



SOLOMON ISLANDS GOVERNMENT

Special Audit Report into the

TREASURY DIVISION CENTRAL PAYROLL

**MINISTRY OF FINANCE, NATIONAL REFORM
AND PLANNING**

Reported By

Auditor General

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FOREWORD

Background

I have pleasure in presenting this Report on a Special Audit into the Treasury Division Central Payroll System within the Ministry of Finance National Reform and Planning.

The Ministry is responsible for the management of the Solomon Islands financial and budgetary affairs and administers central payroll and general ledger systems for the whole of government. Given that payroll is the largest expenditure item for the Solomon Islands Government it was appropriate that this area receive audit attention.

Audit

The audit reviewed the Ministry's administrative processes and systems for the central payroll function provided for all Ministries. The audit disclosed many significant issues in the manner in which the Ministry had operated during the last five years.

The Report contains numerous recommendations which have been accepted by the Ministry and where possible remedial action has been taken.

The lack of adequate systems and processes and documentation to evidence and support decisions in relation to the payment of salaries and other shortcomings in respect of duplicate payments, fraudulent activities and other major weaknesses in key controls were a major concern and I have made a number of recommendations to provide a framework going forward for the Ministry.



Floyd Augustine Fatai
Auditor General

11 October 2006

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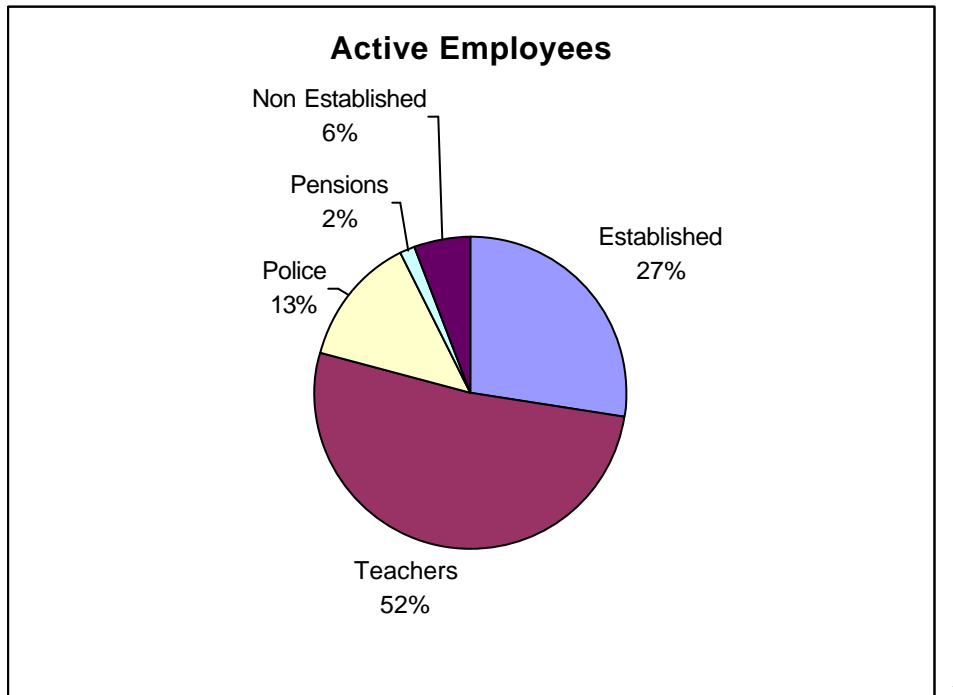
OVERVIEW

Background

Our audit of the Central Payroll within the Treasury Division was in recognition of the urgent need for the Solomon Islands Government to improve the integrity of the public service payroll. The audit was a response to many concerns within the Government over the legitimacy of a number of employees currently on the Solomon Islands Government Payroll.

The audit primarily focused on the integrity of the payroll and the existence of those employees on the payroll. The audit addressed efficiency and performance considerations as well as internal controls and compliance considerations over the processing of payroll conducted by the Department of Treasury and Finance.

The Public Service Payroll is one of the largest expenditure items for the Solomon Islands Government with budgeted payroll expenditure of just over two hundred and thirty million (\$230 M) for 2005. Currently there are approximately 10,000 active employees within the public service. The pie graph below illustrates the approximate distribution among the different types of public service employees as at June 2006.



¹ The source of the information used to produce the pie chart above was the payroll master file.

Audit Objective and Scope

The principal objective of the audit was to undertake a review of the payroll process, to determine the legitimacy of payroll expenditure being processed by the Department of Finance and Treasury (DFT) with an emphasis on identifying non bona fide employees. Audit testing attempted to go back as far as 2001.

The second objective of the audit was to perform sufficient audit work for us to obtain assurance as to whether or not key controls over payroll were operating effectively. This involved examining systems and procedures currently used in the processing of payroll.

Key Findings

We summarise our finding as follows:

Appointment of Employees

- Audit testing identified employees were being placed onto the payroll without proper authorisation and supporting documentation.
- There were significant delays in the appointment of employees resulting in large back pays to employees that were not adequately verified by the Central Payroll Section (CPS) of the Treasury Division.
- Numerous instances of the same employee being put on the payroll twice were identified and in some cases these duplicated employees were receiving two wages.
- There was a lack of general input and output controls surrounding the appointment of new employees onto the payroll system.
- Additions Report highlighting all the new commencements added to the payroll during a pay run is not produced and compared to supporting documentation that authorises the appointment of the employee.

Polices and Procedures

- There was a lack of adequate written policies and procedures in place in relation to the appointment of new employees, the termination of employees and the changes made to employees' pay details. The lack of guidelines is believed to be a large contributing factor to the many exceptions that have been identified in audit testing.

Input and Output Controls

- There were inadequate input and output controls in place to ensure the integrity of the data in the payroll system. These poor controls have led to a number of exceptions being identified by audit testing and have caused grave doubts over the integrity of the payroll system.

Lack of Segregation of Duties

- A review of processing of payroll has found a serious lack of segregation of duties with the same officers being essentially responsible for inputting new employees onto the payroll, taking terminated employees off the payroll, and making changes to the payroll and reviewing and checking the data they have entered into the system.

This lack of segregation of duty has effectively resulted in payroll officers reviewing their own input of information into the payroll system. Therefore no independent check on the processing of payroll exists. This is, not only in contravention to Financial Instruction 422 which stipulates the requirement for adequate division of duties, but also essential characteristics of a good internal control system.

Employee Master File

- The employee master file, which contains important pay information regarding each and every employee in the public service has not been regularly reviewed or maintained.
- Checks on the integrity of the master file are not being performed such as the reviewing of the master file for duplicate entries or incorrect information.
- Our review of the master file has highlighted a number of instances where key information about employees had been omitted and duplicate employees on the payroll have been identified.

Nominal Rolls

- Nominal Rolls that are to be prepared by Ministries are not being forwarded to Central Payroll Section contrary to Financial Instruction 416 which requires that “Nominal Rolls and Staff Changes Returns” are submitted to Ministry of Finance. Thus, the Central Payroll Section appears to be processing salaries without receiving the appropriate authority from the Ministries. The Nominal Roll is the only way that wages and salaries are certified by the Ministries and Departments as being correct.

Allowances

- Large amounts of overtime were being paid to employees that were not eligible to receive overtime allowances. For the period from 2001 to 2005 the total of overtime paid to employees not entitled to receive overtime amounted to \$6.7m.
- In certain cases overtime payments made to some employees were greater than 100% of their basic salary. Concerns were raised over the legitimacy of some of these overtime claims. The Office of the Auditor-General (OAG) is aware that some of these overtime claims were based on “on-call” period and does not necessarily reflect overtime worked.
- Allowances were being processed by Treasury Division Payroll staff without adequate supporting documentation.
- Audit testing identified a lack of clear guidelines for the use of allowances within the General Orders. It was noted that the adoption of certain allowances were not uniform across all Ministries in the public sector and in some cases were used to supplement incomes for long periods of time.

Reporting

- There is no reconciliation between the payroll system (Telepay) and the general ledger (Maximise).
- Key reports that could be used by Ministries to aid in the management of their human resources are not being prepared by Treasury Division Payroll and distributed to Ministries.

Terminations

- Termination testing between 2001 to 2005 revealed a large problem with delays in the removal of employees from the payroll. Out of a sample of 40 terminated employees approximately 70% were paid for a period of time after their employment with the government had ceased. The delay in the removal of these employees in this small sample alone has cost the government approximately \$186,000.
- Testing of fixed term teachers’ contracts found a number of instances whereby employees had been paid after the termination date stipulated in their contracts.
- Ministries are not provided with a listing of terminated employees during each fortnights pay run so that they can confirm the removal of terminated employees from the system.

- There was a serious lack of control over the inputting of termination dates into the payroll system. Out of 5000 terminated employees, termination dates had only been entered for approximately 600 employees on the payroll system.

Lack of Proper Maintenance of Records and Security over Records

- Despite improvements noted in the record keeping from 2004 onwards, documents supporting some of the changes made to payroll for a number of pay runs for the period from 2001 to 2003 could not be located as they had been destroyed or lost.
- There was a lack of security over records with a number of confidential documents relating to employees pays being located outside one of the buildings in the Department's compound.
- Personal files are no longer being maintained by the Treasury Division for all government employees which makes it extremely difficult to find documents to support a number of the changes made to payroll.

Duplicate payments

- Audit testing identified 24 duplicates on the payroll as at May 2006. The cost to the Solomon Island Government as a result of these duplicates is approximately SBD \$255,000. OAG believes that there are many more duplicates on the payroll however the time and effort required in confirming these duplicates was significant due to the poor record keeping of personal files in the various Ministries.

Changes to Payroll

- A significant number of changes were being made to fortnightly salaries with Salary Authority forms being the only supporting information used.
- Signatures on Salary Authority forms used to make changes to fortnightly salaries were not compared to a listing of authorised signatories provided by the relevant Ministry or Department.

Communication between Central Payroll and the Public Service Division

- It was noted that employees in the payroll system are currently not compared to establishment records held by PSD. OAG have conducted an initial comparison finding discrepancies between the two sources of information. For instance, currently there are 5,314 active teachers on the payroll system however the teaching service establishment register only has 5,069 filled positions, a variance of 245 teachers that have not been accounted for. Such a comparison would help Ministries to identify ghost employees on the system and terminated employees that have not been removed from the payroll.

Allocation of Personal File Numbers

- Currently TPF numbers are being manually allocated by both the Central Payroll and the Teachers Commission. As a result in the manual allocation of TPF numbers by two different parties have allowed certain teachers to be duplicated on the payroll as they have been issued with two different TPF numbers.

