

PERFORMANCE AUDIT

AMERICAN SAMOA GOVERNMENT DEPARTMENT OF PORT ADMINISTRATION ACCOUNTS RECEIVABLES FOR THREE FISCAL YEARS ENDING SEPTEMBER 30, 2022

**TERRITORIAL AUDIT OFFICE
AMERICAN SAMOA GOVERNMENT**



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June 17, 2024

Honorable Lemanu P.S. Mauga
Governor of American Samoa
American Samoa Government
Utelei, AS 96799

Subject: Performance Audit Report on the American Samoa Department of Port Administration for the three fiscal years ending September 30, 2022

Talofa Governor Lemanu,

The Territorial Audit Office (TAO) has completed a performance audit of the American Samoa Department of Port Administration for the three fiscal years ending September 30, 2022.

The report includes an executive summary, the audit report, the Port Administration's response to the audit, and the TAO's response to the Port Administration's response to provide clarity and perspective to the Port Administration's response.

The objectives of this audit were to assess whether the Port Administration established an adequate system of internal controls over billings, collections, cash remittances, and write offs for its revenue-generating activities at the port and airports. The purpose of these objectives is to ensure that the Port Administration optimizes its revenue-generating activities, minimizes the potential for errors, and reduces the risk of fraud, waste, and abuse, as well as complies with all applicable laws and regulations.

The audit concluded the Port Administration needs to do better in managing its billings, collections, depositing cash in a timely manner, and writing off uncollectible accounts at the port and the airport. The Port Administration should swiftly implement our 20 recommendations to correct these deficiencies.

We wish to extend our gratitude to the Director of the Port Administration and staff for their cooperation during this audit and for the official comments and responses provided on our audit findings.

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I also want to acknowledge the audit team, Venasio Lemana, Audit Manager, Agalelei Togafau, Auditor III, and Donna Mase, Auditor I, for their excellent work on this audit.

Respectfully submitted,



Mike Edmonds
Territorial Auditor

cc: Honorable La'apui Talauega Eleasalo Va'alele Ale, Lieutenant Governor
Tuaolo Manaia Fruean, Senate President
Savali Talavou Ale, Speaker of the House of Representatives
Falenaoti S.A. Loi-On Fruean, Director, Department of Port Administration

EXECUTIVE SUMMARY

The Territorial Audit Office conducted an audit of the American Samoa Government's Department of Port Administration (Port Administration) to determine whether the Port Administration adequately managed its billings, collections, cash remittances, and write offs for revenues collected at the Port of American Samoa and the Pago Pago International Airport for three fiscal years ending September 30, 2022.

During this period, the Port Administration collected approximately \$5.8 million annually from the shipping operations and rents at airport, \$4.3 million annually from shipping operations and \$1.5 million annually from airport operations.

The audit concluded the Port Administration needs to do better in managing its billings, collections, depositing cash in a timely manner, and writing off uncollectible accounts at the port and the airport. The Port Administration should swiftly implement our 20 recommendations to correct these deficiencies.

The audit found the Port Administration uses QuickBooks, which is not integrated into ASG's financial management system. Consequently, revenues collected from port operations are not reported to the Department of the Treasury (Treasury). Moreover, the use of a separate accounting system heightens the risk of malfeasance because the Treasury lacks information on revenues it expects to receive from port operations and cannot monitor accounts receivables to ensure all collections have been received.

Several aspects of the Port Administration's billing processes also need to be fixed. Port Administration staff was slow to bill ships leaving the port. The Port Administration staff should prepare and issue invoices to the shipping companies before the ships leave the port and head back to sea. Port staff, however, billed the shipping companies after the ships left the port for 30 of the 120 invoices we reviewed, or 25 percent of the invoices reviewed. The Port Administration prepared these invoices 3 days to 104 days after the ships left the Port, thus delaying the time the Port Administration will receive these payments and increasing the risk of shipping companies not paying the amount owed. The audit acknowledged that some of these problems are outside of the Port Administration's control as it is dependent on the ships to provide information to them before they leave the port so it can complete the billing process.

The supporting documents were not always easily accessible to allow audit staff to verify that all documentation to support the amount billed were available. The audit found that 33 of 80 invoices did not have documentation easily accessible to support the amount billed. Such

documentation is needed to provide an adequate written trail of the billings and to facilitate supervisory review. According to Port Administration officials, some documents are so large and bulky that these documents are stored in separate boxes after the invoices have been reviewed and approved.

The Port Administration's controls for processing billing credits need significant improvement and pose risk of fraud. We noted that the Port Administration lacks procedures around credits to billings, which pose significant risks if not properly controlled. Employees who have access to incoming customer payments could intercept incoming cash and then create a credit memo to cover their tracks. One step in the prevention of this problem is to require the formal approval of a manager for credit memos. Additionally, no single one employee should be able to handle incoming customer payments and create credit memos, or else they may be able to take the money and cover their tracks with credit memos. Therefore, these tasks should be assigned to different people.

Moreover, the audit identified a significant issue involving a \$73,120 credit granted to a customer. According to Port Administration staff, the customer claimed that the Port Administration owed him \$200,000 for work performed at the port - claim which was not supported by any written documentation. Although the customer's claim could not be supported, a former Director still issued the customer a credit totaling over \$73,000.

The Port Administration did not always record payments to customer accounts in a timely manner. The Port Administration should record these payments to customer accounts as soon as possible after they are received. Doing so helps to ensure customer accounts accurately reflect all invoices issued, the payments received, and that monies are deposited promptly into ASG's bank accounts. Nonetheless, the audit found that 10 of 75 payments reviewed were recorded from two weeks to two months after the payments were received. The audit also acknowledged that this problem may be somewhat out of the Port Administration's control. These payments may have been electronically transmitted directly to the Department of the Treasury and the Treasury does not provide the Port Administration with the information on these electronically transmitted payments in a timely manner.

The audit also found that the Port Administration needs to improve its collection practices as a significant amount of its accounts receivable are old and the Port Administration is unlikely to collect on them. The Port's accounts receivables ranged from \$1.4 million to nearly \$2.1 million at the fiscal year 2019-20 through 2021-22. Of those amounts, the amount of the receivables over 90 days old ranged from nearly \$980,000 to over \$1.5 million annually at the end of the

years we reviewed. The percentage of those accounts receivables over 90 days ranged from 60.7 percent of the total receivables to 73.7 percent.

This clearly indicates that delinquent balances are not being adequately pursued. With collections, it is important to stay on top of receivables so they do not lapse into delinquencies. Thus, the Port needs to regularly prepare aging reports and follow up with customers on regular basis to ensure that customers pay their bills.

Two airlines have been delinquent in paying the Port Administration; the two airlines owed \$967,857 as of September 30, 2022, including \$853,000 that was more than 90 days old. Both these totals have grown over the last two years. The two airlines are no longer doing business in American Samoa and the Port Administration is planning to write off these accounts as uncollectible.

The Port Administration's accounts receivable balance does not include \$454,740 from the American Samoa Power Authority (ASPA). According to the Port Administration's Chief Accountant, the amounts owed to the Port Administration are not included in their aging reports because this account is frozen due to ongoing discussions between ASPA, Treasury, and the Governor's Office. Subsequent to our review, the amount owed from the ASPA was written off.

The audit also revealed that the former Port Director exceeded his authority in waiving rents from lessees at the airport. Treasury has the authority to approve write-offs of accounts receivables owed to ASG. In 2021, however, the former Director of the Port Administration waived nearly \$342,000 in receivables owed from airport operations. In some cases, the Director waived all of the fees; and, in other cases, the Director waived 50 percent, or half the amounts owed. The rents were during COVID-19, when the Airport was essentially closed. Although these actions may have been appropriate to consider, the Director did not have the authority to waive the fees; this authority rests with the Treasury Director.

Finally, The Port Administration did not always submit cash and checks to Treasury in accordance with ASG procedures. The timely deposit of monies received provides for the improved control of funds, which reduces the risk of loss due to errors, carelessness, or theft. For instance, the Port Administration did submit a payment for nearly \$19,000 from a shipping company for four days after the payment was received. Similarly, the Port Administration did not submit a payment for nearly \$22,000 for three days after the payment was received.

The Port Administration, like all organizations, is responsible for establishing an adequate system of internal controls for its major functions. Internal controls are essential for the effective management of organizations. They comprise the plans, methods, and procedures employed by managers to meet missions, goals, and objectives, and in doing so, support performance-based management. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud, which aids in the effective stewardship of public resources.

During the period of our review, the Port Administration had not established an adequate system of internal control over billing, collections, cash remittances, and write-offs of bad debt. Internal control deficiencies included procedures that do not address all aspects of its revenue collection activities, inadequate segregation of duties, lack of documentation and documentation that was not easily accessible, lack of supervision, not changing passwords and restricting access to billing software, and a stronger tone at the top from management. These internal weaknesses led to a number of problems around billings, collections, cash remittances, waiving fees, and write offs of uncollectible accounts.

To address these deficiencies, the audit report includes 20 recommendations to improve internal controls over billings, collections, depositing cash, waiving fees, and writing off uncollectible accounts.

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INTRODUCTION

The Territorial Audit Office (TAO) conducted an audit of the Department of Port Administration's (Port Administration) processes for billing, establishing accounts receivables, collecting payments, remitting payments to the American Samoa Government's (ASG) Treasury Department (Treasury), and writing off of uncollectible accounts. This audit was conducted after the TAO identified significant problems at the Port Administration after a surprise cash count audit. The surprise cash count audit identified 17 separate internal control problems, including but not limited to the following:

- lack of standard operating procedures
- lack of segregation of duties
- receipts for cash were not issued sequentially
- cash collections were not submitted promptly to Treasury
- cash collected was used to buy office and other purchases
- cash at the Airport was stored in an unlocked tool box

See Appendix 1 for the entire cash count report.

OBJECTIVES, SCOPE, and METHODOLOGY

Audit Objectives

The objectives of this audit were to assess whether the Port Administration established an adequate system of internal controls over billings, collections, cash remittances, and write offs for its revenue-generating activities at the port and airports. The purpose of this objective is to ensure that the Port Administration optimizes its revenue-generating activities, minimizes the potential for errors, and reduces the risk of fraud, waste, and abuse, as well as complying with all applicable laws and regulations.

Audit Scope

The audit scope includes the system of internal controls and activities for the Port Administration revenue-generating activities for three fiscal years; FY 2019-20, FY 2020-21, and FY 2021-22. This includes the Port Administration's shipping operations and airport operations in American Samoa.

Audit Methodology

The audit assessed the Port Administration's system of internal controls including:

- assessing the adequacy of written policies and procedures by reviewing existing Port Administration and the Department of Treasury's (Treasury) policies and procedures
- assessing whether the Port Administration adequately segregated duties of its Finance Unit
- assessing whether Port Administration's staff were properly supervised

- assessing whether Port Administration's accounts receivable activities were properly supported by written documentation
- assessing whether the Port Administration staff changed passwords for its accounts receivable software
- assessing whether the Port Administration adequately restricted staff's access to billing software
- assessing whether the Port Administration's management established an appropriate tone at the top to ensure compliance with laws and regulations and ethical conduct
- assessing the accuracy and timeliness of the invoicing process
- assessing the adequacy of Port Administration's collection practices
- assessing whether the Port Administration complied with ASG's policies on writing off uncollectible accounts
- assessing the timeliness that collections were submitted to Treasury
- assessing the adequacy of the Port Administration's management reports
- assessing the adequacy of the Port Administration's process for renewing leases

The focus of the audit was the activities and functions of the accounts receivable section within the Finance and Administrative Unit (Finance) of the Port Administration. Specifically, the audit focused on processes for preparing and submitting invoices, recording of receivables and receipting of payments. The preparation of invoices involves other units of the Port but we did not include these units in the scope of this review.

Generally Accepted Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards, except for an external peer review which is planned for late 2025. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Port Administration collects revenues from shipping and airport operations

Finance is responsible for all financial, treasury, and budget activities of the Port. This unit includes the Accounts Receivable section and is responsible for processing and distributing invoices to customers for services and facilities provided by the Port. The unit is also responsible for the purchases of supplies and materials for maintenance, payroll, and maintaining all financial records and managing grants.

The Port Administration generates and collects revenues from both the Port of American Samoa (Port) and from the Pago Pago International Airport (Airport). The Port generates revenues from various shipping services such as wharfage services, port tonnage fees, docking fees, pilot services, and variety of other miscellaneous fees associated with shipping operations. Wharfage services are charged for the use of the wharf or wharf premises assessed against

inbound and outbound cargo. Docking services are fees for being moored to a berth and charges are for each 24-hour or fraction of the day. The dockage fees are based on the vessels' dimensions. Pilotage services are fees charged for vessels requiring a pilot to help navigate the harbor to dock at the Port. These fees take into account the length of the vessel and type of movement entering and leaving the port. A schedule of port fees is shown in Appendix 2.

Exhibit 1 below shows the revenues the Port Administration collected in Fiscal Years 2020, 2021, and 2022.

Exhibit 1
Port Operation's Revenues at Year-End
For Fiscal Years 2020, 2021, and 2022

Revenue Categories	FY2020 Amounts	% of Total	FY2021 Amounts	% of Total	FY2022 Amounts	% of Total
Leases and Rents	45,205	1	126,931	3	115,222	3
Tonnage	1,114,449	27	1,031,186	26	1,044,414	24
Wharfage	1,827,713	43	1,777,627	46	1,869,547	43
Tug Boat Activities	756,414	18	464,318	12	425,816	10
Container storage	126,956	3	73,804	2	243,690	6
Directors Office - others	46,576	1	(5,485)		12,549	
Water Transportation	175,448	4	134,481	3	8,161	
Manu'a Operations	112,577	3	306,135	8	622,726	14
Total Revenues	\$4,205,338	100%	\$3,908,997	100%	\$4,342,125	100%

As Exhibit 1 above shows, the Port Administration collected between \$3.9 to \$4.3 million in port fees over the last three fiscal years. Port tonnage fees and wharfage fees were the two largest revenue generators over the three fiscal years.

