



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON

SOCIAL SECURITY ADMINISTRATION



REPUBLIC OF PALAU

FOR THE PERIOD OF OCTOBER 1, 2009 THROUGH SEPTEMBER 30, 2011

SSA-09-11P-02*opa01



REPUBLIC of PALAU

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Office of the Public Auditor

November 12, 2012
Serial#: opa13-010au

Ms. Florencia Rirou
Chairperson, Board of Directors
Social Security Administration
Koror, Republic of Palau 96940

Subject: Final Audit Report on Social Security Administration (SSA) for the period of October 1, 2009 through September 30, 2011.

Dear Chairperson Rirou:

This report presents the results of our audit on Social Security Administration (SSA) for the period from October 1, 2009 through September 30, 2011.

The Office of the Public Auditor (OPA) received your response to the draft audit report. Your response has been incorporated and published in the final audit report.

The OPA has established an Audit Recommendation Tracking System (ARTS) to keep track of the status of recommendations issued in this report. Accordingly, the OPA will conduct follow up inspections on your responses and corrective action measures to assess their implementation and operation. On a semi-annual basis, June 30 and December 31 each year, the OPA will report the status of the recommendations to the Office of the President and Presiding Officers of the Olbiil Era Kelulau for their information and disposition.

If you have any questions regarding matters of audit findings and recommendations, the OPA will be available to discuss such matters at your request.

Sincerely,



Saturnino Lewid
Acting Public Auditor

cc *All Board of Directors, Social Security Administration*
Mr. Satoru Adachi, Administrator, Social Security Administration

Social Security Administration (SSA) Republic of Palau

Period from October 01, 2009 to September 30, 2011

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REPUBLIC of PALAU

EXECUTIVE SUMMARY

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Office of the Public Auditor

November 12, 2012

Ms. Florencia Rirou
Chairperson
Board of Trustees
Social Security Administration
P.O. Box 679
Koror, Republic of Palau

Subject: Final Audit Report on Performance Audit of Social Security Administration for the period from October 01, 2009 through September 30, 2011

Dear Chairperson Rirou:

This report presents the result of the Office of the Public Auditor's (OPA) performance audit of Social Security Administration (SSA) for the period from October 01, 2009 through September 30, 2011.

The objective of the audit is to determine the propriety and compliance with SSA policies and procedures, rules and regulations the following actions:

- (1) Personnel: All employees: Positions/Job description, position initially hired for, qualifications required per job vacancy announcement posted, years of service, and current or existing job title and movement of salaries and wages.
- (2) Budget vs. Expenditures: Specifically on timing and usage of fuel, overtime compensation.
- (3) Fixed Assets-Vehicles: Inventory, Disposal, Bidding Process, Selection, and Contract Award.

Discussed below is a synopsis of the deficiencies and issues the OPA found and the recommendations, which OPA believes, if implemented, will correct these deficiencies:

Finding 1: Fixed Assets- Disposal (Vehicle)

In late 2010 the SSA sold its 1997 Jeep Grand Cherokee vehicle. The OPA noted that the Social Security Administration lacks policies and procedures governing the management, sale, and disposal of its properties. The SSA elected to sell the vehicle using the Open Auction format whereupon bidders are asked to submit

bids by visiting the SSA office and registering their bid on an open "bidding sheet" visible to competing bids. The vehicle was eventually sold to the highest bidder, which turned out to be the SSA Chief Procurement Officer.

Recommendation

The OPA recommends that SSA management establish policies and procedures governing the management, sale, and disposal of SSA properties. In addition, the Board of Directors should look into the SSA's Procurement Policies and Procedures, in particular, Part IV on Ethics in SSA Contracting, and take appropriate action for the apparent violation of employee conflict of interest provisions.

Finding 2: Fixed Assets - Competitive Bidding (Vehicle)

The SSA did not follow its procurement policies and procedures when procuring a 2007 Toyota RAV4 costing \$18,893.04 from an off-island vendor.

Recommendation

The OPA recommends the Social Security (SS) Administrator to establish controls to ensure that competitive bidding requirements are adhered to when procuring goods or services exceeding five thousand dollars (\$5,000).

Finding 3: Managers/Supervisors Overtime Pay

The audit revealed that the SSA Division Managers/Supervisors received overtime pay contrary to EPM Part 14. Of the total overtime Pay of \$53,654.63 for the two fiscal years ended September 30, 2011, \$23,354.77 was paid out to Divisions Managers/Supervisors; \$6,788.78 for fiscal year 2010 and \$16,565.99 for fiscal year 2011. Records show that these overtime compensations lacked prior request/approval by the employees' supervisor or authorization by the SS Administrator prior to performing overtime work. Additionally, the Division Managers/Supervisors were not consistently using the SSA time clock to time in and time out to effectuate the accuracy of actual time earned. Also, the OPA found that the process for computing regular and overtime hours was obscured and unconventional. The process practiced was that employees who worked outside normal working hours (8:00 a.m.-5:00 p.m., Mon.-Fri) would be credited for overtime hours for the amount of time put in, regardless of the amount of regular hours earned. If an employee earned less than 40 hours of regular hours, the difference would be charged to annual leave and the employee is then paid overtime for hours worked outside normal working hours. Moreover, the type of work performed on overtime was not of such necessity or criticalness in nature that it would have a negative impact on the operations of SSA.

Recommendation

The OPA recommends that the SS Administrator adheres to SSA Employee Personnel Manual (EPM) in the provision of overtime compensation to employees. Specifically, the SSA EPM grants overtime pay to non-management staff. In addition, the Manual prescribes specifically that overtime shall mean hours of work assigned by a supervisor to an employee, which is in excess of 40 hours in a workweek. Finally, overtime work requires prior request/approval of the employee's supervisor and authorization of the administrator.

These management controls were evidently lacking prompting widespread abuse of overtime compensation.

Finding 4: Overtime Pay For Non-Management Staff and HCF Supervisor

The audit revealed that the administrator did not comply with and enforce SSA EPM in regards to overtime compensation as employees did not use time clock to time in/time out, lack of prior approval for overtime work, discrepancies in hours earned per timecard and timesheets were not reconciled, portions of regular hours short of 40 (standard 40 hours/week) were apportioned and charged to annual leave in order for employees to be paid straight overtime for overtime work, lack of documentation to justify overtime work outside the office, and other deficiencies contravening overtime policies.

Recommendation

The OPA recommends the SS Administrator adheres to SSA Employee Personnel Manual (EPM) with respect to overtime compensation. Specifically, the use of a time clock to time in/ time out should be enforced, prior approval of overtime work should be strictly enforced, regular 40 hours per week workload should be disposed of first before calculation of overtime hours, hours earned per timecard and timesheet should be reconciled, proper documentation should be maintained on file to justify overtime work outside the office, and such other management controls and monitoring to ensure compliance with the SSA EPM.

Finding 5: Temporary Staff Sick Leave

During review of payroll testing, OPA noted a check no. 2666 for \$55.54 for sick leave compensation for a temporary staff member contrary to the aforementioned SSA personnel policy.

Recommendation

The OPA recommends the SSA management strictly adhere to and enforce its EPM policies in regards to temporary employees and sick leave compensation.

Finding 6: Timesheet Review

A review of payroll processing revealed that management review was inadequate to ensure that hours earned per timecard reconciled and agreed to timesheets and payroll calculations, for both regular and overtime hours.