Telepay System

- The current payroll system Telepay desperately needs to be replaced within the next couple of years. Due to the age of the system there is no real commercial support for the payroll system so if there is ever a major problem causing the system to crash, there is no certainty that it could be repaired and could therefore bring the payroll to a halt.
- A review of access privileges to the payroll system identified a number of users who currently should not have access to the payroll system. It was also noted that access privileges are not reviewed on regular basis.
- Payroll system users are not required to change their access passwords on regular basis.
- There was no disaster recovery plan or policies or procedures in relation to the backing up of data nor had backup data been tested to ensure that the backups would work in the event of system malfunction.

Manual Calculation Testing

- OAG found instances of incorrect manual payroll calculations that had not been identified by Treasury Division payroll officer.

Distribution of Pay slips

- Ministries and Departments are not distributing pay slips in a timely manner. Discussions with a majority of employees surveyed during the employee stock take conducted by our office indicated that they had either not received their pay slips in a timely manner or in many instances had not received their pay slips at all.

Employee Stocktake Issues

- It became evident from the employee stock take that there were deficiencies in relation to the tracking of employees within the current payroll system. A number of teachers physically inspected at the schools were recorded on the payroll system as teaching in a different province. The discrepancies noted in the stocktake suggest that many teacher transfers between schools are not being recorded by the Teaching Service Commission and are therefore not recorded on the payroll system. A total of 280 teachers were sighted and confirmed as presently teaching within the Central Province however there was a total of 312 that should have been posted out at the various schools as per Teaching Commission Records.
- A number of teachers that were posted out to some of the schools in the Central Province were not sighted during the audit stocktake as they had not taken up their posting. This is a common practice among teachers and public servants who often don't always comply with posting instruction from their Ministries, PSD, and the Commissions. General Order C101 states that all public officers are required to discharge the duties of the office they hold, which includes duties at the officers' designated post. Any refusal should be construed as insubordination.
- Out of the 280 employees interviewed during the Central Province teachers stocktake 100% of them said that they did not receive Pay slips on a regular basis. In some cases employees had not received pay slips at all.
- Many of the schools had not been visited by provincial education inspectors for many years, as a result many teachers have remained as probationers for 5 -10 years. As a consequence many of them have not experienced any form of increment for a number of years.
- From a non exhaustive review of the payroll as a result of complaints by teachers not receiving increments, OAG found 225 active teachers on the payroll that had not received an increment for a number of years. The combined estimated loss to individual employees for these 225 identified was approximately \$90,000 based on the very conservative assumption that these employees simply moved up increments within their current level in their capacity as a probationary teacher. The calculation did not take into consideration the potential increases in level that these employees could have experienced. OAG believes that if this was taken into consideration the combined loss for individuals would be in the hundreds of thousands of dollars.
- OAG did not sight 84 out of the 305 teachers that had been allocated to the Central Province within the payroll system. These teachers have either been transferred to another province without Payroll Division being advised or are "ghost" teachers.

- A number of common concerns among employees were noted whilst conducting the stocktake of Teachers from the Central Province. It was noted that a number of staff:
 - were unsure if they were being paid at the right level;
 - had not received any increments for a number of years;
 - were aware of the “ghost” teachers problems; and
 - were not on the payroll of the school where they were teaching.
- During the teacher stocktake of the Central Province OAG noted at least one “ghost employee” and several potential ghosts that are posted to the Central Province as per the payroll.
- Furthermore, many of the residents within in the Nautuaha village expressed their concern over the lack of attendance of the teachers at their school. After discussions with a number of residents in the village it was indicated that the Nautuha School had only been open for ten days since the beginning of the school year. OAG is concerned that if this is a common trend throughout the country, its implication on the standard of education could be significant.

Conclusion

The audit of the Payroll processed by the Department of Treasury and Finance has revealed many serious shortcomings in the procedures and practices as well as deficiencies in internal controls. There is no doubt that the lack of controls surrounding payroll, or the lack of adherence to them, has led to the existences of non bona fide employees on the Solomon Islands Government payroll.

As a result of poor management, lack of controls, many critical records have gone missing thus subjecting the Central Payroll System to abuse and leakages of public monies. It is evident that the Government has over the years lost hundreds of thousands of dollars. In particular lack of effective termination procedures resulting in payments being made to officers who are no longer employed by the government, duplicate payments, excessive overtime claims, appointment procedures risking ‘ghosts’ on the payroll.

OAG is concerned over the lack of input and output controls between the Government agencies and the central payroll operations and the non - compliance with the Financial Instructions. It is obvious that the processes need to be strengthened by having proper policies, instructions and guidelines developed so as to enhance the operations of the payroll system. In addition, deficiencies were noted in computer system (Telepay) and there is a need to review this with the aim of determining its suitability for the payroll in the Solomon Islands.

One of the major controls over the years has been the issuing of TPF numbers but this process has not been properly maintained with the effect that it has had a significant impact on the accuracy of the payroll, contributions to the National Provident Fund and other aspects of the payroll.

Overall Recommendation

We have made a number of important recommendations and it is imperative that these are implemented. In addition, it is strongly recommended that proper policies, instructions and guidelines be developed together with an independent review of Telepay. These aspects might form part of the Financial Management Improvement Program.

Management Response

The Ministry supports the conduct of systems and transaction audits of this nature and considers them to be valuable in improving practices and procedures as well as setting good practice. The Ministry also supports in principle the thrust of the findings and will undertake to strengthen key internal controls and practices to safeguard public assets. Management notes that some recommendations are the direct responsibility of the Public Service Department (PSD) or individual Ministries and would be best addressed by them. The Treasury Division's role is to ensure that the payroll data is entered correctly and there is valid supporting documentation and authorization before processing the data. The PSD is responsible for the General orders and related policies with Ministries ensuring that the data is valid and payments justified. Treasury's response reflects this differentiation.

The audit covered five calendar years with the ethnic tensions affecting operations and destruction of documentary evidence for a large part of the audit period. Management do believe this may have affected some of the findings but consider that improved business processes and checks have been put in place over the last few years to address some of these findings.

The payroll section currently has a shortage of staff and no permanent Chief Accountant. The pool of suitable and experienced officers is limited and it is unlikely the staff numbers will change over the next six months. This will affect the sections' ability to implement some of the recommendations especially with other projects underway. To address this the target dates have been defined as Short term (1-3 months); Medium term (3-6 months) and Long term (6-12 months) to provide a little more flexibility with the actions. In most cases the timeframe also relates to the risk level associated with not implementing the recommendation. The focus in the short term will be to minimize the exposure of the SIG by strengthening key internal controls.

Overall Management have identified six key categories of work required:

1. prepare policies and procedures manual – short term activity;
2. prepare checklists for payroll processing – short term activity;
3. advise Ministries of their obligations – short term activity;
4. commence recovery action for overpayments – medium to long term activity;
5. introduce independent review processes for pay alterations – short term activity; and
6. ensure records are appropriately stored and secure – short to medium term activity.

There were a number of recommendations related to factors to be considered in the implementation of any new payroll system. These have been noted for any future change. While this has been flagged as a priority in terms of systems needs, given the current capacity of the Treasury Division it is not expected that any systems' enhancement or replacement will be undertaken in the foreseeable future.

A priority for the payroll section will be to check the system for duplicate employees and cease payment where there is duplication. This will be a labour intensive task and will be undertaken to the extent that work pressures permit. There is also a significant workload associated with checking the amount of any overpayments and then notifying the Ministry to commence recovery action. All tasks that fall into this category have been given a Medium to Long Term target date. The current staff shortages do not allow for a dedicated officer to focus on this in the short term.

As a result of the audit the Accountant General will seek clarification on two matters before any recovery action is taken:

1. the level of officers entitled to overtime; and
2. recovery processes for former SIG employees.

The cost benefits of recovery action will need to be considered.

1. INTRODUCTION

1.1 Background

The Auditor General pursuant to the provision of Section 108 (3) of the Constitution as read with Section 36 (2) (b) of the Public and Finance and Audit Act has authorised the conduct of the audit of the Treasury Division Payroll.

1.2 Mandate

The Public Finance and Audit Act provides the Auditor General “*shall have and may exercise all the powers and authority and shall perform the duties conferred and imposed upon him by this Act and by section 108 of the Constitution.*”

1.3 Legislation

Treasury Division Payroll is part of the Department of Finance and Treasury and operates under the following legislative framework:

- General Orders;
- Financial Instructions 2004; and
- Public Finance and Audit Act 1978.

1.4 Audit Objectives and Scope

The principal objective of the audit was to undertake a review of the payroll process, to determine the legitimacy of payroll expenditure being processed by the Department of Finance and Treasury with an emphasis on identifying non bona fide employees. Audit testing attempted to go back as far as 2001.

The second objective of the audit was to perform sufficient audit work for OAG to obtain assurance as to whether or not key controls over payroll were operating effectively. This involved examining systems and procedures currently used in the processing of payroll.

2. POLICIES AND PROCEDURES

2.1 Background

Financial Instruction 27 requires Accounting Officers to ensure adequate training is provided to staff under their control as well as supplementing their training wherever possible, with the use of written departmental instructions (Policies and Procedures Manual).

2.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

2.2.1 No Policies or Procedures Manuals

Currently there are no policies and procedures manuals in place for any of the processing cycles within Central Payroll at the Treasury Division. The Permanent Secretary of the Department of Finance and Treasury is the officer responsible for ensuring that there is a Policies and Procedures manual.

This manual should detail both the current procedures for processing payroll as well as specific policies relating to the running of payroll. The implications of not having a policies and procedures manual are:

- Non-compliance with Financial Instruction 27 (1) 2004;
- Policies and procedures for processing payroll are not documented;
- There is no written reference or guidance for staff processing payroll;
- Knowledge of processing procedures could be lost when payroll officers leave the payroll division; and
- Controls and processes that have been established to ensure the integrity of the information within the payroll may not be complied with.

Recommendation 1

We recommended that:

- A policies and procedures manual be developed for all the functions within Central Payroll that incorporates the requirements of the relevant General Orders and Financial Instructions that relate to the processing of payroll.
- Policies and procedures manual to be made available to all staff at all times. This would be achieved by storing the manuals on a shared network drive.
- Once a Policies and Procedures manual has been developed it should be updated and maintained on a regular basis.

3. APPOINTMENT OF NEW EMPLOYEES

3.1 Background

The objective of the audit for this area was to assess the controls over the appointment of new employees on the human resources payroll system (TELEPAY). OAG documented the process involved in the appointment of new employees. The Department of Treasury and Finance is responsible for processing the fortnightly payroll for all employees of the Solomon Islands Government. Any new appointments are advised by the Ministries with the use of a Salary Authority Form.

The Salary Authority Form is a standard form filled out by payroll officers within the various Ministries which is used to make any changes to fortnightly payrolls including new commencements to the payroll. Appointment letters from either Public Service Division or other employing authority such as the Teaching Service Commission and the Police and Prison Services Commission are generally attached to the Salary Authority form to support the Ministry's request to add the new employee to the payroll.