In addition to fees from port operations, the Port Administration also collects revenues at the Pago Pago International Airport (airport). The Port Administration receives revenues for leased office space, warehouses, and land lots from individuals and private businesses. The Port Administration also collects landing fees from several airlines operating in American Samoa and collects fees from smaller general aviation airports in Manu'a, Ofu, and Fitiuta.

Exhibit 2 below shows the revenues from Airport operations at year-end for fiscal years 2020, 2021, and 2022.

Exhibit 2
Airport Operation’s Revenues at Year-End
For Fiscal Years 2020, 2021, and 2022

Revenue Categories	FY2020 Amount	% of Total	FY2021 Amount	% of Total	FY2022 Amount	% of Total
Excise Tax Jet Fuel	12,507	1	3,476		17,465	1
Hotel Tax	61,014	4	76,634	7	74,812	6
Leases and Rents	1,062,958	73	838,180	79	882,926	65
Airport Landing Fees	223,851	16	72,543	7	194,815	14
Parking Fees	31,134	2			25,412	2
Other Income	60,596	4	69,778	7	156,667	12
Total Revenues	\$1,452,060	100%	\$1,060,611	100%	\$1,352,097	100%

As Exhibit 2 above, the revenues from Airport operations ranged from \$1,060,011 to \$1,452,060 for fiscal years 2020 through 2022. Leases and rents at the Airport accounted for 65 percent to 79 percent of revenues during the three-year period.

The Port Administration is responsible for establishing an adequate system of internal controls

The Port Administration, like all organizations, is responsible for establishing an adequate system of internal controls for its major functions. Internal controls are essential to effective management of organizations. They comprise the plans, methods, and procedures employed by managers to meet missions, goals, and objectives, and in doing so, support performance-based management. Internal controls also serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud, which aid in the effective stewardship of public resources.

Simply put, internal controls are activities or procedures designed to provide reasonable assurance that operations are “going according to plan.” Without adequate internal controls, management has little assurance that its goals and objectives will be achieved. Properly designed and functioning controls reduce the likelihood that significant errors or fraud will occur and remain undetected. Internal controls also help ensure that departments are performing as expected.

Internal controls should provide reasonable assurance over operations, reporting, compliance, and the safeguarding of assets. However, an internal control system cannot neither provide absolute assurance that all of an organization’s objectives will be met, nor guarantee waste, fraud, and mismanagement will not occur. Internal controls, however, is a means of managing risk associated with programs and operations. Therefore, managers must carefully consider the appropriate balance between risks mitigated by controls and the costs associated with their implementation.

Internal controls can be categorized as preventative, detective, and corrective. Preventive controls are intended to keep errors and irregularities from occurring. On the other hand, detective controls are intended to detect errors or irregularities that already occurred. Corrective controls are intended to correct errors or irregularities that have occurred.

In general, preventive controls are more desirable to implement because they are less expensive and are designed to prevent errors and irregularities from occurring. Whereas, detective and corrective are generally more costly to implement and designed to identify and fix errors and irregularities that may have occurred.

The nature of the Port Administration's billing, collection, cash remittance, and potential bad debt are inherently risky and require a strong system of internal controls.

Examples of preventive controls include:

- Written policies and procedures
- Segregation of duties
- Supervision
- Documentation
- Changing of passwords
- Tone at the top

The following are some best practices for internal controls around accounts receivables management.

Written procedures should exist for all accounts receivable and collection activities. Procedures should address preparing bills, recording receivables in the detailed accounts receivable records, collecting the accounts, recording payments, adjusting the receivables balances, and follow-up of delinquent accounts, and writing off uncollectible accounts.

Segregation of duties for its billing, collections, and cash handling activities should ensure that Port Administration's staff do not perform incompatible activities such as handling cash or other collection activities and posting to customer accounts. Segregation of duties is a key preventive control to prevent and detect fraud. One important way that segregation of duties helps to prevent fraud by ensuring that one employee cannot handle cash, adjust accounts to show payments were made, and then keep the cash.

Documentation should be standardized and easy to access and review to provide a sufficient trail of transactions. Thus, accounts receivable source documents and documentation should be adequate to support transactions, should securely be retained, and easily accessible to facilitate reviews and audits.

Supervision should ensure that all work is performed timely and in accordance with written policies and procedures. For instance, supervisory review and approval of billings is an important control to ensure that billings are accurate, timely, complete, and are based on appropriate documentation. Supervisory review can be also be a training opportunity by identifying areas where staff can improve.

Changing passwords helps to prevent unauthorized access to computers, which carry sensitive and important data, so keeping work data safe is a major priority. Regularly changing passwords is a preventive control to minimize opportunities for hackers, or even other employees, from gaining access to sensitive information or from performing fraudulent or unauthorized activities.

Tone at the top is an important internal control. An appropriate tone at the top requires management to embody and not merely pay “lip service” to compliance and upholding ethics. Those at the top of the organization should be honest, show integrity, and uphold an ethically-correct culture. The tone at top, starts at the top and trickles down across the organization. An organization with a poor tone can result in an organization that is more likely to be prone to unethical behavior, engage in fraudulent activity, and not support internal controls.

The Port Administration has not established an adequate system of internal control over its revenue activities

The Port Administration, during the scope of the review, did not establish an adequate system of internal control around its processes for billing, collections, remitting payments to Treasury, and following the Treasury’s policies and procedures for writing off accounts receivables. As demonstrated below, significant internal weaknesses exist at the Port Administration, including needing a stronger tone-at-the top that is committed to complying with laws and regulations and a strong ethical culture. Below are key internal controls we identified that need strengthening. Moreover, as demonstrated in this report, the lack of adequate system of internal control systems led to number of questionable practices at the Port Administration for its billing, collection, cash remittance, and write-off activities at the port and the airport.

The Port Administration could enhance its written procedures manual

Although the Port Administration has some written procedures, it could enhance its written procedures by developing a more comprehensive written policies and procedures manual. The Port Administration currently has written procedures for billing and cash handling, but it should develop a comprehensive written procedures manual that also includes written procedures for collections and write off of uncollectible accounts.

Without a comprehensive policy and procedures manual, the Port Administration cannot provide adequate assurance that all key activities will be performed efficiently, effectively, and in accordance with ASG laws, rules, and regulations. Moreover, the lack of a comprehensive manual increases the potential for the loss of knowledge if key people leave the organization.

The Port Administration has not adequately segregated the duties of staff

The Port Administration has not adequately segregated the duties of staff. For instance, the Port Administration has not segregated the duties of staff to ensure that one employee does not process customer payments and also create credit memos or adjustments to billings. Thus, one could take money for a transaction and issue a credit to a bill in the amount of the cash taken. Therefore, these tasks should be assigned to different people.

The lack of segregation of duties is compounded by other control weaknesses mentioned below. For instance, as mentioned below, the Port Administration does not regularly change its passwords and does not restrict access to its software. These controls increase the likelihood that staff could gain access to the software to conduct improper activities.

According to Port Administration officials, they recognize the need to properly segregate the duties of staff but this is difficult because they are currently short-staffed.

The Port Administration needs to improve documentation by ensuring that documentation is more easily retrievable

We identified several areas where documentation was inadequate or could be enhanced. For instance, the audit noted problems around the issuance of credits to shipping companies that were granted without proper documentation to support why the credits were granted. We were also unable to locate supporting the detail for invoices issued to support whether the invoices were properly calculated. Several of these documentation issues are discussed below in more depth.

According to Port Administration officials, they have all the documents needed to support the issuance of invoices. Some of these documents, such as the shipping manifests which are large and quite bulky are stored separately in boxes after the invoices have been reviewed and approved. When we conducted our work to determine whether the invoices had all the supporting documentation, we were unable to determine whether all documents supporting the invoices were available because the documentation was not easily retrievable.

The Port Administration needs stronger supervision over the Finance Unit's activities

The Port Administration needs to provide stronger supervision over the Finance Department's activities. For instance, our review found that the Port Administration staff is not consistently reviewing and approving invoices. For instance, we were unable to verify whether invoices

were properly reviewed and approved. The Port Administration also did not always prepare invoices in a timely manner, which is also indicative of inadequate supervision. Finally, the Port Administration did not post payments to customer accounts in a timely manner, which is also an indication of inadequate supervision. All of these supervision issues are discussed below in more depth.

The Port Administration does not routinely change passwords to log into QuickBooks

As noted above, regularly changing passwords help to prevent unauthorized access to computers, which carry sensitive and important data, so keeping work data safe should be a high priority. Regularly changing passwords is a preventive control to minimize opportunities for hackers, or even other employees, from gaining access to sensitive information or from performing fraudulent or unauthorized activities.

At the time of our review, Port Administration staff was not routinely changing passwords to log into QuickBooks. Moreover, the Port Administration's staff did not restrict usage of the software for billing and collection activities. Thus, the Port Administration has not implemented sufficient controls to prevent hackers, or even employees, from gaining access to sensitive information or from performing fraudulent or unauthorized activities.

Management at the Port Administration needed to establish a stronger tone at the top during the scope of our review

Management at the Port Administration needed to establish a stronger tone at the top for the Port Administration. Management is responsible for establishing an adequate system of internal controls over its major functions. During the time of our review, however, management at the Port Administration needed to establish a stronger system of internal controls for billing, collections, cash remittances, and write offs for its revenue-generating activities at the port and airports. Moreover, as noted below, Port Administration management issued credits to shipping companies without adequate documentation and a previous director exceeded his authority in waiving amounts owed by lessees at the airport without Treasury's authorization.

Below are a number of additional issues that highlight the lack of adequate internal controls around billing, collections, cash remittances, and write-offs at the Port Administration.

The Port Administration uses QuickBooks for its accounts receivable processes

The audit found that the Port Administration maintains accounts receivable in QuickBooks, which is an off-the-shelf software solution. QuickBooks is not fully integrated into ASG's accounts receivable system containing such attributes such as full accrual accounting, aging of accounts receivables, and an adequate audit trail. In our opinion, the system does not provide the control and accountability to effectively report accounts receivable transactions and balances for the Port Administration and to Treasury.

Additionally, the audit found that not all of the Port Administration's accounts receivables generated from QuickBooks were reported to Treasury. For instance, the accounts receivables from the airport revenues are reported to Treasury but most of accounts receivables from shipping operations are not.

Because most of the accounts receivables from shipping operations are not sent to Treasury, Treasury lacks sufficient information on the revenues that it expects to receive. Additionally, having a separate set of books increases the risk of malfeasance because Treasury lacks information on the revenues that it should be receiving from shipping operations at the port. Moreover, the shipping receivables are not captured on ASG's financial reports, thus, understating the accounts receivables on the financial statements.

According to Port Administration officials, it has received approval for a federal grant to implement a new accounts receivable system. Once this system is implemented, it will no longer need to use QuickBooks. In implementing this new system, the Port Administration should work with Treasury to integrate this system with One Solution.

The Port Administration did not always issue invoices in a timely manner

After providing services, invoices should be issued promptly to help with cash flow. Timely invoice processing also helps to minimize the potential for forgetting to issue invoices for services provided. Whenever possible, the Port Administration should prepare and issue invoices to the shipping companies before the ships leave the port and head back to sea.

The Port Administration did not invoice ships docked at the port in timely manner. For shipping services, the Port Administration issued invoices after ships left the port for 30 of the 120 invoices we reviewed, or 25 percent of the invoices reviewed. The Port Administration prepared these invoices 3 days to 104 days after the ships left the Port. On average, Port Administration issued these 30 invoices an average 30 days after the ships left the port.

According to Port Administration officials, the delays in issuing invoices are often outside their control. The Port Administration cannot initiate the invoicing process until the shipping agents for the vessels that are docked at the port provide their outbound shipping manifests before leaving port. Shipping manifests are used by carriers to track goods shipped in a vessel. According to Port Administration officials, the port has little control over getting these shipping manifests from the shipping agents before the vessels leave port, thus contributing to delays in billing them.

The Port Administration needs to improve documentation by ensuring that information needed to support the invoices is more easily retrievable

Supporting detail for billings facilitates accurate billings and supervisory review of invoices before they are sent out. For the Port Administration, most of the supporting detail is retrieved manually and is used create the invoices in QuickBooks. The supporting detail may include but

not limited to port entry clearances, pilot slips, staff hours, shipping manifests, and other documents related to the services provided.

We reviewed 80 invoices to determine whether these invoices had supporting detail to properly document that the invoices were correct. We identified 33 of the 80 invoices, which did not have all the information easily retrievable in one file to support the amount of the invoices. The Port Administration needs to ensure that adequate documentation is adequately maintained to provide an adequate written trail for all transactions.

As noted above, the Port Administration believes it has all the documents needed to support the issuance of invoices. Some of these documents, such as the shipping manifests which are large and quite bulk are stored separately in boxes after the invoices have been reviewed and approved. When we conducted our work to determine whether the invoices had all the supporting documentation, we were unable to determine whether all documents supporting the invoices were available because the shipping manifests may have already been stored in separate boxes.

The Port Administration's controls for processing invoice credits need significant improvement

We noted that the Port Administration lacks procedures around credits to billings, which pose significant risks if not properly controlled. Employees who have access to incoming customer payments could intercept incoming cash and then create a credit memo to cover their tracks. One step in the prevention of this problem is to require the formal approval of a manager for credit memos. Additionally, no single one employee should be able to handle incoming customer payments and create credit memos, or else they may be able to take the money and cover their tracks with credit memos. Therefore, these tasks should be assigned to different people.