Recommendation

The OPA recommends that timesheets be reviewed by supervisors/management to ensure that they reconcile and agree to timecards and payroll excel calculations.

Finding 7: Fuel Purchases on "Open" Charge Account

During the review of the Social Security Administration's fuel purchases, OPA found that the SSA was operating an "Open" fuel charge account to purchase fuel for the SSA. And because the SSA did not institute a "Fuel Requisition" form or similar control document, the OPA found numerous problems with the charge account.

Recommendation

The OPA recommends the SSA management establish the use of a “Fuel Requisition” form or similar control document to control the use of the open charge account. We further recommend that management direct the Finance office to be more attentive in reviewing fuel invoices and supporting documents to ensure that only those requisitions properly authorized, documented, and for official purposes are processed for payment. Finally, the Board of Trustees should review the fuel purchases and take appropriate action for those purchases that may not support the official business of the SSA.

Finding 8: Cash Disbursements/Accounts Payable Voucher

During the review of cash disbursement, the OPA noted that the SSA lacks a disbursement control form the object of which is to document prior approval of disbursement by management, account to be charged, and certification of funds availability, etc.

Recommendation

The OPA recommends the SSA management consider the use of a disbursement control form as an internal control function to document prior approval of disbursements, account to be charged, and certification of funds availability, etc.

Finding 9: Unclassified Positions Not Properly Authorized

In the review of the SSA’s Employee Personnel Manual (EPM) and Organizational Chart (OC), the OPA noted that there were established positions within the SSA that the Administrator had not recommended to the Board for creation. Therefore, these positions are not prescribed or classified in the EPM. Also, the OC contains five (5) sections (each headed by a manager) responsible to the Social Security Administrator a few of which contains functional descriptions different from those prescribed in the EPM authorized by the Board.

Recommendation

The OPA recommends that when positions or changes to the organization structure of the SSA becomes necessary for the efficient performance of the duties and functions of the Social Security Administration, the SS Administrator make recommendations to the SS Board for its approval. Once approved, the Administrator should revise the SS Employee Personnel Manual and the SS organization chart to reflect the revisions.

Finding 10: Employment Policies Not Properly Followed

In the review of thirteen (13) newly hired employees, the OPA found following deficiencies not in compliance with the SSA EPM:

- Four (4) vacancy positions lacked job announcement
- Eleven (11) vacancy positions lacked source of advertisement
- Four (4) vacancy positions lacked applicant’s job application on file
- Twelve (12) vacancy positions lacked documented interviews by the administrator prior to hiring

- All thirteen (13) vacancy positions lacked an Open List to show that the selection was made from the list
- Four (4) vacancy positions lacked List of Eligibility
- All thirteen (13) applicants lacked evidence of physical examinations and background & reference checks in file
- Nine (9) vacancy positions lacked evaluations on file by section managers for recommendations to the administrator for hiring

Recommendation

The OPA recommends the SS Administrator adheres to SSA policies and procedures with respect to recruitment and hiring of employees for vacant positions within the SSA. In addition, the administrator should ensure that all pertinent documents respecting the hiring and promotion process are securely filed in personnel and/or administrative files.

Finding 11: Pay Grade Level and Salary Structure

In reviewing the Employee Personnel Manual (EPM), the OPA noted that SSA has a Pay Level and Salary Structure in place. However, in reviewing Personnel Action Forms of employees (both new hires and promotions/pay increments), we found that the Salary Grade/Salary Structure used is not in line with that contained in the EPM but rather more aligned to the Republic of Palau's National Government's pay scale, which we found was not approved by the Board.

Recommendation

The OPA recommends that the SS Administrator follow the SSA Salary Grade/Salary Structure in processing personnel actions of its employees (new hires, promotion/pay increments). In addition, when the administrator finds it necessary to amend or revise the salary structure to facilitate the efficient performance of the duties and functions of the Social Security Administration, the administrator should propose the change to the Board for approval before execution.

Finding 12: Probationary Period and Status

In the review of newly hired employees, the OPA found that the administrator was not complying with the SSA EPM with respect to policies concerning the treatment of employees on probationary status; in particular, the requirement that employees be evaluated twice during the probationary period, which the administrator failed to carryout for some of the new employees.

Recommendation

The OPA recommends that the SS Administrator adhere to and enforce SSA personnel policies. Specifically, new hires serving probationary status should be evaluated twice during the period of probation. The second evaluation report will be made no later than one month prior to the expiration of the probationary period. Such report shall recommend continuance of the employee in the service of the Social Security Administration, or dismissal from service.

Finding 13: Double Claim of Working Hours

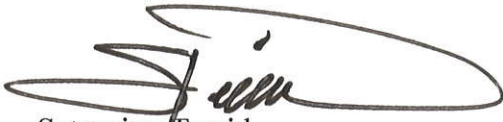
In the review of payroll, the OPA noted one section manager who worked on a particular working day for nine hours (9) and thirty (30) minutes and claimed the hours as both regular and overtime work, which the individual was paid. Furthermore, that particular day, Monday, May 9, 2011, was not a holiday. Moreover, the employee manually entered her time.

Recommendation

The OPA recommends that the SS Administrator review overtime and other payroll-related activities to ensure that hours earned per timecard reconcile and agree to timesheets and payroll calculations, for both regular and overtime hours.

Finally, Office of the Public Auditor would like to thank the management and staff of the Social Security Administration for the professional courtesy and cooperation extended to us during the audit.

Sincerely,



Satrunino Tewid
Acting Public Auditor

BACKGROUND

History

The Republic of Palau Social Security Administration (SSA) was established on July 1, 1968 as an offshoot of the former U.S. Trust Territory Social Security System. With the dissolution of the U.S. Trust Territory of the Pacific Islands and the separation of Palau from the rest of the former Trust Territories entities, the Palau government enacted the Republic of Palau Public Law (RPPL) 2-29, the Social Security Act of 1987, which established the Palau Social Security Trust Fund that took over the Palau share of assets and liabilities of the Trust Territory Social Security System (TTSSS). In 1991, this was replaced by RPPL No. 3-64, which provided for retirement, survivor, disability and death benefits to covered wage earners and self-employed persons as well as their qualified survivors.

More recent, through the enactment of the National Healthcare Financing Act, RPPL No. 8-14, the Social Security Administration became responsible for administering the Republic of Palau's first national healthcare financing program, known today as the HealthCare Fund (HCF).

Administrative Structure

The SSA of the Republic of Palau is a self-supporting and self-funding public corporation wholly owned by the Republic of Palau as established by the Social Security Act and amended by RPPL 3-64, and codified under Title 41 of Palau National Code Annotated (PNCA). The Title 41 of PNCA, Section 721 establishes the Republic of Palau Social Security Administration (RoPSSA). The RoPSSA is charged with responsibility for the proper administration of the Republic of Palau's Social Security System. The powers, functions, duties and responsibilities of the Social Security Administration shall be exercised and performed by a five (5)-member Board of Trustees. The members of the SSA Board of Trustees are appointed by the President of the Republic with the advice and consent of the Olbiil Era Kelulau (OEK).

The five-member Board of Trustees select and appoint the Social Security Administrator who is responsible to the Board for the general administration of the Social Security System, and other powers, functions, duties and responsibilities prescribed by Title 41 of PNCA and Social Security By-Laws. The Social Security Administrator also serves as an ex officio member of the Board.

SSA Motto

The SSA motto is "Continuous Improvement" which reflects how they operate and how they serve all their customers- the public community of Palau. They will never say no to a customer's request without reviewing it first.

