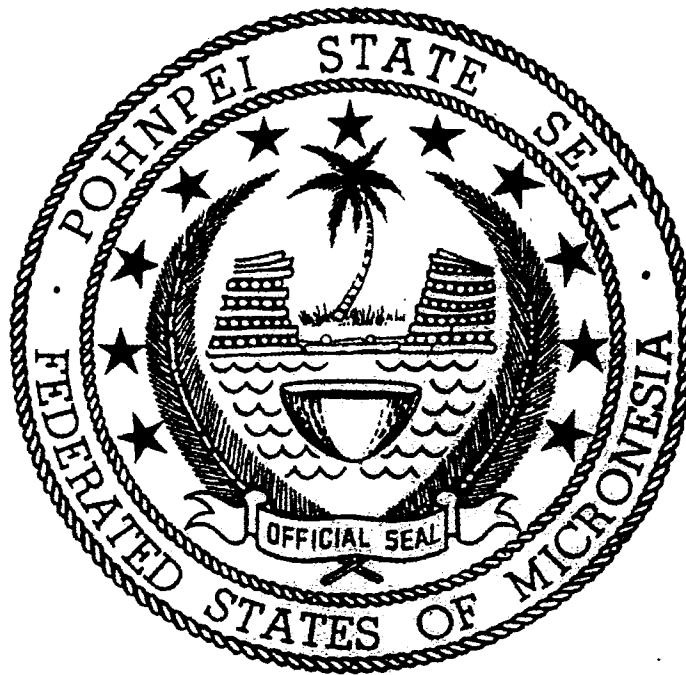


POHNPEI STATE GOVERNMENT  
Performance Audit of Pohnpei Port Authority  
Payroll Allotments and Annual Leave Applications  
and Uses  
September 30, 2017

AUDIT REPORT NO. 006-18

*Office of the Public Auditor  
State of Pohnpei*



State Public Auditor  
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**POHNPEI PORT AUTHORITY PAYROLL ALLOTMENTS AND ANNUAL  
LEAVE APPLICATIONS AND USES**

**FISCAL YEAR ENDED SEPTEMBER 30, 2017**

**AUDIT REPORT NO. 006-18**

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# POHNPEI STATE GOVERNMENT

## OFFICE OF THE PUBLIC AUDITOR

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November 20, 2018

The Honorable Marcelo Peterson, Governor, State of Pohnpei  
The Honorable Fernando Scaliem, Speaker, Pohnpei State Legislature  
The Honorable Members of the Pohnpei State Legislature  
The Honorable Board of Directors, Pohnpei Port Authority  
Mr. Pius Roby, General Manager, Pohnpei Port Authority.

### **EXECUTIVE SUMMARY**

We are pleased to submit the audit report of Pohnpei Port Authority (PPA) Payroll Allotments and Applications and Uses of Annual Leave, as of and for the fiscal year ended September 30, 2017. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit was also performed pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law No. 1L-10-79, and such other related laws enacted thereafter.

The objective of our audit was as follows: (1) Was PPA processing payroll allotments and accounting for leave of absences in accordance with applicable policies and procedures?

Based on our audit, we conclude that Pohnpei Port Authority (PPA) was not in compliance with certain applicable policies and procedures governing its payroll allotment processing and annual leave applications and uses. Our findings are described fully in the Schedule of Findings and Recommendations on pages 4 to 7 of this report.

Presented below is a brief summary of the weaknesses along with our recommendations which we believe will help improve the Authority's operations if implemented.

#### **Summary of Findings**

1. *Excess annual leave paid contrary to PPA Policy;*
2. *Annual leave application of a Division Head not in compliance with PPA policy but was approved by the General Manager; and*
3. *Allotment processes not followed.*

## Summary of Recommendations

1. *General Manager should not allow practices that are or may lead to non-compliance with PPA policies;*
2. *General Manager to ensure policies are duly communicated and applied uniformly to all PPA employees; and*
3. *Management to provide closer oversight over employees' payroll allotment processes and strictly enforce related policies and procedures.*

A copy of the draft report was provided to the Auditee and discussed with them during the exit conference held on November 6, 2018. The General Manager was requested to provide his response to the audit findings that should include the Authority's corrective action plan in rectifying the weaknesses cited in the report. General Manager's response becomes part of the report and is presented as Appendix A on pages 9 & 10 of this report.

An addendum to the enabling act that created the Pohnpei Office of the Public Auditor (POPA), SL No.05-08-00, requires the Authority to submit to POPA a monthly report indicating its progress in the resolution of the findings cited in the audit report. The resolution of the findings shall not exceed six (6) months.

We extend our sincere appreciation to the PPA Management and Finance Division for their cooperation and assistance during the course of our audit.