3.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

3.2.1 Acceptance of Employment

OAG found 53% of new appointments tested did not sign their appointment letter from Public Service Division (PSD) or the relevant employing authority indicating their acceptance of the offer of employment. We noted that these appointments were still processed by Central Payroll. As per the General Orders Chapter B section 119 "*no appointment is effective until written offer has been made by government and accepted in writing by the candidate*". Furthermore, audit testing indicated that this was a significant problem for teacher appointments as 90% of the sample selected for testing found that the teacher had not signed their appointment letter.

Furthermore OAG noted in some instances where there was no requirement for the employee in the appointment letter to sign to indicate that they agreed to the terms and conditions of their employment. This was predominantly applicable to the appointment letters in relation to the appointment of fixed term Teachers.

There are a number of risks associated with processing these appointments without the evidence of the employee accepting the offer of employment. In particular, OAG have noted the following risks factors:

- Employees that do not accept the position can be incorrectly loaded onto the payroll system and effectively become a “ghost” employee.
- Without the employees signature there is no indication that the employee has agreed to the terms and conditions of their employment.
- The appointment is not effective as per the General Orders Chapter B section 119.

Recommendation2

We recommended that new appointments are not processed until the appointment letter has been signed by the employee. Letters that have not been signed should be returned back to the relevant Ministry or Department for the employee to sign.

3.2.2 Processing of Unsigned Appointment Letters

The letter of appointment is used as supporting information to help support the Ministry’s request to add a new employee to the ir payroll. Without a signed copy of this letter supporting the appointment, Treasury is unable to determine whether or not the appointment has been officially approved by the employing authority (Public Service Division).

All appointment letters should be checked by the payroll officer responsible for processing new employees to ensure that they have been signed by the relevant employing authority.

OAG found three instances of employees being loaded onto the payroll system without proper approval from the relevant employing authority. The Appointment letter from PSD authorizing the appointment of the security officer to be employed by the Electoral Commission was not signed by PSD. The second and third instances related to the fixed term appointments of two teachers whose letters of appointment from the Teaching Service Commission were not signed.

In all three instances noted above the employees were loaded onto the payroll system. The serious breakdown in controls has effectively resulted in the appointment of non authorized officers.

Furthermore OAG noted an instance where the signature of the employee on the letter from the employing authority did not match the person whom was described under the actual signature. There was no evidence of central payroll staff querying the signature.

The implication is that unauthorized or “ghost” employees could be placed on the payroll resulting in fraud and a loss of government funds.

Recommendation 3

We recommended that Central Payroll staff responsible for processing appointments ensure that the appointment letters attached to the Salary Changes and Authority Forms have been adequately signed by the employing authority before putting new employees onto the payroll.

3.2.3 Commencement of Work Before Being Officially Appointed

Audit testing identified a number of instances where employees had started employment within the Ministries prior to being officially appointed. This often resulted in large back pays of salaries. Some employees were not officially appointed by the relevant authority until sometime after they had started their employment. In the 22 cases identified by OAG \$107,567 was paid in arrears.

The implications are as follows:

- Non official employees are working in the capacity as a public servants.
- No contractual agreement between the government and these employees for the period prior to their official appointment.
- The delay in starting dates can affect whole of government budgeting for salaries and wages for the financial year.
- The integrity of the employee start date is questionable.

Payment for Voluntary Services - Overpayment of \$9,377

During further investigation of one of the samples selected, OAG identified that an employee who was employed by the Ministry of Health had been paid for work conducted as a volunteer. The appointment letter from the Public Service Division was dated 19/08/2002 however the employee had backdated his acceptance of the offer on the letter of appointment to 01/05/2001. Further investigation noted that before the employee was employed by the Laboratory Services he joined the Medical Laboratory Division in 2001 as an unpaid Volunteer to support his training at SICHE and USP Centre.

OAG reviewed the employee’s personnel file and Salary Authority Form and concluded that the employees’ pay was incorrectly back dated to 2001 resulting in incorrect payment of wages and salaries of \$9,377.72 for services that were rendered as a volunteer not as an employee.

Checks to Ensure that Employees haven't already received payment

Checks to ensure that the employees have not already received payment during the period covered by the back pay are not conducted. Audit Testing identified an employee who received a back payment for \$3,399.40 but was already receiving fortnightly payments under a different TPF for the period for which the back pay covered.

Recommendation4

We recommended that:

- PSD informs the Ministries to remind them that employees are not to commence duties prior to them being officially appointed by the relevant employing authority.
- Employee's validity of payments for large salary arrears be reviewed by the Chief Payroll Officer to ensure that all appropriate supporting documentation is attached to the appointment letter in order to support the commencement date. Payroll officer should also check to ensure that the employee has not already been paid during the period of the back pay before processing any large payment of arrears.
- Timing of activities in relation to the appointment of staff needs to be reviewed by Ministries to ensure that staff do not commence work prior to being appointed.
- Treasury should initiate recovery proceedings for the overpayments identified by informing the relevant Ministries.

3.2.4 Lack of Supporting Documentation -Personnel Files Not Kept by Treasury

Audit review of employee personal files held by the Department of Finance and Treasury noted that personnel files for all employees had not been kept since 2000. Details on these files typically contained important information regarding the employment of the officer i.e. appointment letters, salary change advices and termination letters where applicable.

Management explained to OAG the reason for not using personnel files was the result of no longer having a Registry Clerk. The registry clerk was responsible for maintaining the filing of all salary change advices in the relevant personnel files.

OAG had considerable difficulty in locating supporting documentation relating to employees within the public service particularly between the financial years 2001 to 2004. Many of the salary Authority forms had been lost or destroyed. In some instances we were unable to conclude on whether or not changes made to the payroll were valid and correct.

One of the key advantages to going back to the use of personnel files is that a record of all changes to particular employees pay is on hand and any queries relating to an employee's pay could be easily and quickly dealt with. Effectively a history of changes to employees pay is created.

In some cases documents supporting changes that have been made to an employee's payroll could not be located within records held at Treasury. Personal files were reviewed out at the relevant Ministry to find any evidence or supporting documentation that could verify the changes made to employees pay on the payroll system. In many cases due to poor record keeping the information could not be located on their personal files held by the Ministry.

Without adequate record keeping, problems similar to the ones encountered during overtime testing will occur. For many of the overtime payments selected for testing OAG could not find documents within Treasury records supporting the overtime claim. A specific example of this is an overtime payments made to the former payroll manager. After an unsuccessful comprehensive search of Treasury overtime payroll records OAG resorted to obtaining the employee's personal file from the relevant Ministry, which in this case was the Ministry of Finance. OAG was unable to obtain supporting documentation relating to the excessive overtime payments totaling \$7,959.08. Due to lack of supporting documentation relating to the payment and the former position held by this officer the legitimacy of this overtime payment is in question. Refer to section 10.1.2 of this report for the recommendations relating specifically to the lack of overtime documentation noted above.

The implication is that incomplete records can lead to a loss of the audit trail and can result in fraud and loss of public monies.

Recommendation 5

We recommended that:

- Treasury Division takes adequate steps to ensure adequate audit trail exists, by either using personal files once again or by appropriately filing all salary authority forms in pay run date order.
- Any future disposal or destructions of payroll records be done in compliance with Financial Instructions 15 & 16 "Disposal and Destruction of Financial Records".

3.2.5 Inadequate supporting Documentation for Commencements

OAG identified that in some cases employees were being loaded onto the payroll without adequate supporting documentation to justify their appointment.

One of the commencements tested had the candidate's signed apprenticeship contract attached to Salary Authority form as proof of appointment. The name however on the Salary Authority Form was different to the name on the apprenticeship contract that was used to support the appointment of the candidate. As a result the employee was loaded onto the Payroll system without adequate supporting documentation.

Furthermore we noted an instance where the appointment of an employee was not supported by an appointment letter but by an Interview Panel Recommendation Report that was not signed by any of the panel members.

This highlights that central payroll staff are not adequately checking the supporting information being sent to them. There is a risk that unauthorised officer can be placed on the payroll and therefore effectively become ghost employees.

Recommendation 6

We recommended that:

- Central payroll officers responsible for inputting new employees onto the payroll system should adequately review all supporting documentation attached to the salary authority forms before loading them onto the payroll system.
- Any anomalies noted between the salary authority form and any attached supporting document be sent back to the relevant Ministry for correction.
- The employees noted above that have been placed on the payroll without proper supporting documentation should be investigated by the relevant Ministry to ensure that they are valid employees.

3.2.6 Inadequate Independent Verifications of Additions to Payroll

New additions to the payroll system are not independently verified by someone other than the officer who is responsible for entering the data into the system. This increases the risk of fictitious or duplicated employees being able to be loaded onto the system. A report highlighting the additions to the payroll for a particular fortnight is not produced and distributed to the various Ministries.

Not producing an additions report increases the risk of “ghost” or duplicate employees being loaded onto the system. As a result of inadequate addition reporting OAG identified a duplicated employee on the payroll system. This resulted in an overpayment of \$20,081.

If an Additions report was created listing all the new additions to the payroll for the each fortnight and sent to the respective Ministries this would help minimize simple duplication errors.

Recommendation 7

We recommended that the additions listing report should be produced and compared to appointment letters by an officer independent of entering appointments into the system. This is to ensure only bona fide employees have been entered into the system during the fortnight. The additions listing should also be forwarded to the Ministry or Department to inform them of all the new employees that have been added to their Ministry during the fortnight.

In addition the overpayment of \$20,081 should be followed up by the Treasury to ensure that recovery action has been taken and terminate any duplicated payments noted in the report.

3.2.7 TPF Numbers Allocated out of Sequence

Treasury Personnel File (TPF) numbers are employee numbers given to every new employee by the Treasury Division. The allocation of TPF numbers is a manual process which can increase the risk of TPF numbers being allocated out of sequence.

The implication is the TPF number is a control mechanism against duplication of payments and the inclusion of “ghosts” on the payroll and as such a breakdown of this nature compromises the integrity of the payroll system and could lead to fraud, duplication of payments and loss of public monies.

Recommendation 8

We recommended that in the event of the current payroll system (Telepay) being replaced, consideration be given to selecting a payroll and human resource management system that is capable of automatically allocating employee personal numbers in a sequential order.

3.2.8 Employees Issued with More Than One TPF Number

Upon reviewing the payroll Master file it became apparent that a number of employees had more than one Treasury Personal File (TPF) number. Employees would often be issued with another TPF when they moved from one Department to another within the Public Service. Instead of treating the employee as an existing government employee they were loaded onto the payroll system as new employee, hence the issuing of another Treasury Personal File Number. In some cases employees simply being promoted within the same Ministry were also issued with a second TPF number. At present there are 352 employees who have least two TPF numbers with the payroll master file.

