

**AUDIT OF
THE PROFESSIONAL AND MARKET PLACE PREMIUMS**

FY 2010

REPORT NO. 2011-01



**Haser H. Hainrick
National Public Auditor**



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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January 27, 2011

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

RE: Audit of Professional and Market Place Premiums

We have completed our audit of the professional and market place premiums. The audit was conducted as required by Title 52 Section 163(4) of the FSM Code as amended by PL 13-64 states that *"The Public Auditor will conduct an annual audit of all professional and market place premiums being paid to public service employees. The audit findings shall be transmitted to the President and Congress."*

As such, the audit objective was to determine whether the Division of Personnel implemented the professional and market place premiums in compliance with applicable laws and other requirements.

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 Division of Personnel did not comply with Title 52 Section 163(1) and (3) of the FSM Code as amended by Public Law 13-64. Employees were awarded the premiums without the necessary verification of eligibility required by the law.

Additionally, it was reported that the Division of Personnel awarded premiums to 25 current employees, 24 received awards of the professional premium and 1 (one) received an award of the market place premium. During fiscal year 2010 alone nearly \$1 Million or approximately \$992,000 was paid to the current 25 employees. Of the nearly \$1 Million, approximately \$457,000 was awarded as the professional premium and \$5,366 as the market place premium.

The report clearly states that significant amounts of the professional and market place premiums may have been awarded to individuals who were not eligible.

The audit report includes recommendations that will help the Division of Personnel comply with the professional and market place premiums applicable laws and other requirements.

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A copy of the draft report was provided to the Chief of Staff and the Acting Personnel Officer. The Chief of Staff and the Acting Personnel Officer generally agreed to the findings and recommendations. Their responses are included as attachments to the audit report.

Respectfully yours,



Haser Hainrick
National Public Auditor

XC: Vice President
Chief of Staff, Office of the President
Acting Personnel Officer

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INTRODUCTION

Background

The Division of Personnel which is headed by a Personnel Officer¹ is responsible for managing and administering the deployment of personnel and their compensation under the laws and regulations of the National Public Service System. The National Public Service System Act is codified as Title 52 in the FSM Code under the Constitution.

To recognize market conditions which make it appropriate that consideration be given to labor outside the Federated States of Micronesia, and to recognize and reward the attainment of certain advanced professional status, the following premiums are provided to public service employees:

- a. **Professional Premium** - Given to an employee who has achieved advanced professional status in the field of law, engineering, accounting, or has earned a doctorate degree in any field. If qualified, the employee receives a premium of 90% in addition to the base salary for the position.

- b. **Market Place Premium** - Given to an employee who is recruited in a location outside the Federated States of Micronesia, who is a noncitizen of the Federated States of Micronesia, and at the time of original hire, a nonresident. The qualified person may be paid a premium based on labor market conditions in the place of recruitment and on the level of the base salary.

The requirements governing the professional and the market place premiums for the time period examined by this audit was enacted under Public Law 13-64² as amended. The specific requirements, listed below, are as follows:

Professional Premium

Lawyers:

- a. *attainment of an earned degree in law from a law school accredited by the competent authority in the jurisdiction on which it operates, and admission either to the FSM Supreme Court Bar or to practice law in another jurisdiction;*

OR

- b. *admission to the FSM Supreme Court Bar and eight (8) years of experience in the legal field;*

¹ Executive order No.1 as amended 11/26/10 changed the reporting of the Division of Personnel away from the Department of Finance and Administration to directly report to the President and to the Office of the President. The new title of the head of Personnel is "Personnel Officer." Prior to 11/26/10 and during the course of the audit, the title for the head of Personnel was "Assistant Secretary for Personnel."

² Effective date of Public Law 13-64 was on December 22, 2004

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Accountants:

- c. *full membership of one or more of the professional accountancy associations listed in the National Public Service System regulations, as amended from time to time,*

OR

certification by the Public Auditor that the employee's qualifications and experience are equivalent to those which would be required to obtain full membership of such an association;

Engineers:

- d. *attainment of an earned degree in engineering upon completion of a four-year course of study from a college, university or educational institution which is accredited by the competent authority in the jurisdiction in which the college, university or educational institution is located; and*

Doctorates:

