

**AUDIT OF CHUUK STATE DEPARTMENT OF EDUCATION TEACHERS  
RECLASSIFICATION  
REPORT NO. 2010-09**



**Haser H. Hainrick  
National Public Auditor**



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

P.O. Box PS-05, Palikir, Pohnpei FSM 96941

Tel: (691) 320-2862/2863; Fax: (691) 320-5482;

CID Hot Line: (691) 320-6768; E-mail: hhainrick@fsmopa.fm

August 16, 2010

His Excellency Manny Mori, President  
Honorable Members of the FSM Congress  
Federated States of Micronesia

### **RE: Audit of Chuuk State Department of Education Teacher Reclassification**

We have completed our audit of the Chuuk Teacher Reclassification Policy. The audit resulted from a 2008 policy implemented by the Chuuk Public Service Commission (PSC) Board which established pay classifications for teachers who had obtained degrees. Reclassifications of existing teachers occurred in 2009 and a decision was made to make the reclassification retroactive to the start of FY 2009. Three hundred fifteen (315) teachers applied for reclassification and a total of over \$1,000,000 was expended on retroactive payments.

A concern was raised that not all teachers who were reclassified had met the degree requirement. The Office of the National Public Auditor was asked to conduct an audit. As a result, my office conducted this audit to achieve the following three objectives:

1. Determine whether the classroom teacher reclassification policy complied with relevant rules, regulations, and funding agreements.
2. Determine whether PSC and the Chuuk Department of Education (DOE) implemented adequate controls to ensure only those individuals meeting the qualifications were reclassified and given pay increases at the appropriate levels.
3. Determine whether the reclassification policy helped achieve the goal of attracting more qualified teachers.

The audit was conducted pursuant to Title 55, Chapter 5 of the FSM Code, and in accordance with Generally Accepted Government Auditing Standards issued by the Controller General of the United States.

The audit found that the policy and its implementation did not violate any rules, regulations, and funding agreements. Moreover, after the salary increases went into effect almost all new teachers hired by DOE had degrees. However, the audit could not determine if the salary increase was the reason that DOE was able to attract degreed applicants or if other reasons explain, or partially explain the increase in degreed applicants.

A sample of 66 reclassified teachers was selected and the audit team was able to confirm 65 had earned their degree. Regarding the 1 instance not confirmed (1 of 66), the degree document on

file appeared fictitious and it was referred to the ONPA Compliance Investigation Division (CID).

The audit report includes recommendations to improve the internal control activities performed by Chuuk DOE, e.g. to validate the purported degree and secondly, to document the process for completing the reclassification (Personnel Action Form) documents.

A copy of the draft report was provided to PSC and DOE. Their responses are included as attachments to the audit report.

Respectfully yours,



Haser Hainrick  
National Public Auditor

XC: Vice President  
Governor, Chuuk State  
Lt. Governor, Chuuk State  
President, Speaker and Members, Chuuk State Legislature  
Secretary of Education, FSM National Government  
Chairman, Board of Education, Chuuk State  
Director, Chuuk State Department of Education  
Chairman, Chuuk State Public Service Commission Board  
Executive Director, Chuuk State Public Service Commission  
Comptroller, Compact Funds Control Commission, Chuuk State  
Director, Department of Administrative Services, Chuuk State

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**INTRODUCTION**

**Background**

The Chuuk Department of Education (DOE) is responsible for delivering basic education throughout the five regions of Chuuk to children in kindergarten through grade 12. The Division of Elementary Education is responsible for 83 elementary schools and the Division of Secondary Education is responsible for 14 high schools. According to DOE records, as of March 10, 2010, a total of 592 classroom teachers are employed by DOE.

Of the 592 teachers, only 368 (62%) currently have either an Associate in Arts (AA)/Associate in Science (AS) degree or Bachelor’s (BA) degree. The remaining 224 (38%) do not have college degrees. That almost 40% of the teachers have no degree has been a concern of policy makers and considered to be one of the factors contributing to the poor educational achievement of Chuukese students.

Recognizing this problem, when the Chuuk State Education Reform Plan was updated in 2007-2008 it included the goal of recruiting better qualified teachers. Similarly, in 2009 the Joint Economic Management Committee (JEMCO) passed Resolution 2009-9 which limits FY2010 salary payments (from the Sector grant) to teachers who are certified or who have agreed to and are following an approved program of professional development leading to certification.<sup>1</sup>

As a strategy to address this issue, DOE initiated a proposal to reclassify classroom teachers’ salaries to higher pay levels for those teachers who have degrees. The intent was twofold: to attract degreed professionals to the teaching profession and to serve as a financial incentive for the existing non-degreed teachers to obtain their degrees. Table 1 below provides examples of the annual increase a teacher would receive upon completion of a degree.