SSA Mission

The SSA mission is to fulfill the intent and purpose of the Social Security Act, that is, to ensure that “persons covered may be ensured a measure of security in their old age or during disability, and may be given in old age an opportunity for leisure without hardship and loss of income, and further, to provide survivor’s insurance for their spouses and children”. In addition, the mission states that the staffs of the Republic of Palau Social Security Administration discharge their duty with courtesy, professionalism and fairness to all.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit is to determine the propriety and compliance with SSA policies and procedures, rules and regulations the following actions:

- (1) Personnel: All Employees: Position/Job description, position initially hired for, qualifications required per job vacancy announcement posted, years of service, and current or existing job title and movement of salaries and wages.
- (2) Budget vs. Expenditures: Specifically on timing and usage of fuel, overtime compensation.
- (3) Assets: Vehicles: Inventory, Disposal, Bidding Process, Selection and Contract Award.

The audit covered the period from October 01, 2009 through September 30, 2011. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the Social Security Administration or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

The OPA 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 conclusions based on our audit objectives.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor to specifically act to prevent fraud, waste and abuse in the collection and expenditures of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste and abuse of public funds.

To accomplish the audit objective, the OPA reviewed accounting records maintained at the office of Social Security Administration, including budgetary laws, policies and procedures and other relevant laws and regulations, as well as conduct on-site inspection of the SSA’s fixed assets acquisitions and disposals. In performing the review, the OPA conducted tests of the above-noted components of the SSA’s accounting system and procedures to assess the adequacy of its system of internal controls. In addition, the OPA also interviewed appropriate staff and management of SSA.

PRIOR AUDIT COVERAGE

The most recent audit of Social Security Administration's financial statements was conducted by a private accounting firm completed for fiscal year 2010. The OPA reviewed the audit report to determine if any of the findings in the report may pertain to the objectives of this audit. Based on the review of the audit report, there was no prior year finding (s) pertaining to the objectives of this performance audit.

FINDINGS

Finding 1: Fixed Assets – Disposal (Vehicle)

Pursuant to the SSA Procurement Policies and Procedures, Section 108, Procurement Authority, states: “except as otherwise provided, all rights, powers, duties, and authority relating to the procurement of construction, goods, and services, and the management, control, warehousing, sale, and disposal of construction, goods, and services, are hereby vested in the Social Security Administrator.” In addition, Part I, Section 102, Requirement of Good Faith, states: These policies and procedures require all parties, including SSA employees, contractors, offerors and bidders involved in the negotiation, bidding, offering, performance and administration of SSA procurement and contracts to act in good faith. Moreover, Part IV prescribes Ethics in SSA Contracting and Section 402 (1), Employee Conflict of Interest, states: It is a breach of ethical standards for any employee or Board member of the SSA to participate directly or indirectly in a procurement action with the SSA... Finally, the SSA should have policies and procedures governing the management, sale, and disposal of its properties.

The audit revealed in late 2010 the SSA decided to sell one of its vehicles. The vehicle was a 1997 Jeep Grand Cherokee. Also, we found that the SSA lacks policies and procedures governing the management, sale, and disposal of its properties. The SSA elected to sell the vehicle using the Open Auction format whereupon bidders are asked to submit bids by visiting the SSA office and registering their bid on an open “bidding sheet” visible to competing bids. The vehicle would be sold to the highest bidder. Records revealed that the SSA issued five (5) separate Public Notices for the sale/auction of the vehicle as follows:

Public Notice **Open Auction for 1997 Jeep Grand Cherokee**

<i>Opening Date</i>	<i>Closing Date</i>	<i>Bidding Period</i>	<i>Starting Bid</i>	<i>No. of Bidders</i>
April 5, 2010	April 9, 2010	5 Days	\$ 2,300.00	0
April 26, 2010	April 30, 2010	5 Days	\$ 1,800.00	0
July 5, 2010	July 12, 2010	7 Days	\$ 1,300.00	0
July 26, 2010	July 30, 2010	5 Days	\$ 800.00	0
August 30, 2010	September 10, 2010	12 Days	\$ 650.00	3

A review of the above Public Notices show that the SSA may not have provided the public sufficient time to learn of the auction and respond accordingly, considering the mode in the number of days the series of notices ran for is five (5) days, and 12 days at most. In addition, in reviewing the above Table, there is an apparent void (weekly) in advertising the notice in April and July and the whole month of May, June, and August, which seems illogical if the objective is to reach as many potential bidders as possible. Also, the SSA alleged that the Public Notice was published in a local newspaper and posted at public facilities; however, the SSA was unable to provide documentation to corroborate the allegation.

Furthermore, the conduct of the SSA seems unreasonable and counterproductive (to the best interest of SSA) given that when Public Notices were published asking a higher starting bid (i.e., \$2,300) for the vehicle, the notice only ran for five (5) days; however, when the asking starting bid was reduced to \$650, the notice ran for twelve (12) days. Moreover, according to an SSA official assigned the responsibility for administering the auction, the instructions and guidelines for administering the auction came from then SS Administrator.

According to Kelly Blue Book, the Jeep is valued at \$2,850 (used and in fair condition), based on information obtained from SSA as a result of its search on the internet for the estimated value of the car. The Kelly Blue Book Private Party Value is what a buyer can expect to pay when buying a used car from a private party. Hence, despite having the information on the estimated value of the vehicle, the SSA issued the initial public notice for the auction of the vehicle with a starting bid price of \$2,300 and, after a series of short-noticed public notices, reduced the starting bid price down to \$650.

Based on the Bidding Sheet (official record of bidders), and as shown on above table, only three (3) bidders submitted bids in response to the final public notice for the auction of the vehicle. However, according to one of the bidders we interviewed, he said that he visited the SSA office on September 10, 2010 (closing date of last public notice) and registered his bid on the bidding sheet. He further added that at the time he entered his bid there was only one other bid above his bid on the bidding sheet. He finally added that at the instruction of an SSA official, he remained at the SSA office past 4:30 p.m. (closing time) and that no other bidder showed up to bid on said vehicle and so there should have been only two (2) bids on the bidding sheet. Based on the results of bids received, the SSA awarded the vehicle to then Administrator of SSA, who failed to disclose his conflict of interest as required by the SSA Procurement Policies and Procedures.

We were unable to obtain justification from the SSA regarding the reasons for the extremely restricted public notices; however, according to SSA, the reason for the “open” bid format (use of a bidding sheet for bidders to enter their bids, and visible to competing bids) is because the bid instructions require that bids be made in increments of \$20.00, which is rather low considering the book value of the car and the fact that SSA had significantly reduced the starting bid to \$650. This justification for “open” bid format, however, makes no sense because a bidder can submit a sealed bid in increment of \$20.00 without viewing other bids. In fact, if the object of the auction is to maximize the recovery of the book value of the car (\$2,850), then a sealed bid would have been more practical and effective. Finally, the above conditions may have occurred due in part because the SSA has not established policies and procedures governing the management, sale, and disposal of its properties

As a result, the SSA management did not adhere to the SSA Procurement Policies and Procedures in the sale/auction of the vehicle. In addition, because of the restrictions placed on the duration by which public notices were published, the restriction may have contributed to the low turnout of responses and, at the same time, compromised a higher starting bid for the vehicle. Also, the open bidding format, which was unnecessary, may have contributed to the low bids for the vehicle.

