OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT
ON

NGARDMAU STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2010 THROUGH SEPTEMBER 30, 2013

Performed by the Office of the Public Auditor

NGMAU11-13-P09*opa00
April 20, 2018

Serial #: opa18-069AU

Honorable Johnston B. Ilenglekei  
Governor  
Ngardmau State Government  
Office of the Governor  
Koror, Republic of Palau


Dear Governor Ilenglekei:

This report presents the result of our performance audit of Ngardmau State Government for the period from October 1, 2010 through September 30, 2013.

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. The Office of the Public Auditor (OPA) received your response to the draft audit report. Based on the additional supporting documents provided, the OPA has made, where appropriate, revisions to the draft audit report. The response (without the attachments) is published verbatim in the final report.

The OPA has established an audit recommendation tracking system to keep track of the status of recommendations issued in this report. Accordingly, the OPA will conduct follow up inspections on your response and corrective action measures to assess their implementation and operation. On a semi-annual basis, June 30 and December 31 each year, the OPA will report the status of the recommendations to the Office of the President and Preciding Officers of the Olbiil Era Kelulau for their information and disposition.

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

Sincerely,

[Signature]

Saturnino Tewid  
Public Auditor  
Republic of Palau
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Results in Brief

RPPL No. 9-9 mandates the Office of the Public Auditor (OPA) to conduct annual financial audits of State Governments, beginning with fiscal year 2014. Hence, this performance audit covering fiscal years 2011-2013 brings to an end the performance audits the OPA has been conducting over the years on Ngardmau State and begins the transition to financial audits that will require a shift of the State’s accounting system (QuickBooks) to accommodate financial audits.

The OPA’s audit covering fiscal years 2011-2013 revealed that the State is continuing the effort to implement the QuickBooks (QB) accounting system. The State Treasury continues the challenge to fully implement the other critical modules of QBs including bank reconciliation, accounts payable, accounts receivable and fixed assets. Further, the State continues to struggle to carry out its procurements in compliance with the Republic of Palau Procurement Law and Regulations. More concerning is that the State obtained a loan from a local financial institution without prior approval from the Olbil Era Kelulau as required by the Republic of Palau Constitution. The State also needs to strengthen controls over the processing of Accounts Payable Vouchers (APV) and its personnel policies.

As the State continues the efforts to implement QuickBooks it must also take corrective action to address the findings in this report. Doing so will provide a platform for the State to fully implement QBs and simultaneously correct the deficiencies to prepare the State for the impending financial audits.

Background

Ngardmau State is one of the sixteen (16) states in the Republic of Palau. The State has a Constitutional government established in accordance with the State Constitution, which was ratified in April 14, 1984. The Government of the State of Ngardmau is responsible for, among other things, conservation of a beautiful, healthful and resourceful natural environment, promotion of the State economy, protection of the safety and security of the persons and property, promotion of the health and social welfare of the people of the State of Ngardmau.

To fulfill these mandates, the State Constitution calls for the establishment of the Office of the Governor and Legislature (Kelulul Ngardmau). The Governor is elected to a four (4) year term. The Governor shall be responsible for among other duties, to enforce and execute laws of the State of Ngardmau, to spend public funds and to collect taxes pursuant to laws, to introduce measures in the Kelulul Ngardmau and to prepare an annual budget for consideration and enactment by the Kelulul Ngerdmou.

The members of the Kelulul Ngardmau are elected for four (4) year term. The powers and responsibilities of the Kelulul Ngardmau are prescribed in the State Constitution.
Article X of the State Constitution States in part: “There shall be one (1) treasury of the State of Ngardmau. All revenues derived from taxes or other sources shall be deposited in this treasury. No funds shall be withdrawn from the treasury except by law. The Kelulul Ngardmau shall enact laws governing procedures for the deposit and withdrawal of public funds, and provide for a state borrowing Act.”

**Authority to Audit**

Article XII, Section 2(b) of the Constitution of the Republic of Palau declares, in part, “The Public Auditor shall inspect and audit accounts in every branch, department, agency, or statutory authority of the national government and in all other public legal entities or nonprofit organizations receiving public funds from the national government.” This mandate is implemented through the Public Auditing Act of 1985 (40 PNCA § 200 et. seq.), which charges the Public Auditor to “act to prevent and detect fraud, waste and abuse in the collection and expenditure of all public funds.” (Id., §224.)