**Table 1: Teachers New Pay Levels per Reclassification Policy Compared with Old Pay Levels**

Qualifications	Classified per Old System	Minimal Step Level pay at the Old Classification	Classification after Reclassification Policy enacted	New Pay Rate	Increase
AA + 2 year experience	PL-13	\$4,684	PL-20/2	\$7,064	\$2,380
AA + 5 years experience	PL-14	4,946	PL-22/3	8,199	3,253
AA + 10 years experience	PL-14/8	7,064	PL-22/8	11,376	4,312
BA + 2 years	PL-20	6,641	PL-25/2	9,343	2,702

<sup>1</sup> To be classified by the FSM National Department of Education as a “certified teacher,” a teacher must meet two requirements: 1) earn a degree and 2) pass a national standardized exam.

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Qualifications	Classified per Old System	Minimal Step Level pay at the Old Classification	Classification after Reclassification Policy enacted	New Pay Rate	Increase
experience					
BA + 5 years experience	PL-22/5	9,343	PL-25/3	9,976	633
BA + 10 years experience	PL-22/8	11,376	PL-27/8	15,621	4,245

The proposal was submitted to the Public Service Commission (PSC) Board. On October 2, 2008, the PSC Board approved a draft of the policy. The policy created new pay grades which are based on a combination of level of education and years of experience and had the effect of increasing the pay of teachers who had obtained an Associate’s degree or a higher degree as compared to teachers who had no degree. On January 26, 2009 a formal memorandum was sent by the Executive Director of PSC to the Department of Education formally proposing and recommending that the proposed reclassification action be taken.

On June 8, 2009, the Chuuk Attorney General issued an opinion which allowed the PSC to make the pay increase retroactive to October 1, 2008. The opinion stated, “the effective date of such action or actions reclassifying the teaching positions under the public service system employment done and processed after October 1, 2008 may be retroactive to October 1, 2008, subject to funding availability.”

After implementation of the policy, a larger than expected number of existing teachers provided diplomas to DOE and requested that they be reclassified. Reclassifications occurred through use of Personnel Action Forms (PAFs) which require the signatory approval of DOE, Finance, and the Governor. In total, about 300 teachers were reclassified and DOE expended over \$1,000,000 on retroactive payments. These payments were processed from June to December 2009.

Individuals within the Chuuk community questioned whether all reclassified teachers had obtained the prerequisite Associate’s level degree. Moreover, because DOE’s payroll is funded through a compact sector grant which involves certain restrictions, there was also concern that the pay raises and retroactive payments may have violated the grant requirements. Therefore, the ONPA was asked to conduct an audit of the policy and its implementation.

**Objective, Scope and Methodology**

Objectives – The objectives of this audit were to:

1. Determine whether the classroom teacher reclassification policy is in compliance with relevant rules, regulations, and funding agreements.

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2. Determine whether Chuuk DOE implemented adequate controls to ensure only those individuals meeting the qualifications were reclassified and given pay increases at the appropriate levels.
3. Determine whether the reclassification policy helped achieve the goal of attracting more qualified teachers.

Scope - The scope of this audit was limited to the passage and implementation of the Teacher Reclassification Policy from its inception through December 4, 2009. The activities of DOE and PSC as they related to the policy and its implementation were included in the audit. The audit did not include any reclassifications of, promotions, or pay increases granted to principals, administrators, and other employees of DOE not specifically employed as classroom teachers.

This audit was conducted pursuant to Title 55 of the FSM Code, Chapter 5, which states in part:

*“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.”*

Methodology – The audit fieldwork was conducted at the DOE main office and PSC.

To determine whether the reclassification policy was in compliance with all rules, regulations, or funding agreements, the audit team reviewed the Public Service Commission Act, which created the Public Service Commission Office to oversee personnel matters; the AG legal opinion that allowed retroactive increase in salaries; the Chuuk State Education Reform Update 2007-08; and all JEMCO Resolutions. Additionally, the DOE Director, Department of Administrative Services Consultant, and the Director of the PSC Office were interviewed to discuss the policy. Moreover, the sector grant manager was contacted to gain his input.

To determine whether Chuuk DOE implemented adequate controls to ensure only those individuals meeting the qualifications were reclassified and given pay increases at the appropriate levels, the audit team reviewed processes used by DOE and PSC to process reclassifications. The audit team then performed tests to verify all individuals were graduates, that pay grades had been correctly calculated based on years of experience and educational level, and that each file contained a completed and signed Personnel Action Form (PAF).

A total of 66 teacher files were reviewed. 30 were selected based on informal information brought to the auditors’ attention that the individuals may not be college graduates; the other 36 were randomly selected. For teachers who graduated from the College of Micronesia (COM), the audit team asked the COM Registrar to verify that each teacher had graduated. For graduates of other institutions, the teachers were asked to make available their original diplomas or provide

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the audit team with an authorization to release information form so that the audit team could contact the Registrar's Office of each institution by e-mail to request confirmation of graduation.

