



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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September 24, 1998

Mr. Carlos H. Salas
Executive Director
Commonwealth Ports Authority
P.O. Box 1055, Saipan MP 96950

Dear Mr. Salas:

**Subject: Final Letter Report on the Audit of Salary Increases
Granted to CPA-Rota Employees (Report No. LT-98-12)**

This final letter report presents the results of our audit of salary increases granted to Commonwealth Ports Authority (CPA) Rota employees. The objective of the audit was to determine whether salaries and salary increases of CPA-Rota employees were granted in a fair and equitable manner, and in accordance with the CPA Personnel Regulations and the CPA Employee Classification and Compensation Plan.

Our audit showed that (1) there were inequities in granting salaries and salary increases at the CPA Rota branch office because several employees were not classified using the CPA Employee Classification and Compensation Plan for Rota employees (hereinafter "Rota Salary Plan"), but were classified using the CPA Employee Classification and Compensation Plan for Saipan employees (hereinafter "Saipan Salary Plan"), which placed them at higher pay levels with higher pay; (2) several Rota employees were hired or promoted to positions which did not exist under the Rota Salary Plan; and (3) two Rota employees who did not meet minimum qualification requirements were hired at pay levels higher than the pay levels for qualified employees occupying comparable positions.

We recommend that the CPA Executive Director (1) submit to OPA evidence (such as a board resolution) showing the changes in the CPA Employee Classification, and specifically showing that separate compensation plans for Rota and Tinian were eliminated and only a single plan is being used for all CPA employees or, if separate classification/compensation plans are still in effect, ensure that adopting different classification/compensation plans is properly justified. And, in either case, ensure fair application of the compensation plan; (2) request the CPA Comptroller or Personnel Officer to review the CPA Compensation Plan to ensure that all existing positions

of CPA employees are included in the classification; (3) direct the CPA Comptroller to resolve the discrepancies in pay levels of Rota employees; and (4) reclassify the two Rota employees to positions commensurate with their qualifications.

In his letter dated August 27, 1998 to OPA, the Executive Director agreed with most of the audit recommendations. According to the Director, the CPA compensation plan is currently being reviewed to fit the need of CPA employees in Rota and Tinian. He said that final recommendations will be submitted to the Board for approval before January, 1999.

Based on the response we received, we consider Recommendations 1 to 3 resolved and Recommendation 4 open. The additional action required to close these recommendations are presented in **Appendix B**.

BACKGROUND

On October 14, 1997, the Office of the Public Auditor (OPA) received a complaint about unfairness in granting salary increases to Commonwealth Ports Authority (CPA) Rota employees. After preliminary inquiry, OPA determined that an audit should be conducted.

Commonwealth Ports Authority (CPA) - Rota

As of the time of our audit, CPA had 41 employees in Rota who were assigned to 4 divisions. 19 employees worked in the Police/Air Rescue & Fire Fighter (ARFF) Division, 12 in the General Maintenance/Custodial Division, 6 in the Radio/Weather Observer Division, and 4 in the Administration Division.

Personnel functions such as hiring and transfer of personnel and payroll processing are handled by the CPA main office in Saipan.

Salary Increases

Section 3.03 of the CPA Personnel Manual provides that an employee is eligible for a salary raise at any time after his/her provisional period of employment ends, and after the expiration of not less than six (6) months from the date of his/her last prior salary raise; provided, however, that no salary raises shall be granted except for sustained superior performance. The Executive Director will decide all raises and will consider the employee's annual evaluation in doing so.

Section 4.02 provides that each CPA employee shall be evaluated annually. Evaluations are to be written on forms provided by the Executive Director, who will require the evaluator to assess the employee's performance of the duties listed on the employee's job description as well as comment on the employee's dependability, resourcefulness, and cooperativeness. Evaluation forms will also ask for the evaluator's recommendation regarding any increase in the employee's salary.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit was to determine whether salaries and salary increases of CPA-Rota employees were granted in a fair and equitable manner, and in accordance with the CPA Personnel Regulations and the appropriate CPA Employee Classification and Compensation Plan.

Our review covered only salary increases of CPA employees based in Rota. Audit procedures included (1) review of the CPA Personnel Manual and Employee Classification and Compensation Plan, (2) examination of personnel files and performance evaluations of selected CPA employees, and (3) interview of responsible CPA officials.

We performed our audit at the CPA-Accounting Office in Saipan from October 27 to October 31, 1997. The audit was made, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were necessary in the circumstances.

As part of our audit, we evaluated the system of internal controls related to granting of salary increases to CPA-Rota employees to the extent we considered necessary to accomplish the audit objectives.