The audit also identified a significant issue involving a \$73,120 credit granted to a customer. According to Port Administration officials, this customer claimed that the port owed him \$200,000 for work done at the port. The customer's claim regarding the work done at the port was not supported by any written documentation. Nevertheless, a previous director at the port granted the customer a \$73,120 credit. In conclusion, the credits granted were not supported by any written documentation justifying the \$73,120 credit granted to the shipping company for previous work supposedly done at the port.

The Port Administration did not always post payments to customer accounts in a timely manner

The Port Administration should post payments to customer accounts in a timely manner. Doing so helps to ensure customer accounts accurately reflect all invoices issued and the payments received. If customer payments are not posted in a timely manner, the Port Administration may contact the customer for payment that has already been received.

The Port Administration manually posts payments to customer accounts, increasing the time needed to post payments to customer accounts. Specifically, we identified 10 of 75 payments the Port Administration did not post to the customer accounts in a timely manner. The delays ranged from two weeks to two months.

According to Port Administration officials, these late postings may be payments made by electronic funds transfers. These payments go directly to Treasury and Treasury posts these payments to the ASG's general fund accounts. In some cases, however, Treasury does not notify the Port Administration of these payments in a timely manner. Thus, the Port Administration cannot post these payments to the customer accounts in a timely manner.

The Port Administration needs a more thorough accounts receivable reconciliation process

Sound internal controls for accounts receivables should include a reconciliation of the accounts receivables to the general ledger. This reconciliation should be performed timely and thoroughly to identify and correct discrepancies that may arise due to errors or incorrect entries.

Our review disclosed that the Port Administration does not reconcile the accounts receivables subsidiary ledger to the general ledger. We do not believe the monthly reconciliations of accounts receivables were detailed enough to ensure accounts are correct. The monthly reconciliations performed by staff accountants were merely a comparison of balances with Treasury's accounts. Their reconciliation process does not include a review of the accounts receivable aging report or the detailed portfolio. Consequently, the absence of detective controls, errors or omissions in the accounts receivable may go undetected.

The Port Administration needs to improve its collection practices

The Port Administration has a significant amount of accounts receivable that are old and is unlikely to collect on them. Exhibit 3 below shows the balance and age of the Port Administration's accounts receivables at the end of the three fiscal years reviewed.

**Exhibit 3
Combined Accounts Receivables
Aging at Year-end for Fiscal Years 2020, 2021, and 2022**

Aged in days	FY19-20	% of total	FY20-21	% of total	FY21-22	% of total
Current	192,478	13.3	354,090	17.7	79,566	3.8
1 to 30 days	165,453	11.5	200,533	10.0	351,991	16.8
31 to 60 days	92,376	6.4	152,433	7.6	54,800	2.6
61 to 90 days	13,334	0.9	85,763	4.3	66,446	3.2
> 90 days	979,792	68.0	1,215,536	60.7	1,542,644	73.7
Total	\$1,443,433	100%	\$2,008,355	100%	\$2,095,447	100%

Source: The Port stand-alone financial system, QuickBooks

As the Exhibit 3 above shows, the Port’s accounts receivables ranged from \$1.4 million to nearly \$2.1 million through the end of 2021-22. Of those amounts, the amount of the receivables over 90 days old ranged from nearly \$980,000 to over \$1.5 million. The percentage of those accounts receivables over 90 days old ranged from 60.7 percent of total receivables to 73.7 percent.

This clearly indicates that delinquent balances are not being adequately pursued. Moreover, the balances indicate that many of these accounts may not be collectible. Some of these delinquencies could be reduced if the Port Administration improved its collection best practices. With collections, it is important to stay on top of receivables so they do not lapse into delinquencies. Specifically, the Port needs to regularly prepare aging reports and follow up with customers on regular basis.

Two airlines at the airport owed the Port Administration \$968,000, including \$853,000 that was more than 90 days old

The audit identified two airline customers that owed the Port Administration \$967,857 as of September 30, 2022, including \$853,000 that was more than 90 days old. Both these totals have grown over the last two years of our review. The Port Administration subsequently terminated the lease for one of the two tenants which had an outstanding balance of \$562,596 as at September 30, 2022.

Exhibit 4 below shows the amounts airlines owed to the Port Administration at year-end for fiscal years 2019-2020, FY 2020-21, and FY 2021-22.

Exhibit 4
Amounts Owed by Airlines at Year-End
For FY 2020, FY 2021, and FY 2022

	FY2019-2020	FY2020-2021	FY2021-2022
Total owed by airlines	647,692	795,408	967,857
Percentage of total AR	45	40	47
Age of the Receivables			
1-30 days old	6,241	5,116	104,322
31-60 days old	34,573	19,291	5,116
61-90 days old	6,242	6,241	5,116
More than 90 days old	600,636	764,760	853,303

As Exhibit 4 above shows, the amounts the two airlines owed at year-end, ranged from \$647,692 in FY 2019-20 to \$967,857 in FY 2021-22, nearly a 50 percent increase in two years. Moreover, the amount owed that was more than 90 days old at year-end increased from \$600,636 in FY 2019-20 to \$853,303 in FY 2021-22, or a 42 percent increase.

American Samoa Power Authority (ASPA) owes the Port Administration \$454,740

The Port Administration’s accounts receivable balance does not include \$454,740 from the American Samoa Power Authority (ASPA). According to the Port Administration’s Chief Accountant, the amounts owed to the Port Administration are not included in their aging reports. According to the Chief Accountant, this account is frozen due to ongoing discussions between ASPA, Treasury, and the Governor’s Office.

Exhibit 5 below shows the number of invoices issued to ASPA from 2008 through 2016, the value of those invoices, the payments received for those invoices, and the outstanding balance that ASPA owes to the Port Administration.

Exhibit 5
Invoices Issued by the Port Administration to ASPA
for services provided since 2008, the Value of the Invoices Issued,
the Payments Received, and the Outstanding Balance of the Invoices

Period	No. of Invoices Issued	Value of Invoices Issued	Payments Received	Outstanding Balance
2008-2016	56	\$512,028	\$57,288	\$454, 740

As Exhibit 5 shows, since 2008, the Port Administration has issued invoices to ASPA for services provided totaling \$512,028 but has only received payments of \$57,288. Thus, ASPA owes the Port Administration \$454,740.

Both the receivables from the airlines and ASPA are extremely old and should be considered for write-off as bad debts if it is determined that these receivables are likely uncollectible. Nevertheless, we suggest that the Port Administration meet with the Governor’s Office, the Treasury Department, and the respective parties owing monies to the Port Administration to determine the appropriate courses of action for these long outstanding receivables. If it is determined that these receivables are not collectible, they should be forwarded to Treasury for write-off in accordance with ASG’s write off process.

The former Port Director exceeded his authority in waiving rents from lessees at the airport

Treasury has the authority to approve write-offs of accounts receivables owed to ASG. In 2021, however, the former Director of the Port Administration waived nearly \$342,000 in receivables owed from airport operations. In some cases, the Director waived all of the fees; and, in other cases, the Director waived 50 percent, or half the amounts owed. The two exhibits below, show the tenant types, the number of tenants by type, the total monthly rent, the monthly rent waived, the period which the rents were waived, and the total rent waived. Exhibit 6 below includes those tenants and rents in which all rents were waived and Exhibit 7 shows tenant and rents in which 50 percent of the rents were waived.

Exhibit 6
Airport Tenants that All Amounts
Owed Were Waived

TENANT TYPES	NUMBER OF TENANTS	TOTAL MONTHLY RENT	TOTAL MONTHLY RENT WAIVED	PERIOD RENTS WAIVED	TOTAL RENT WAIVED
Airlines	3	7,082.23	7,082.23	Apr. 2020-Sept. 2021	127,480.14
Curio shops	6	3,186.84	3,186.84	Apr. 2020-Sept. 2021	57,363.12
Airport ground operations	1	624	624	Aug. 2020-Sept. 2021	8,736
Airport ground operations	1	400	400	June 2020-Oct. 2020	6,800
Car rentals	2	600	600	Oct. 2020-Apr. 2022	11,400
Car rentals	2	800	800	Oct. 2020-Apr. 2022	15,200
Restaurant	1	2,588.91	2,588.91	Apr. 2020-July 2021	41,422.56
Total	16				\$268,401.82

Source: obtained from the Port's accounts receivable reports

As Exhibit 6 above shows, the former Port Director waived all of the above rents above totaling \$268,000.

Exhibit 7
Airport Tenants that Had 50% of the
Amounts Owed Waived

TENANT TYPES	NUMBER OF TENANTS	TOTAL MONTHLY RENT	TOTAL MONTHLY RENT WAIVED	PERIOD RENTS WAIVED	TOTAL RENT WAIVED
Airlines- Office space	3	7,200	3,600	Oct. 2021- Sept. 2022	39,600
Curio Shops	5	3,349.70	1,674.85	Oct. 2021- Sept. 2022	18,423.35
Airport Handling Services	2	1,488	744	Oct. 2021- Sept. 2022	8,184
Car Rentals	3	1,260	630	Oct. 2021- Sept. 2022	6,930
Total	13				\$73,137.35

Source: obtained from the Port's accounts receivable reports

As Exhibit 7 shows, the former Port Director waived 50 percent of the above rents above totaling \$73,000. In total, as the two exhibits above show, the former Port Director waived nearly \$342,000 in rents at the airport. The rents were during COVID-19, when the airport was essentially closed. Although these actions may have been appropriate to consider, the Director did not have the authority to waive the fees; this authority rests with the Treasury Director.

The Port Administration has not established a reserve allowance for bad debts

Currently, the Port Administration has not established reserve allowance at the departmental level and inefficiencies identified in accounts receivable processes prompt that an allowance reserve for bad debts for accounts receivable is warranted.

Without a written established guidance, the allowance calculation is sometimes complex and involves management judgement, therefore the risk of errors increases. In the absence of a detailed reserve allowance assessment, the realized receivable balances as at September 30, 2022 are potentially overstated.

The Port Administration did not always submit cash and checks to Treasury in accordance with ASG procedures

The ASG Cash Receipts Policy Manual states, "All deposits should be made daily and intact - no cash should be retained or expended." This procedure applies to all departments. The timely deposit of monies received provides for the improved control of funds, which reduces the risk of loss due to errors, carelessness, or theft. For instance, the Port Administration submitted a payment for nearly \$19,000 from a shipping company four days after the payment was received.

Similarly, the Port Administration submitted a payment for nearly \$22,000 three days after the payment was received.

The Port Administration is late in renewing leases at the airport

The Port Administration is late in renewing leases at the airport. At the time of the audit, we identified 11 leases that had expired. Thus, the Port Administration was leasing its property without signed lease agreements. Thus, lessees were renting the property without the legal protections from a written lease agreement. The lessees paid the amounts approved by the management at the Port.

Our audit confirmed the lease renewal process is slow, averaging five to nine months for renewal.

Conclusion

During the period of our review, the Port Administration had not established an adequate system of internal control over billing, collections, cash remittances, and write-offs of bad debt. Internal control deficiencies included lacking written procedures for some activities, inadequate segregation of duties, lack of documentation and more easily retrievable documentation, lack of supervision, not changing passwords and restricting access to billing software, and the lack of a strong tone at the top. These internal weaknesses led to a number of problems around billings, collections, cash remittances, waiving fees, and write offs of uncollectible accounts.

To address these deficiencies, the Port Administration should implement the following recommendations.

Recommendations

1. Develop a comprehensive, written policies and procedures manual that addresses all aspects of its revenue process include billing, collection activities, remitting cash, and writing of uncollectible accounts.
2. Develop an organization plan that assigns responsibilities to staff so that no single staff person has responsibility for custody of assets, recordkeeping, authorization, and reconciliations of accounts.
3. Develop a written policy and procedure specifying the responsibilities of managers or supervisors. At a minimum, these policies should ensure supervisors review the work of staff, mentor subordinates, and ensure that policies and procedures are followed.
4. Develop a written policy and procedure specifying the requirements for creating and retaining documentation in a more easily retrievable form to support invoices.
5. Develop a written policy and procedure to ensure that employees change their passwords on a regular basis.

6. Develop a written policy and procedure to ensure that only authorized staff have access to billing software.
7. Explore a software solution for its accounts receivables for shipping operations that can be integrated into the ASG's One Solution software.
8. Until the recommendation is implemented, the Port Administration should report all accounts receivable activity to Treasury.
9. Develop a written policy and procedure addressing the timeliness that invoices should be prepared for shipping operations at the Port.
10. Develop a written policy and procedure for issuing any credits or debits to customers.
11. Develop a written policy and procedure to ensure that customer payments are posted in a timely manner, including customers that pay Treasury directly through electronic funds transfers.
12. Develop a written policy and procedure to ensure that aging reports are prepared in a timely and consistent manner to identify and track whether customers are paying their bills on time.
13. Develop a written policy and procedure to require its accounts receivables to reconcile to the general ledger in a timely and consistent manner.
14. Develop a written policy and procedure that addresses the process for ensuring that late paying customers are contacted on a timely and consistent basis. This procedure should address the frequency in which delinquent customers are to be contacted, as well the means to be used contact delinquent customers to compel them pay their bills.
15. Meet with the Governor's Office, Treasury, ASPA, and the airlines owing monies to the Port Administration to determine the appropriate course of actions for these long outstanding receivables. If it is determined that these receivables are not collectible, they should be forwarded to Treasury to be written-off in accordance with ASG's write-off policy.
16. Comply with the Treasury's written policy for writing off or waiving amounts owed.
17. Develop a bad debt allowance based on based on historical collections.
18. Ensure that all cash and checks are remitted to Treasury in accordance with the Treasury's cash remittance policies. If necessary, establish a threshold to ensure all high dollar cash receipts and checks are deposited on the day they are received.
19. Develop management reporting systems that would allow management to track accounts receivable activities that are conducted in accordance with its own written policies and procedures, as well as ASG's policies and procedures.
20. Work with the Attorney General Office to develop a realistic schedule for renewing leases and use that schedule in renewing future leases before the leases expire.