**Audit Objective**

The objective of the audit is to determine whether (1) expenditures were incurred in accordance with national and state laws and regulations, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts are supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were authorized and appropriated, and (5) State has established proper internal controls to ensure the proper safeguarding of its properties and transactions were properly recorded.

**Scope and Methodology**

The audit covered the period from October 1, 2010 through September 30, 2013. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the State or any component or account within those financial statements and therefore express no opinion on the financial statements.

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

To accomplish the audit objectives, we reviewed accounting records maintained at the office of Ngardmau State, including budgetary laws and other relevant laws and regulations. We also
Office of the Public Auditor

reviewed records maintained at the bureau of the National Treasury. In addition we examined relevant sections of the Republic of Palau’s Unified Budget Acts and other applicable laws and regulations. Finally, we met and discussed these issues with State officials as appropriated under the circumstance.

Prior Audit Coverage

The most recent audit of the Ngardmau State Government was a performance audit conducted by the Office of the Public Auditor covering the fiscal years 2005-2010. Since then, there has been no other audit, attestation, or related studies conducted on the State Government.
Finding 1: Accounting System and Internal Controls

An accounting system supported by sound internal controls is essential to support management decision making, ensure that accounting functions are properly carried out and to safeguard State assets.

The audit found that although the State has established and implemented an accounting system (QuickBooks), the Governor was not monitoring the accounting functions to ensure that they were properly carried out. For example, we found the following deficiencies:

- First, the State has implemented QuickBooks that includes a module for performing bank reconciliation however the State Finance Office did not use the system to conduct bank reconciliation. The Finance Office also did not provide documentation to evidence that bank reconciliations were conducted for all bank accounts during the period fiscal year 2011-2013. Bank reconciliation is a critical control function that ensures that all cash transactions (i.e., disbursements, deposits, bank fees) are properly recorded to agree cash balance per book to the balance per bank and vice versa.

- Second, although the State has a system (QuickBooks) to record and reconcile accounts receivable, the State was not using the system to record accounts receivable. Accounts receivable is money owed the State and therefore should be properly recorded as an asset and monitored to ensure their timely collection. Otherwise, lax record keeping can result in untimely collection and potential loss of revenues. For example, we found one company with outstanding invoices for Waterfall fees from 1-30 days, 31-60 days, 61-90 days, 91-120 days and over 120 days old with no consistent follow up and collection notices by the State. Further, although the State sent a billing statement to the company for $2,635, which the company eventually paid, the statement was missing 23 invoices totaling $785, which the State failed to collect.

- Lastly, although the State has implemented a system (QuickBooks) to record and reconcile accounts payable, the State was not using the system to keep track of accounts payable. We found that the State has outstanding obligations but it was not using QuickBooks to record and keep track of these obligations, including a loan the State obtained.

The cause of the above condition is that the Governor is not monitoring the accounting functions and encouraging the State Finance Office to fully implement QuickBooks. The QuickBooks accounting software is an investment by the State to improve its financial management system, which the State finance staff needs to implement to realize the benefits of the investment. Further, the QuickBooks is the most viable accounting system at this point in time for the State to successfully implement RPPL No. 9-9, annual financial audits of State Governments.

As a result, the accuracy of bank reconciliations, accounts receivable and payable cannot be relied upon. Further, the investment by the State in the QuickBooks accounting system is not timely realizing its potential benefits if the staff (Treasury) is not using all modules of the system.
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Recommendation: We recommend the Governor encourage and provide the necessary support to the State Treasury to fully implement the QuickBooks accounting system. The State Treasury should use the different modules of the system to perform monthly bank reconciliation, record and reconcile accounts payable and receivable and other functions. In addition, the Governor should consult the Treasurer to determine the reasons for the delay to fully implement QuickBooks and provide the necessary support for its complete implementation, including training.

Auditee’s Response: Correspondent: We concur with the audit findings by Office of the Public Auditor (OPA) regarding the bank reconciliation, accounts receivable and accounts payable internal control system which are not being established and implemented on the period under audit. According to the former Governor, during that time, the state does not have any employee that is knowledgeable in QuickBooks, therefore, all the state transactions are done manually through the excel program which our staff is capable of. In addition, we seek the assistance of the finance office to train our staff to be able to record transactions in QuickBooks. To conform with the recommendations by OPA, we will strictly implement and maximize the use QuickBooks system to perform bank reconciliation and recording of receivables and payables.