Recommendation

We recommend that SSA management establish policies and procedures governing the management, sale, and disposal of SSA properties. In addition, the Board of Directors should look into the SSA’s Procurement Policies and Procedures, in particular Part IV on Ethics in SSA Contracting, and take appropriate action for the apparent violation of employee conflict of interest provisions.

SSA’s Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 2: Fixed Assets – Competitive Bidding (Vehicle)

The Social Security Administration’s Procurement Policies and Procedures Part III, Sub-Part A, Large Purchases, defines large purchases as any purchase exceeding five thousand dollars (\$5,000) that requires formal bidding and is accompanied by a contract between SSA and a vendor/contractor. It also states that when practicable, the Procurement Officer (s) shall attempt to purchase from local vendors/contractors within the Republic of Palau. However, if the Procurement Officer (s) can show that the price, quality, delivery time, or other relevant factors make it necessary or more economical to purchase from foreign vendors, the Procurement Officer (s) may use or prefer foreign vendors over local vendors.

The SSA did not follow its procurement policies and procedures when procuring a 2007 Toyota RAV4 costing \$18,893.04 from an off-island vendor. The agency failed to put out for competitive bidding the purchase of said vehicle. In addition, the SSA did not enter into a contract with the vendor as prescribed in the SSA’s Procurement Policies and Procedures. Moreover, documents surrounding the purchase suggest that the SSA did not conduct a cost-benefit analysis to determine whether it was more economical to purchase locally or off-island. Records show that the SSA made two (2) installments payments for the vehicle as follows:

<i>Check Date</i>	<i>Check Amount</i>
<i>03/26/10</i>	<i>\$ 9,446.52</i>
<i>04/13/10</i>	<i>9,446.52</i>
<i>TOTAL</i>	<i>\$18,893.04</i>

The cause of the above condition is failure of management to adhere to and enforce the SSA's procurement Policies and Procedures.

Due to lack of competitive bidding and cost-benefit analysis, we were unable to provide assurance that the SSA obtained the lowest price and best quality product possible for the money it paid. Therefore, questioned costs of \$18,893.04 exist.

Recommendation

The OPA recommends the SSA management adhere to and enforce its Procurement Policies and Procedures. In doing so, the SSA should ensure that procurements costing \$5,000 or more should be let to competitive bidding and any accompanying contract award should be evidenced by a contract between the SSA and the contractor/vendor. Furthermore, in deciding whether to procure goods or services locally or off-island, the SSA should conduct a cost-benefit analysis to determine which option is more economical and beneficial to the SSA. Moreover, contract files should be retained and filed in an orderly manner, which should include, at a minimum, the following documents: evidence of public notice including request for bids or proposals, summary of bids or proposals received, bid evaluations, criteria for bid evaluations, bid award, and contract agreement.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 3: Managers/Supervisors Overtime Pay

The Social Security Administration's Employee Personnel Manual (EPM), Part 14, Overtime Pay, states: Overtime pay is granted only to non-management staff.

Part 14 (A) states in part: Overtime shall mean hours of work assigned by a supervisor to an employee, which is in excess of 40 hours in a workweek. For the purpose of the overtime, the workweek is considered to be five (5) consecutive days within the seven (7) days period between midnight Sunday to the following Saturday at 12 midnight.

In addition, Part 14 (B) states: Overtime work requires prior request/approval of the employee's supervisor and authorization of the Administrator. Without this approval and authorization, an employee is prohibited from performing overtime work.

Office of the Public Auditor

The audit revealed that the SSA Division Managers/Supervisors received overtime pay contrary to EPM Part 14. Of the total overtime Pay of \$53,654.63 for the two fiscal years ended September 30, 2011, \$23,354.77 was paid out to Divisions Managers/Supervisors; \$6,788.78 for fiscal year 2010 and \$16,565.99 for fiscal year 2011. Furthermore, records show that these overtime compensations lacked prior request/approval by the employees' supervisor or authorization by the Social Security (SS) Administrator prior to performing overtime work. Additionally, the Division Managers/Supervisors were not consistently using the SSA time clock to time in and time out to effectuate the accuracy of actual time earned. Also, the OPA found that the process for computing regular and overtime hours was obscured and unconventional. The process practiced was that employees who worked outside normal working hours (8:00 a.m.-5:00 p.m., Mon.-Fri) would be credited for overtime hours for the amount of time put in, regardless of the amount of regular hours earned. If an employee earned less than 40 hours of regular hours, the difference would be charged to annual leave and the employee is then paid overtime for hours worked outside normal working hours. Moreover, the type of work performed on overtime was not of such necessity or criticalness in nature that it would have a negative impact on the operations of SSA.

Illustrated below are some examples of type of work performed on overtime between 6:00am-8:00am and 5:00pm-2am:

Check	Date & Day	Description Overtime Performed	No. Hrs. Earned
1660	9/21/09, Monday	Correction on Quarterly returns after conversion	3:03
1665	9/26/09, Saturday	Need to Prepare claims, write letters for DI, RE, and PS claims. Also worked on presentation for year end meeting 9/30/09.	4:19
1976	2/13/10, Saturday	Remove and clean Tiles in Annex	6
1930	2/26/10, Friday	Scanning	3:14
1941	2/27/10, Saturday	Continued checking lump sum claims that were reviewed by section's staffs. Continued reconciling certified PS listing with the system.	10:17
1956	3/1/10, Monday	Scanning SSN Cards	3:05
1967	3/12/10, Friday	Continued reconciling certified listing for Prior Service with the system	3:56
1993	3/15/10, Monday(Holiday)	Continued compiling the listing to be publish for Prior Service Benefit Fund	6:01
2008	4/3/10, Saturday	Verify Scanned SSN application	7:04
2546	12/11/10, Saturday	Annex Renovation	9
2628	1/25/11, Tuesday	HCF Voluntary Screen and Re-indexing and setting test system to run each scenario for HCF voluntary	3
2607	1/26/11, Wednesday	Collection	2:06
2655	1/31/11, Monday	HCF Last day of Collection	9
2655	1/31/11, Monday	Reviewed claims and benefit adjustments payable on 2/11/11	4:12
2673	2/16/11, Wednesday	Attended Budget Workshop at BOH	2
2673	2/25/11, Friday	Reviewed and signed checks for February bills. Also reviewed initial claims.	2:30
2749	3/29/11, Tuesday	SSN Issuance	3:29
2913	5/9/11, Sunday	HCF	9:30
2889	5/13/11, Friday	Government Payment HCF Adjustment	6:16
3099	8/1/11, Monday	Syncing and re-indexing & last day of collection	11
3099	8/5/11, Friday	NHI coverage for late payments to SPN	2:30
3074	8/1/11, Friday	Collection	7:41

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The cause of the above condition appears to be lack of management control and monitoring over overtime activities. In addition, due to the lack of consistency in the use of time clock to evidence timing in and out, we were unable to ascertain the propriety of actual overtime hours, as some employees manually entered their overtime hours. In addition, an Inter-office memo dated March 17, 2009, issued by the SS Administrator, states in part: "If you report to work more than ten (10) minutes late with a valid reason, the length of time that you were late would be charged to paid leave (vacation time)"..., which may have contributed to excessive overtime compensation.

As a result, the SSA may have incurred more overtime expenditures than what employees were entitled to. In addition, overtime compensation to section managers/supervisors runs in conflict with the SSA Employee Personnel Manual. Moreover, based on our review, we observed what amounts to be a substantial breakdown of management controls over overtime activities.