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Illegal and Wasteful Activities should be reported to the American Samoa Government, c/o
TERRITORIAL AUDIT OFFICE.

Telephone no.699-5191

OR

Sending Written Documents

To the:
Acting Territorial Auditor
ASG Territorial Audit Office
2nd Floor DYWA Building
Tafuna, AS 96799

PURPOSE

As part of the Territorial Audit Office (TAO) work plan, a surprise cash count was conducted at the Department of Port Administration for the Seaport and Airport Operations locations. The last surprise cash count was on February 26, 2021 and included nine (9) findings. See summary on page 23. The review will compare the results of the prior and the current cash count and to confirm that recommendations reported in the last count have been satisfactorily implemented.

Cash receipts are subject to surprise cash counts by the Territorial Audit Office and the results of our findings are to report directly to the Governor of American Samoa in accordance with requirements contained in the American Samoa Annotated Code (A.S.A.C); Territorial Audit Office Title 4, Chapter 4.

INDEPENDENCE

The Territorial Audit Office (TAO) is free from organizational impairments to independence in our reporting as defined by *Generally Accepted Government Auditing Standards (GAGAS)*. Organizationally, we are outside the staff or line management function of the units that we audit.

DEPARTMENT'S PROCLAMATIONS

Mission Statement

In partnership with Port Users, the Department of Port Administration (DPA) shall provide excellent service to customers and to the Community and in doing so shall raise the standard of living in a manner that protects our environment and maintains the best of our fa'asamoa (Samoan way of life).

Vision Statement

In the global market, American Samoa will become the hub of the Pacific Island Region.

Function Statement

The Department of Port Administration is divided into three major areas; (1) Port Operations, (2) Administrative Services and, (3) Airport Operations. These major operations consist of sub-divisions that make up the foundation of the Department and services provided therefrom to the public. The Department's primary objective is to always ensure accountability, transparency and redundancy in its operations.

SUMMARY

We carried out a review of cash receipts and collections and the related internal controls at the Department of Port Administration for the Seaport and Airport locations. In conjunction with our review, we performed a surprise cash count, audited a sample of daily receipts and transmittal

letters and reviewed the controls and procedures related to cash handling operations. The surprise cash count was performed on August 22, 2022 and reveals the following:

What we found:

1. Risk and Control Review - written policies and procedures shall be in place
2. Standards Operating Procedures (SOP) for cash handling operations are in draft form and not inclusive
3. Inadequate control over manual receipts
4. There is inadequate segregation of duties existed in cash handling processes
5. Cash Receipting process is manually performed
6. There is no register to control the issuance of Book and Cash Receipts
7. Cash receipts sequence is skipped and not issued in numerical sequence
8. Deposits are not submitted to the ASG Treasury, Revenue Division timely
9. Frequency in conducting of internal spot counts
10. No documented reason(s) for VOIDING of receipts and original copies are missing
11. The mail log maintained for customer payments is not reviewed
12. The Airport location cash report is not checked for completeness and accuracy
13. Receipts are not reconciled and Transmittal Letters are not properly compiled and reviewed
14. Cash collections are used to make vessel purchases and office supplies
15. Reimbursement checks for cash collections used by the office are issued in the name(s) of employees
16. Key control personnel has no access to the cash vault combination and Airport funds are kept in an unlocked tool box
17. Lack of signage in cashiering areas

BACKGROUND

The control and handling of cash is governed by the ASG Treasury Cash Receipting Policy and Procedures Manual which creates a general performance standard for ALL government departments. This contains basic principles and standards that departments are required to adhere to. An updated version has not been made available and distributed throughout.

APPENDIX 1

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As required under the ASG Treasury Cash Receipting Policy and Procedures Manual, all cash received shall be receipted and that all daily cash collections shall be remitted to the Revenue Division with complete transmittal letters (TL) and receipt copies with deposit(s). The Finance unit is responsible for the preparation and finalization of documents for submission to the ASG Treasury, Revenue Division.

The American Samoa Annotated Code (A.S.A.C) Title 20 requires the Department of Port Administration to collect fees from vessel and cargo owners to defray the cost of constructing, maintaining and operating hydraulic engineering and navigation facilities, fairways and canals as well as the cost of providing services including piloting, docking, supplying water, handling freight and arranging services through local agencies.

The Finance unit is responsible for revenue collection and payments are accepted in the form of cash and checks. Customers can make payments in the following ways:

1. Over the counter at the main office, Seaport and Airport locations and;
2. Checks are remitted through the mail

The Department of Port Administration has three (3) divisions namely:

- a. Airport Operations comprises of the Tafuna Airport & Security Operations, Fitiuta and Ofu Airports
- b. Seaport Operations comprises of the Harbor Master, Manu'a Seaport, Cargo Terminal, Security and Water Transportation units
- c. Support Services comprises of the Engineering, Finance, Human Resource, Maintenance and Properties & Leases

The Manu'aTele vessel operations on supplies and cargo transportation from and to Manu'a islands are handled by the Water Transportation unit at the dock. The vessel has a regular schedule, every Monday and Friday. However, there are times where the vessel has to make special trips at the request of the Manu'a people. Both passenger fares and freight are collected before or on the date of vessel departure.

The Department carries an Accounts Receivable portfolio derived from cargo vessel operations at the dock and airport landing and related charges. Billings for such services are automated using QuickBooks. The application is a standalone program and does not interface with the ASG Accounting System, OneSolution. ***This is a separate matter that is considered significant and we will communicate separately.***

SCOPE

The scope of the surprise cash count which was conducted on August 22, 2022 included a review of cash handling processes and adherence to established ASG Treasury Cash Receipts Policy and Procedures Manual. Our audit included an evaluation of internal controls over cash handling operations. Internal control weaknesses were identified in these areas and are discussed in the *Observations, Findings and Recommendations* section of the report. Our recommendations if implemented should improve the internal controls in these areas.

The physical cash count was performed as applicable in accordance with the *Quality Standards for Inspection and Evaluation* (contained in the Blue Book – December 2020 revision) developed by the Council of the Inspector's General on Integrity and Efficiency (CIGIE). Accordingly, we performed tests of source documents, records, and other auditing procedures to obtain sufficient and appropriate evidence to support our findings and recommendations.

OBJECTIVES

The objectives of the audit were to determine that cash:

1. Handling procedures conform to the ASG Treasury Cash Receipting Policy and Procedures Manual and applicable business practices.
2. Funds are secured and safeguarded.
3. Cash are appropriate for their intended use and discrepancies (shortages or surpluses) are adequately monitored, reported and properly addressed.
4. Surprise counts (internal spot checks) are periodically performed by management.

METHODOLOGY

In conducting the audit, the following procedures were performed:

- Reviewed compliance with the ASG Treasury Cash Receipts Policy and Procedures Manual
- Observed and verified cash on hand held by custodians at the Airport and Seaport Operations locations including the latest on August 25th, 2022
- Observed that funds were secured and safeguarded.
- Cash collections were not utilized for office purchases.
- Test select a sample of receipts and transmittal letters for completeness
- Inquiries of responsible personnel and follow up on audit findings from last year's cash count of February 26, 2021.

The review and examination of current practices were made through observations and test select a sample of daily cash receipts and weekly transmittal letters where applicable.

APPENDIX 1

CASH COUNT RESULTS

The detailed findings in the report determined that the Department’s risk rating is “**HIGH**” and “**URGENT & IMPROVEMENTS NEEDED**”. We observed several areas where improvements can be made and these are listed in the Observations, Findings and Recommendations section of the report.

Below is the summary of funds counted:

Location of count	Receipts verified	Date of receipts	Receipt sequence	Amount of receipts	Funds counted	VARIANCE (short)/over
Seaport	Yes	8/5 to 8/8	39770 – 39800	1,781.00	1,893.87	112.87
	Yes	8/8	38901 – 38926	1,998.00	1,998.00	0
	Yes	8/8 to 8/11	38927 – 38939	2,023.00	2,023.00	0
	Yes	8/12 to 8/22	58332 – 58357	33,755.96	33,763.96	8.00
	Yes	8/16 to 8/21	38940 – 38955	689.00	689.00	0
	Yes	8/20	39702 – 39750	3,024.00	2,879.00	(145.00)
Total				\$43,270.96	\$43,246.83	(\$24.13)

Location of count	Receipt verified	Date of receipt	Cash receipt number	Amount of receipt	Funds counted	VARIANCE (short)/over
Airport	Yes	36020	36020	\$111.20	\$111.20	None

The Department’s Chief Accountant was aware of the variance. She explained that funds were used for vehicle refuel and payment for a duplicate office key. We are unable to justify the payment of \$5.00 for the duplicate office key as the invoice is dated March 22, 2022 – *Pago Plaza inv#5142*.

Note
Book receipts are assigned for the Manu’aTele operations and Cash receipts and used for other regular activities.

Subsequent follow up on August 25th, 2022 revealed that not all funds counted on August 22nd, 2022 were deposited intact with the ASG Treasury, Revenue Division. The following shows funds were withheld for office purchases of \$6,558.87;

Date of count	Date of followed up with Treasury	Amount of funds counted	Total remitted to Treasury	VARIANCE
08/22/22	08/23/22	\$43,246.83	\$36,687.96 <i>TL no.300295</i>	\$6,558.87 <i>Funds withheld</i>

CONCLUSION

The prior year cash count disclosed internal control weaknesses similar to those discussed in the *Observations, Findings and Recommendations* section of the report and were not fully implemented. By not timely fully implementing these audit recommendations, management is allowing cash receipts and handling risks identified in the earlier audit to remain. We recommend for the Department to take immediate corrective actions.

Overall, this audit found repeated issues and a concern because of significant internal control weaknesses over cash handling operations. The Department of Port Administration needs to institute strong internal and financial controls that will enhance and better monitor cash handling processes.

The audit was limited to the review of controls over cash handling and processing of daily cash receipts. Accordingly, we expressed no views on the overall controls in other areas of operations within the department in which a more detailed review is warranted.

Discussions of the Surprise Cash Count Results

The matters covered in this report were discussed with the Department's officials during and at the conclusion of the audit. The draft report was discussed at the exit conference on September 22, 2022 and was submitted with a request for comments. The full texts of the Department's responses are included as addenda to this report, *refer Exhibit A*.

OBSERVATIONS, FINDINGS and RECOMMENDATIONS

Finding No.1: Risk and Control Review – documented and written policies and procedures must be in place

We perform a risk and control review on the cash handling process which included analyzing the flow of documents from start to finish. To determine risks and controls process, we first determined the actual processes. Although, the standard operating procedures (SOP) has not been finalized and approved, we further verified through discussions with the Chief Accountant and other personnel and from observations. There are multiple risks associated with cash handling process. The most obvious risk is that employee theft and misappropriation will occur. Specifically, the potential risks are that employees might destroy, change, remove cash from drawers or incorrectly reconcile daily receipts to totals and deposits made.

Recommendation

In order to reduce the likelihood of inappropriate activities, the Department shall establish multiple controls. The standard operating procedures (SOP) that govern cash handling processes shall be finalized soon. The procedures shall be broken down into sections outlining general policy, personnel affected, authority and restrictions, procedures and audit requirements. Fundamental controls shall contain that monies must not be used for meeting expenses or any other type of “unauthorized” disbursements.

Various other controls over cash handling process include:

- Receipts must be completed at the time of transactions with all appropriate information completed
- Daily reconciliation of cash and checks shall be prepared by someone other than the person(s) receiving funds
- Supervisory review with signatures or initials denoting a review has been done and completed

Audit Comments to the Department’s Responses

For the written procedures to be effective the management shall check and see that employees are abiding by policies and procedures; the management team needs to engage with employees. It is an opportunity to improve knowledge and correct any errors before issues become a larger concern.

The Standard Operating Procedures manual shall be re-evaluated and updated on a timely basis. This will ensure that the information contained in the manual reflects changes occur in the Department’s operation from time to time.

We will follow up in the next audit visit that the recommendation has been implemented.

Finding No.2: Standard Operating Procedures (SOP) for cash handling operations are in draft form and not inclusive

While a SOP is already documented, they are in draft form and not inclusive of key processes and controls. The development and use of written procedures are always important to the successful quality control system. Written procedures provide employees with information to perform a job properly and facilitate consistency, good quality and better results. Lack of written processes increases the risk of errors.

Although the supervisory review is being performed timely, the supervisory assertions when approving the reconciliations (daily cash reports and transmittal letters preparation) are not documented. Standardized policies should include the objective of the review (define approval), the steps necessary to achieve the objective and control points in the review process in order to promote a consistent level of supervisory approval.

Recommendation

The Department should have finalized cash handling policies and procedures and key controls that ensure policies and procedures are in place and effective. These policies and procedures shall be maintained in a policy manual as appropriate and communicate to staff. Such written procedures on cashiering processes (*receiving, recording, safeguarding and depositing of funds - cash/checks*) shall be provided to employees with cash handling responsibilities and be documented in their job descriptions.

Audit Comments to the Department's Responses

See comments under Finding No.1

Finding No.3: Inadequate control over manual receipts

As revenue is collected, the Department issues the customer a manual receipt. Receipts come in triplicates;

- i. the original to the customer (*white copy*)
- ii. duplicate copy is attached with transmittal letters (TL) and deposit(s) to the ASG Treasury, Revenue Division (*yellow copy*) and;
- iii. 3rd copy is retained for record purposes (*pink copy*)

Issuing receipts in an unordered manner is not a good business practice as it creates problems not only in monitoring collections and could result in lost monies.