Finding 2: Non-compliance with ROP Procurement Law and Regulations

Republic of Palau Procurement Law and Regulations, 40 PNCA, provides:

- § 612 states that The Attorney General or his designee shall serve as legal counsel and provide necessary legal services to the Procurement Officers (national). The Attorney General or in the case of state government contracts, the State Attorney, if any, shall certify the form and legality of every government contract and change order.”

- § 614 Competitive sealed bidding and/or § 626 Competitive negotiated contracts to ensure fairness in awarding contracts and to maximize the purchasing value of public funds.

- § 625 (b) requires that any purchase by State Government greater or equal to $5000 shall be subject to competitive bidding and § 625 (c) that three price quotations shall be required for procurements under $5,000.

We found that Ngardmau State Government did not comply with the ROP’s Procurement Law and Regulations when acquiring goods and services for the following reasons.

First, Ngardmau State Government had procured services from individuals via contractual agreements during the fiscal years 2011 and 2012. And although the contracts were signed by both parties, they were not certified by the State Attorney for legal form and substance as required by § 612. In addition, the State did not obtain three price quotations for procurements under $5,000.
The contracts were as follows:

<table>
<thead>
<tr>
<th>Contract Date</th>
<th>Check No.</th>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/24/2011</td>
<td>3758</td>
<td>Waterfall Summer House Project</td>
<td>$2,400</td>
</tr>
<tr>
<td>4/18/2011</td>
<td>3702 &amp; 3774</td>
<td>Hanging Bridge Project</td>
<td>$800</td>
</tr>
<tr>
<td>2/8/2012</td>
<td>4660</td>
<td>Develop NSBP&amp;Z’s Master Plan, Land Use Plan, and Zoning Code</td>
<td>$6,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$9,200</strong></td>
</tr>
</tbody>
</table>

Second, Ngardmau State Government procured goods and services without competitive bidding, procurements equal to or greater than $5,000, as shown below:

<table>
<thead>
<tr>
<th>Check No.</th>
<th>Date</th>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3501</td>
<td>01/21/2011</td>
<td>Construction of Botanical Garden Restroom</td>
<td>$9,600</td>
</tr>
<tr>
<td>4085</td>
<td>2/13/2012</td>
<td>Boat Engine for Marine Sanctuary</td>
<td>$5,274</td>
</tr>
<tr>
<td>4109</td>
<td>2/28/2012</td>
<td>Vehicle for Green Fee</td>
<td>$6,500</td>
</tr>
<tr>
<td>4660</td>
<td>9/30/2012</td>
<td>Develop NSBP&amp;Z’s Master Plan, Land Use Plan, and Zoning Code</td>
<td>$6,000</td>
</tr>
<tr>
<td>5035</td>
<td>3/8/2013</td>
<td>16 footer Speed Boat with Engine for OSCA</td>
<td>$4,500</td>
</tr>
<tr>
<td>5095</td>
<td>4/4/2013</td>
<td>16 footer Speed Boat with Engine for OSCA</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$33,874</strong></td>
</tr>
</tbody>
</table>

Third, Ngardmau State Government authorized and appropriated the sum of $13,500 for the construction of two (2) Summer Houses at the Waterfall Parking Lot; however, the State failed to conduct proper planning towards execution of the project. As such, the State failed to bid out the project for the design and construction of the buildings. Consequently, the State did not take advantage of volume-purchases discounts on building materials, used multiple contractors thereby creating conditions driving up the cost of the project. The costs of the two (2) summer houses are shown below:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total payments for supplies and materials</td>
<td>$8,559</td>
</tr>
<tr>
<td>Total payments for labor charges</td>
<td>$3,448</td>
</tr>
<tr>
<td>Total Project Cost</td>
<td><strong>$12,007</strong></td>
</tr>
</tbody>
</table>
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The cause of the above condition is that the State may lack the capacity to conduct proper planning of construction projects and officials may not be familiar with the requirements of ROP Procurement Law and Regulations.