The table below shows overtime compensation to Division Managers/Supervisors for FY 2010 and 2011:

Title Manager/Supervisor	FY 2010 Salary	FY 2010 Overtime	Total FY 2010 Estimated Earnings	FY 2011 Salary	FY 2011 Overtime	Total FY 2011 Estimated Earnings	Grand Total Overtime FY 2010 & 2011
Employer Service Manager	\$23,460.00	\$1,957.24	\$25,417.24	\$24,633.00	\$ 1,707.11	\$26,340.11	\$ 3,664.35
Information System Manager	\$23,438.00	\$2,175.88	\$25,613.88	\$24,610.00; \$24,938.00	\$11,402.16	\$36,343.44	\$ 13,578.04
Chief Financial Officer	\$25,350.00	\$2,101.50	\$27,451.50	\$26,618.00; \$29,022.00	\$ 3,331.16	\$32,545.48	\$ 5,432.66
Benefits & Claims Manager, Prior Service & Disability Insurance (retired)		\$ 554.16					\$ 554.16
Former Chief Financial Officer (resigned)						\$ 125.56	\$ 125.56
Total Overtime Pay for Fiscal Years 2010 and 2011:							\$ 23,354.77

Recommendation

The OPA recommends that SS Administrator adheres to SSA Employee Personnel Manual (EPM) in the provision of overtime compensation to employees. Specifically, the SSA EPM grants overtime pay to non-management staff. In addition, the Manual prescribes specifically that overtime shall mean hours of work assigned by a supervisor to an employee, which is in excess of 40 hours in a workweek. Finally, overtime work requires prior request/approval of the employee’s supervisor and authorization of the administrator. These management controls were evidently lacking prompting widespread abuse of overtime compensation.

SSA's Response: From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:

- The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 4: Overtime Pay For Non-Management Staff and HCF Supervisor

The Social Security Administration's Employee Personnel Manual (EPM), Part 14, Overtime Pay, states: Overtime pay is granted only to non-management staff.

Part 14 (A) states in part: Overtime shall mean hours of work assigned by a supervisor to an employee, which is in excess of 40 hours in a workweek. For the purpose of overtime, the workweek is considered to be five (5) consecutive days within the seven (7) days period between midnight Sunday to the following Saturday at 12 midnight.

In addition, Part 14 (B) states: Overtime work requires prior request/approval of the employee's supervisor and authorization of the Administrator. Without this approval and authorization, an employee is prohibited from performing overtime work.

The audit revealed that the SSA non-management staff, including the HealthCare Fund Supervisor, received overtime pay in accordance to EPM Part 14. However, records show that these overtime compensations lacked prior request/approval by the employees' supervisor or authorization by the SS Administrator prior to performing overtime work. Of the total overtime pay of \$53,654.63 for the two fiscal years ended September 30, 2011, \$30,299.86 was paid out to non-management staff and healthcare fund supervisor, \$13,886.16 for fiscal year 2010 and \$16,413.70 for fiscal year 2011. A further review of the \$30,299.86 overtime pay shows the following deficiencies:


- ❖ Seven (7) transactions showed discrepancies in time in and time out data input into excel computation and actual time card data,
- ❖ Three (3) transactions showed that employee claimed more overtime hours contrary to actual time per time card,
- ❖ Thirteen (13) transactions showed no documentary evidence on file to justify that employee performed SSA work while working overtime remote from the office,
- ❖ Eighteen (18) transactions showed that employees timed in and timed out manually instead of using the policy-mandated time clock,

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- ❖ Twenty-Three (23) transactions involved charging employees annual leave for portion of regular hours short of 40 in order for employees to be paid overtime for overtime work,
- ❖ Thirty-Four (34) transactions showed that employees’ weekend hours were not included in the excel calculation to determine total hours earned for the pay period resulting in carryover of payroll costs,
- ❖ Twenty-Three (23) transactions lack leave application on file to evidence proper authorization and approval of employees’ annual leave
- ❖ Seven (7) transactions showed non-compliance with the leave application submission
- ❖ One (1) transaction showed that employee manually timed-in and -out

Moreover, the type of work performed on overtime was not of such necessity or criticalness in nature that it would have a negative impact on the operations of SSA.

Illustrated below are some examples of type of work performed on overtime between 5:00pm-1:45am:



Check	Date & Day	Description Overtime Performed	No. Hrs. Earned
1675	9/11/09; Friday	Closed files and trained Melinda in scanning SSN application	3:01
1677	9/3/09; Thursday	Worked on DH Files	2:10
1677	9/26/11; Saturday	Scan SS applications	7.33
1918	2/6/10; Saturday	Preparing Eva’s room at annex	6.25
1918	2/13/10; Saturday	Untiled Annex Floor	8.13
1942	2/26/10; Friday	Continued to review Lump Sum that were approved and make correction for the date of death in the system and reviewed the individual Wage History that needs to be Bold in the system.	2:38
1943	2/20/10; Saturday	Set-Up scanning computer/Format Kумы’s computer	5:42
1968	3/6/10; Sunday	Continued updating survey 2010	6:38
2030	3/20/10; Saturday	Quarterly Returns Adjustments	4:00
2030	4/3/10; Saturday	Data Entry Adjustment	5:22
2031	3/27/10; Saturday	Scanning SSN Cards	6:08
2542	12/12/10; Friday	Annex Renovation	8:30
2611	1/26/11; Wednesday	HCF	4:00
2644	2/1/11; Tuesday	Continue reviewing initial claims	4:51
2782	3/31/11; Thursday	HCF	7:49
3032	7/29/11; Friday	Collections	6:45
3086	8/3/11; Wednesday	Reviewed Surveys	2:04
3086	8/5/11; Friday	Reviewed MSA Refund for August 2011	2:08
3086	8/25/11; Thursday	Check preview SS monthly	2:21



Also, similar to managers/supervisors’ overtime pay, the OPA found that the process for computing regular and overtime hours was obscured and unconventional. The process practiced was that employees who worked outside normal working hours (8:00 a.m.-5:00 p.m., Mon.-Fri) would be credited for overtime hours for the amount of time put in, regardless of the amount of regular hours earned. If an employee earned less than 40 hours of regular hours, the difference would be charged to annual leave and the employee is then paid overtime for hours worked outside normal working hours.

The cause of the above condition appears to be lack of management control and monitoring over overtime activities. In addition, due to the lack of consistency in the use of time clock to evidence timing in and out, we were unable to ascertain the propriety of actual overtime hours, as some employees manually entered their overtime hours. In addition, an Inter-office memo dated March 17, 2009, issued by the SS Administrator, states in part: "If you report to work more than ten (10) minutes late with a valid reason, the length of time that you were late would be charged to paid leave (vacation time)"..., which may have contributed to excessive overtime compensation.

As a result, the SSA may have incurred more overtime expenditures than what employees were entitled to.

Recommendation

The OPA recommends the SS Administrator adheres to SSA Employee Personnel Manual (EPM) with respect to overtime compensation. Specifically, the use of a time clock to time in/ time out should be enforced, prior approval of overtime work should be strictly enforced, regular 40 hours per week work time should be disposed of first before calculation of overtime hours, hours earned per timecard and timesheet should be reconciled, proper documentation should be maintained on file to justify overtime work outside the office, and such other management controls and monitoring to ensure compliance with the SSA EPM.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 5: Temporary Staff Sick Leave

The SSA Employee Personnel Manual Part 16 (B) 5 states: "Temporary staffs are not entitled to paid sick leave."