There shall be a periodic reconciliation and or spot check of manual receipts to ensure all collections are recorded. Such checks will make sure that the Department does account for all its collections from manual receipts - *this finding is to be read in conjunction with details discussed under Findings nos.5,6 and 7.*

Recommendation

The Department of Port Administration should document a policy for manual receipts which require staff to maintain an accurate record of cash and book receipts is disseminated to all finance and accounting staff involved which motivates for compliance. The Chief Accountant shall ensure receipts are issued numerically and follows the sequence when a new receipt book is issue and the completed one is returned for safekeeping.

Audit Comments to the Department's Responses

Either the Staff Accountant or the Senior Accountant has to make sure receipts are intact and in order. This work shall be documented and evident by the Chief Accountant's timely review.

Finding No.4: There is inadequate segregation of duties existed in cash handling processes

Segregation of duties is a challenge with small size departments. Manual processes by nature represent internal control risks particularly if no mitigating controls exist such as reconciliation and management review. There should be adequate segregation of duties to ensure the responsibilities of initial receipt, deposit preparation and reconciliation do not belong to the same person.

We observed that proper segregation of duties for cash handling and processing was not always in place. This situation may have resulted from budgeted constraints that yielded reduced staffing levels. Management should be aware that the lack of segregation of duties increases the risk of inappropriate cash handling and the misuse of funds - *this finding is to be read in conjunction with details discussed under Finding no.10*

Example

At the Seaport location, custodians of cash receipts also prepare the transmittal letters (TLs) and present the deposit(s) to the ASG Treasury, Revenue Division.

Recommendation

Effective segregation of duties represents a vital component of any organization's internal and financial controls system. It involves breaking down processes so that no single person is responsible for every stage of a transaction. Segregation of duties controls are designed to help prevent employees from committing errors, omissions or engaging in fraudulent activity.

When staffing levels do not permit duties to be separated, management should adequately review the duties performed on a frequent basis, specifically for areas where deficiencies were identified.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

Finding No.5: Cash Receipts process is manually performed

The cash cashiering process is widely manual processes. Some of these manual processes contribute and demonstrate issues that are likely due to delays at the department level. Currently, there is an available cashiering module in the ASG Accounting System, OneSolution. However, the scope of the cashiering functions had not been fully tested and utilized to the system's advantage. Although reconciliations and controls were in place, an automated interface can reduce the time spent and provide assurance that all receipts are accounted for - *this finding is to be read in conjunction with details discussed under Finding no.3*

Example

- Cash receipts are not issued in strict numerical sequence.
- Differences were identified between cash/book receipts and transmittal letters (TL) deposits

Recommendation

We recommend that opportunities for increasing efficiency and improving the control environment be evaluated to reflect the benefit of implementing electronic cash receipts and drawers using the existing ASG Accounting System, One-Solution.

Manual receipts can still be used only when there is a problem with the ASG automated cash cashiering system.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

Finding No.6: There is no register to control the issuance of Book and Cash Receipts documents

The safeguarding of assets is a fundamental element of internal and financial control and adherence to these controls reduces the exposure to financial loss. There shall be adequate controls exist and adhered to so that cash and book receipts are promptly controlled. The recommended practice is to use one receipt sequence at a time unless there is a valid reason on why more than one receipt sequence is required - *this finding is to be read in conjunction with details discussed under Findings no.3 and 16.*

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Audit Recommendation

There shall be an efficient recording process for all cash and book receipts. To avoid inappropriate activities, receipts shall be chronological controlled to best suited the daily operations and shall be in compliance with the recommended practices as contained in the ASG Cash Receipts Policy Manual and Cash Procedures (for **ALL Departments**).

It is the responsibility of the Finance in-charge to review all receipt books to ensure all receipt documents are log, accurate and issued in sequential order. Events and situations of non-compliance and failure to comply shall be examined and subject to disciplinary action.

Audit Comments to the Department's Responses

The establishment of the log book was done subsequently to the cash count and we appreciate the Department's efforts in having the log book to monitor receipt document movements.

Finding No.7: Cash Receipt sequence is skipped and not issued in numerical sequence

Receipting and collections over the counter are documented by the issuance of sequentially pre-numbered cash and book receipts (official ASG forms). All cash receipts are to be strictly accounted for and never issued out of order. The review has identified that not all cash receipts were issued in numerical sequence and sometimes the sequence is skipped - *this finding is to be read in conjunction with details discussed under Finding no.3*

Example

- At the Seaport location, Book receipt#.39674 and #42851 were skipped. At the time, sequence nos.58300 to 58349 was used. There was no reasonable explanation given on why the two (2) receipts were shown as unorderedly.

Also the following was noted as below:

Book receipt Nos.	Receipt Dates	Amounts \$
38940	8/16/2022	\$30.00
38941	8/17/2022	\$30.00
38942	8/21/2022	\$45.00
38943	8/17/2022	\$30.00
38944	8/21/2022	\$120.00
38945	8/18/2022	\$30.00

Audit Recommendation

It is strongly recommended that all cash receipts shall be issued in strict numerical sequence. The custodian of all cash receipt records shall make sure documents are issued in the order of book numbers and receipts sequence. The in-charge officer must ensure these procedures are effectively carried out and evident of such shall be documented, for instance: custodians and

APPENDIX 1

supervisor(s) are to sign off on the physical register during issuance and returning of used receipt books. Any missing sequence(s) has a financial impact and allows for significant breakdown(s) in the control environment and personnel can take advantage of those weaknesses to cover for misappropriation of funds. Furthermore, it facilitates the monitoring process which helps ensure that all cash collected is deposited intact.

Finding No.8: Deposits are not submitted to the ASG Treasury, Revenue Division on time

The cash count reveals that proceeds from receipts are not submitted to the ASG Treasury, Revenue Division on time. Sometimes funds are withheld beyond reasonable periods - *this finding is to be read in conjunction with details discussed under Findings no.13 and 14.*

Example:

Receipt nos.	Receipt dates.	Deposit dates	Amount \$	No of days delay
38898	07/29/2022	8/23/2022	\$250.00	25
38899	07/29/2022	8/23/2022	\$120.00	25
39651	07/18/2022	8/23/2022	\$45.00	36
39652	07/18/2022	8/23/2022	\$60.00	36
39653	07/19/2022	8/23/2022	\$60.00	35
39654	07/19/2022	8/23/2022	\$30.00	35
39655	07/19/2022	8/23/2022	\$180.00	35

At the time of report compilation, the following receipts were not deposited with the ASG Treasury, Revenue Division:

- Receipt#38940, 8/16 for \$30
- Receipt#38941, 8/17 for \$30
- Receipt#38942, 8/21 for \$45
- Receipt#38943, 8/17 for \$30
- Receipt#38944, 8/21 for \$120
- Receipt#38945, 8/18 for \$30

The ASG Cash Receipts Policy Manual; 1.8 *Cash Receipts will be deposited daily*

“All deposits should be made daily and intact - no cash should be retained or expended. ASG Treasurer may make exceptions to the daily deposit requirement in writing. In the event that the amounts of cash collected at certain remote locations do not warrant the time and cost required of making daily trips to the bank or the Revenue Department, Treasury will establish a minimum threshold on a case-by-case basis for cash receipts collected before a deposit is prepared”.

Audit Recommendation

We strongly recommend that all receipts shall be deposited on a consistent and timely basis to reduce the misappropriation and security risks. The "ASG Cash Receipts Policy Manual and Cash Procedures" require that **ALL** receipt deposits shall be remitted on a daily basis.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

Finding No.9: Frequency in conducting of internal spot counts

The Department has no documented procedure or policy stipulating the frequency of internal surprise spot counts as this is left entirely at the discretion of the management team.

Suggested ways for improvement

The key to preventing or reducing the risk of fraud is having strong controls in place. Typically, seen and recommended practices that each cash drawer and vault shall be spot checked and counted at least once a month. The spot counts shall be spaced and randomly selected. The SOP should include and require that custodian funds shall be spot checked periodically to ensure that funds the property of the Department are safeguarded.

Audit Comments to the Department's Responses

This is an important issue and we will follow up in the next audit visit.

Finding No.10: No documented reasons for VOIDING of manual receipts and original copies are missing

It was revealed from the tested sample that some receipts were marked voided and not all original copies are retained. In addition, there is no narrated documentation on voided copies on why receipts were marked VOIDED. A supervisor shall initial on reviewing of all voided receipts and all copies shall be accounted for. Ideally, high VOID activity could indicate a fraudulent activity - *this finding is to read in conjunction with details discussed under Finding no.4*

Example:

Transmittal Letter no.300294 dated 8/11/2022 for receipt no.37165 dated 7/12/2022 for \$12.00 - only two copies are retained and the white copy (original) is missing.

Audit Recommendation

Management should establish written procedures that emphasize voiding receipts must be strictly observed and the lack of adequate policies and procedures and the failure to apply best practices can result in the possibility to conceal errors in the normal course of duties. Segregation of Duties (SOD) requires the separation of key processes that disperses critical functions to more than one person.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

Finding No.11

The mail log maintained for customer payments is not reviewed

The Department's customer payments received through the mail is log on an excel spreadsheet. However, the log does not indicate that it is timely review by someone other than the preparer for completeness.

Audit Recommendation

Best business practice recommends, the maintenance of a log of all payments received through the mail and comparing at a minimum, the total of each list shall agree to the list of total receipts and mail receipts recorded at the end of each day.

It is recommended that all checks received shall be endorsed immediately or date stamp until issue with receipts. An officer not involved with handling of mail remittances should reconcile the mail log with the receipted deposits.

Audit Comments to the Department's Responses

The issue here is that a review shall be performed and evident on the mail log. The reviewer must sign-off on the log indicating the recorded information is correct. We will follow up in the next audit visit.

Finding No.12: The Airport location cash report is not checked for completeness and accuracy

There is no evident of an independent checked of daily cash receipts to cash reports at the end of the day. Cash is subject to inherent risk of being misappropriated by employees. The recommended practice is to have cash reports prepared by someone other than cashier(s) and review by a responsible supervisory person independent of handling cash - *this finding is to be read in conjunction with details discussed under Findings no.4 and 13. Example:*

- Parking Lot collection report of August 11, 2022 was prepared and signed by the cashier but shows no evident that it was verify nor has supervisory approval.

The ASG Cash Receipts Policy Manual states that; 1.7 Cash collected will be reconciled daily, *"Cash receipts should be reconciled daily to register tapes, manual receipts or theatre tickets prior to submission of the Treasury Transmittal Letter. The reconciliation should be performed at the location at which the cash was received, preferably by the site supervisor or equivalent. Cash reconciliation should not be performed by the employee handling cash receipts. Cash shortage should be identified, documented and analyzed to determine if corrective action is necessary. Cash-to-check composition of the receipts and deposit is verified by an independent person to ensure integrity".*

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Audit Recommendation

It is recommended that daily cash reports prepared at each location and before deposits are submitted to the Revenue Division shall be reviewed by a senior accounting officer independent of cash handling. Evident of review shall be documented on each individual daily cash report.

Audit Comments to the Department’s Responses

The fundamental accounting procedure was not evident on the physical document so the control was not performed. We will follow up in the next audit visit that this is implemented.

Finding No.13: Receipts are not reconciled and Transmittal Letters are not properly compiled and reviewed

The compositions of funds noted on transmittal letter deposits do not reflect actual cash and checks received at the time of receipting. The Department’s practice does withhold and borrows funds to make up deposits from subsequent dates taking. The practice is considered “unorderly” because of the uncontrollable manner and the way the information is presented on transmittal letters could be misleading.

Complete and accurate preparation of transmittal letters are an integral part of the Department’s accounting process - *this finding is to be read in conjunction with the details discussed under Findings no.8 and 12. Example:*

Transmittal Letter date	Transmittal Letter no.	Cash receipt numbers	Per POA TL tally \$	Per TAO & receipts tally \$	Difference \$
8/11/2022	300294	42851	30.00	30.00	0
		58326	210.80	210.80	0
		58327 to 58330	1371.94	1,371.94	0
		38900	30.00	30.00	0
		39674	21.00	21.00	0
		37161 to 37200	1,414.00	1,414.00	0
		38851 to 38897	2,606.00	2,606.00	0
		Total	\$5,683.74	\$5,683.74	
		<i>Comprises of:</i>			
		Cash	4,558.94	4,975.94	-417.00
		Checks	1,124.80	707.80	417.00
		Totals	\$5,683.74	\$5,683.74	

The difference can be explained as follows:

- a. Including in the deposit total were three (3) checks totaling to \$914 receipted on 08/08/2022 (funds were withheld and not deposited daily):
 - Check no.545 for \$236, *receipt no.38901*
 - Check no.110 for \$606, *receipt no.38916*

- Check no.218 for \$72, *receipt no.39799*

- b. Three (3) checks amounting to \$497 receipted in the above sequence were excluded in the deposit total (funds are not deposited daily);
 - Check no.838 of \$9.00, *receipt no.38874*
 - Check no.4561 of \$203.00, *receipt no.38885*
 - Check no.1611 of \$285.00, *receipt no.38889*

The above Transmittal Letter deposit form shows that it was certified by another person and not the Chief Accountant. At the Seaport location, the Cash Reconciliation Report for Transmittal Letter no.300295 of 08/22/2022 neither was incomplete nor signed off by the preparer and approver.

The ASG Cash Receipts Policy Manual states that;

1.7 Cash collected will be reconciled daily, *“Cash reconciliation should not be performed by the employee handling cash receipts. Cash shortage should be identified, documented and analyzed to determine if corrective action is necessary. Cash-to-check composition of the receipts and deposit is verified by an independent person to ensure integrity”.*

Audit Recommendation

Incomplete or inaccurate preparation can cause discrepancies and management cannot be assured that all funds collected are deposited. Accurate composition of Transmittal Letters (TLs) and reconciling receipts issued against cash and checks could have eliminated discrepancies as well as minimize the potential for fraud and the misappropriation of funds.