Currently Treasury have no procedures to conduct an adequate review of payroll master file to ensure that new employees loaded onto the payroll do not already exist on the system. With employees having two or more TPF numbers duplicate payments to the same employee can occur. OAG testing disclosed five cases of duplicate payments totalling \$39,635.

Furthermore a Treasury Personal File (TPF) can be issued by both the Teaching Service Division and Treasury. Audit review of the employee master file noted a number of cases where employees had been issued with more than one TPF number.

As the Teaching Service Division has the ability to also issue TPF numbers it has increased the risk of employees being able to receive duplicate payments. This has commonly occurred in cases where teachers have simply been promoted from an assistant teacher to a class teacher or they have been transferred to a different school. OAG testing disclosed three cases where teachers had two TPF numbers.

Furthermore consideration should be given to whom the responsibility of issuing the unique personal file numbers should ultimately rest with. In the past this responsibility rested with the Public Service Department (PSD) of the Office of the Prime Minister. If the responsibility was returned back to PSD this would help to ensure that a personnel file was created by PSD and the Ministries.

Current practices means that employees are not issued with a personal file numbers until Treasury put them on the payroll. This means that documents, in particular appointment letters issued by PSD, and the Ministries are not filed in a timely manner under unique personnel file numbers which could result in important documents being lost or personnel file not being created for employees.

It would also be more difficult for fictitious employees to be put onto the payroll from the Treasury end, as all new appointments would have to have already been allocated a sequential TPF number from PSD.

Recommendation 9

We recommended that:

- The Allocation Process of Treasury Personal file number be examined. The current practice of the Teaching Service Commission issuing TPF numbers should be ceased immediately. PSD should be the only agency responsible for issuing personal file numbers.
- A checklist be developed for the appointment of new employees. This checklist be filled out and signed by the preparer for all new employees to ensure all adequate documentation and necessary checks have been conducted prior to loading the employee onto the payroll. The checklist should require the central payroll officer to check new employee's personal details such as the employee's surname, given name, and date of birth, bank account number, National Provident Fund number and tax file number against entries already in the payroll system. This would help to reduce the chances of the same employee being incorrectly loaded onto the system twice.
- Treasury follows up the duplicate payments made to employees and takes appropriate recovery action.

3.2.9 Accuracy of the Data Input into the Payroll System

During the review of the commencement process we noted that there is no independent review performed by payroll to check that the information has been correctly inputted into the system.

Further Evidence to suggest information is not being reviewed once it has been entered into the system is outlined below.

- OAG noted an instance where the date of birth for an employee suggested that the employee was only ten years old when they started employment. The date of Birth entered into the system for this employee was 1/01/1970 and the start date for the employee was 10/08/1980;

- A female officer was incorrectly flagged as a male employee on the payroll system; and
- A TPF was incorrectly entered into the system with numbers transposed resulting in the employee being duplicated in the system.

As a result of a lack of segregation of duties over the checking of the accuracy of the information put into payroll system any errors will go undetected.

Recommendation 10

We recommended that controls be put in place for the review of data input into the payroll system be conducted by someone other than the officer who is responsible for entering the data into the system. Salary Authority Forms should be checked to Output reports from the payroll system. Reviewing officers should sign or initial the salary authority form to indicate that they have reviewed the inputted data against system output reports.

4. PROCESSING CHANGES TO PAYROLL

4.1 Background

The objective of the audit for this area was to assess the controls over the processing of changes to payroll on the human resources payroll system (TELEPAY). OAG documented the procedures involved in the processing of changes to payroll. The Department of Treasury and Finance is responsible for processing the fortnightly payroll for all employees of the Solomon Islands Government. Any changes to payroll are advised by the Ministries with the use of a Salary Authority Form.

The Salary Authority Form is a standard form filled out by payroll officers at the various Ministries which is used to make any changes to fortnightly payrolls including new commencements to the payroll. Documents supporting changes to the payroll are often attached to the standard Salary Authority Form.

4.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

4.2.1 Signatories for Salary Authority Forms

On reviewing the processing of Salary Authority Forms within the payroll section at Treasury, we identified that signatures authorising the changes on the forms were not agreed to a listing of authorised signatories from the Ministry. This listing should contain the names and samples of the specimen's signatures of those employees that are authorized to sign the forms out at the various Ministries. Currently there is no comparison of authorising signatures on the Salary Authority Form to any samples of specimen signatures.

There is a risk that unauthorised Salary Authority Forms could be submitted to Central Payroll and processed. OAG found evidence of Treasury staff failing to review signatures on Salary Authority Forms. A specific example of this was when audit testing identified an unsigned Salary Authority Form that had been processed by Treasury. The Salary Authority Form was a request to pay salaries in arrears for the amount of \$1,607.99 to an employee. The payment was not supported by anything other than the unsigned Salary Authority Form. We were unable to identify the officer responsible for processing this particular Salary Authority Form.

Recommendation 11

We recommended that signatures on the Salary Authority Forms be checked to a listing of signatories supplied by the Ministries. It is also recommended that Treasury obtain a listing of authorized signatories containing the names of those employees authorized to sign Salary Authority Forms and a copy of the specimen’s signature on a yearly basis. Ministry or departments must advise central payroll of any changes to authorised signatories.

4.2.2 Evidence of Salary Authority Forms being Input into the System

Salary/Wages Authority Forms which are used by the Ministries to upload any changes to an individual officer’s salary/wages (for example, payment of overtime on the payroll system) are marked by the payroll officer in Treasury Division with a diagonal line across the page to indicate that they have been entered into the payroll system. However there is no indication on the Salary Authority Form of who has entered the form into the system and if the input has been checked by anyone once it has been entered into the system.

Currently the Payroll system Teleplay doesn’t record users who process specific payroll transactions. This results in a lack of accountability. It was noted through the review of the Salary Authority Forms that there was a section allocated on the form at the bottom of the page that the payroll officer should complete which could be used to indicate that the form has been entered into the system.

An example of the section at the bottom of the Salary/Wages Authority form is outlined below.

For Treasury Use Only			
Section	Checked	Entered	Date
Salaries			
Computer			

This section should be initialed by the officer responsible for processing the salary authority form and initialed by the officer charged with the responsibility of reviewing the input of the changes on the Salary Authority Form into the system. Filling out this section of the form would help to promote accountability and would indicate that changes to salary have been made.

Recommendation 12

We recommended that:

- Payroll Officers use the relevant section on the Salary Authority Form to indicate whether or not the information has been entered into the payroll system. This would help to provide evidence that the Salary Authority had been entered into the system and had been independently reviewed.
- In the event of the payroll system (Telepay) being replaced, the replacement system be capable of producing audit logs on payroll officers accessing the system so that a significant audit trail is established for changes made to the system by specific users within the payroll system.

4.2.3 Independent Review of Changes Processed by Payroll

A review of the process used to make changes to payroll, highlighted that there is no independent review performed within Treasury Division to check that the changes to the payroll have been correctly inputted into the system.

OAG did note that exceptions reports are used to identify any exceptions in the payroll such as payment greater than or less than 25% of the employee's normal salary however there is a lack of adequate segregation of duty with the review being conducted by the same officer responsible for entering the information into the payroll system.

OAG noted that an edit audit report is also produced which identifies all changes made to the payroll for the pay period. Occasionally changes to employees' fortnightly pays identified within the edit audit report are checked against Salary Authority Forms. Once again however this control procedure is often performed by the same officer responsible for inputting the information into the system. Furthermore we could not substantiate whether or not these reports being produced were being reviewed other than sighting the odd markings on the reports.

Without an independent review of changes to Salary Authority Forms errors can go undetected or in extreme cases payroll staff within Treasury can process unauthorized payments for their own personal gain.

Recommendation 13

We recommended that changes made to payroll are verified to Salary Authority Form by a senior payroll officer who is not responsible for entering the changes into the system. Edit audit reports along with exception reports should be initialed and dated by the officer reviewing them to indicate that the review process has been completed.

4.2.4 Inadequate Supporting Documents for Changes made to Payroll

OAG review of changes made to payroll identified a lack of supporting information provided to Treasury from the various Ministries regarding changes to payroll . OAG noted that changes not supported by adequate documentation were often processed by Treasury due to extreme time pressures within the Ministry.

In particular OAG noted that requests for the payment of allowances such as special duty, dirty and danger allowances were predominantly supported by Salary Authority Forms only. We investigated the legitimacy of these allowances by reviewing the employees personal files held at the Ministry or Department. The review of these files identified that in most cases they did not contain letters or any other memos authorizing the claims on the Salary Authority Forms. Therefore we were unable to substantiate whether or not the allowance had been adequately authorised.

The processing of these Salary Authority Forms will inevitably lead to unauthorised changes to salaries and wages that could result in financial losses for the government.

Recommendation 14

We recommended that:

- Payroll officers within Treasury do not process changes to pay without adequate supporting documentation. Treasury should request further supporting documentation to substantiate the claims on the Salary Authority Forms from the relevant Ministry or Department.
- Ministries and Departments should be advised to attach adequate supporting documentation to salary authority forms to substantiate claims.

5. PROCESSING OF PAYROLL

5.1 Background

The payroll is processed on a fortnightly basis for each of the following five categories of public service employees by Treasury:

- Established employees;
- Teachers;
- Police;
- Pensions; and
- Non established employees.

The objective of the audit for this area was to assess the controls over the processing of the fortnightly payroll.

5.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

5.2.1 Payments made by Cheques

Financial Instruction 414 provides that, amongst other things, salaries will be direct credit to an officer's bank account and will not be paid in cash except in extreme compassionate circumstances agreed to in writing

Review of the processing of payroll noticed a small number of employees still receiving salary payments by cheques. This form of payment increases the risk of fraudulent payments being able to be made to in valid employees.

Recommendation 15

We recommended that:

- Payment of salaries should be made in accordance with Financial Instructions 414 for long term employees with payments being directly credited to the officer's bank account;
- The practice of making fortnightly salary payments to long term employees by cheques should be ceased. Those small numbers of employees currently receiving payments by cheque should be advised that they will need to arrange for their payments to be credited to a bank account; and
- Ministries and Departments should be reminded of the requirements of Financial Instruction 414 when appointing new employees.

5.2.2 Proof Listing Report

OAG noted that the reviews of key reports that help to identify errors in the payroll are not being produced. Through discussions with senior management it was noted that the "Proof Listing Report" has not been produced since mid 2004. This report identifies any large changes in employee pays by comparing the previous fortnights' pay to the current fortnights' pay. OAG is aware of the Payroll Processing Checklist that provides for this report to be produced for every pay run.

We were advised by management that this report was no longer being produced due to technical difficulties associated with the printer that is used to print the report. This report is an important tool in determining any irregularities such as overpayments and underpayments in the fortnightly pay runs.

Without the use of the "proof listing report" irregularities such as excessive overtime payments that may have not been supported by adequate documentation from the relevant Ministry or Department may go undetected.