Payroll testing revealed that check no. 2666 for \$55.54 was for sick leave compensation for a temporary staff member contrary to the aforementioned SSA personnel policy.

The cause of the above condition appears to be that SSA failed to enforce its EPM policies.

As a result, the temporary staff earned \$55.54 of sick leave compensation which he/she would otherwise not be entitled to pursuant to SSA EPM.

Recommendation

The OPA recommends that SSA management strictly adhere to and enforce its EPM policies in regards to temporary employees and sick leave compensation.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 6: Timesheet Review

Timesheets should be reviewed by appropriate supervisors and management to ensure they reconcile and agree to payroll calculations and timecards and that management controls over the payroll system is operating effectively. In addition, alterations to electronic timecards should require supervisory/management approval to ensure the integrity of the system.

A review of payroll processing revealed that management review was inadequate to ensure that hours earned per timecard reconciled and agreed to timesheets and payroll calculations, for both regular and overtime hours. In addition, manual alternations to electronic timecards lacked approval by management. We found that supervisors responsible for reviewing payroll processing did not ensure that time worked per timecards (time-in and time-out) reconciled and agreed to time entered on timesheets and excel (payroll) calculations. In addition, the SS Administrator approved timesheets but did not, from time-to-time, cross-review timesheets to source documents (timecards and excel payroll calculations) to ensure the data reconciled and agreed. Thus, the OPA found many instances where there were discrepancies in the number of hours worked between timesheets, excel payroll calculations, and timecards. In addition, we found many instances where manual alterations were made to timecards (i.e., to record overtime hours) and other payroll records without appropriate management approval. And because of lack of management review of source documents, these alterations would pass through on to timesheets, processed, and paid.

The cause of the above condition is inadequate review of payroll processing by supervisors/management.

As a result, we were unable to ascertain the propriety of the number actual hours worked and actual hours paid for both regular and overtime pay. In addition, we were unable to determine the legitimacy of hours claimed (regular and overtime) and paid based on manual alterations to payroll records without management approval.

Recommendation

The OPA recommends that timesheets be reviewed by supervisors/management to ensure that they reconcile and agree to timecards and payroll excel calculations. In payroll processing, the timesheet preparer should enter hours earned from timecard to timesheet, conduct payroll calculations on excel, and forward payroll records and related calculations to supervisor for review. The Supervisor would verify the timesheet by cross-checking hours worked to source documents (timecards) to ensure they reconcile and agree. The Supervisor also would verify excel calculations and sign the timesheet and payroll calculations as evidence of verification. Upon certification of review, the Supervisor forwards the payroll records to the SS Administrator for approval, which upon approval, are forwarded to Finance for payroll disbursement. The SSA Administrator should, from time-to-time, review the supervisory functions to ensure that the appropriate verification processes are carried out properly. In addition, all alterations to electronic timecards and other payroll records should require appropriate management approval prior to processing.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 7: Fuel Purchases on "Open" Charge Account

The use of an "open" fuel charge account should bear proper controls to ensure that fuel requisitions are properly authorized, for official business, justified, the person and equipment receiving the fuel are properly identified, and invoices are signed by the person receiving fuel.

During the audit the OPA found that the Social Security Administration operated an "open" fuel charge account to purchase fuel for the SSA. And because the SSA did not institute a "Fuel Requisition" form or a similar control document, the OPA found numerous problems with the charge account including: lack of approval for obtaining fuel, no justification of official purpose, no identification of equipment or persons getting fuel, etc. These weaknesses led to instances of abuses of the charge account including \$1,020.64 worth of fuel purchases for what we suspect were non-SSA vehicles and purchases for SSA

vehicles on weekends and holidays for which no justification was provided during the period from October 1, 2009 through September 30, 2011. See Appendix A for detail of expenditures.

It appears the cause of the above condition is the SSA management failed to establish and enforce controls over the use of the Open fuel charge account.

The effect of the above condition is that fuel may have been charged to the SSA's open fuel charge account for unofficial purposes. In addition, without the necessary controls in place, abuse over the use of the open charge account may continue undeterred leading to excessive fuel costs.

Recommendation

The OPA recommends the SSA management establish the use of a "Fuel Requisition" form or similar control document to control the use of the open charge account. Each and every fuel purchase should be accompanied by a fuel requisition form approved by an authorized SSA official (i.e., SSA Administrator), justified as to official purpose, person and equipment getting fuel are identified, etc. We further recommend that management direct the Finance office to be more attentive in reviewing fuel invoices to ensure that only those requisitions properly authorized and for official purpose are processed for payment. Finally, the Board of Trustees should review the fuel purchases and take appropriate action for those purchases that may not support the official business of the SSA.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 8: Cash Disbursements/Accounts Payable Voucher

A sound system of internal control dictates use of a disbursement control form (i.e., disbursement voucher) evidencing prior approval of disbursement by management, account to be charged, certification of funds availability, etc.

We noted that the SSA lacks a disbursement control form the object of which is to document prior approval of disbursement by management, account to be charged, certification of funds availability, etc.

It appears the SSA management may not consider disbursement control as an important function of the overall internal control system of the SSA. As such, a disbursement control system has not been established for the SSA.

Without a disbursement control system in place, the SSA, aside from the actual check disbursement process, lacks documented evidence of prior approval of disbursement, account to be charged, certification of funds availability, etc.

Recommendation

We recommend the SSA management consider the use of a disbursement control form as an internal control function to document prior approval of disbursements, account to be charged, and certification of funds availability, etc.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 9: Unclassified Positions Not Properly Authorized

The SSA Employee Personnel Manual (EMP) Part 6 (A) states in part, "The Board, upon recommendation by the Administrator, will create positions, which are necessary for the efficient performance of the duties and functions of the Social Security Administration."

In the review of the SSA's Employee Personnel Manual and Organizational Chart, the OPA noted that there were established positions within the SSA that the Administrator had not recommended to the Board for creation. As such, these positions are not prescribed or classified in the Employee Personnel Manual, and therefore lack authorized position title, pay level and salary range, and a brief description of duties and responsibilities. In addition, the Organization Chart contains five (5) Sections (each headed by a Manager) responsible to the Social Security Administrator a few of which contain functional descriptions different from those prescribed in the Employee Personnel Manual authorized by the Board.

It would appear that the SS Administrator established positions and Sections within the SSA without recommending the positions or changes to the Board for approval as required under the SSA Employee Personnel Manual.

The chart below shows the positions established by the administrator that had not been recommended to the Board for approval compared to those approved by the Board in the EPM.