To determine whether the reclassification policy has helped achieve the goal of attracting qualified teachers, the audit team reviewed the educational backgrounds of teachers hired in FY2009. The audit team analyzed the list of newly hired teachers and computed the ratio of teachers who had college degrees, and compared this to the roster of current teachers.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. These standards required 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Prior Audit Coverage

The Teacher Reclassification Policy has not been included in the scope of any prior audits.

**CONCLUSION**

The Reclassification Policy and its implementation did not violate any rules, regulations, or funding agreements. Moreover, it appears that the increased salary offered to degreed teachers has helped to attract more degreed individuals to the profession. However, weaknesses in the controls used to process reclassifications were noted. As discussed in Finding 1, it is recommended that PSC document the process to be used by its staff when calculating a teacher's work experience to ensure consistency and accuracy and that either PSC or DOE receive confirmation of degree obtainment directly from the college or university.

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**FINDINGS AND RECOMMENDATIONS**

**1. Process Improvements Would Help Ensure College Graduation is Verified and that the New Classification is Calculated Correctly.**

Controls should provide adequate assurance that reclassified teachers earned an Associate's degree or higher and that years of experience are correctly calculated for use in determining the correct classification level.

DOE reports that it requires teachers to bring an original diploma to the DOE personnel office as proof that the individual earned an AA or BA degree and that DOE staff then make a copy of the diploma for the employee's personnel file and return the original diploma to the employee. However, there is no assurance that DOE staff require that an original diploma be brought to DOE. Because of social pressure, DOE staff may accept a copy of a diploma which may be real or fictitious.

Audit testing identified one instance in which it appears that a teacher submitted a fictitious diploma. College of Micronesia (COM) records indicated that the teacher had not graduated, even though a copy of a COM diploma was in the employee's personnel file. Given that access to copy machines, computers, and printers makes it easy to create falsified records, it is possible that the teacher created a fictitious diploma in order to be reclassified at the higher pay rate. The matter was referred to the ONPA Compliance Investigation Division (CID).

The audit team reviewed the records of 66 teachers and asked the colleges to verify that the individuals had graduated. The individual discussed above was the only teacher out of the 66 tested whose graduation was not confirmed by the college or university. The audit test results suggest that there has not been a widespread problem of teachers submitting fictitious diplomas in order to be reclassified at a higher pay grade.

To reclassify teachers, Specialists with the PSC calculate the number of years of experience and then determine the appropriate pay grade. The audit team found that in seven of the 66 (or 11%) files reviewed, the teacher had not been appropriately reclassified.

The incorrect reclassifications do not appear to have been done to purposely benefit the teachers involved. Of the seven teachers, five were reclassified at a grade lower than they should have been. As a result, together the five were underpaid a combined total of \$4,376 for the year. One individual was overpaid \$676 as a result of the miscalculation and the 7<sup>th</sup> individual's pay was not affected.

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**Cause and Recommendation**

Because neither DOE nor PSC verify directly with the college or university that the individual had indeed graduated, the opportunity to submit fictitious diplomas exists. As noted above, access to standard office equipment makes it easy to alter documents such as diplomas.

Incorrect reclassifications resulted from the DOE Personnel staff not using the correct end date when calculating the length of experience. According to a DOE official, experience should be calculated from the teacher's original date of hire until the date the Personnel Action Form (PAF) form is signed by the DOE Director. However, this process was never documented in the form of a written procedure. As a result, in six instances the wrong date was used. In two of the six instances the date the Governor signed the PAF was used instead of the date the DOE Director signed. In the other four instances the date of the Attorney General's opinion regarding retroactive pay was used. In the 7<sup>th</sup> instance it appeared that the Specialist just miscounted the number of years of experience.

We recommend that:

1. Either DOE or PSC initiate the process of receiving and retaining verification of graduate status directly from the university or college. As most individuals graduate from COM, this can easily be accomplished by e-mail with the COM Registrar. For graduates of other colleges, it may require that the teacher request that the college send an official transcript directly to DOE or PSC.
2. PSC document its processes in the form of written procedures to ensure consistency and that all staff understand the correct process to be used.

**2. Implementation of Reclassification Policy Did Not Violate Relevant Rules, Regulations, or Funding Agreements.**

Internal policies should not violate sector grant agreements, Chuuk's Financial Management Regulations, JEMCO resolutions or any other governing documents.

The Teacher Reclassification Policy did not violate any of the documents mentioned above. The Chuuk PSC adhered to all relevant state laws and compact funding requirements when implementing the reclassification policy. Revising the existing classification system and establishing new pay rates for the new classifications are within the rights and responsibilities of the PSC. Proper approval was obtained from the Commission Board prior to implementation of the policy.