Again, we strongly recommend that all funds shall be deposited timely and intact and a Petty Cash Fund shall be immediately established to meet daily office needs.

Audit Comments to the Department’s Responses

This is noted and we will follow up in the next audit visit that this is addressed and action.

Finding No.14: Cash collections are used to make vessel purchases and office supplies

The Department continues to use cash collection proceeds to make purchases for the vessel and office supplies. This practice was also reported in the prior year cash count.

Although the ASG Treasury Cash Receipts Policy Manual prohibits the use of cash collection proceeds for any purchases, the Department cannot eliminate the practice since there is no Petty Cash Fund available to meet these urgent needs. For this purpose, deposits presented to the ASG Treasury, Revenue Division are sometimes do not agree to total receipts collected and cash is withheld until reimbursements are received from the Treasury Department - *this finding is to be read in conjunction with details discussed under Findings no.8 and 13.*

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Audit Recommendation

The practice of using cash collection proceeds for office purchases should be discontinued. Continue use of collection proceeds for such activities has the potential effect of public monies being misappropriated.

We strongly recommend for the Department to establish a Petty Cash Fund and the "Fund" should be sufficient to meet the office daily needs.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

Finding No.15: Reimbursement checks for cash collections used by the office are issued in the names of employees

Generally speaking, employees are not required to receive for business related reimbursements. Nevertheless, there are some exceptions. Currently, use of office funds for needed purchases is approved either by the Director or one of his deputies. When reimbursements are processed, Treasury issued checks in the name(s) of the Department's employees. These purchases are mainly for vessel spare parts and office supplies.

At our meeting with the Department's Chief Accountant on 09/15/2022, the Petty Cash Fund request has not been finalized. The establishment of a Petty Cash Fund will minimize and or eliminate the practice of using cash collections for office purchases - *this finding is to be read in conjunction with details discussed under the Petty Cash Establishment on page 18.*

Audit Recommendation

From an audit perspective, weaknesses identified when taken as a whole, increase the risk of unauthorized use and misappropriation and not being detected in a timely manner. While the Department awaits approval of the Petty Cash Fund, it is important to have an organized and clear process for approving and processing reimbursements. A reimbursement plan shall be designed to protect employees from mishandling of monies and eliminate conflicting information and will keep the records in check without surprise costs and budget problems.

The Director shall be the only person to authorize and approve supporting documents and be within allowable dollar limits and a reasonable time frame. Again, we strongly recommend immediate establishment of the Petty Cash Fund.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

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Finding No.16: Key control personnel has no access to the cash vault combination and Airport funds are kept in an unlocked box

From enquiries, we were advised that only three (3) people namely the staff accountants have direct access to the vault's combination. We also observed during the cash count process that funds held at the Airport location were kept in an unlocked box - *this finding is to be read in conjunction with the details discussed under Finding no.6*

Audit Recommendation

We strongly recommended the following:

- From an audit perspective and under no circumstances that cash and checks shall not be held and stored in desk drawers, filing cabinets or other unlocked devices. Funds must be stored and kept in a secured and recommended locked cash device and stored in an inconspicuous area.
- Combination to the vault or safe must be changed every time a change in personnel occurs and the combination code and names of individuals with access to the combination be kept in a safe place and were approved by the Department's Director.

The Department should ensure that funds in their possession during the workday or left on premises overnight are secured and safeguarded.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

Finding No.17: Lack of signage in cashiering areas

The cashiering areas where we conducted the surprise cash counts do not have signs reminding the public to obtain a receipt for their payments. Posting such signs can be an effective control to minimize the risk of misappropriated of collections.

Audit Recommendation

The Department of Port Administration shall post signs in cashiering areas reminding customers to obtain a receipt for their payments.

Audit Comments to the Department's Responses

This is noted and we will follow up in the next audit visit.

OTHER MATTERS

There were other matters of audit significance observed during the cash count and identified from the review of the selected sample such as:

1. Establishment of a Petty Cash Fund

The Department currently has no available Petty Cash Fund. From observations, we strongly recommend for the Department of Port Administration (via the Director) to request the Department of Treasury for a Petty Cash Fund and shall be within the limits defined by the Department of Treasury and as approved by the ASG Treasurer. The most common method of accounting for Petty Cash is to use the imprest system, which consists of maintaining a fixed amount of funds for disbursement. The Petty Cash Fund shall be sufficient for the recurring operating expenses of the Department on a timely basis. The Petty Cash Fund shall be replenished as soon as disbursements reached 75% or as needed.

The audit has highlighted discrepancies where funds were used to purchase office supplies and others, refer *Findings nos. 8, 14 and 15*.

What is the main purpose of holding a Petty Cash Fund?

The purpose of a Petty Cash Fund is for minor and anticipated business expenses where the use of alternative means is neither feasible nor cost effective.

It is very important that the Petty Cash Fund must not include funds from other sources. The Fund must be at all times contained the authorized amount in cash and paid vouchers only.

How to maintain a Petty Cash Fund?

The following are simple steps in maintaining a Petty Cash Fund;

- The Fund shall be kept in a secured locked place under the control of the responsible custodian who does not involve with cash handling
- Reimbursements from the Fund must be supported by **original receipts ONLY**
- A Petty Cash Voucher must be signed by the person being reimbursed; all reimbursements must be supported by receipts and invoices
- A balanced and signed monthly Petty Cash reconciliation must be prepared by the custodian and to be reviewed by the Chief Accountant. Evident of such review shall be documented on individual reconciliations.

The Petty Cash Fund will cause problems if it is not managed properly. It is susceptible to accounting errors if disbursements are not supported for tracking cash, theft and misappropriation and overspending.

2. Accounts Receivable

We came across the Accounts Receivable component during the cash count performance. With such a sizeable amount (more than \$2 million in both locations), we plan to perform a review of the AR portfolio and will be communicated in a separate audit report.

3. Long Term Parking Agreements

The Airport Operations has recently implemented procedures where travelling customers that wish to park their vehicles at the airport car parking area are require to sign a long-term parking agreement. The rent fees vary according to the period of one parking space or to park one vehicle on the airport property.

The following are rent charges applied to rent of one parking space or to park one vehicle:

- a. **One hundred fifty dollars (\$150)** per month or for six (6) or less consecutive months of rental
- b. **One hundred dollars (\$100)** per month for more than six (6) consecutive months of rental
- c. **Fifty dollars (\$50)** per week
- d. **Ten dollars (\$10)** per day for more than eight (8) hours of parking
- e. **Five dollars (\$5)** per day for eight (8) or less hours of parking to be paid to the parking attendant
- f. *Staff parking is free with parking pass and only in the area designated for staff parking that day*

We noticed that one long term parking agreement form was not properly completed, the require information was not properly filled out; *the rent was from August 10th, 2022 to August 24th, 2022.* The Airport Operations Staff Accountant confirmed that the customer was in a hurry. Although the agreement was signed by the lessor, the accurate completion of the agreement form is a key component of compliance.

We recommend that “Long Term Parking Agreement” Forms shall be properly completed, reviewed and checked before filing.

4. Subsequent event - a new electronic booking system for the Manu’aTele vessel operations

The Chief Accountant confirmed that a new electronic booking system, **PETS** (Port Electronic Ticketing System) will be installed soon for the Manu’aTele vessel operations. The Department believes that this will improve the quality of service for the Manu’a Islands especially with ferry bookings.

Follow-up to February 26, 2021 surprise cash count and Opportunities for Improvement

The Finance section had not fully implemented the nine (9) findings from the prior year cash count. Two findings have not reappeared in the current audit while seven (7) were not fully implemented. There appears to be limited monitoring which is not effective and we strongly recommend for the Department to take immediate corrective actions. A follow up will be diarized in our next audit visit.

Audit Follow-Up

A surprise cash count was carried out on February 26, 2021 at two locations namely the Seaport and Airport locations. At the time of the count, the Seaport location has \$31,012.03 and a shortage of \$40 was revealed. The physical count also verified a change fund of \$55 on hand.

The following findings were noted in that count.

Finding Ref.	Findings identified	Implemented Yes (Y) or No (N)
1	Cash shortage of \$40.00	No
2	No cash receipt (AR100) issued by cashier on \$700 collected from Water Transportation Division.	None identified in the current cash count
3	Missing receipts amounting to \$686.00	None identified in the current cash count
4	Cash Collection Not deposited in a timely manner. Funds were withheld for seventeen days.	No
5	Cash collections of \$1,974.00 used for unauthorized Petty Cash.	No
6	Book receipts are not use in strict numerical sequence.	No
7	Need to update cash collection procedures.	No
8	Need to safeguard assets (<i>unused receipt books and cash on hand</i>).	No

V. Other

Subsequent deposits for funds counted revealed that funds were not banked intact. These funds were deposited in three different deposits and transmittal letters. *This matter has not been fully implemented and is reported again.*



DEPARTMENT OF PORT ADMINISTRATION

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DIRECTOR

HONORABLE TALAUGA E. V. ALE
LT. GOVERNOR

TUMUA W. MATU'U
DEPUTY DIRECTOR

To: ALL Port Users
From: PORT DIRECTOR
Subject: Port Rates of Vessel ETA/ETD Pago Pago Harbor

APPENDIX 2

Service Charge.....	Based on gross ton of vessel up to:
	2000 tons.....\$2.00
	2001-5000 tons.....\$5.00
	5001-10,000 tons.....\$7.50
	Over.....\$25.00
Dockage.....	Gross ton x .03 x total of days Length x .17 x total of days (whichever is greater)
EXEMPT DOCKAGE.....	ASG Vessels and US Military Vessels
Pilotage.....	Based on draft of vessels
	Deep draft - \$85.00 + \$5.10 additional (ft)
	Light draft - \$17.00 IN and \$17.00 OUT
Required pilot service.....	\$170.00 + \$5.10 additional (ft)
Tonnage Dues.....	Cargo Unload or Load.....\$1.70 per ton
Wharfage.....	Cargo Unload or Load.....\$3.40 per ton
Tug Service.....	Regular hour \$300.00 per tugboat per hr After hour(s) \$350.00 per tugboat per hr
Overtime.....	\$15.00 per hour per person working
Water.....	\$1.45 per ton (240 gals. = 1 ton)
Electricity.....	Floor Lights.....Hours x \$0.35 Outside Lights.....Hours x \$0.26 Inside Lights.....Hours x \$0.21
Trash.....	\$50.00 per load
Welding.....	\$25.00 pe day.....\$250.00 per month
Overnight at the Fuel Dock.....	\$100.00 per night
Yachts.....	Mooring Fees based on Length of Vessel