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<i>Established Positions Not in EPM</i>	<i>Established Position in EPM</i>	<i>Not Established Position in EPM</i>
Administrative Officer	Social Security Administration	Benefit and Claim Manager@4
Information Systems Specialists*@1	Administrative Assistant	Benefit Manager
Information Systems Specialist Assistant*	Information Systems Manager@1	Audit and Collection Manager@3
Senior Accountant	Chief Financial Officer	Collection and Audit Officer (II-V)
Staff Accountant	Data Processing Officer	Junior Compliance Auditor
Accountant*	Audit and Collection Officer	Customer Service Clerk (I-II)
Finance and Accounting Clerk@2	Collection Officer	Accounting Clerk@2
Senior Data Processing Officer*	Senior Claims Analyst	Claim Analyst (III-V)
Employer Services Manager@3	Claims Analyst	Audit and Collection Officer (III-V)
Employer Services Assistant Manager		Collection Officer (I-III)
Senior Audit and Collection Officer		
Compliance and Collection Officer		
Compliance Officer		
Customer Service Representative		
Employer Services Assistant		
Member Services Manager@4		
Member Services Assistant Manager		
Claims Compliance Officer*		
Benefit and Claims Assistant		
Member Services Clerk		

*New Title Position in 2012 @ Position Title Change and not revise in EPM

As a result, the establishment of positions and Sections by the SS Administrator without due process and approval by the Board did not comply with SSA Employee Personnel Manual. In addition, the compensation structure accompanying those positions may lack proper approval by the Board as well. Moreover, the functional descriptions of Sections established by the SS Administrator also may lack proper authority.

Recommendation

We recommend that when positions or changes to the organization structure of the SSA becomes necessary for the efficient performance of the duties and functions of the Social Security Administration, the SS Administrator makes recommendations to the SS Board for its approval. Once approved, the Administrator should revise the SS Employee Personnel Manual and the SS organization chart to reflect the revisions.

SSA’s Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational*

issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.

Finding 10: Employment Policies Not Properly Followed

Part 7, Employment, of the SSA Employee Personnel Manual prescribes policies for hiring employees. Enumerated below are some of the pertinent policies:

- (1) All personnel recruitment requirements shall be announced through notice of position vacancies published and distributed throughout the Republic of Palau, as practicable. Efforts shall be taken to assure that vacancy announcements reach all segments of the population in order to assure equal opportunity for all citizens.
- (2) The hiring supervisor shall have the responsibility to evaluate the qualifications of applicants for employment in his/her respective section in the Social Security Administration and make recommendation to the Administrator for hiring. The Administrator will interview all recommended applicants prior to hiring.
- (3) Evaluation will consist of various combinations as appropriate to the position, as follows:
 - {a} practical written examination
 - {b} performance test and/or work sample
 - {c} oral examination (interview)
 - {d} rating of training and experience
 - {e} background and reference check
 - {f} physical examination
- (4) All eligible applicants shall be certified, ranked, and placed on an eligible list. Selections shall be made from the eligible list.
- (5) Selection of eligible applicants shall be accomplished consistent with the merit principles of recruitment and selection shall be based on education, ability, knowledge, attitude, and skills.
- (6) Open List: Open list is a list of eligible applicants established pursuant to a vacancy announcement and containing names of candidates from outside and inside the Social Security Administration. This list shall contain names of all who applied and were found to be eligible. The List of Eligibility is a list of candidates who applied and certified to be qualified to fill the vacant position within the Social Security Administration.
- (7) Promotional List: This list is composed of names of current permanent employees of the Social Security Administration who applied during a vacancy announcement and were certified as eligible for the position applied for, which is in the higher class with higher salary. The promotion list is valid for one a year. Applicants on the promotion list shall be considered first. Priority of consideration as provided herein does not mean or imply guarantee of selection.

And these policies are provided for the orderly hiring of employees for the various positions within the SSA.

In the review of thirteen (13) newly hired SSA employees, of which three (3) were hired in 2010 and ten (10) in 2011, the OPA noted the following deficiencies:

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- A. Four (4) vacancy positions lacked job announcement
- B. Eleven (11) vacancy positions lacked source of advertisement
- C. Four (4) vacancy positions lacked applicants applications on file
- D. Twelve (12) vacancy positions lacked documented interviews by the administrator prior to hiring
- E. All thirteen (13) vacancy positions lacked an Open List to show that the selection was made from the list
- F. Four (4) vacancy positions lacked List of Eligibility
- G. All thirteen (13) applicants lacked evidence of physical examinations and background & reference checks in file
- H. Nine (9) vacancy positions lacked evaluations on file by section managers for recommendations to the administrator for hiring

The cause of the above condition is failure of the administrator to adhere to SSA policies and procedures on personnel recruitment and hiring. In addition, records and documents pertaining to hiring and promotions are not securely filed in administrative and personnel files.

As a result, the OPA is unable to provide assurance as to the eligibility and qualifications of persons hired for the positions filled. In addition, we were unable to determine if all applicants were provided equal opportunity for consideration for vacant positions in accordance with the SSA EPM.

Recommendation

The OPA recommends the SS Administrator adheres to SSA policies and procedures with respect to recruitment and hiring of employees for vacant positions within the SSA. In addition, the administrator should ensure that all pertinent documents respecting the hiring and promotion process are securely filed in personnel and/or administrative files.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 11: Pay Grade Level and Salary Structure

Part 30, Positions and Pay Structure, of the SSA Employee Personnel Manual states in part: The purpose of establishing these positions and pay structure is to ensure that the Social Security Administration employees are compensated fairly and equitably...In addition, Part 30 A states: On initial hire, the Administrator has the authority to place an employee at an appropriate salary structure, depending on the applicant's experiences and qualifications for the position applied for and salary requirement using the Salary Grade/Level Salary Structure as a guideline.

In reviewing the Employee Personnel Manual, the OPA noted that SSA has a Pay Level and Salary Structure in place. However, in reviewing Personnel Action Forms of employees (both new hires and promotions/pay increments) we found that the Salary Grade/Salary Structure used is not in line with that prescribed in the EPM. Upon inquiry, the SSA staff stated that the SSA is using the ROP national government pay scale. Consequently, we requested from the SSA to provide a policy rescinding the SSA Salary Grade/Salary Structure and adopting the National Government's pay scale; however, the SSA was unable to provide the policy change.

It appears the SS Administrator abandoned the SSA Salary Grade/Salary Structure approved by the SSA Board in the EPM and unilaterally adopted the use of the national government's pay scale.

As a result, all personnel actions taken by the administrator which are not in line with the SSA Salary Grade/Salary approved by the SSA Board in the EPM may lack proper authority, as no policy was provided to evidence that the SSA Board approved rescinding the SSA Salary Structure and adopting the National Government's pay scale.

Recommendation

The OPA recommends the SS Administrator follow the SSA Salary Grade/Salary Structure in processing personnel actions of its employees (new hires, promotions/pay increments). In addition, when the administrator finds it necessary to amend or revise the salary structure to facilitate the efficient performance of the duties and functions of the Social Security Administration, the administrator should recommend the changes to the SSA Board for adoption.

SSA's Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 12: Probationary Period and Status

The SSA Employee Personnel Manual under Part 8, Probationary Period and Status, states that a new employee hired shall serve a three-month probationary period. Specifically, Part D states in part: “An employee serving a probationary period will be evaluated twice within the probationary period. The second evaluation report will be made no later than one month prior to the expiration of the probationary period. Such report shall recommend continuance of the employee in the service of the Social Security Administration, or dismissal from service.”

In the review of the thirteen (13) newly hired employees, the OPA noted that ten (10) were hired within the scope of the audit, October 1, 2009-September 30, 2011. Of the ten (10) employees on probationary status, four (4) complied with probation policies, however, six (6) employees did not. Of the six (6) that did not comply, four (4) had only one evaluation during the probation period, instead of two, and two (2) did not have any evaluations on file. In addition, after serving their probation period, certain employees were given permanent status and given pay increments, contrary to SSA EPM policies.

The cause of the above condition is failure of management to enforce personnel policies.