Recommendation 16

This report is an important tool in determining any irregularities such as overpayments and underpayments in the fortnightly pay runs and should be run for each pay run. The technical difficulties encountered with running the "proof listing report" should be rectified.

5.2.3 Salary Charges Report

The salary charges report details the names of all employees within a Ministry and shows which account number and pay code they are charged to as well as the amount of salary and wages they are presently being paid. This report should be printed after each pay run in accordance with their Payroll Processing Checklist and sent to relevant Ministries and Departments for their review.

A review of payroll procedures found that salary charges reports were only being issued to Ministries and Departments when requested. This report is an important tool for Ministries and Departments as it allows them to review which employees on the payroll are being charged against their Ministry.

Without the regular review of the salary charges report, employees who are being incorrectly charged against a Ministry or Department will not be identified. This will result in the incorrect allocation of payroll charges to a Ministry. There is also an increased risk that employees that should have been terminated from the payroll system but are still on the payroll are less likely to be identified.

Recommendation 17

It has been drawn to our attention that as at April 2006 salary charges reports are now being prepared by the payroll manager and sent on a monthly basis to Ministries and Departments. This practice should continue to be adopted by the Treasury Division.

5.2.4 Incorrect File Sent to NBSI – \$250,000

On 24th of November 2005 an error occurred during the processing of payroll that affected the pays of approximately 500 teachers out of total of 5000. The value of the pays affected was approximately \$253,000. The issue was the result of an incorrect file being sent to the National Bank of the Solomon Islands (NBSI). Each pay run an electronic file containing the names and bank account numbers and the amounts to be deposited into their accounts is sent to the NBSI. From this electronic file NBSI distributes the funds that have been deposited from the Central Bank of the Solomon Islands into the individual employee accounts. However, in order for NBSI to be able to use the electronic file, the IT section at Treasury had to manually manipulate the format of the bank listing.

For this particular pay period a number of the bank accounts on the pay listing within the electronic file were incorrect, resulting in salaries being paid into incorrect bank accounts. In some instances monies were deposited into non Solomon Island Government employee bank accounts.

After discussions with key Treasury and IT staff OAG was unable to determine the actual reason for the corruption of the electronic file. OAG, however, noted that the IT officer who is usually responsible for working on the bank listing to ensure it is in the format required by NBSI was away at the time. It appeared that no one briefed the replacement officer or provided him with any documentation how to adjust the report correctly.

We noted that changes to the payroll process have now been made so that Payroll Section can produce the output file automatically with no manual intervention by IT staff. Previously this manual intervention of IT staff exposed the payroll to extra risk as the potential for IT staff to add extra employees and bank accounts to the electronic bank listing output file was high.

The lack of controls over the review and security of the output files would have made it difficult to identify any “ghost” employees that may have been added to the bank listing.

Security of the file is also of concern, as the output file currently being sent to the NBSI is in a text file format. Files in this format can be easily altered. Currently there are no information technology security controls in place to ensure that only authorized users can make adjustments to the electronic file.

Recommendation 18

We recommended that:

- the policies and procedures for producing electronic output bank listing reports be documented;
- Transfer files sent to commercial banks should be reviewed prior to being sent out to banks. The review should include a comparison between bank accounts listed in the transfer file sent to the commercial banks with the bank account numbers in the payroll master file; and
- Measures be taken to improve the security of the electronic files transferred to NBSI so there is a reduction in the risk of the file being manipulated. This should be conducted in consultation with NBSI to ensure the output file remains compatible with NBSI systems.

6. TERMINATIONS

6.1 Background

The objective of the audit for this area was to assess the controls over the removal of officers from the payroll system once their employment had been terminated. The Treasury Division is responsible for removing employees from the payroll system once being advised from the various Ministries of the employee's termination.

6.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

6.2.1 Recording of Termination Dates

OAG noted out of the 5000 inactive employees on the payroll only approximately 600 have termination dates entered against them in the payroll system.

Without a termination date entered into the system it is possible for payroll officers to reactivate terminated employees simply by flagging them as active on the payroll system. The termination date is important as it ensures that terminated employees can not be paid.

The risk is that without the termination dates being entered into the system, employees can be reactivated on the payroll system and therefore receive payments of salaries and wages they are not entitled to.

Recommendation 19

We recommended that termination dates be entered into the system for all employees that are terminated.

6.2.2 Termination Reports

Ministries and Departments should be advised of all terminations via a terminations report. The purpose of this report is to confirm the removal of terminated employees from the system.

A review of the Terminations process identified that a report identifying terminated employees off the system for the fortnight is not produced and sent to the Ministry to confirm that the employees have been removed from the system. There is a risk that terminated employees are not removed from the system. This could occur, if for instance, a Salary Authority Form requesting an officer to be terminated was lost or not processed by Treasury.

Recommendation 20

We recommended that Treasury Division produce termination reports listing the officers terminated from the system during the fortnight. These reports should be then distributed to the relevant Ministries to confirm the removal of the employees from the system.

6.2.3 Delay in the Removal of Terminated Employees

Employees should be removed from the payroll system in a timely manner so that they are not overpaid. OAG reviewed a small sample of employees that have been terminated and checked to ensure that they had been removed from the Salary System in a timely manner.

Out of the 40 terminated employees tested, 27 of them which is approximately 67% had been paid after the date they had been terminated. These exceptions resulted in estimated overpayments of some \$186,000. Some delays ranged from one month to eight months.

The delay in the removal of these terminated employees along with the lack of current policies and procedures in relation to the recovery of overpayments to terminated employees exposes the government to unnecessary financial losses. OAG also found that there was no evidence to suggest that attempts were made by either Treasury Division or the relevant Ministry to recover the overpayments. This is a serious matter and it is recommended that positive efforts be made to recover the overpayments concerned otherwise public officer(s) could become responsible for the overpayments and bear the consequences associated with s22(1)(b) of the Finance and Audit Act 1978.

The delay in the removal of employees from the payroll system primarily lays with Ministries which appeared to have a problem with informing Central Payroll of the terminated employees in a timely manner. Compounding the problem was the lack of adequate supporting information kept on the personal files, such as termination letters from PSD or employees out at the various Ministries.

Recommendation 21

We recommended that:

- Policies and Procedures in accordance with the Financial Instructions for the recovery of overpayments be implemented by Central Payroll. Consideration should also be given to the development of a termination checklist for payroll officers at the Central Payroll. This checklist would help to make sure all the relevant information relating to the termination is collected by payroll;
- The calculation of termination payments should be conducted for all terminated employees to ensure that any monies owed to the government are recovered. The responsibility of calculating termination payments should rest with the relevant Ministry or Department, however, Central Payroll should be responsible for checking termination payments;
- Treasury Division initiates the recovery process by informing the Accounting Officer at the relevant Ministry who shall then be responsible for the recovery of significant overpayments made to terminated employees; and
- Ministries be reminded of their responsibilities to inform Central Payroll of any changes to the payroll in a timely manner.

6.2.4 Payments Made Beyond Fixed Term Contract Termination Dates

Termination testing further identified problems associated with payments being made to fixed term employees after the termination date on their contracts. This appeared to be a common problem predominately with teachers who were appointed for a fixed term during the school year. It was noted that many of these teachers continued to be paid after their termination date stipulated on their contracts. We could not find any evidence of reappointment of these fixed term employees.

Mechanisms should be put in place to ensure that these types of fixed term employees are not paid beyond the terms stipulated by their contracts. Because these current mechanisms do not exist unauthorized payments to employees have been made. Audit testing identified 20 cases of persons being paid after their termination date which resulted in a total \$50,569 additional costs to SIG.

The current system doesn't allow users to enter termination dates into the system in advance so as to prompt payroll staff to cease payment once the termination date of the contract has been reached.

Recommendation 22

As a result the Ministry of Education lack of teacher tracking and management of fixed term appointments Central Payroll should consider manually keeping track of termination dates for all fixed term contracts to ensure that they are removed in a timely manner from the payroll in accordance with the termination dates stipulated on the contract.

We further recommended that any system chosen to replace the current payroll system (Telepay) should have the ability to pre enter termination dates to ensure payments to the employee on the fixed term contracts are not made unless advice from the relevant Ministry.

7. RECORDING OF PAYROLL

7.1 Background

The recording of the payroll is currently performed by the Financial Reporting Division which is part of the Department of Treasury and Finance.

The Financial Management Information System used by the Solomon Islands Government is Maximise. The system is approximately 10 years old and is in need of updating. The Payroll system currently used by the Solomon Islands government is called Telepay and is a stand alone system from Maximise.

The objective of the audit for this area was to assess the controls over the recording of payroll from the Telepay system into the general ledger in Maximise.

7.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

7.2.1 **Non Reconciliation of Payroll**

Regular payroll reconciliations should be prepared however audit review of the process of recording payroll into the general ledger noted that reconciliations between the payroll system and the general ledger are not performed. This reconciliation is crucial in ensuring that the correct payroll amount has been posted to the general ledger.

Without performing reconciliation between the payroll system and the general ledger incorrect amounts posted to the general ledger may remain undetected and will lead to unreliable financial reporting.

Recommendation 23

Reconciliation between the general ledger and the payroll system should be prepared on a monthly basis and reviewed by a senior officer. Any discrepancies noted during the reconciliation should be investigated.

7.2.2 Conversion Table

Due to a number of licensing issues surrounding the Maximise system the current procedures involved in posting the payroll to the general ledger requires the use of a conversion table. This table helps to convert old general ledger accounts used in the Telepay system to the new general ledger accounts used in Maximise. The conversion process is automated within the Maximise system and was intended to be used as purely an interim measure until the licensing issues were resolved.

Through discussion with Treasury Division reporting staff, it was noted that the maintenance of the conversion table is not conducted on a regular basis. It is important to review the conversion table to ensure that amounts from Telepay are being coded to the correct general ledger accounts.

Recommendation 24

As an interim measure the conversion table should be reviewed on a regular basis until the Maximise and Telepay systems are eventually updated or replaced. If it is expected that there will be some time before the current payroll system is replaced, Treasury Division should consider the possibility of obtaining another software license so that the conversion table would not have to be used.

8. MAINTENANCE OF RECORDS

8.1 Background

Up until 2000 OAG noted that personal files were created by Treasury for all employees within the public service. Appointment letters and changes to payroll advices were filed away into each individual personal file. These files were maintained in compactors within the storage building within Finance. We noted that they no longer use these personal files. Management explained to OAG that they ceased using these personal files once the Registry Clerk had resigned.

From 2001 to 2004 all Salary Authority Forms were filed in date order. From 2005 onwards the same practice continued except for Salary Authority Forms relating to the appointment of new employees were filed separately from the rest of the Salary Authority Forms.