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APPENDIX 2

Sl. No.	ASCA/ASAC	Title (Chapter)	Section	Particulars	Rate	Factor
1	ASCA	20.1503	4.1002	Devenning Containers	\$40.00	Per Container
2	ASCA	20.1602	(a)(1)(a)	Dockage Gross Tonn or Vessel Length	\$0.63	Per Ton, Per Day - Whichever is Greater
	ASCA	20.1602	(a)(1)(b)	Dockage 1/2 Dockage	\$0.17	Per Foot, Per Day - Whichever is Greater
	ASCA	20.1602	(a)(2)(a)(b)	Dockage 1/2 Dockage	\$0.02	Per Ton, Per Day - Whichever is Greater
	ASCA	20.1602	(a)(2)(a)	Dockage Off Hours, Moored	\$0.09	Per Foot, Per Day - Whichever is Greater
	ASCA	20.1602	(a)(2)(b)	Dockage Off Hours, Moored	\$0.02	Per Ton, Per Day - Whichever is Greater
	ASCA	20.1604	(a)(2)(c)	Dockage Exemption	\$0.02	Per Foot, Per Day - Whichever is Greater
	ASCA	20.1604	(a)(2)(c)	Dockage Exemption	Exempt	Director's discretion, ASG Vessels, US Military
	ASQA	20.1503	(b) 4.1002	Electricity Floor Lights	\$0.95	Per Hour
	ASCA	20.1503	(b) 4.1002	Electricity Inside Lights	\$0.21	Per Hour
	ASCA	20.1503	(b) 4.1002	Electricity Outside Lights	\$0.26	Per Hour
4	ASCA	20.1104		Harbor Movement	\$25.00	Per Movement
5	ASCA	20.1503	4.1002	ID Badges New	\$7.50	Per Badge
	ASCA	20.1503	4.1003	ID Badges Renewal	\$5.00	Per Badge
	ASCA	20.1503	4.1004	ID Vehicle Decal New	\$7.50	Per Decal
	ASCA	20.1503	4.1005	ID Vehicle Decal Renewal	\$5.00	Per Decal
6	ASCA	20.0232		License Fee Master/Engineer	\$5.00	Per License, Passenger Vessel
7	ASCA	20.1503	(b) 4.1002	Overtime After Normal Working Hours	\$15.00	Per Employee
8	ASCA	20.1503	4.1002	Overtime Fuel Dock	\$100.00	Per night, Per Vessel
9	ASCA	20.1403	(a)	Pilotage Pilotage		Based on the draft of the vessel
10	ASCA	20.1403	(b)	Pilotage Pilotage	\$85.00	Per Vessel
	ASCA	20.1403	(b)	Pilotage Pilotage	\$5.10	per foot of draft or fraction thereof for all vessels > 12 ft.
	ASCA	20.1403	(b)	Pilotage Pilot, Deep Draft	\$170.00	Minimum Charge
	ASCA	20.1403	(b)	Pilotage Revised ETA	\$75.00	1 hour leeway, before/after ETA
	ASCA	20.1403	(c)(1)	Pilotage In-Harbor Move	\$170.00	Each move
	ASCA	20.1403	(c)(2)	Pilotage Anchoring	\$170.00	Each Mooring
	ASCA	20.1403	(c)(3)	Pilotage Pilot Detained	\$127.50	Per hour, or Fraction Thereof
	ASCA	20.1403	(c)(4)	Pilotage Beyond Station	\$85.00	Per Hour
	ASCA	20.1403	(c)(5)	Pilotage No Pilot, Light Draft	\$17.00	To and From Harbor
	ASCA	20.1403	(c)(6)	Pilotage No Pilot, Yachts < 12ft	Exempt	Vessels < (less than) 12 ft draft
	ASCA	20.1403	(c)(7)	Pilotage Pilot, Yachts < 12ft	\$17.00	Vessels < (less than) 12 ft draft
	ASCA	20.1403	(c)(7)	Pilotage No Pilot, Yachts > 12ft	\$8.50	Vessels > (greater than) 12 ft draft
	ASCA	20.1403	(c)(7)	Pilotage Pilot Yachts > 12ft	\$17.00	Vessels > (greater than) 12ft draft
	ASCA	20.1403	(c)(8)	Pilotage Pilot, Tows: Multiple vessels connected		Based on deepest draft vessel; and 30% of that charge for each additional vessel
	ASCA	20.1403	(c)(8)	Pilotage Pilot, Tows - individual vessels	\$85.00	Base Rate per vessel
	ASCA	20.1403	(c)(8)	Pilotage Pilot, Tows	\$5.10	Additional charge per vessel over 12 ft
	ASCA	20.1503	(a)	Service Charge Vessels 1-9999 Tons	\$2.00	
	ASCA	20.1503	(a)	Service Charge Vessels 2001-9999 Tons	\$3.00	
	ASCA	20.1503	(a)	Service Charge Vessels 5001-10,000 Tons	\$7.50	
	ASCA	20.1503	(a)	Service Charge Vessels 10,001 and over Tons	\$25.00	
11	ASCA	20.1607	(c)(5)(A)(i)	Storage Inbound Containers: 120hrs after arr.	\$9.85	Per day. Note: 120hrs = 5days
	ASCA	20.1607	(c)(5)(A)(ii)	Storage Inbound Containers: after 30days	\$1.70	Per day.
	ASCA	20.1607	(c)(5)(A)(iii)	Storage Outbound Containers: Immediately occupying respective areas	\$0.85	Per day.
	ASCA	20.1607	(c)(5)(i)	Storage Outbound Containers: Immediate occupying respective areas	\$1.70	Per day
	ASCA	20.1607	(c)(5)(ii)	Storage Primarily for Fish Processing Facility	Exempt	From 20.1607(c)(5)(A) - IF used within 30days of arrival OR contain canned fish
	ASCA	20.1607	(c)(5)(iii)	Storage Primarily for Fish Processing Facility	\$0.85	Per container, per day, AFTER 30days if not used; charges on the 31st day.
	ASCA	20.1607	(c)(5)(iv)	Storage Primarily for Fish Processing Facility	\$1.70	Per container per day, After 32 days if not used
	ASCA	20.1607	(d)	Storage Goods destined for Miami	Exempt	
12	ASCA	20.1607	(e)(1)	Tonnage Gross Tonn or 40cuft	\$1.70	Per 40cuft, Fraction Thereof - Whichever is greater
	ASCA	20.1607	(e)(1)	Tonnage 40cuft	\$1.70	Per Ton, Fraction Thereof - Whichever is greater
	ASCA	20.1607	(e)(2)(A)	Tonnage Transshipment - IN	\$1.00	Per Ton or Fraction Thereof, IN
	ASCA	20.1607	(e)(2)(B)	Tonnage Transshipment - OUT	\$1.00	Per Ton or Fraction Thereof, OUT
	ASCA	20.1609		Tonnage Receptacle	Exempt	Charge for ASG, US Government
	ASCA	20.1102	4.1002	Trash Collection Pick-up Load	\$50.00	Per Load
	ASCA	20.1102	4.1002	Tugboat Service Normal Working Hours	\$300.00	Per Hour (0730am - 1600pm)
	ASAC	20.0412	4.1002	Tugboat Service After Normal Working Hours	\$350.00	Per Hour (1600pm - 0730am)
	ASAC	20.0904		Water	\$1.45	Per Ton = 240 gallons
	ASCA	20.1725	4.1002	Welding Permit Daily	\$25.00	Per Permit
	ASCA	20.1725	4.1002	Welding Permit Monthly	\$250.00	Per Permit

APPENDIX 2

Code	ASCA	ASAC	Section	Description	Rate	Notes
(17)	ASCA	20.1607	(b)(1)	Wharfige	Gross Tons or 40cuft	\$9.40 Per 40cuft, Fraction Thereof - Whichever is greater
	ASCA	20.1607	(b)(1)	Wharfige	Gross Tons	\$9.40 Per Ton, Fraction Thereof - Whichever is greater
	ASCA	20.1607	(b)(2)	Wharfige	Gross Tons	\$0.85 < 1 Ton
	ASCA	20.1607	(b)(4)	Wharfige	1/2 Wharfige while at Anchorage	\$1.70 Per 40cuft, Fraction Thereof - Whichever is greater
	ASCA	20.1607	(b)(4)	Wharfige	1/2 Wharfige while at Anchorage	\$1.70 Per Ton, Fraction Thereof - Whichever is greater
	ASCA	20.1609		Wharfige	Exemption	Exempt Cargo for ARQ, US Government
(18)	ASAC	20.0903	(a)(1)	Mooring	Transient, Pleasure Craft	Grace Period 1 - 7 Days
	ASAC	20.0903	(a)(b)	Mooring	Transient, Pleasure Craft	See Chart Below 8-90 days, Per month
				Length of Vessel	Anchorage	Buoy
				< 20 Feet	\$7.50	\$8.50
				20 feet < 30 feet	\$8.50	\$12.50
				30 feet < 40 feet	\$12.50	\$15.00
				40 feet < 50 feet	\$15.00	\$17.50
				50 feet < 60 feet	\$17.50	\$22.50
				> 60 feet	\$22.50	\$27.50
	ASAC	20.0903	(b)(3)	Mooring	Transient Pleasure Craft	See Chart Below 90+ Days
				Length of Vessel	Anchorage	Buoy
				< 20 Feet	\$15.00	\$17.00
				20 feet < 30 feet	\$17.00	\$25.00
				30 feet < 40 feet	\$25.00	\$30.00
				40 feet < 50 feet	\$30.00	\$35.00
				50 feet < 60 feet	\$35.00	\$45.00
				> 60 feet	\$45.00	\$55.00

Summary

The Department of Port Administration (DPA) and its Finance Division appreciate the audit's thoroughness and the opportunity to respond to its findings. The DPA recognizes the importance of internal controls, documentation, standard operating procedures, and effective financial management in ensuring the integrity and efficiency of our operations. Given the complexity and critical nature of DPA responsibilities, including managing airports, seaports, vessels, and critical supply chains, we are acutely aware of the need for robust, documented, and transparent processes across our multi-location department.

Our general position on the audit's findings reflects a commitment to continuous improvement while focusing on our constraints and challenges. Although we acknowledge some areas highlighted by the auditor for improvement, certain conclusions did not consider the operational and budgetary constraints unique to our environment and other factors beyond DPA's control.

The DPA is dedicated to maintaining high financial management standards, integrity, and operational efficiency despite limited resources and external influences.

Our responses (1-18) are prepared below:

Audit Responses

1. The Port Administration is responsible for establishing an adequate system of internal controls

The DPA and Finance division are fully aware that the Port Administration is responsible for establishing an adequate system of internal controls. This has always been a priority as our department operates airports, seaports, vessels, and is responsible for ensuring energy and food security for the territory. DPA therefore understands the importance of robust internal controls and is why our department is a leader in this area.

2. The Port Administration could enhance its written procedures manual

We have Standard Operating Procedures across all of our departments and divisions, including Finance, including but not limited to Cash Handling, Petty Cash, Collections, and others. Currently, processes that exist but aren't documented are getting standardized into SOPs for Collections and Write Offs. While the Finance Department is aware of the need to strengthen existing SOPs, both staff and capital are limited in this area.

3. The Port Administration has not adequately segregated the duties of staff

The Finance Department agrees with part of this assessment but wishes to clarify the reason is different than implied from the audit. Funding and resource allocation from the budget are challenging for building proper staffing levels. In addition, finding qualified people willing to work at depressed ASG wages compared to the private sector compounds the challenge. As a result, we have three accountants at the airport and two at seaport. Because of this, DPA is forced to commingle accounting and finance functions it knows should be separate. The problem is exacerbated by the need for regular travel between airport and seaport, and sickness and vacation scenarios when staff is absent.

4. The Port Administration needs to improve documentation by ensuring that documentation is more easily retrievable

Every organization can always improve and optimize its processes. DPA Finance is currently "adequately satisfied" given certain impediments, such as labor shortages and limited physical space due to the demolition of our document storage room at the port and inadequate space at our current location. Although invoices and supporting documentation are stored in drawers and file boxes, space constraints prevent a standard process from being followed to migrate these documents to deep storage (archived) status.

Operationally, the Finance Department collects paperwork and supporting documentation from all DPA divisions. In addition to SOP and internal department practices, documents are reviewed and billed according to the American Samoa Code Annotated. They are also indexed and stored by vessel/voyage folders.

Hence, the Finance Department believes an incorrect conclusion was reached due to a lack of consideration and understanding of the aforementioned issues during the audit. The suggestion that we do not understand the premise of document organization is false. Therefore, we disagree with the underlying conclusions in this area, but acknowledge that ongoing improvements are important and necessary to improve DPA outcomes.

It should be noted that during this area of the audit, active manifests were not stored or shelved in drawers as they were operationally active, which could have further contributed to this false conclusion.

5. The Port Administration does not routinely change passwords to log into Quick Books

DPA Finance acknowledges this weakness and knows it is a significant failure in finance control best practices and data security. Certain limitations exist at the moment, which we will not disclose for security purposes. However, we are working on changing this policy and will adhere to the auditors' findings.

6. Management at the Port Administration needed to establish a stronger tone at the top during the scope of our review

DPA Finance acknowledges the Auditor's findings regarding organizational culture and management, generally agreeing with the points raised. Specifically, DPA Finance concurs that management, particularly the directors, could and arguably should be more involved. However, the core issue lies not in the directors' oversight of the Finance Department but in the constraints faced by the DPA due to operational limitations.

All collected revenues are allocated to the general fund, and charges and fees are significantly outdated, being 30 years behind the industry market average. This includes areas like container storage where the DPA has no control. Under these circumstances, the DPA Finance Department asserts that the directors are as engaged as possible, given their limited resources, inability to change the annotated code, and the demands of managing a complex and diverse department with restricted staffing options at low government wages. Despite these challenges, the directors maintain oversight by conducting monthly spot checks of all cash collections, approving petty cash requests, reviewing quarterly reports, and participating in the accounts payable process and workflow routing approvals. In conclusion, the DPA Finance Department highlights the difficulties posed by constraints and government policies on their operations.

The Finance Department therefore does not agree with the Auditor's assessment specific to the DPA in this area. The department holds the position that the directors are doing a good job under this challenging environment.

7. The Port Administration uses QuickBooks for its accounts receivable processes

The Finance Department understands that QuickBooks is a consumer-grade system that doesn't offer enterprise-grade security or protections against changes that impact auditing controls. DPA's QuickBooks implementation is based on expediency and budget alone; otherwise, the alternative would have been manual processes and off-line spreadsheets, fragmenting and causing more risk to the system. As the DPA Finance understood that this would be a long-term problem (QuickBooks), the Finance Department prepared a grant proposal funded by DOI to build an enterprise finance system that would integrate operations and services into a system that would mitigate QuickBooks' risks and speed up all accounting. Over the last few months, DPA has been finalizing business processes and workflow specifications; when completed, it will be given out for bid under ASG procurement. The DPA's internal code name for this system is PWIS, Port Workflow Invoicing System.

8. The Port Administration did not always issue invoices in a timely manner

The Finance Department is aware of delays in invoicing and the processing of accounts receivable. Apart from the limited number of staff resources described above, these issues are typically the result of external business practices that are beyond the control of the Finance Department, such as third parties, steamship lines, and their carrier agents providing

documentation and internal DPA operational divisions which manually process their tasks. The Finance Department, realizing these issues will continue indefinitely without proactive mediation, successfully prepared a grant proposal (referred to earlier) and is currently preparing an enterprise finance and accounting system (PWIS) that integrates the operational processes of other DPA divisions and external supply-chain partners (such as steamship lines and shipping agents), automating these processes in real-time, without delay or error.

9. The Port Administration's controls for processing invoice credits need significant improvement

The Finance Department agrees that processing invoice credits can be improved. Finance also believes that improved credit processing begins by preventing errors through implementing different business controls on the front-end operations for DPA divisions to minimize mischarges and other errors when providing and recording DPA services.

Recognizing these issues before the audit, DPA Finance took a leadership role, with the support of our Directors, and wrote a grant proposal that was accepted and funded for an enterprise workflow and accounting system (PWIS). This system aims to prevent scenarios where credits need to be processed in the first place. It will also provide a clean, auditable trail for efficiently handling standard credits when they need to be processed. DPA Finance is currently developing PWIS system specifications.

10. The Port Administration did not always post payments to customer accounts in a timely manner

The Finance Department disagrees with the Auditors' conclusion. Journal entries are meticulously created and promptly submitted to the Treasury Department General Accounting Office upon payment confirmation. DPA Finance then posts the payment against the customer's A/R in QuickBooks. The problem is when customers send direct ACH or Bank Wires to the General Fund Treasury. In this scenario, the Treasury takes, on average, 3 to 6 weeks to confirm the customer's payment to the DPA. Consequently, DPA cannot promptly post payment against a customer's A/R due to the delay caused by the Treasury's processing and notification period that payment has been received by customer.