As a result, for the six (6) employees that were not properly evaluated during their probationary period, we were unable to determine if their work performance was satisfactory to warrant conversion to permanent status and, furthermore, whether the pay increments were justified.

Recommendation

We recommend the management adhere to and enforce SSA personnel policies. Specifically, new hires serving probationary status should be evaluated twice during the period of probation. The second evaluation report will be made no later than one month prior to the expiration of the probationary period. Such report shall recommend continuance of the employee in the service of the Social Security Administration, or dismissal from service.”

SSA’s Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*
- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Finding 13: Double Claim of Working Hours

The Social Security Administration’s Employee Personnel Manual (EPM), Part 14, Overtime Pay, states: Overtime pay is granted only to non-management staff.

In addition, Part 14 (A) states in part: Overtime shall mean hours of work assigned by a supervisor to an employee, which is in excess of 40 hours in a workweek. For the purpose of overtime, the workweek is considered to be five (5) consecutive days within the seven (7) days period between midnight Sunday to the following Saturday at 12 midnight.

In addition, Part 14 (B) states: Overtime work requires prior request/approval of the employee’s supervisor and authorization of the Administrator. Without this approval and authorization, an employee is prohibited from performing overtime work.

Moreover, Part 15, Holiday Work Compensation, states in part: ...An employee who is required to work on a holiday shall be paid at the equivalent to one and half times the employee’s hourly rate of pay.

In the review of overtime pay, the OPA noted one section manager who worked on a particular working day for nine (9) hours and thirty (30) minutes and claimed the hours as both regular and overtime work, which the individual was paid. Furthermore, that particular day, Monday, May 09, 2011, was not a holiday. Moreover, the employee manually entered her time on the timecard and the former administrator approved the overtime work. Illustrated below is the overtime hours claimed by the employee for that particular day:

<i>Check Date</i>	<i>Check No.</i>	<i>Date Performed</i>	<i>Day of the Week</i>	<i>Time In</i>	<i>Time Out</i>	<i>Time In</i>	<i>Time Out</i>	<i>Total Hours</i>	<i>Purpose</i>
06/15/11	2913	05/09/11	Monday	6:00	9:00	13:00	19:30	9:30	HCF

The cause of the above condition is lax in management control to ensure the accuracy of time worked and time paid.

As a result, the employee was paid \$113.90 in overtime which she otherwise was not entitled to.

Recommendation

The OPA recommends that the SS Administrator review overtime and other payroll-related activities to ensure that hours earned per timecard reconcile and agree to timesheets and payroll calculations, for both regular and overtime hours.

SSA’s Response: *From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:*

- *The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.*

Office of the Public Auditor

- *The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.*

Office of the Public Auditor

**Social Security Administration (SSA)
Summary Fuel Purchases Not Accounted For
October 01, 2009 through September 30, 2011**

Invoice Date	Invoice Amount	Invoice No.	Check No.	Type Equipment/ Vehicle No. Receiving Fuel	Fuel Requisition Form Or Similar Control Document In Place	Invoice Signed By
10/23/09, Friday	\$ 24.98	42755	10002	None	None	CFO, SSA
9/4/2010, Saturday	\$ 33.20	49423	11220	None	None	IS Manager, SSA
9/7/2010, Tuesday	\$ 56.71	49521	11220	#06 ASG	None	Finance Staff, SSA
4/30/11, Saturday	\$ 56.21	54392	12179	#007	None	IS Manager, SSA
6/1/11, Holiday (President's Day)	\$ 53.00	55153	12306	#005	None	IS Manager, SSA
6/30/11, Thursday	\$ 81.95	55826	12426	2K0604	None	SSA Staff
6/30/11, Thursday	\$ 40.08	55839	12426	#24 Ngchesar State	None	Not SSA Staff
6/30/11, Thursday	\$ 40.08	55842	12426	None	None	SSA Staff cannot determine who signed the invoice
6/30/11, Thursday	\$ 71.00	55844	12426	#0027 PCAA	None	SSA Staff cannot determine who signed the invoice
7/1/11, Friday	\$ 50.10	55856	12426	ASG # 06	None	Not SSA Staff
7/1/11, Friday	\$ 50.10	55862	12426	ASG # 28	None	Not SSA Staff
7/1/11, Friday	\$ 40.08	55863	12426	NSG-429	None	Not SSA Staff
7/1/11, Friday	\$ 25.05	55868	12426	Eco Paradise	None	Finance Staff, SSA
7/1/11, Friday	\$ 94.16	55894	12437	Flatbed and Generator	None	IS Manager, SSA
7/5/11, Tuesday	\$ 303.94	55936	12437	#3474; # 1148	None	Finance Staff, SSA
\$ 1,020.64 Amount of fuel purchases not accounted for						

APPENDIX B



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

1 Civic Center Road, Medalai
P.O. Box 679 Koror, Palau, PW 96940
Phone: (680) 488-2457 or Fax: (680) 488-1470
E-mail: administration@ropssa.org Website: www.ropssa.org

October 23, 2012

Mr. Satrunino Tewid
Acting Public Auditor
P.O. Box 850
Koror, Palau PW 96940-0850

Office of the Public Auditor	
Received	
Date: 10/25/12	Time: 3:04 PM
Received By: <i>Mmm</i>	
No. OPA: 13-004	

Subject: Performance Audit of Social Security Administration

Dear Mr. Tewid:

First of all, I would like to apologize for a late response to above Draft Audit Report dated July 31, 2012.

The Board of Directors of Social Security Administration was very pleased and appreciative of your staff presenting this report in person on July 31, 2012.

On behalf of the Board of Directors of ROPSSA, I am writing in response to the above Draft Audit Report. Upon receipt of your draft report on July 31, 2012, the Board of Social Security Administration had its meeting and initially decided to have the Management of Social Security Administration issue response to the Board on how to resolve the reported findings.

From the Board of Directors meeting on August 30, 2012 the Board made decision to concur with the findings contained in the draft report and move on to the following plan of actions:

- The Management of Social Security Administration to adopt each listed recommendations accordingly to each finding.
- The Board of Social Security Administration is hiring a Consultant in early Fiscal Year 2013 aiming to revisit, amend, compile and/or adopt new policies and procedures for uniform practices, internal control measures and compliances to further resolve and address operational issues of the Social Security Administration. The Board noted also that all cited audit findings and recommendations will taken into consideration during this process.

APPENDIX B



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

1 Civic Center Road, Medalai
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Phone: (680) 488-2457 or Fax: (680) 488-1470
E-mail: administration@ropssa.org Website: www.ropssa.org

- Lastly, The Board of Social Security Administration is requesting if this Performance Audit could be arranged and scheduled to be performed by your office annually aside from Financial Audit as performed by external auditors.

Thank you and should you require additional information, please let us know. Once again, I apologize for this late response.

Sincerely,

Florencia Rirou
Chair, Board of Directors
ROP Social Security Administration

Cc: Social Security Administrator and all Board Members

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO:**

**OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU
P. O. BOX 850
KOROR, REPUBLIC OF PALAU 96940**

**Ground Floor
Orakiruu Professional Building
Madalaih, Koror, Palau**

**TELEPHONE NOS: (680) 488-2889/5687
FACSIMILE NO: (680) 488-2194
WEBSITE ADDRESS: www.palauopa.org
E-MAIL ADDRESS: admin@palauopa.org**

**MONDAY THRU FRIDAY
7:30 a.m. - 4:30 p.m.**

(Closed on Legal Holidays)