A decision was made to make retroactive payments to reclassified teachers. Teachers were given retroactive payments of the difference between their old pay rate and their new pay rate dating back to the start of the fiscal year. For example, if a teacher provided proof of having graduated

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and the Personnel Action Form used to authorize the reclassification was dated March 1, 2009, the teacher received a retroactive payment for the difference between the old pay rate and the new pay rate for the period between October 1, 2008 and March 1, 2009. Beginning March 1, 2009 the teacher would be paid at the new (higher) rate. From June 1, 2009 to January 19, 2010, retroactive payments over \$1,000,000 were made to about 300 reclassified teachers.

The Chuuk Attorney General provided an opinion that the retroactive payments would not violate Chuuk State Law. The sector grant manager viewed the decision as an internal decision and offered the opinion that the retroactive payments did not violate the sector grant agreement.

Because implementation of the Reclassification Policy and the related retroactive payments did not violate any rules, regulations, laws, or funding agreements, there are no recommendations.

### **3. More Degreed Teachers were Hired During the First Year of Reclassification**

As discussed in the introduction, when the Chuuk State Education Reform Plan was updated in 2007-2008 it included the goal of recruiting better qualified teachers. Reclassification and the resulting salary increase was intended to help accomplish this goal.

After the Reclassification Policy was implemented, a large percent of newly hired teachers possessed degrees. 29 of 31 (94%) of the teachers hired between May 1, 2009 and March 11, 2010 have their college degrees. It should be noted that two of the degrees were from unaccredited bible college.

The ratio of degreed new teachers to non-degreed new teachers compares favorably to the degree ratio of existing teachers. 60% (339 of the 561) of the current teachers have degrees as compared to 94% of the newly hired teachers. When the newly hired teachers are added to the roster of current teachers, the percent of DOE teachers who have degrees increases by about two percent. Combining the existing and old teachers, 368 of 592 (62%) of DOE teachers have degrees.

That all but two of the newly hired teachers have degrees suggests that the Reclassification Policy may have helped to attract more qualified applicants. However, it should be noted that other factors may be responsible in part or in whole for the increase in degreed applicants.

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**MANAGEMENT RESPONSE: page 1 of 2**



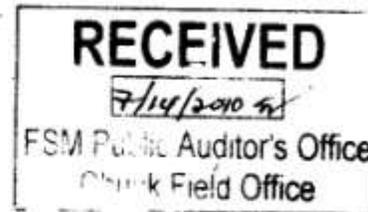
FEDERATED STATES OF MICRONESIA  
OFFICE OF THE GOVERNOR  
State of Chuuk  
Weno, Eastern Caroline Islands 96942

TEL NUMBER (691)330-7045  
FAX NUMBER (691)330-2604  
EMAIL: [residents@chuck.gov.fsm](mailto:residents@chuck.gov.fsm)

**Department of Education**  
Gardenia Aisek, Executive Director  
Noha Ruben, Acting Deputy Director

July 14, 2010

  
Mr. Haser Hainrick  
National Public Auditor  
Office of the National Public Auditor  
FSM National Government  
Palikir, Pohnpei 96941



Dear Mr. Hainrick:

Thank you for sending me a copy of the draft audit report for Teachers Reclassification that was conducted by your office this year. We have reviewed the draft audit report and the following is my response to your finding and recommendation that concerned the Department of Education.

**Finding:**

1. "Process Improvements Would Help Ensure College Graduation is Verified and that New Classification is correctly Calculated."

**Cause:**

"Because neither DOE nor PCS verify directly with the college or university that the individual had indeed graduated, the opportunity to submit forged diplomas exists."

**Recommendation:**

1. "Either DOE or PSC initiate the process of receiving and retaining verification of graduate status directly from the university or college. As most individuals graduated from COM, this can easily be accomplished by e-mail with the COM Registrar. For graduates of other colleges, it may require that the teacher request that the college send an official transcript directly to DOE or PSC."

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**Management Response:**

**We agree with the finding, cause, and recommendation. The Department of Education will make sure this problem will not happen again.**

Thank you very much.

Sincerely,



Gardenia Aisek  
Director of Education

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**NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank management and staff of Chuuk State DOE and PSC for their assistance and cooperation during the course of our audit.

The ONPA may perform a follow-up review within the next 9-12 months to ensure that Chuuk State DOE and PSC has taken corrective measures to address the finding and recommendations provided in this report.

In conformance with government auditing standards, we provided a copy of the draft report to the Director of Chuuk DOE and PSC to provide a response to the audit.



Haser H. Hainrick  
National Public Auditor

August 16, 2010

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

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**ONPA CONTACT**

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

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**ACKNOWLEDGEMENTS**

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

Eric Spivak, CIA, CGAP, Audit Manager  
Edwin Barnuevo, CPA, CGAP, Audit Supervisor  
Evelyn Paul, Auditor-In-Charge

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