8.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

8.2.1 Storage and Security of confidential Records

During audit testing we noted confidential data such as pay reports and salary authority information were not stored adequately. There is a lack of security and storage of confidential pay records pertaining to employees.

Despite Treasury's best efforts to improve the storage and filing of payroll records in 2004 and 2005 we had great difficulty in locating a number of payroll records to support changes made to the payroll in a particular records for the years 2001 to 2003.

Furthermore OAG sighted inappropriate storage of confidential documents relating to payroll being stored outside a building located in the Finance compound.

Recommendation 25

Confidential information relating to employee pays should be secured. Consideration should be given to recommencing the use of personal files and the appointment of a Registry Clerk to maintain them.

9. DUPLICATE PAYMENTS

9.1 Background

As part of audit testing we reviewed the employee Master file for employees who have been duplicated on the payroll system. Once these employees were identified OAG reviewed each of them to check to ensure that they were not receiving more than one salary each fortnight.

9.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

9.2.1 Duplicate Payments made into the same bank account

OAG identified 24 cases of duplicate payments being made to employees totalling \$255,214.

From the review of the duplicates identified we noted that some of the reasons for the duplicates were simple processing errors such as one employee who had been incorrectly loaded onto the system with two TPF numbers. This type of error highlights the need for checks to be conducted by Central Payroll to ensure that new appointments are not already loaded into the system. It also highlights the lack of controls over the checking of the data that is input into the payroll system.

The duplicates testing also highlighted deficiencies in the termination process with some employees not being removed off the system once they have been officially terminated. For instance another employee who currently is employed by the Public Service Division has not been removed from the Teacher's Payroll and is still being paid as a teacher.

Furthermore examination noted that the Treasury Division Central Payroll had no procedures or policies in place to recover overpayments that have been made to the above employees.

It should also be noted that the listing of duplicates found by OAG is not exhaustive and it is believed that there could be many more. Due to the inadequate audit trail kept by the Ministry of Education and time constraints audit we were unable to conclude on eight other potential duplicates identified during our audit.

Recommendation 26

We recommended that:

- a thorough checking process be undertaken for all new employees added to the payroll to ensure they are not already active on the payroll;
- the Central Payroll should develop policies and procedures to initiate the recovery of salaries for employees who have been overpaid; and
- Treasury should initiate the recovery of overpayments by informing the Accounting Officer at the relevant Ministry who shall then be responsible for recovering the overpayment.

9.2.2 Nominal Rolls not being Submitted

Financial Instruction 416 (1) requires by the 1st of June each year or such earlier date as may be prescribed by the Permanent Secretary; all Accounting Officers will submit a Nominal Roll of all officers employed on permanent condition of service in their Ministry or Department whose salaries are allocated to Personal Emoluments. OAG noted that Ministries are not completing Nominal Rolls and submitting them to Treasury.

The Nominal Roll should be in a format prescribed by the permanent secretary however at a minimum it must contain the following details for each officer.

• Name	• Salary Scale and Point	• Allowances, if applicable, as at 1 st January that year
• Staff Number	• Top of Salary Scale	• Incremental Date
• Position or Title	• Annual Salary as 1 st January that year	• Station

The Certificate at the foot of the Nominal Roll must be signed by the Accounting Officer responsible for its submission. The completion and signing of the Certificate is written authority to the Treasury Division to make salary payment to the officers listed in the Nominal Roll, at the gross rates of salary shown, until further notice or until receipt of staff changes return form.

Nominal Rolls have not been submitted to Treasury for at least the last two years. As a consequence simple errors such as terminated employees not being taken off the payroll system have gone undetected. Employees who have simply just transferred to another government agency but have not been taken off their previous agencies payroll has resulted in a number of employees receiving duplicate payments. The risk of these types of errors occurring in future could be reduced if Nominal Rolls were submitted on a yearly basis.

Recommendation27

We recommended that Treasury Division Central Payroll inform Ministries of the requirements under the Financial Instructions 416 (1) to submit Nominal Rolls on an Annual Basis. Once Treasury receive Nominal Rolls then they should compare the advice from the Nominal Rolls to those employees already on the payroll to ensure only valid employees are on the payroll.

10. OVERTIME ALLOWANCES

10.1 Summary of Audit Findings

The following is a summary of audit findings and recommendations

10.1.1 Officers graded level 6 and above - \$6.7 M

Chapter F section 6 of the General Orders states that only “*locally engaged officers holding posts graded level 5 or below may be paid overtime allowance*”. OAG noted instances where this section of the General orders had been contravened with central payroll processing claims for overtime allowances for officers level 6 and higher.

We noted that between the years 2001 to 2005 approximately \$6.7m had been paid in overtime to offices graded level 6 and higher. These officers have received payments that they are not entitled to receive under the General Orders.

The table below illustrates the overpayments made to employees on a yearly basis that were in contravention to the General Orders.

Year	Overtime
2001	\$1,757,967.71
2002	\$1,158,361.71
2003	\$ 655,470.72
2004	\$1,547,474.59
2005	\$1,671,359.61
Total	\$6,790,634.34

Recommendation 28

We recommended that payroll officers should make sure that only officers level 5 and below are to claim for an overtime allowance. Furthermore, all Ministries should be informed of the requirements of chapter F section 6 of the General Order so as to make sure that no officer level 6 and above claims for overtime duties. It is also noted that GO A108 requires that all officers should acquaint themselves with the General Orders.

10.1.2 Overtime Salary Authority (SA) Forms not sighted

Financial Instruction (FI) 16 (1) (2) provides that no disposal or destruction of documents may take place without the written permission of the Auditor-General and the Government Archivist. Contrary to this instruction OAG found that Salary Authority Forms for the samples selected from the years 2002, 2003, and 2004 could not be located. According to one payroll staff member, he stated that these forms supporting overtime for these particular years have been burnt without these financial years' accounts being audited.

The risk of disposing these documents before being audited by OAG is that, fraud may go undetected due to lack of an adequate audit trail. As a consequence of poor record keeping we were unable to sight evidence of overtime payments being adequately authorized for 46% (28 out of 60) of the overtime tested. The samples were selected from 2001 to 2005. Some of the larger overtime payments that could not be verified are outlined in the table below.

Of the 28 overtime payments that audit was unable to find adequate support documentation for there were two that were quite significant and are noted in the table below.

TPF #	Date	Total Amount of Overtime not Substantiated by Supporting Documents
109252	20/01/2000	\$3,626.43
	09/11/2000	\$4,332.65
112417	09/11/2000	\$2,116.78
	23/11/2000	\$1,925.86

As the above total of the overtime payments were significant audit reviewed the employees personal files held by their respective Ministries to see whether or not there was any supporting documentation. We did not find any supports on the employees personal files held by their respective Ministry relating to the overtime payments they had received.

Recommendation 29

We recommended that:

- all documents should be securely and adequately stored; and
- Follow up action be taken to find the supporting documentation for the above, if not recovery action be considered.

10.1.3 Overtime Payments are Inaccurate

Calculation of overtime payments should be checked by Treasury Division staff before processing payments.

We found that some overtime payments were calculated incorrectly. For instance, an officer graded level 7 was paid overtime of \$692.75 but should have only been \$681.67, resulting in \$11.08 overpayment. Out the sample of 50 Overtime payments tested audit noted six overtime payments that had been incorrectly calculated.

The errors noted although minor in value appear to be the direct result of the payroll system incorrectly calculating overtime payments. As a whole OAG believes that the errors in the calculation of overtime are not material, however, these errors may result in loss of monies for the government.

Recommendation 30

Systematic errors in the calculation of Overtime should be investigated and rectified to ensure these errors do not continue to occur.

10.1.4 Inadequate Supporting Documentation

OAG noted for some instances according to the audit test, the overtime Salary Authority Forms have been filled out and signed but no supporting documentation was attached to certify the officers' overtime performances.

This is a risk which may effectively result in fraud as unauthorized overtime salary authority forms may be processed.

Recommendation 31

All Overtime Salary Authority Forms must have supporting documentation that are certified / authorized by Head of Department within the Ministry before entering them into the system for payment.

10.1.5 Overtime and Allowances have been excessive

OAG identified the ten highest overtime payments made for each year between 2001 and 2005. The amount that they had received in overtime was then compared to their estimated annualised salary. The results revealed that in each year the level of Overtime compared to the normal salary for these officers was between 48% and 196%. The average for these confirmed that these employees received Overtime valued at higher than their salaries.

OAG is concerned at the level of Overtime payments and has noted false Overtime claims in audits of other Ministries and the implication is that many of the payments may not be bona fide.

Recommendation 32

The working of excessive overtime is not conducive to efficiency. Excessive claims for overtime should be thoroughly examined and queried before being processed by Treasury. Ministries should be informed of their responsibilities under chapter F section 6 of the General orders.

These excessive overtime payments identified by OAG should be traced back to supporting documentation by the relevant Ministries to prove the validity of these large overtime claims. Recovery procedures should be commenced by the relevant Ministry for all claims found not to be valid.

11. EMPLOYEE MASTER FILE

11.1 Background

The objective of the review of the Employee Master File was to review the accuracy and the completeness of the data within the employee Master File.

The Employee Master File is a database within the payroll system that holds all the personal information regarding the employee. Common types of information contained within the Master File include:

<ul style="list-style-type: none"> • TPF number • Surname • Given Name • Date of Birth • Start date 	<ul style="list-style-type: none"> • Position Title • Termination date • Pay Point • Pay Point Description • Bank Account Details
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The maintenance of the Master File should be conducted on a regular basis to ensure errors within the file are identified and corrected. It was noted that the Employee Master File was not reviewed on a regular basis for any errors. Regular review of the Master File helps to maintain the integrity of the information within the file.

11.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

11.2.1 Employee Master File Maintenance

It was noted by OAG that the Employee Master File was not reviewed on a regular basis for any errors. Regular review of the Master File helps to maintain the integrity of the information within the file.

Reviews of the Employee Master File at a minimum should involve the following:

- A check for duplicate employees;
- A check for omitted important personal details such as NPF numbers;
- A sequence check of the Treasury Personal File Numbers;

- Any edits or changes to bank account details within the master file; and
- A review of the additions and terminations to the master file.

One of the risks associated with not conducting regular reviews of the Employee Master File is that duplicate employees on the payroll could remain undetected. Also unauthorized changes to the Master File information may not be detected.

Recommendation 33

The payroll Master File should be reviewed on a quarterly basis for any irregularities or important information that has been omitted. The review should include the search for duplicate employees and a review of all the key fields for completeness within the Master File. Evidence of the quarterly review of the Master File should be kept for audit purposes.

11.2.2 Date of Birth Field

OAG conducted a review of the date of birth field in the Employee Master File. The following common irregularities were noted:

- OAG found 3204 Employees with 1/01/1900 as their date of birth out of a total of 15817 employees in the master file;
- 6327 employees who did not have birth dates entered into the system; and
- OAG found three instances where the date of birth entered into the system were totally incorrect.