Sincerely,

  
Alice E. Etse  
Acting State Public Auditor

POHNPEI PORT AUTHORITY  
Performance Audit of Payroll Allotments and Leave Applications and Uses  
For Fiscal Year Ended September 30, 2017

Audit Report No.006-18

## **INTRODUCTION**

At the request of the General Manager of the Pohnpei Port Authority (PPA), the Pohnpei Office of the Public Auditor (POPA) conducted an audit of the Authority's payroll allotments and the applications and uses of annual leave for fiscal year ended September 30, 2017. This report contains the findings and conclusion resulting from the engagement.

## **BACKGROUND**

The Pohnpei Port Authority (PPA) is a component unit of the Pohnpei State Government. It is governed by a Board of Directors, who are appointed by the Governor with the advise and consent of the Pohnpei Legislature. The Board appoints the General Manager to oversee the overall operation of PPA. Directly under the General Manager are seven division heads that monitor and provide support to the General Manager in the day-to-day operations and management of the Authority.

The seven divisions are:

- ✓ Administration
- ✓ Human Resources
- ✓ Facilities & Maintenance
- ✓ Airport
- ✓ Seaport
- ✓ Marketing, and
- ✓ Finance

PPA has a total of eighty eight (88) employees with approved personnel budget of \$1,608,673 for FY 2017.

### **Leave Applications and usages and Payroll Allotment**

PPA's Personnel System Regulations was approved on June 8, 2017. The regulation sets forth the processes and procedures governing the application and usages of annual leave as well as payments of payroll allotments.

In summary, the regulation requires that for every leave taken it will be first requested by the employee and concurred by the immediate supervisor. The General Manager has the approving authority for all requests. The number of annual leave hours that each employee is entitled to depends on the number of years the employee worked for PPA, shown under Part 6.2.2 of the PPA Personnel System Regulation (PSR). The leave hours are given to the employee at the beginning of the year. For fiscal year 2017, the annual leave entitlement given to PPA employees totaled 11,596 and the number of hours used was 9,490. At the end of the fiscal year, the total accrued payroll liability was \$85,520.

For the period reviewed, PPA was making payroll allotments usually to about 16 allottees with amounts in the region of \$36,254 per pay period. Allotments are scheduled deductions from employee's

paycheck to various allottees as authorized by the employee. Unlike Pohnpei State Government, there is no limitation for the number of allotments PPA employees can carry.

## **AUDIT OBJECTIVE**

The objective of the audit was to verify whether: *PPA is processing payroll allotments and accounting for leave of absences in accordance with applicable policies and procedures.*

## **SCOPE AND METHODOLOGY**

Our review covered fiscal year 2017 and was limited to the processing of payroll allotments and the application and use of annual leave.

In order to achieve our audit objective, we performed the following:

1. We obtained all relevant policies and procedures covering payroll allotments and the uses and applications of leave;
2. Traced schedule of leave per employee to the timesheets to confirm proper approval;
3. Traced accrual of leave per employee to the PPA policies to confirm compliance with applicable policies;
4. Verified whether allotments were properly approved and remittances are consistent ; and,
5. Performed other procedures necessary to achieve the audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective.

## **PRIOR AUDIT COVERAGE**

The audit of the PPA annual financial statements is performed by a private CPA firm, Deloitte and Touch, as part of the annual financial statements audit of the Pohnpei State Government. POPA has conducted audits of PPA before, but this is the first audit engagement on the Authority's payroll allotments and the use of leave activities.

## **CONCLUSION**

Based on our audit, we conclude that Pohnpei Port Authority (PPA) was not in compliance with certain policies and procedures governing its payroll allotment processing and annual leave application and usages as evidenced by the schedule of findings and recommendations shown on pages four (4) to seven (7) of this report.



POHNPEI PORT AUTHORITY (PPA)  
Performance Audit of Payroll Allotment and Leave Application & Use  
FISCAL YEAR 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**Finding No. 1: Excess Annual Leave Cash Out Not in Compliance with Policy**

**Criteria:** The Pohnpei Port Authority’s Personnel Systems Regulations (PSR) approved on June 8, 2017 state in sections:

- **6.1.1** ...“The General Manager shall approve, disapprove, modify, defer or cancel any leave required by an employee apart from sick leave.....”.
- **6.1.2:** “The employee is responsible for initiating the request for the leave sufficiently in advance, to allow management to make the necessary arrangement to cover the workload of the employee.”;
- **6.2.3** “...The General Manager’s (GM) discretionary authority to approve cash payments ... for unused accumulated leave in excess of 360 hours shall be limited to circumstances where the employee submits a written request to the GM within 60 days of the end of each calendar year demonstrating compliance with part **6.1.2** and **6.2.4** describing the facts of when leave requested but denied and containing the signature of the applicants supervisor, department head, or the GM verifying that leave was requested but denied as described.”
- **6.2.4** “Application for annual leave shall be made in advance for submission to the General Manager for approval. Only in cases of emergency will a prior approval not be required.”