- e. *attainment of an earned doctorate in any field.*

Market Place Premium

- a. *An employee who is recruited in a location outside the Federated States of Micronesia, who is a noncitizen of the Federated States of Micronesia, and at the time of original hire, a nonresident thereof, may be paid a premium based on labor market conditions in the country of recruitment and on the level of the base salary.*
- b. *A market-place premium may be paid if prevailing rates of pay for equivalent positions are substantially higher in the country of recruitment than in the Federated States of Micronesia.*
- c. *Upon request from the allottee of the funds from which the employee's compensation is to be paid, the Secretary of the Department of Finance and Administration shall report to the allottee on the difference, insofar as it can best be estimated, between the prevailing rates in the Federated States of Micronesia and in the country of recruitment.*
- d. *The allottee may then determine what portion, if any, of the difference will be paid as a market-place premium. The amount of the premium determined by the allottee shall not be greater than 90% of the value of the employee's base salary.*

The audit was conducted as required by Title 52 Section 163(4) of the FSM Code as amended by PL 13-64 which states that "*The Public Auditor will conduct an annual audit of all professional and market place premiums being paid to public service employees. The audit findings shall be transmitted to the President and Congress.*" Furthermore, informal communication was received by the Public Auditor that the selection and awarding of these premiums should be audited.

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Objective, Scope and Methodology

Objective: The audit objective was to determine whether the Division of Personnel implemented the professional and market place premiums in compliance with applicable laws and other requirements.

Scope: The audit scope included only professional and market place premiums paid to National Public Service employees from October 01, 2009 to September 30, 2010. The review was conducted pursuant to Title 55 FSMC 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, and agency, board, 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...” , and;

“...The Public Auditor shall have the discretion to perform audits...”

Methodology: Audit procedures were designed to test whether the selection and awarding of professional and market place premiums were in compliance with Title 52 Section 163 of the FSM Code as amended by PL 13-64. We conducted our fieldwork at the Division of Personnel and at the Division of Treasury, FSM Department of Finance & Administration.

The audit team reviewed the Personnel files of all employees currently receiving the professional or market place premiums and tested to determine whether Personnel effectively performed the appropriate procedures in selecting and awarding the professional and market place premiums. The audit team also interviewed the Personnel Officer and the late Training Coordinator and reviewed the Personnel files to verify that the employees were entitled to the professional and market place premiums.

We conducted this audit of compliance in accordance with generally accepted government auditing standards, which was issued by the U.S. Government Accountability Office on July 27, 2007. These standards require 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

Prior Audit Coverage: This is the first audit conducted by the Office of the National Public Auditor on the selection and awarding of the professional and market place premiums.

CONCLUSION

We concluded that the Division of Personnel did not comply with Title 52 Section 163(1) and (3) of the FSM Code as amended by Public Law 13-64. Employees were awarded the premiums without the necessary verification of eligibility required by the law.

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FINDING AND RECOMMENDATIONS

DIVISION OF PERSONNEL DID NOT VERIFY ELIGIBILITY

Pursuant to the National Public Service System Regulations, Section 3.10 specifies that the Personnel Officer shall perform examinations for ascertaining the qualification of all applicants including verification and evaluation of the education, training, aptitude, and character of applicants as deemed appropriate.

Public Law 13-64 requires, as a pre-condition to awarding a market place premium, that an analyses be performed of the job market in the applicant's home country for the particular job to determine if an award is applicable or necessary.

Best practices require that the information asserted on resumes and job applications be verified by performing background checks and verifications, to disallow false or inflated information.

The Division of Personnel awarded premiums to 25 current employees, 24 received awards of the professional premium and 1 (one) received an award of the market place premium. During fiscal year 2010 alone nearly \$1 Million or approximately \$992,000 was paid to the current 25 employees. Of the nearly \$1 Million, approximately \$457,000 was awarded as the professional premium and \$5,366 as the market place premium.

During the course of the audit, a matter came to our attention where a diploma that was submitted to the Division of Personnel, was questionable. This matter was referred to the ONPA Compliance Investigation Division for further review.

We found:

1. The Division of Personnel did not conduct background checking of credentials before making the awards.
2. 19 of the 25, nearly 80%, of the awards were given to individuals who did not provide credential documents to support the assertions made on their application or resume.

As a result, 80% of the \$457,000 was awarded based on the *purported credentials of the recipients as asserted on their resume or application.*

3. The market place premium was awarded without performance of the job market analyses required by Public Law 13-64.

As a result, \$5,366 in market place premium was wrongfully paid for fiscal year 2010 alone.

As a result of the weak controls noted above, significant amounts of the professional and market place premiums may have been awarded to individuals who were not eligible.