As a result, the State continues to conduct procurements in violation of the ROP Procurement Law and Regulations. In addition, awarding contracts and executing projects without competitive bidding does not ensure fairness and equitable treatment in the state’s procurement system, drives up costs of projects and could result in the loss of public confidence in the state’s procurement procedures. Further, the lack of legal review on contracts fails to protect and exposes the State to potential legal and financial pitfalls. Finally, failure to obtain the required price quotations does not provide the assurance that the State is obtaining the best quality product and service at the most advantages prices.

**Recommendation:** We recommend the Governor seek assistance from the National Government on training on the ROP Procurement Law and Regulations for relevant State employees. Further, in all future contractual agreements, the Governor should ensure that the agreements are properly reviewed and certified for legal form and substance by the State legal counsel. Finally, the Governor should direct the State Treasurer to withhold and not process procurements that do not comply with the ROP Procurement Law and Regulations; either because the procurements are not put out for bid (greater or equal to $5,000) or the required price quotations (less than $5,000) are not obtained.

**Auditee’s Response:** Correspondent: Our state is aware of the procurement law and regulation that being mandated by the National Government of Palau. The construction projects in Ngardmau Falls which is the 2 summer house was built in cooperation with local people in Ngardmau. The state hires local state people to work as laborer and some materials used was bought from local state people and some of the materials was donated by Koreans in order to complete the project. In relations, the State of Ngardmau was not able to negotiate to any contractors or enter in a public bidding.

**OPA’s Comment:** The Procurement Law requires competitive bidding for expenditures greater or equal to $5,000, whether the project, including labor and materials, is hired locally or outside the State.

**Finding 3: Non-Compliance with the Republic of Palau Constitution**

Article XI, Section 4 of the Republic of Palau’s Constitution states, “subject to the approval of the Olbiil Era Kelulau, the state legislatures shall have the power to borrow money to finance public programs or to settle public debt.”

The audit revealed that Ngardmau State Legislature passed an Act, NSL No. 7-42, authorizing the Governor to seek and obtain a loan to finance State programs. Subsequently, the State Government entered into a loan agreement with a local bank and took out a loan for the amount of $25,000, unaware that the loan requires approval by the Olbiil Era Kelulau(OEK).
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It appears the Governor and the State Legislature were not aware of the constitutional requirements pertaining to the authority of the State to obtain loans to finance public programs or debts.

As a result, Ngardmau State obtained said loan in violation of the Republic of Palau Constitution.

**Recommendation:** The Office of the Public Auditor (OPA) recommends that the Governor and State Legislature seek legal advice from their legal counsel before entering into loan or other debt-financing agreements. In the future, the State must obtain approval from the OEK before entering into a loan or other debt-financing agreement to settle public programs or debts.

**Auditee’s Response:** Correspondent: In reference with the loan obtain by the State of Ngardmau for public programs, it was in correlation with the State Constitution under Article X that, “The Kelulul Ngardmau shall enact a law governing procedures for the deposit and withdrawal of public funds, and provide for a state borrowing Act”. We believed, that State of Ngardmau has the power to borrow money from local creditors for public programs without the approval of Olbiil Era Kelulau as provided by our State Constitution.

**OPA’s Comment:** Since the ROP Constitution supersedes the State Constitution, we believe that the borrowing required prior approval by the Obiil Era Kelulau.

**Finding 4: Disbursement**

Ngardmau State Government has implemented and practices the following controls over disbursements:

1. Use of Accounts Payable Voucher (APV) with pre-authorization of disbursements by the Governor and certification of funds by the treasurer

2. Review of disbursement requests to ensure they contain the proper supporting documents such as invoices/receipts, contracts, quotations, justifications, etc.

In testing disbursement, we found inconsistencies and deficiencies in internal controls over authorization and disbursement of funds in instances shown below:

1. Accounts Payable Vouchers (APV) were not approved by the Governor for these check disbursements, (Check #: 3282, 3505, 3595, 4680 & 4984).

2. Proper supporting documents were not on file to support disbursements as follows:
   a. Contract – (Check #: 3505, 4061, & 4680).
   b. Invoices/Receipts – (Check #: 3595 & 5446).
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c. Evidence to prove that Coconut planters received their payment and amount received – (Check # 3355).