**Condition:** In verifying the proper disposition of employees’ excess annual leave balances, we reviewed related transactions in the subsequent period. During the review, we noted cash payments for excess annual leave hours to six employees in December 2017. The employees work under the Airport Division with the same Supervisor (Division Head). All six employees applied to use their excess annual leave hours around the same time as shown in the table below.

Employee	Title / Position	Date of Leave application	Duration of Leave	Hours Requested	Date Leave Application Declined
Employee A	ARFF AFIS	Nov. 27, 2017	Dec. 11 to 27, 2017	103	12/01/17
Employee B	ARFF LT.	Not dated	Nov. 27 to Dec. 31, 2017	195	12/01/17
Employee C	Not stated	Dec. 01, 2017	Dec. 04 to 31, 2017	198	12/01/17
Employee D	ARFF LT	Dec. 01, 2017	Nov. 27 to Dec. 31	194	12/01/17
Employee E	ARFF	Dec. 01, 2017	Dec. 01 to 29, 2017	126	12/01/17
Employee F	ARFF ASST. CHIEF	Dec. 01, 2017	Dec. 01 to 30, 2017	154	12/01/17



The table above and the supporting documents we reviewed showed the following:

- All the leave applications did not comply with 6.2.4 of the PSR; and,
- All except Employee A did not comply with 6.1.2 of the PSR.

**Cause:** The employees applied for the use of their excess leave at the same time to ensure management will deny the applications hence would be “forced” to allow “cash out” of the leave hours. This also shows that the responsible management official failed to properly plan, coordinate and schedule employees’ use of excess annual leave hours to avoid disruption of daily operation, instead, went along with subordinates’ scheme. Lastly, the condition happened because the General Manager allowed it.

**Effect:** Payments were made in spite of clear indication of non-compliance with the Authority’s Personnel System Regulation. This condition can lead to other employees following the same practice.

**Recommendation:** We recommend that the General Manager should not entertain practices that are or may lead to non-compliance with PPA’s policies and procedures. The General Manager should strengthen the “tone at the top” by duly enforcing all PPA’s policies and rules. We also recommend that management should practice and promote ethical culture throughout the Authority.

**Auditee Response and Corrective Action Plan: Please refer to Appendix A on pages 9 and 10.**

## **Finding No. 2: Non-Compliance to Annual Leave Application Rule**

**Criteria:** Section 6.2.4 of the Pohnpei Port Authority states that “Application for annual leave shall be made in advance for submission to the General Manager for approval. Only in cases of emergency will a prior approval not be required.”

**Condition:** During our review we noted the following: (a) one of the Division heads went on vacation without filing a leave application. The employee extended his vacation and then had his secretary filed a leave application for him, although the pay period has ended; additionally, (b) the divisions’ heads are approving/disapproving leave application contrary to the authorization policy in the PPA Personnel System Regulations.

**Cause:** The above happened because (a) the General Manager (GM) approved the “late” leave applications of the “Division Head” regardless of policy and prudent management practice; and, (b) management may have misinterpreted its own policy.

**Effect:** The effects of the condition are as follows: (a) the action may be viewed as “lenient” and could lead to abuse by those in the same position, and also, this can become the “norm” in the organization; (b) the practice is in conflict with PPA Personnel System Regulations.

**Recommendation:** We recommend the following: (a) the General Manager to be prudent in his responsibilities to maintain positive “tone at the top” by making sure that all regulations are strictly complied with and are applied uniformly to all employees regardless of position; (b) GM to make certain that the regulations are clearly communicated to division heads and staffs to ensure all have similar understanding.

**Auditee Response and Corrective Action Plan: Please refer to Appendix A on pages 9 and 10.**

### **Finding No. 3: Payroll Allotment Processes Not Followed**

**Criteria:** PPA Personnel System Regulations requires that to begin or discontinue all allotments, an employee must complete a payroll allotment form. For example:

- Date & signature of employee and approving officer
- Name of allottee
- Amount of allotment
- Allotment date or date to begin or cease allotment

Additionally, to change a payroll allotment, an allotment form specifying the change (s) should be prepared, properly executed and filed in the employee's payroll records.

**Condition:** We selected 53 employees for the review of allotment. Altogether, there were 864 allotments transactions for the 53 employees during the year. Our review disclosed lack and/or improper documentation of the allotment transactions, as follows:

- 501 allotments processed without completing a change of allotment forms;
- 176 allotments not dated by the Division of Finance;
- 123 allotments with start date missing;
- 26 allotments with no allottee name on the allotment form;
- 26 allotments without approving signature;
- 4 times employee signature not given;
- 4 times allotment date not clear; and
- 4 times amount of allotment missing.