This illustrates the lack of review by Treasury Division Payroll staff when entering data into the payroll system. This also highlights the Telepay systems deficiencies in helping users to identify input errors.

Recommendation 34

Key fields such as the date of birth help to build an employee's profile. Treasury Division should remind Ministries to fill out all the key fields on salary changes forms to ensure all crucial data relating to their personal information is captured in the payroll system.

11.2.3 National Provident Fund (NPF) Field

Our review of the NPF fields identified a number of employees who had no NPF numbers allocated to them. NPF numbers should be allocated to all employees to ensure that all NPF payments can be made to their correct individual NPF Funds. Below is a table illustrating the number of employees who have not been allocated their specific NPF numbers. The first column in the table below are generic NPF numbers identified in the payroll system by OAG. These generic numbers are given to employees without NPF numbers. The second column in the table shows how many employees have been issued with generic or no NPF numbers.

Generic NPF Number	Number of employees who have been allocated the Generic Number.
AAA00	8
AAA000	9
AO000	11
AAOOO	49
AA00	67
BLANK	820
AA000	2972

Without the allocation of a proper NPF fund number to each employee in the Master File there is a risk that these employees with generic NPF numbers may not be receiving contributions into their national provident fund account that they are entitled to.

An advantage of filling out this field correctly is that it can aid in the future to help identify employees being paid twice on the payroll. This can be achieved by conducting a search for active employees on the payroll system with duplicate NPF numbers. This would help to eliminate duplicate payments to employees. OAG noted an example of such a duplicate payment on behalf of one Assistant Teacher for \$6703.

Key fields such as the NPF number help to build an employee's profile. As a result of not having these NPF numbers in the system, an employee could potentially miss out on NPF contributions that should have been allocated.

Recommendation 35

The Payroll Section should remind Ministries to fill out all the key fields on salary changes forms to ensure all crucial data relating to their personal information is captured in the payroll system. In relation to NPF numbers this information can also be obtained from the National Provident Fund directly if there is a lack of cooperation from the Ministries.

Furthermore it is recommended that Treasury run regular checks on the payroll for employees with duplicate NPF numbers to reduce the risk of employees being paid twice.

11.2.4 Termination Date Field

Termination dates should be inserted into the employee's personal information on the Master File once an employee ceases employment with the government. Once a termination date has been entered into the system the employee becomes inactive on the payroll system and cannot be paid. Once a termination date has been entered into the system employees can only be reactivated by the IT department following a formal request by the Payroll Manager. This acts as a key control in ensuring that employees can not be paid once they have been terminated.

OAG found that it was common practice for Treasury Staff not to insert termination dates into the system for terminated employees. The implication of this is that terminated employees can be reinstated on the payroll without proper approval and potentially become "ghost" employees.

The payment of the Cost of Living Adjustment (CoLA) made by the Treasury Division illustrated the ease at which employees without termination dates could be reinstated on the payroll. CoLA arrears were paid to employees who were employed with the government during the period 2001 to 2003 to compensate for the fact that there were no salary increments during this period.

Employees no longer employed by the government were also entitled to CoLA arrears payments. Many of these employees were simply reactivated on the payroll system as they did not have any termination dates against them.

Recommendation 36

We recommended that Termination dates be entered into the system for all employees that are terminated.

12. INFORMATION SYSTEMS DEFICIENCIES

12.1 Background

A review of the general computer controls was undertaken on the Telepay payroll system. Discussions were held with key information technology staff regarding the security controls surrounding the system. A high level review of the general computer controls was conducted to highlight any issues in relation to the integrity of the payroll system.

12.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

12.2.1 Inadequate Super User Access

Super User access to the system allows the user to access the back end of the Telepay system. This effectively gives the user complete access to the Telepay system including the ability to make changes to the data by adding or deleting records to the system. As a result of the access levels given to the user under a Super User login it must be heavily monitored to ensure only valid changes are being made by the Super User. A review of the Super User access has highlighted a number of considerable concerns that jeopardize the integrity of the data.

Currently there is only one super user access logon however there are four IT officers who currently have access to the same Super User logon. These four officers are using the same password to access the one Super User login and therefore changes made to the payroll via the back end of the system cannot be traced specifically to any of the four officers.

This has resulted in a serious control weakness as the Super Users cannot be held accountable for any unauthorized changes to the system. There is a risk that information could be manipulated by super users by adding new records to the system which brings into question the integrity of the data within the payroll system.

Exception logs detailing the changes made by Super Users are not run and therefore are not reviewed for any unauthorized changes effectively resulting in these super users not being monitored.

Recommendation 37

Treasury Division should consider whether or not there is a need for any Super User access to exist. If so, then only one officer should be given the responsibility of having the Super User access. If it is decided that more than one user is required to have a Super User access login then each user must have their own login and password. Audit logs should be run on a monthly basis and reviewed for any unauthorised changes made by Super Users.

12.2.2 Access Privileges are Not Reviewed on a Regular Basis

Password Administrator should be responsible for regularly reviewing access privileges of staff accessing the payroll system. Currently there is no officer primarily responsible for managing the access to the Telepay payroll system.

A review of the current front end users of the Telepay system identified three members of staff who currently have access to the system who shouldn't. Front end users are able to perform data entry within the Telepay system.

As a consequence of not reviewing access privileges, unauthorized users could make unauthorized changes to the payroll, which could result in financial losses for government. Furthermore it was noted that an IT officer had front end access to the system which is incompatible with his duties.

Recommendation 38

We recommended that a system administrator be nominated by the Central Payroll Treasury Division to be responsible for the maintenance of system access privileges. Regular reviews of the access privileges should be conducted to ensure only current and valid employees are able to access the payroll system. It is important to note that the systems Administrator should not themselves have front end access to the system.

We also recommended that the users access privileges identified be immediately removed.

12.2.3 Access Passwords are Not Changed Regularly

Good security access controls ensure that users are required to change their access passwords on a regular basis. Currently there is no requirement for Telepay users to regularly change their access passwords. Without the requirement to change access to passwords there is an increased risk that unauthorized users could have access to the system for long periods of time.

Furthermore it was noted that the Telepay system allows officers to be able to log in more than once with the same password. There is a risk that password sharing could occur, resulting in unauthorized access being given to users.

Recommendation 39

We recommended that users should be required to change their access passwords on a monthly basis. Treasury Division Central payroll staff should be informed not to share their passwords with other officers.

12.2.4 No Disaster Recovery Plan

A Disaster Recovery Plan is used to restore crucial Information systems that have been damaged. This plan stipulates the processes to follow in the event of payroll system malfunction. The objective of the disaster recovery plan is to put process and procedures in place to help restore data that may have been lost by the system malfunction.

OAG noted that currently there is no disaster recovery plan for the Telepay Payroll system. There is a risk that important information could be lost in the event of a system malfunction.

Furthermore OAG noted that backups for the payroll have not been tested in the past to ensure data can be restored. Without the testing of these backups, uncertainty exists over the ability to restore critical payroll data.

Recommendation 40

We recommended that a Disaster Recovery Plan be developed. Furthermore, backups should be tested on a regular basis to ensure that the data can be satisfactorily restored in the event of system malfunction.

12.2.5 System Maintenance

Information systems should be regularly maintained and upgraded to ensure their smooth operation to minimize the chances of system crashes and malfunctions. Currently there is no commercial support for the system as the company responsible for this support in the past (Alpha Pay) no longer exists. Due to the lack of knowledge about the system amongst current IT staff and lack of availability of commercial support no maintenance or upgrades on the Telepay system is performed.

Discussion with key Treasury and Finance Information Technology staff indicated that there are only two officers who are responsible for looking after the system. Their dealings with the system have been limited to keeping the system up and running and producing data base queries so that payroll staff can run payroll reports. Procedures or briefing notes are not kept by the two officers resulting in a lack of knowledge sharing about the system.

As there is a lack of maintenance and upgrade of current Telepay system there is an increased risk of system crashes and malfunctions occurring.

Recommendation41

Consideration should be given to the replacement of the current payroll system Telepay. When the time comes to replace the system a selection committee should be established to identify the needs and requirements of the new payroll system. Compatibility with the Financial Information Management System should also be considered by the selection committee.

13. COMMUNICATION BETWEEN KEY STAKEHOLDERS

13.1 Background

There are a number of key stakeholders such as the Treasury Division and PSD which play a part in the processing of payroll as well as the human resource management. Effective communication and sharing of information between these other stakeholders is vital to the human resource management and the processing of the payroll Solomon Islands.

13.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

13.2.1 No Link Between Establishments And Payroll

The Establishments Register is a listing of all positions available within the public sector and is used as a guide by all the relevant Ministries for the purposes of determining recruitment, promotions and transfers. It was noted that there was no common link between the central payroll master file and the establishments register held by PSD.

Furthermore, review of the establishment records held by PSD noted information relating to established employees was kept in an excel spreadsheet. From the review of the spreadsheet it became evident that there were a number of shortcomings in its maintenance and accuracy. This spreadsheet was far from adequate as there was a lack of information regarding those employees who occupied the positions within the Establishment Register. Therefore, bringing into question the accuracy and the integrity of the current Establishment register held by PSD.

There should be a common link between the Establishment Register held by PSD and the payroll. The total number of filled positions in the Establishment Register as per PSD's establishment records should equal the total number of active employees on the payroll and any discrepancies as a result of timing should be able to be explained.

Because there is no common link between these two sources of information it makes it virtually impossible to explain the reason for current differences between the payroll records and the current Establishment Register.

Below is a Table which illustrates the current discrepancies between the occupied number of positions as outlined by the Establishment Register and the actual active employees as per the payroll.

	Teachers	Established & Non Established
Active Employees as per Master file	5314	3418
Total filled positions as per establishment register held by PSD	5069	3228
Variance	245	190

The variances in the above table indicate a strong possibility of “ghost” employees on the payroll but because of the lack of information currently held by PSD on Established employees, comparison between the two databases is difficult. Some consideration should be given by both stakeholders PSD and Treasury into the option of developing a common variable between the two databases (such as the use of position numbers) for every position within the public service. TPF numbers should be attached to position numbers to ensure that only valid employees are on the payroll. TPF numbers could also be used as a common variable between the two databases.

Without the ability to make comparisons between the Establishments Register and the payroll there is a high probability that ‘ghost’ employees on the payroll could remain undetected.

Discussions held with the PSD indicated that they are in the process of developing a database to maintain the Establishment Registers as part of their human resource management responsibilities.

Recommendation42

We recommended that:

- Treasury Division should consult with PSD to ensure that the PSD database will capture enough common information so that comparisons between the payroll and PSD records can be made;
- Treasury Division should discuss the possibility of integrating the position numbers into the current payroll system to improve the tracking of employees within the public service;
- Once the database has been developed by PSD, comparisons between the Establishments Register and the payroll should be conducted on an annual basis; and
- PSD should consider the development of position numbers for all available positions within the public service.