It appears the cause of the above condition is that the State Treasury did not perform its due diligence review of APVs to ensure they are properly approved and contain the proper supporting documents.

As a result, the State’s system of internal controls over disbursements was not operating as intended by management.

**Recommendation:** The OPA recommends that the Governor direct the Treasury Department to be more attentive in processing and reviewing disbursements to ensure that APVs are properly certified for funds availability, approved by the Governor and contain the proper supporting documents (i.e., APV, invoice/receipt, timesheet, contract, etc.).

**Auditee’s Response:** Correspondent: We concur with the audit findings by the Office of the Public Auditor regarding some of disbursements that has been overlooked for signature approval and missing supporting documents that should be attached to the APV. To conform with the recommendation by OPA, the State Treasurer and State Accountants will work together to ensure that APV is properly certified and contain all supporting documents.

**Finding 5: Payroll**

A sound system of internal controls dictates that the State maintains personnel files for employees which contain, at a minimum, employment application, a personnel action form, employment contract, allotment forms, employee evaluation, etc.

We found that although the state had made improvements in its personnel system, the following weaknesses were noted:

1. Employees’ allotment forms were not on file to show that payroll deductions were properly authorized.
2. A Personnel Action Form (PAF) of an elected official was approved one-year before the effective date.
3. One employee’s PAF for a salary adjustment was not on file.
4. Personal Action Forms were not on file for fourteen (14) temporary/contract employees.
5. Contract Agreement between the State and employee was not on file.

Although a personnel system was in place, the system was not consistently followed to ensure all controls are operating as intended.
As a result, the personnel system is not operating in all its elements and the controls intended to strengthen payroll processes were not followed.

**Recommendation:** We recommend that the Governor discuss with the State Treasurer the deficiencies noted herein and direct the Treasurer to take corrective action to implement all components of the personnel system to ensure that all control elements of the system are operating, including properly authorized Personnel Actions for all employees. Further, the Governor should ensure that all contract employees have a proper employment contract with the State and such contracts should be filed properly. Finally, the Governor should direct the State Treasurer to review all personnel files to ensure they contain the appropriate documents to support personnel actions.

**Auditee’s Response:** Correspondent: We concur with the audit findings by Office of the Public Auditor regarding that some personnel action form, allotment form and contracts of employees are missing on file. To conform with the recommendation by OPA, we will direct our State Treasurer or State Accountants to carefully verify and complete the files of the state employees and other contractual services.

**Finding 6: Ngardmau State Public Lands Authority**

The Ngardmau State Public Lands Authority (NSPLA) was established by Ngardmau State Law (NSL) No. 3-20, as amended by NSL No. 5-18 and as further amended NSL No. 7-05, for the purpose of maintaining, regulating and managing State public lands and implementing programs for the benefit of the people of Ngardmau State. Further, NSL No. 7-05 under Section 3 requires a nine (9)-member Board of Trustees. To carry-out its responsibility, NSL No.7-05 under Section 9 (xii) states: within 120 days after the effective date of this Act, the NSPLA shall establish rules and regulations...for the conduct of its business and programs.

The audit revealed that NSPLA seemed to have used its regulations to amend NSL No. 7-05, in particular the number of members of the Board of Trustees, whereas NSL No. 7-05 requires a nine (9)-member Board, the regulations were amended to reduce the number to seven (7), which is practiced today. The NSPLA was unable to provide a State law amending the number of Board members. Further, the NSPLA was unable to provide the Office of the Public Auditor (OPA) formally and legally adopted (signed) NSPLA Rules and Regulations approved by Board members and in effect during the period FY 2011-FY2013. The OPA only was provided an unsigned copy of the rules and regulations for which it was unable to determine if the document was properly adopted by the NSPLA. Further, we found that a total of twenty-nine (29) public land lease agreements were operating and in effect during fiscal years 2011-2013. All 29 lease agreements were for commercial leases for a term of fifty (50) years. These 29 leases varied in lot sizes as follows:

- Twenty-six of the commercial leases comprised of 5,000 square meters of land
- Two of the commercial leases comprised of 25,000 square meters of land, and
- One commercial lease comprised of 10,000 square meters
OPA noted that the three varying lot sizes were all subject to one annual standard fee rate of one-hundred dollars ($100).