FINDINGS AND RECOMMENDATIONS

Employee Classification and Compensation Plan Adopted by CPA Board not Followed

The Employee Classification and Compensation Plan adopted by the CPA Board provided separate minimum work requirements, pay ranges, and minimum qualifications for CPA-Rota employees. Salaries and salary increases of Rota employees should be based on this plan. Our audit showed that (1) there were inequities in granting salaries and salary increases at the CPA Rota branch office because several employees were not classified using the Rota Salary Plan, but were classified using the Saipan Salary Plan which placed them at higher pay levels with higher pay; (2) several Rota employees were hired or promoted to positions which did not exist under the Rota Salary Plan; and (3) two Rota employees who did not meet minimum qualification requirements were hired at pay levels higher than the pay levels for qualified employees occupying comparable positions. This occurred because CPA management implemented a new classification plan for Rota employees based on the classification plan for Saipan without evidence of written adoption by the CPA Board. In addition, the new plan was not consistently applied to all Rota employees. As a result, there was no assurance that Rota employees were compensated in an equitable manner. The security of the Rota International Airport was also jeopardized with the hiring of two unqualified personnel to serve as Airport Police Officers.

Employee Classification and Compensation Plan

On October 25, 1995, the CPA Board adopted its first Employee Classification and Compensation Plan. Among the fundamental objectives of the plan were (1) to attain consistency on new hires, promotions, transfers, and so forth by using established minimum work requirements, minimum qualifications, pay ranges, etc., and (2) to improve the quality of CPA's work force. The plan provided separate and distinct salary and position classification for Saipan, Rota and Tinian employees. It will be noted, for example, that in the classification plan approved by the CPA Board, employee positions in the Saipan office such as Security Officer and Fire Fighter I (both classified as pay level 22), are combined in the Rota classification plan as Security/Air Rescue & Fire Fighter (ARFF) position (classified as pay level 20).

Unfairness in Granting Salaries and Salary Increases

Our audit showed that there was unfairness in granting salaries and salary increases at the CPA Rota branch office because several employees were being compensated at the higher pay levels established in the classification plan for Saipan employees.

In our review of salaries of 10 Rota employees, we noted that salaries and salary increases of eight employees were not based on the Rota classification plan which the Board had adopted. Pay level differences of two to ten levels more than the correct Rota pay level were noted to have existed since December, 1995.

Our audit showed that the eight employees were classified and given higher rates based on the Saipan Salary Plan, while the two other Rota employees, a Security Officer/ARFF II and an Asst. Supervisor, Radio Operator/Weather Observer, still remained at the old pay levels (per Rota Salary Plan) which are at two steps lower (See **Table 1**). As a result, the salary of that Security Officer, who has been working at CPA for almost three years, is now the same as those of the two newly hired Airport Police Officers who were compensated using the new plan. Under this new plan, these two Rota employees could have received much higher compensation if it had been applied consistently.

Position	Date Hired	Current Pay Level ¹	Salary per Annum	Rota ² Pay Level	Salary per Annum	Difference in Pay Level
Security Officer ARFF II	11/94	22/1(R)	15,860.00	22/1	15,860.00	0
Airport Police Officer	7/97	22/1(S)	15,860.00	20/1	14,388.92	2
Airport Police Officer	7/97	22/1(S)	15,860.00	20/1	14,388.92	2
Fire Fighter II	3/95	24/1(S)	16,858.40	22/1	15,860.00	2
Asst. Supervisor, Radio Operator/Weather Observer	11/92	22/3(R)	17,482.66	22/3	17,482.66	0
Radio Operator/ Weather Observer	3/95	22/2(S)	16,651.44	12/2	10,094.76	10
Port Police Captain	8/89	28/1	20,484.62	Not in the Rota or Saipan Salary Plan		
Security, ARFF	12/95	22/1(S)	15,860.00	20/1	14,388.92	2
Asst. Chief, ARFF	12/90	32/1(S)	24,889.28	27/1	19,511.44	5
Chief ARFF/Police	7/80	34/7(S)	36,763.22	30/1	22,576.84	4

Table 1

Hiring and Promotion of Employees to Non-Existing Positions

Several Rota employees were hired and promoted to positions which did not exist under the classification plan for Rota. These were as follows:

- Two new employees were hired in July 1997 as Airport Police Officers starting at pay level (PL) 22/1 (\$15,860.00 per annum). The Rota classification plan does not include such a position but only a Security/ARFF position, which starts at PL 20/1 (\$14,338.92 per annum).
- An existing Rota employee was promoted to “Port Police Captain” starting at PL 28/1. The Rota classification plan does not include such a position.