11. The Port Administration needs a more thorough accounts receivable reconciliation process

The Finance Department agrees with the auditor's statement. The Department prepared a grant proposal and was funded by DOI to build an enterprise finance system that would integrate operations and services and speed up account receiving processing and general accounting. The DPA's internal code name for this system is PWIS, Port Workflow Invoicing System. Please refer to the separate attached documents of the grant award.

12. The Port Administration needs to improve its collection practices

As with any organization or department, DPA Finance recognizes that there is always room for improvement and optimization. In this spirit, DPA Finance agrees that its collection processes can be improved. However, Finance disagrees with the implication that DPA processes are ineffective or lack policy adherence and compliance. Collections are conducted weekly, with statements, collection letters, and standard escalations to our Directors on a scheduled basis. While we understand what changes are needed, we are constrained by pricing regulations from the annotated code and political interference outside of the DPA during collections. These scenarios prevent us from making the changes we know are necessary to get better control of our accounts receivable and operating budget.

13. Two airlines at the airport owed the Port Administration \$968,000, including \$853,000 that was more than 90 days old

The Finance Department agrees with these findings but objects to the implied failure of ineffective credit and collections management. These amounts were owed by two now-defunct airlines, Inter-Island Airways and Tausani Airlines. DPA's inability to collect was due to matters outside of our department's control, resulting from external political handling and escalation by the airlines' principals with the executive branch of the government.

14. American Samoa Power Authority (ASPA) owes the Port Administration \$454,740

The DPA Finance Department does not dispute the amount owed by ASPA and is unhappy that such a large amount is outstanding. As a logistics support provider to the remote and underserved Manu'a Islands, operating under government control, the DPA is not permitted to restrict trade or demand payment from a critical infrastructure department that provides water and power to our people.

The amount owed, \$455K, was incurred from charter services provided during the construction of a solar and battery farm two ASG administrations ago. Initially, the debt was over \$1M, but the DPA successfully negotiated a payment plan agreement, reducing the balance to its current amount. As the outstanding balance decreased, ASPA sought relief from the Governor's office, claiming it had not been paid for its services related to the solar farm in Manu'a. When ASPA did not receive the desired relief, they reneged on their payment plan, and DPA stopped receiving funds, leaving the balance unchanged.

DPA assures the Auditor that all reasonable efforts have been made to collect the debt, since the funds are crucial to our budget and basic operations.

15. The former Port Director exceeded his authority in waiving rents from lessees at the airport

Finance offers no opinion or position on this finding and recommends that the Auditors consult with the Director of the Department of Port Administration.

16. The Port Administration is late in renewing leases at the airport

The Finance Department does not share this conclusion. It is the responsibility of the DPA to prepare and submit timely lease requests, renewals, and extensions for its property and lease clients at the airport to the Attorney General's Office (AG). For reasons unknown to the DPA, other than purported resource and staffing limitations at the AG Office, our lease renewals take approximately six to seven months to process. The Finance Department and the DPA find this unreasonable and are therefore forced to engage our airport tenants outside of a formal and proper DPA/ASG Lease to maintain business continuity. DPA attempts to make these agreements legally binding ("as possible") through emails, letters, and other measures, e.g. verbal with its tenants.

The DPA is extremely unhappy with this situation, as it increases our department's exposure and liability and reflects poorly on both the DPA and the government as a whole. It should be noted that the DPA operates our department's headquarters at Pago Plaza without a lease. This is despite waiting more than eight months for processing. Although the Pago Plaza (DPA Landlord) has been patient and understanding, they technically could evict us from the building at any time. Their goodwill is what allows us to remain.

17. The Port Administration has not established a reserve allowance for bad debts

The Finance Department agrees with these findings. The DPA Finance Department acknowledges our responsibility in this matter and will consult with the Treasury on rules and SOPs regarding booking reserve allowances for bad debts to implement this accounting practice in the future.

18. The Port Administration did not always submit cash and checks to Treasury in accordance with ASG procedures

The Finance Department follows SOPs and policy guidelines for all payments, especially cash. In line with the staff and logistics resources available, deposits are made to the Treasury's Revenue Office daily by noon. If a cash or check payment is received after noon, the Finance Department will process it and include it in the next day's deposit, ensuring adherence to our deposit guidelines.

The findings of the Auditor's example analysis concerning the \$19,000 and \$22,000 check payments are incorrectly cited as standard finance department practices; vessel charter payments are handled differently than other DPA port services, which these were. Following operational considerations and known constraints on vessel operations, payments for vessel charters are not immediately deposited. These constraints include weather conditions, mechanical breakdowns, tidal energy at ports, and customer cancellations. Therefore, payments for vessel charters are deposited only after the vessel has departed. In the scenarios listed above, when charters are canceled, any undeposited checks are voided and returned to the customer, avoiding delays in Treasury processing.

**Territorial Audit Office's Response to the
Port Administration's Response to the Audit Report**

The Port Administration's response to the audit report is on pages 44 to 49. To provide clarity and perspective, we are responding to the Port Administration written response to the audit report. The responses are below.

- 1) In Item Number 4 of their response, the Port Administration states, "Operationally, the Finance Department collects paperwork and supporting documentation from all DPA divisions. In addition to SOP and internal department practices, documents are reviewed and billed according to the American Samoa Code Annotated. They are also indexed and stored by vessel/voyage folders. Hence, the Finance Department believes an incorrect conclusion was reached due to a lack of consideration and understanding of the aforementioned issues during the audit. The suggestion that we do not understand the premise of document organization is false. Therefore, we disagree with the underlying conclusions in this area, but acknowledge that ongoing improvements are important and necessary to improve DPA outcomes. It should be noted that during this area of the audit, active manifests were not stored or shelved in drawers as they were operationally active, which could have further contributed to this false conclusion."

Auditor's Comments

We are perplexed with the Port Administration's response on this issue of supporting documentation for invoices. First, contrary to what is stated in the Port Administration's response, the audit report does not suggest that the Port Administration does not understand the premise of document organization. Thus, we also disagree that we reached an incorrect conclusion because of a lack of consideration and understanding of the aforementioned issues during the audit. We would also like to point out that we added information to the report on the filing of manifests based on the Port Administration's feedback provided to us at the exit conference. The following is the information cited in the report based on the feedback at the exit conference, "According to Port Administration officials, they have all the documents needed to support the issuance of invoices. Some of these documents, such as the shipping manifests which are large and quite bulky are stored separately in boxes after the invoices have been reviewed and approved. When we conducted our work to determine whether the invoices had all the supporting documentation, we were unable to determine whether all documents supporting the invoices were available because the documentation was not easily retrievable." Despite the comments at the exit conference, the Port Administration now seems to be saying that this information is not correct, which led a false conclusion. To be clear on the issue, the audit identified 33 of 80 invoices which did not have the calculation sheet attached to the invoices. The Port Administration completes these calculation sheets by entering information on the shipping weights obtained from the manifests and is used to calculate the bills according to the Port Administration billing rules. The vendors use these calculation sheets to verify the

accuracy of the billings. As noted above, the audit found that 33 of 80 invoices did not have the calculation sheets attached to the invoice.

Furthermore, after our exit conference, audit staff explained the issue to Port Administration staff and they agreed that the calculation sheets should have been attached to the invoices.

- 2) In Item Number 6 of their response, the Port Administration states that it does not agree with the audit's conclusion that DPA needs to establish a stronger tone at the top. Specifically, the Port Administration states, "The Finance Department does not agree with the Auditor's assessment specific to DPA in this area. The department holds the position that directors are doing a good job under this challenging environment."

Auditor's Comments

Although it states that the Finance Department does not agree with assessment that Port Administration needs a stronger tone at the top, the Port Administration seems to concur with the finding by stating, "DPA acknowledges the findings regarding organizational culture and management, generally agreeing with the points raised. Specifically, DPA Finance concurs that management, particularly the directors could be more involved. However, the core issue lies not in the directors' oversight but in the constraints faced by the DPA due to operational limitations." We do not disagree that that the Port Administration is working in a challenging environment. That being said, we still believe that Port Administration's management can establish a stronger tone at the top, especially during the period of our audit. As the audit noted, the Port Administration has not implemented an adequate system of internal control, which it acknowledges in its response that it is management's responsibility to do so. Additionally, the audit identified several questionable practices at the port. For instance, a former directive issued a \$73,000 credit to a vendor, without adequate documentation. We also noted that a former director exceeded his authority in writing off \$342,000 in rents at the airport. The issues noted above point to the need for the Port Administration management to establish a stronger tone at the top.

- 3) In Item 10 of its response, the Port Administration states, "The Finance Department disagrees with the Auditor's conclusion" (that the Port Administration did not always post payments to customer accounts in timely manner).

Auditor's Comments

The Port Administration attributes all of the late postings to the Treasury Department's delay in posting ACH or Bank Wires to the General Fund Treasury. The audit report acknowledged this problem. However, the Port Administration still has a responsibility to follow up with Treasury to ensure that Treasury confirms the payments are received. Additionally, the Port Administration did not provide us evidence that all late payments posted are due to problems with Treasury's delays in posting ACH or Wire Transfers.

- 4) In Item 12 of its response, the Port Administration states, "As with any organization or department, DPA Finance recognizes that there is always room for improvement and optimization. In this spirit, DPA Finance agrees that its collection processes can be improved. However, Finance disagrees with the implication that DPA processes are ineffective or lack policy adherence and compliance. Collections are conducted weekly, with statements, collection letters, and standard escalations to our Directors on a scheduled basis. While we understand what changes are needed, we are constrained by pricing regulations from the annotated code and political interference outside of the DPA during collections. These scenarios prevent us from making the changes we know are necessary to get better control of our accounts receivable and operating budget."

Auditor's Comments

In its response, the Port Administration states that its collection processes can be improved. We agree. Although, the report did not specifically state that the Port Administration's collection practices are ineffective or lack policy adherence and compliance, it hard to argue that the Port Administration collection processes are effective or consistent with policy. The report noted the following about the Port Administration's collection practices, "As the Exhibit 3 above shows, the Port's accounts receivables ranged from \$1.4 million to nearly \$2.1 million through the end of 2021-22. Of those amounts, the amount of the receivables over 90 days old ranged from nearly \$980,000 to over \$1.5 million. The percentage of those accounts receivables over 90 days old ranged from 60.7 percent of total receivables to 73.7 percent." The report further states, "This clearly indicates that delinquent balances are not being adequately pursued. Moreover, the balances indicate that many of these accounts may not be collectible. Some of these delinquencies could be reduced if the Port Administration improved its collection best practices. With collections, it is important to stay on top of receivables so they do not lapse into delinquencies. Specifically, the Port needs to regularly prepare aging reports and follow up with customers on regular basis."

We stand by those statements. Additionally, as the Exhibit 3 in the report shows, only 3.8 percent to 13.3 of accounts receivables at year-end for the three years in our scope were current.

- 5) In Item 15 of its response, the Port Administration states, the Finance Department and DPA disagree with the conclusion that the DPA Director exceeded their authority in waiving rents from lessees. This finding fails to consider the context, timeline and circumstances under which the waiving of rents occurred, specifically the actions and authorities granted under the Governor's Executive Order and Emergency COVID Declarations.

Auditor's Comments

We disagree with the statement that the finding fails to consider the context, timelines, and circumstances when the rents were waived. The report noted the following about the context of when this occurred, "The rents were during COVID-19, when the airport

was essentially closed. Although these actions may have been appropriate to consider, the Director did not have the authority to waive the fees; this authority rests with the Treasury." The issue raised in the report is Treasury has the authority write off accounts. This process was not followed. Hence, the Port Administration's Director exceeded his authority in writing off the accounts.

- 6) In Item 16 of its response, the Port Administration states, "The Finance Department does not share this conclusion." (The Port Administration is late in renewing leases at the airport) and describes the problems associated with renewing their leases and places the blame primarily on the Attorney General's Office

Auditor's Comments

The audit acknowledged the problems with the lease renewal process by stating the following, "Our audit confirmed the lease renewal process is slow, averaging five to nine months for renewal." Additionally, the report recommended the Port Administration "Work with the Attorney General Office to develop a realistic schedule for renewing leases and use that schedule in renewing future leases before the leases expire." We think this is appropriate course action for the Port Administration to follow on future lease renewals.

- 7) In Item 18 of its response, the Port Administration states, the findings of the Auditor's example analysis concerning the \$19,000 and \$22,000 check are incorrectly cited as standard finance management practices; vessel charter payments are handled differently than other DPA port services, which these were. Following operational considerations and known constraints on vessel operations, payments for vessel charters are not immediately deposited. These constraints include weather conditions, mechanical breakdowns, tidal energy at ports, and customer cancellations. Therefore, payments for vessel charters are deposited only after the vessel has departed. In the scenarios listed above, when charters are cancelled, any undeposited checks are voided and returned to the customers, avoiding delays in Treasury.

Auditor's Comments

A significant part of our quality control reports is to provide an opportunity for the department to provide us feedback on the issues in the report. We provided a preliminary draft of this report to the Port Administration on February 28, 2024. We held an exit conference with Port Administration officials on April 18, 2024. At this exit conference, we listened to the Port Administration's feedback and made adjustments to the report, which is a routine step in the audit process. We issued a final draft to the Port Administration on April 22, 2024. In their response dated May 29, 2024, this is the Port Administration's first mention of not depositing cash received from the vessel charters. The Port Administration has had nearly three months to provide us that clarification for us to consider, but failed to do so. Moreover, we have neither received supporting evidence that they withheld these specific payments for the purpose cited in

their response nor the written policies and procedures supporting their contention that these checks are purportedly not deposited after the checks were received.