We also noted that there is no rule on the number of allotments an employee is allowed to have or on the frequency of changes/amendments to the allotments.

**Cause:** The condition happened because the responsible personnel processed the employee allotments despite the discrepancies. The situation indicates lack of proper oversight, supervisory reviews and/or lax in enforcing the policies. The unlimited number of allotments and related changes can occupy employee's time with volumes of transactions and may have contributed to non-performance of certain tasks.

**Effect:** This condition resulted in non-compliance with PPA's Personnel System Regulations. Incomplete allotment forms and unsupported changes could expose PPA to potential problems and complications including unnecessary financial loss. Moreover, without a reasonable limit on the number of allotments and related changes could be costly and disruptive to the daily duties of the payroll staff.

**Recommendations:** We recommend that the responsible PPA management should provide appropriate oversight, closer supervision, and should direct subordinates to follow the policies and procedures on employees' payroll allotment processes and related activities.

We also recommend that management should evaluate the reasonableness of the unlimited number of allotment and related changes and whether the practice is not costly to PPA.

**Auditee Response and Corrective Action Plan: Please refer to Appendix A on pages 9 and 10.**

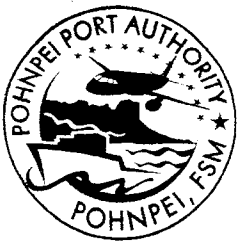
POHNPEI PORT AUTHORITY  
PERFORMANCE AUDIT OF  
PAYROLL ALLOTMENTS AND ANNUAL LEAVE  
APPLICATIONS AND USES

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APPENDIX A  
AUDITEE RESPONSE

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FISCAL YEAR ENDED SEPTEMBER 30, 2017



# POHNPEI PORT AUTHORITY

200 Airport Road  
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Telephone: +691 320 2793 Fax: +691 320 2832  
Website: [www.ppa.fm](http://www.ppa.fm)

## BOARD OF DIRECTORS

William F. Hawley, Sr.  
Chairman

Francisco Mendiola  
Vice-Chairman

Etiny Hadley  
Secretary/Treasurer

Paulino Rosario  
Member

Ricky Cantero  
Member

Vacant  
Member

Vacant  
Member

Pius Roby  
General Manager

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November 15, 2018

Mr. Ihlen Joseph  
Iso Nahnken, U  
Public Auditor  
Pohnpei State Government  
Kolonia, Pohnpei FM 96941

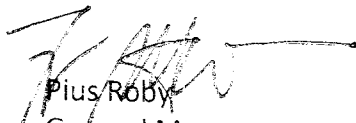
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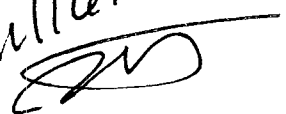
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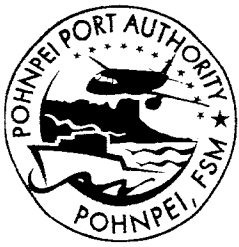
Attached for your information and ready reference are our responses to your audit findings for the Pohnpei Port Authority (PPA) payroll allotments and annual leave applications and usages performance audit ending September 30, 2017.

Thank you very much for all the works performed during this audit.

Warm regards,

  
Pius Roby  
General Manager  
Pohnpei Port Authority

Recd PPA  
11/15/18  




# POHNPEI PORT AUTHORITY

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11-16-18

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Member

Ricky Cantero  
Member

Vacant  
Member

Vacant  
Member

Pius Roby  
General Manager

November 15, 2018

## Responses to Performance Audit of the Payroll Allotment and Leave Application Uses

### Finding No. 1: Excess Annual Leave Cash Out not in Compliance with Policy

The General Manager (GM) will not entertain any practice that may lead to non-compliance with PPA's policies and procedures. Management will see to it that only the General Manager will approve, disapprove, modify, defer or cancel any leave as stipulated on personnel policy 6.1.1. GM will not approve any excess leave request that does not comply with 6.2.3 and that all annual leave shall be made in advance for submission to GM per 6.2.4.

### Finding No. 2: Non-Compliance to Annual Leave Application Rule

The General Manager will be prudent in his responsibilities to maintain positive "tone at the top" by making sure all regulations are strictly complied with and are applied uniformly to all employees regardless of position. GM should make sure that the regulations are clearly communicated to division's managers and staff for transparency and common understanding.

### Finding No. 3: Payroll Allotment Processes Not Followed

Effective immediately, the Comptroller or designee will provide appropriate oversight and clear supervision for the filing of allotment forms. Payroll accountant will make sure all allotment forms are properly filled out before honoring them. Management will evaluate the unlimited number of allotments to minimize the cost and errors.