Minimum Qualification Requirements Not Observed

The Employee compensation and classification plan adopted by the Board on October 25, 1995 provided *minimum* qualification requirements before an applicant would become eligible to fill a position¹.

Our audit showed that two out of ten employees sampled were hired without meeting the minimum requirements of their current position (See **Table 2**).

¹ Pay level as of September 1997; (S) - Saipan Salary Plan and (R) - Rota Salary Plan

² Per CPA Salary Classification and Compensation Plan adopted by CPA Board on October 25, 1995 for Rota Employees.

Date Hired	Position	Pay Level	Minimum Credentials per Compensation Plan ³	Employee Credentials
7/28/97	Airport Police Officer	22/1	AA, CPR Certificate	HS Grad., 11 mos. experience (unrelated)
7/28/97	Airport Police Officer	22/1	AA, CPR Certificate	HS Grad., 1 yr. & 11 mos. experience (unrelated)

Table 2

The Airport Police Officer position calls for an AA Graduate with CPR certificate, at a minimum. If the applicant is a High School Graduate, he should have at least 2 years of work experience which is directly related to the position applied for. In our review of the personnel action files including the application forms, we noted that the employees' work experience was unrelated; one was a cargo handler and the other was a parts and supplies purchasing clerk.

Revisions to Compensation Plan not Adopted by the Board; No Assurance of Equitable Salary Rates and Increases

According to the CPA Comptroller, CPA management decided to standardize the pay level of all CPA employees regardless of their branch assignments, in order to resolve existing disparities on salary rates between branches. He reported the following revisions to the classification plan:

1. Standardization of starting pay levels for Security/ARFF Position and Radio/Weather Observer from pay levels 20 and 12, respectively, to equal CPA-Saipan's starting rate which is pay level 22/1. New hires for these positions will be paid at the entry pay level of 22/1.
2. Adjustment of pay levels for current Rota employees to equal Saipan Salary Plan without increasing their salary rates. For example, a Security/ARFF officer currently receiving \$15,860 per annum at pay level 20/3 (Rota Salary Plan) will be adjusted to pay level 22/1 (Saipan Salary Plan) also at \$15,860 per annum.

This adjustment was made at the time employees received their annual increment and/or promotion.

3. Creation of new employee positions, such as Port Police Captain, to match those of CPA-Saipan.

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In the memorandum issued by the Chairman of the Board of CPA dated October 25, 1995, the Board clarified that the statement in the position description which states "...Any combination equivalent to graduation from high school (or GED) and a four (4) year accounting degree from an accredited US college or university with no less than six (6) years of progressively responsible experience....", meant, for example, that 4-years work experience *directly related* to the field of accounting may be substituted for a four-year college degree.

We noted however, that there was no written adoption by the CPA Board to formally incorporate these changes into the Rota Salary Plan. Moreover, there were no guidelines issued on how to implement these amendments. Under 2 CMC Div. 2 §2122 (n), the power to set CPA's wage and salary scale is vested in its Board, and therefore any changes or amendments thereto require review and approval by the Board.

The CPA Comptroller stated that these changes were approved by the Board, but to date he has not furnished us with a copy of the Board resolution or any other evidence to that effect. He later added that the compensation plan adopted by the Board in October 1995 contains only guidelines, and that it is not practical to obtain Board approval every time changes in the compensation plan are made.

With regard to those employees who were not considered in the pay level adjustment, the CPA Comptroller said that this may have been an oversight, and has promised to take appropriate action. The Comptroller should take note, however, that in the case of the Security Officer/ARFF II position which is currently at pay level 22/1 and \$15,860 per annum, adjusting his pay level to equal Saipan Salary Plan (which is pay level 24 for Security Officer II) will mean increasing his salary rate by 6.3%, as pay levels 24 to 30 have a different scale of pay. This would not be consistent with the planned revision which calls for standardization of pay levels only and not the salary rate. Without a board resolution or written guidelines on how to implement this new scheme, discrepancies like this can be expected.

As a result, there is no assurance that Rota employees were granted salaries and salary increases in an equitable manner. The security of Rota International Airport may also be jeopardized by the hiring of two unqualified individuals to serve as Airport Police Officers.

In a follow-up interview with the two CPA-Rota employees who were not considered in the pay level adjustment, we were told that they are willing to forego their claim to salary adjustment until such time as the CNMI Government has recovered from its financial problems.