13.2.2 Lack of Reconciliation of Teachers Postings and the Payroll

Regular comparison between lists held by the Teaching Service Commission (TSC) regarding the posting of teachers and a list of teachers currently on the Payroll system held by Finance should be conducted on a regular basis. During the teacher's stocktake testing a comparison between the two lists was made revealing a number of discrepancies.

Furthermore, comparison between the teacher postings list and the payroll is difficult as there is no common variable. Other factors which make reconciling these two lists difficult are:

- The payroll does not identify which school a teacher is posted to;
- The names on the posting list are not in the same format as on the payroll; and
- TPF numbers are not used on the teacher postings list.

The best common variable between the two lists would be the use of the Treasury Personal File numbers (TPF). TPF numbers should be used on the teacher posting lists held by the TSC. In addition to above, these postings should be reconciled to the Establishment Register which sets out the numbers of posts each school is entitled to.

Because there is no comparison between the teachers' posting list and teachers' currently on the payroll, there is a risk of non bona fide employees on the payroll not being detected. Comparison of the Central Province teacher's postings list and those teachers that have been posted to schools in the central province according to the payroll identified the discrepancies.

The teachers posted to the Central Province as per records held by the Teachers Commission is 312 whilst the payroll system indicates 305 teachers. Further discrepancies exist with the Establishment Register held by PSD showing only 262 filled positions compared to the teachers' postings list of 312. The discrepancies between these lists highlights the lack of accurate tracking of teachers within the public service.

The current methods used by the Teachers Commission to track teachers are inadequate. Their current tracking practices can easily lead to the existence of "ghost" employees on the payroll. This should be of a considerable concern to the Treasury Division as teachers make up just over fifty percent of the total employees on the payroll.

Recommendation 43

We recommended that:

- Reconciliations between teachers' postings lists maintained by the TSC, Teachers Service Establishment Register and the payroll system should be carried out on a yearly basis by TSC;
- TSC should also have a generic format for postings lists that require the inclusion of TPF numbers of teachers within the provinces;
- The discrepancies noted as a result of the reconciliation process should be investigated in a timely manner to protect the government from loss of monies; and
- Consideration should be given to incorporating position numbers into the payroll system that help to identify which school a teacher is posted to.

14. ISSUES ARISING FROM CONDUCT OF EMPLOYEE STOCKTAKE

14.1 Background

The objective of audit testing was to verify the integrity and the accuracy of the current payroll by selecting a sample of employees on the payroll and physically sighting them.

As teachers make up over 52% of the payroll a sample of teachers from the payroll was selected as part of the stocktake testing.

Teachers are currently tracked on the Payroll system by the province in which they teach and not by which school they currently teach at. As a result a whole Province must be selected in order to be able to conduct a stocktake. Due to time constraints and limited resources the Central Province was chosen.

A number of common concerns among employees were noted whilst conducting the stocktake of Teachers from the Central Province. It was noted that a number of staff:

- were unsure if they were being paid at the right level;
- had not received any increments for a number of years;
- were aware of the “ghost” teachers problems; and
- were not on the payroll of the school at which they were currently teaching.

The various issues that have been identified as a result of the stocktake have highlighted a number of shortcomings in the current management and tracking of teachers. OAG believes that many of the issues identified during the Central Province teacher stocktake would be magnified in some of the larger Provinces across the Solomon Islands.

14.2 Summary of Audit Findings

The following is a summary of audit findings and recommendations:

14.2.1 Tracking of Employees on the Payroll

It became evident from the employee stocktake that there were deficiencies in relation to the tracking of employees within the current payroll system. Movements within the public service should be tracked by the relevant Ministry who should inform the Treasury Division Central Payroll of any movements within the public sector via a standard salary authority changes form.

Stocktaking of teachers identified that a number of teachers physically inspected at the schools were recorded on the payroll system as teaching in a different Province. The discrepancies noted in the stocktake suggest that many teacher transfers between schools are not being recorded by the Teachers Service Commission and are therefore not recorded on the payroll system. A total of 280 teachers were sighted and confirmed as presently teaching within the Central Province however there was a total of 312 that should have been posted out at the various schools as per the Teachers Commission Records.

Furthermore, during the stocktake of teachers within the Central Province OAG was provided with an updated copy of the teacher's postings list as at May 2006 by the Principal Education Officer. The Teachers Postings Lists are submitted by all Provinces at the beginning of each year. This list was compared to the teacher's postings list that he had submitted to the Teachers Commission in January 2006. The postings lists for January contained a total of 312 teachers compared to May's list of 311. Comparison of the two lists noted that they shared only 232 common names. This supports OAG's concerns over the lack of tracking of staff within the payroll system.

Without the appropriate tracking of employee on the payroll there is an increased chance of non bona fide employees going undetected resulting in financial losses for the Government.

Recommendation 44

Discussions with the PSD indicated that they are considering the use of position numbers for all available jobs within the public service. This would require all employees to be posted against a position number. The use of position numbers would aid in the tracking of employees as the position number would be able to indicate the current location of the employee. Treasury Division in consultation with PSD and the TSC should consider the use of position numbers within the payroll system.

14.2.2 Ghost Employees and Potential Ghost Employees

During the teacher stocktake of the Central Province OAG noted at least one “ghost employee” and seven potential ghosts that are posted to the Central Province as per the payroll.

One class teacher had left the Nautuha School in 2003 but was still on the payroll. The payment to the “ghost” employee to date has totaled \$15,458.29. Furthermore, many of the residents within in the Nautuha village expressed their concern over the lack of attendance of the teachers at the school. After discussions with a number of residents in the village it was indicated that the Nautuha School had only been open for ten days since the beginning of the school year.

Out of the 312 teachers on the teachers’ postings list provided by the principal education officer, 17 were not identified during our stocktake. This further substantiates our concerns over the reliability of the teachers’ postings lists currently maintained by the Principal Education Officer.

OAG did not sight 84 out of the 305 teachers that had been allocated to the Central Province within the payroll system. These teachers have either been transferred to another Province without payroll being advised or are potentially “ghost” teachers.

Due to the lack of teacher tracking by the Ministry of Education OAG was unable to receive a timely response from the Teachers Commission regarding these employees.

The findings identified challenge both the integrity of the payroll and the current procedures in place by the Teachers Commission for tracking teachers. Discussions with teachers out at the various schools visited also indicated that “ghost” teachers were a wide spread problem across the country. Many of the teachers interviewed who formerly taught in larger Provinces such as Malaita indicated to OAG that they knew of at least one “ghost” employee.

The biggest concern for OAG is that if “ghost” employees are able to be found in such a small province like Central Province then the potential of ghost employees existing in larger Provinces is more problematic.

Recommendation 44

We recommended that:

- Because teachers make up more than 52% of the government payroll the Treasury Payroll Division should liaise with the Ministry of Education to track the Ministry's progress on developing an adequate teacher tracking process;
- Recovery procedures against the ghost employee for \$15,458.29 be commenced; and
- Potential "ghost" employees identified in the findings should be investigated.

14.2.3 Teachers not being Paid at the Correct Level or Receiving Salary Increments

Financial Instructions 416 (5) "Nominal Rolls and Staff Changes Returns" requires that public service employees be paid and incremented automatically when it is due unless notification to the contrary is given by the responsible accounting officer.

Many of the teachers interviewed by OAG during the stocktake indicated that they had not been paid at the correct level. Discussions with the Principal at the SIRO Community High School indicated that he was being paid at a level 7 however his established post was actually level 8/9.

A number of teachers interviewed were also concerned over the fact they had not received an increment for some time as well as many of them still being probationary teachers despite having been teaching for a number of years. Many of the schools had not been visited by provincial education inspectors for many years, as a result many teachers have remained as probationers for 5 -10 years.

From a non exhaustive review of the payroll audit found 225 active teachers on the payroll that had not received an increment for a number of years including as far as 1991.

The estimated total loss for these 225 employees was estimated to be \$90,000 based on the very conservative assumption that these employees simply moved up increments within their current level as a probationary officer. The calculation did not take into consideration the potential increases in level that these employees could have experienced. OAG believes that if this was taken into consideration the combined loss for individuals would be in the hundreds of thousands of dollars.

Recommendation46

We recommended that:

- Treasury Payroll Division should review current increment payment practices to ensure all employees entitled to an increment receive them on their incremental dates;
- All teachers and public service employees who should have received regular increments but have not, should be identified by the Treasury Division and investigated. Outstanding payments should be made to those employees affected; and
- Ministry of Education with the aid of Treasury should identify all probationary teachers who have been on probation for extended periods of time and reassess the current pay levels that these teachers are at.

14.2.4 Unpaid Teachers out at the Schools

A total of nine teachers had been identified during the stocktake that were currently teaching at schools within the Central Province and were not presently on the payroll or registered with the Ministry of Education.

This seems to be the result of a lack of communication between the provincial education authorities and the Ministry of Education with teachers experiencing large delays in their appointment and receiving salaries and wages.

The identification of these teachers not yet on the payroll raises concern over the completeness of the payroll. The incompleteness of the payroll can lead to budgeting and cash flow issues for the Government in the future. Based on a simple extrapolation of the findings found during the Central Province audit, it has been conservatively estimated that there could be as many as 150 teachers that are currently teaching in schools across the Solomon Islands that are yet to be put onto the payroll. Back payments owing to these employees once they have been put on the payroll for these employees collectively could be in the millions of dollars.

Recommendation47

We recommended that communication links between provincial education offices and the Ministry of Education be improved to ensure all valid employees are recorded on the payroll. The reasons for the non appointment of these teachers onto the payroll should be investigated and any problems should be rectified. Furthermore it was recommended that teachers should not start their employment until they have received an appointment letter.

14.2.5 Distribution of Pay Slips

Out of the 280 employees interviewed during the Central Province teachers stocktake 100% of them said that they did not receive pay slips on a regular basis. In some cases employees had not received pay slips at all. Discussions with the Principal Education Officer indicated that he had them locked away in his office.

The Police Ministry stocktake conducted on police within Honiara city indicated better results with a majority of the police officers indicating that they receive their pay slips. However officers also indicated that they don't receive them in a timely manner, in most cases around one month after they have been paid.

It is important that employees receive their pay slips in a timely manner so that any errors associated with their pay can be identified. Pay slips ensure that employees are able to verify the amount they should be receiving into their bank accounts.

The distribution of pay slips also acts as a control as it helps to identify invalid employees on the payroll. Pay slips that have not been collected after each pay could suggest the existence of a "ghost" employee.

Recommendation 48

We recommended that Treasury Division Central Payroll should send out a memorandum to remind all Ministries of their responsibilities to distribute pay slips to employees on a timely basis.