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Cause

1. According to the Division of Personnel, it was the responsibility of the hiring department to conduct the background checking. (Note: This is contrary to the law).
2. The Division of Personnel states that the market place premium was awarded to the current recipient because the prior employee in this position had received the premium. (Note: The eligibility of the prior employee to the premium does not ensure eligibility of subsequent employees, i.e. different credentials, different circumstances).
3. The Division of Personnel did not establish guidelines, policies or procedures regarding verification of eligibility for the professional and market place premiums.

Recommendation

We recommend that the Personnel Officer, to comply with the National Public Service System Act and best practices:

1. Conduct background checking of credentials prior to awarding the premiums to ensure eligibility.
2. Perform background checking of all current employees presently receiving the premiums to verify if the employee was eligible when the premium was awarded.
3. Consider action to recover / collect past premiums paid to current employees that were not eligible for the premiums.
4. Consider legal action against employees who intentionally asserted the attainment of degrees not earned.
5. Develop and implement any other necessary control activities, i.e. policies and procedures, to ensure that the professional and market place premiums are awarded only to individuals who are truly eligible.

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MANAGEMENT RESPONSES:

A. Acting Personnel Officer

The following information was received during the audit exit conference held with the Acting Personnel Officer (Acting Officer) on January 14, 2011 during which the findings and recommendations were discussed in detail.

The Acting Officer agrees with the findings and recommendations stated in the audit report. The Acting Officer states that the Office of the President is in the process of hiring a new Personnel Officer to administer the Office of Personnel and the new Personnel Officer will be responsible for implementing the recommendations.

Furthermore, the Acting Officer acknowledged that the audit is the first review of the professional and market place premiums. She also mentioned that the Division of Personnel needs help and guidance in order to implement the law on the premiums.

The Acting Officer also mentioned that she was glad we conducted this audit as our audit revealed that the Division of Personnel may have relied on wrong information; that the Division of Personnel should conduct background checking and verification of credentials prior to awarding of premiums. It was agreed that it is not the requesting department's function to conduct background checking.

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B. Chief of Staff



Government of the Federated States of Micronesia

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OFFICE OF THE PRESIDENT

CHIEF OF STAFF

January 25, 2011

Honorable Haser H. Hainrick
National Public Auditor
Office of the National Public Auditor
P.O. Box PS-05
Palikir, Pohnpei FM 96941

Haser
1.25.2011



Dear Mr. Hainrick:

I am happy to be provided this opportunity to comment on the report issued by your Office following your audit of the Market Place Premium and Professional Premium.

While I must plead ignorance on the cases you identified as questionable as far as payment of Market Place Premium or Professional Premium, I am quite certain your findings are accurate given the state of affairs at the Division of Personnel. No doubt they could have been more diligent in reviewing the data submitted to support payment of the premium. Where data were non-existent or questionable, payment of the premium should not have been approved, until full documentation was secured and verified as accurate.

Unfortunately, this may be a sign of the less than satisfactory situation that now exists at the Division of Personnel which prompted the President to make the decision to transfer the function out of the Department of Finance & Administration, to his own office on a temporary basis. He considers the status quo there as unacceptable and one way to make improvement was to place the operation in his own office until its credibility and effectiveness could be restored at which time it will become a separate and independent unit. This could take a year or so to change the culture at the Division of Personnel and make it an effective servicing arm of the government.

We are hopeful the move plus appointment of a new Personnel Officer will contribute to significant improvement at the operation as soon as possible. There is also plan to contract a consultant to conduct a review of the classification & compensation plan and make appropriate recommendations for change.

Thank you and do let me know if I can be of any further assistance to you.

Sincerely,

Kasio E. Mida
Kasio E. Mida
Chief of Staff

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ONPA EVALUATION OF MANAGEMENT RESPONSE

The Chief of Staff and the Acting Personnel Officer of The Office of the President agreed with the audit finding and recommendations.

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NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank management and staff of the Division of Personnel for their assistance and cooperation during the course of our audit.

The ONPA may perform a follow-up review within the next 12-18 months to ensure that Division of Personnel 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 Acting Personnel Officer and the Chief of Staff to provide a response to the audit.



Haser H. Hainrick
National Public Auditor

January 27, 2011

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ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

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ACKNOWLEDGEMENTS

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

Ron Sufficool, CPA,CISA,CIA,CFE,CMA, Audit Manager
Manuel San Jose, CGAP, Audit Supervisor
Keller E. Phillip, Auditor-In-Charge
Lover Haimin, Staff Auditor

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