Conclusion and Recommendation

The power to set CPA wage and salary scales is vested in the Board of CPA. Any changes or amendments thereto should pass their review and be approved no matter how frequent or impractical it may be to do so. Moreover, employees should be informed of guidelines for all changes in personnel policies, especially when their compensation will be affected. Based on an interview with the employees involved, we noted that not all employees are aware of the revised plan. Accordingly, we recommend that the CPA Executive Director:

1. Submit to OPA evidence (such as a board resolution) showing the changes in the CPA Employee Classification, and specifically showing that separate compensation plans for Rota and Tinian were eliminated and only a single plan is being used for all CPA employees or, if separate classification/compensation plans are still in effect, ensure that adopting different

classification/compensation plans is properly justified. And in either case, ensure the fair application of the compensation plan.

2. Request the CPA Comptroller or Personnel officer to review the CPA Compensation Plan to ensure that all existing positions of CPA employees are included in the classification.
3. Direct the CPA Comptroller to resolve the discrepancies in pay levels of Rota employees.
4. Reclassify the two Rota employees to positions commensurate with their qualifications.

CPA Response

In his letter dated August 27, 1998 to OPA (**Appendix A**), the Executive Director agreed with most of the audit recommendations. For Recommendation 1, the Director stated that the compensation plan will be reviewed extensively and revised to fit the need of CPA in Rota and Tinian. According to him, this review will address the discrepancies in pay scale with the Saipan compensation plan which may result in adopting the same pay scale and/or, in certain positions, combining two positions into one, i.e., ARFF I/Police I, for efficiency. The Director assured that, in this review, a fair application of the compensation plan will be made. For Recommendation 2, the Director stated that the CPA compensation plan is currently being reviewed by the Comptroller, Office Manager and the Ports Managers who will submit the proposed changes to the Executive Director and the Personnel Affairs Committee. The Personnel Affairs Committee shall then submit the final recommendations to the Board before January, 1999. According to the Director, the review will also ensure that all positions are included in the compensation plan.

For Recommendation 3, the Director responded that this has already been implemented since December 12, 1997, and the pay levels (apparently referring to Rota employees) are now in conformity with their respective title and pay scale. And lastly, for Recommendation 4, the Director disagreed with our recommendation. He explained that because the majority of applicants and new hires are high school graduates only, and do not possess the qualifications as prescribed under pay level 22/1, CPA will instead revise the job description for this pay scale to read “minimum requirement is high school graduate.” The Director added that any disparities in pay scales of same position titles between CPA Rota and Tinian employees which could arise will also be addressed in the ongoing review.

OPA Comments

Based on the response we received from the CPA Executive Director, we consider Recommendation 1, 2 and 3 resolved and Recommendation 4 open, pending submission of additional information to close these recommendations as presented in **Appendix B**.

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Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An *open* recommendation is one where no action or plan of action has been made by the client (department or agency). *Resolved* recommendation is one in which the auditors are satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame of action. *Aclosed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it. Please provide to us the status of the recommendation implementation along with the documentation showing the specific actions taken.

Please provide to us the status of recommendation implementation within 30 days along with documentation showing the specific actions that were taken. If corrective actions will take longer than 30 days, please provide us additional information every 60 days until we notify you that the recommendation has been closed.

Sincerely,



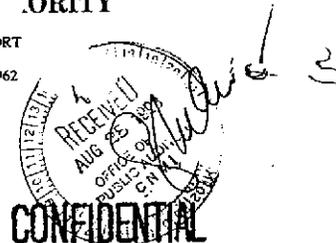
Leo L. LaMotte
Public Auditor, CNMI

cc: Governor
Lt. Governor
Eleventh CNMI Legislature (27 copies)
Attorney General
Secretary of Finance
Special Assistant for Management and Budget
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COMMONWEALTH PORTS AUTHORITY

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August 27, 1998

Mr. Leo L. LaMotte
Public Auditor, CNMI
2nd Floor J.E. Tenorio Bldg.
Gualo Rai, Saipan, MP 96950

Dear Mr. LaMotte:

Subject: OPA Draft Letter Report on the Audit of
Salary Increases Granted to CPA-Rota Employees

Thank you for your Draft Letter of July 27, 1998 which we received on July 28, 1998 regarding the above subject matter.

In conformity with Commonwealth Auditing Act 1 CMC §7823(a), below is our response to your recommendations on Page 7, under section Conclusion and Recommendation:

1. CPA concurs with this recommendation to the extent of the audit findings. The compensation plan for Tinian and Rota will be reviewed extensively and revised to fit the needs of these two departments. Our revision will address the disparities in pay scale from the Saipan compensation plan which may result in adopting the same pay scale and/or, in certain positions, combining two positions into one, i.e. ARFF I / Police I, for efficiency. In our revision, a fair application of the compensation plan will be applied. The CPA staff assigned to this task are : the Comptroller, Office Manager and the Port Managers who will perform the review and submit the proposed changes to the Executive Director and the Personnel Affairs Committee. The Personnel Affairs Committee shall then submit its concurrence or recommendations to the full Board for approval prior to January, 1999;
2. the CPA Compensation Plan is currently being reviewed by the above CPA staff to also make sure that all positions are included in the compensation plan. The staff recommendations will also be submitted to the Executive Director and the Personnel Affairs Committee who shall submit to the full Board for approval prior to January, 1999;

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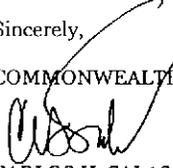
Mr. Leo L. LaMotte
August 28, 1998
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3. your recommendation has been implemented since December 12, 1997 and the pay levels are now in conformity with their respective title and pay scale;
4. CPA recommends otherwise. Because the majority of applicants and new hires are high school graduates only and do not possess the qualification as prescribed under pay level 22-1, CPA will revise the job descriptions for this pay scale to read "minimum requirement is high school graduate." Our review will also address any disparities in pay scales within the same position titles which may exist among the employees of Rota as well as Tinian.

We hope the above information satisfies your findings and recommendations. Please do not hesitate to contact us should you have any questions.

Sincerely,

COMMONWEALTH PORTS AUTHORITY



CARLOS H. SALAS
Executive Director

cc: Chairman, CPA Board of Directors
Comptroller, CPA

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/Additional Information or Action Required
<p>1. The CPA Executive Director submit evidence (such as a board resolution) showing the changes in the CPA Employee Classification, and specifically showing that separate compensation plans for Rota and Tinian were eliminated and only a single plan is being used for all CPA employees or, if separate classification/compensation plans are still in effect, ensure that adopting different classification/compensation plans is properly justified. And in either case, ensure the fair application of the compensation plan.</p>	<p>CPA</p>	<p>Resolved</p>	<p>The Director stated that the compensation plan will be reviewed extensively and revised to fit the need of CPA in Rota and Tinian. According to him, this review will address the disparities in pay scale with the Saipan compensation plan which may result in adopting the same pay scale and/or, in certain positions, combining two positions into one i.e., ARFF/Police I, for efficiency. The Director assured that, in this review, a fair application of the compensation plan will be made. He said that the final recommendations will be submitted to the Board for approval before January, 1999.</p> <p><i>Further Action Required</i> The Director should provide OPA an update as to the progress of the review every 60 days until final revisions to the compensation plan has been approved by the Board. A copy of the revised compensation plan should be submitted to OPA upon approval by the Board.</p>
<p>2. The CPA Executive Director request the CPA Comptroller or Personnel officer to review the CPA Compensation Plan to ensure that all existing positions of CPA employees are included in the classification.</p>	<p>CPA</p>	<p>Resolved</p>	<p>The Director stated that the CPA compensation plan is currently being reviewed by the Comptroller, Office Manager and the Ports Manager who will submit the proposed changes to the Executive Director and the Personnel Affairs Committee. The Personnel Affairs Committee shall then submit the final recommendations to the Board before January, 1999. According to the Director, the review will also ensure that all positions are included in the compensation plan.</p> <p><i>Further Action Required</i> The Director should provide OPA an update as to the progress of the review every 60 days until final revisions to the compensation plan has been approved by the Board.</p>

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/Additional Information or Action Required
3. The CPA Executive Director direct the CPA Comptroller to resolve the discrepancies in pay levels of Rota employees.	CPA	Resolved	<p>The Director responded that this has already been implemented since December 12, 1997, and the pay levels (apparently referring to Rota employees) are now in conformity with their respective title and pay scale.</p> <p><i>Further Action Required</i> The Director submit to OPA evidence of the review made to resolve the discrepancies in pay levels of Rota employees. In addition, the Director should also submit a summary listing of those employees affected by this change, which should include the employee position title, and pay levels before and after the said correction took effect.</p>
4. The CPA Executive Director reclassify the two Rota employees to positions commensurate with their qualifications.	CPA	Open	<p>The Director disagreed with the recommendation. He explained that because the majority of applicants and new hires are high school graduates only, and do not possess the qualifications as prescribed under pay level 22/1, CPA will instead revise the job description for this pay scale to read "minimum requirement is high school graduate." At present, the minimum requirements for an Airport Police Officer position, which falls under pay level 22/1, is an AA degree with CPR certificate.</p> <p><i>Further Action Required</i> Since this action is under the jurisdiction of the Board of CPA, the Director should submit to OPA a copy of the Board approval of this plan to revise the job description for pay level 22/1.</p>