It appears that the NSPLA did not retain an attorney to provide legal advice on its activities, in particular NSL No. 7-05 and NSPLA’s implementing regulations to ensure agreement and enforceability.

As a result, without evidence of approval by the NSPLA Board, the OPA was unable to determine if the operating regulations were properly approved and, by extension, if the above lease agreements were properly executed. In addition, we were unable to determine whether NSPLA’s regulations are in compliance with the intent of NSL No. 7-05.

**Recommendation:** we recommend the NSPLA retain a legal counsel to provide legal advice to the Authority on its activities, in particular the legality of amending state law (NSL No. 7-05) using NSPLA regulations and implementing NSPLA regulations without evidence of approval by the Board of Trustees. Further, we recommend the NSPLA strengthen controls over its record-keeping to ensure that its rules and regulations are formally and legally adopted by the Board to support the execution of all lease agreements. Finally, the NSPLA secretary should ensure that all official copies of NSPLA rules and regulations, minutes of Board meetings and other official activities are properly documented and filed.

**Auditee’s Response:** Correspondent: We concur with the findings by Office of the Public Auditor in which NSPLA was unable to provide the amendment of NSL No. 7-05 and Rules and Regulation approved by Board Members.

To conform with the recommendation by OPA, the NSPLA will seek advice from legal counsel for amendments of law and other legal matters. For the record keeping, the secretary of NSPLA will ensure that all legal documents are complete and properly filed.

**Finding 7: Fixed Asset**

Sound management controls dictate that a fixed asset accounting system is essential to properly account for, identify and safeguard State properties. Further, a fixed asset policy is critical to provide guidance on treatment of fixed assets such as establishing a threshold for capitalizing fixed assets and conducting periodic physical inventory.

The audit revealed the following weaknesses in the fixed asset system:

- The State purchased a Water Pump and a Galaxy Duos-Dual sim & Canon Powershot ELPH 110 but these assets were not listed on the State’s fixed asset listing.
- Purchase cost of an asset (Computer Set, purchased with check # 5118) did not have proper supporting documents on file such as APV, copy of check, and invoice.
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- Inventory was not performed regularly to verify the conditions and location of fixed assets. Three (3) Trimmers, KAAZ VS255, purchased with check # 5428, were recorded as in good condition but we found that they are not in working condition.

- State does not have a tagging system to properly identify State properties.

The cause of the above condition is that the State is not using QuickBooks to record and keep track of its fixed assets. In addition, the Governor has not established basic policies as guidelines for treatment of fixed assets.

As a result, the State was unable to maintain an accurate listing of its fixed assets or determine their condition, weaknesses that can result in misstatement of fixed assets on the financial statements. In addition, the absence of fixed asset policies provides no guidelines to the State Treasury on how to treat fixed assets.

**Recommendation:** We recommend the Governor consult with the State Treasurer and encourage the State Treasury to fully implement the QuickBooks accounting system to record fixed asset activities. In addition, the Governor should establish fixed asset policies that prescribe, among other things, guidelines on the threshold for capitalizing fixed assets and conducting periodic physical inventory.

**Auditee’s Response:** Correspondent: We concur with the audit findings by Office of the Public Auditor regarding the proper listing of Fixed Asset and other supporting documents which essential on internal control to safeguard the property of the state. To conform with the recommendation by OPA, our office will establish policies and procedures which include proper tagging, inventory, threshold for capitalizing and others pertinent internal controls of fixed assets. We will implement the use of QuickBooks system to record all the asset of Ngardmau State for accurate presentation in the financial statement.

**Auditee’s Conclusion:** In preparation for the next audit, our office will ensure that all above audit findings will be corrected and to strictly implement all the recommendations by the Office of the Public Auditor. We will make sure to utilize the QuickBooks system and if necessary to train our staff in order to be effective, efficient and knowledgeable of internal control, policies and procedures.

*On behalf of the people of Ngardmau State, we would like to thank you for all your recommendations to improve our state and protect the public interest.*
Conclusion

In conclusion, during the fiscal years October 1, 2010 through September 30, 2013, Ngardmau State Government did not fully implement the State’s QuickBooks accounting system. The State did not use QuickBooks to perform bank reconciliation, record and reconcile accounts receivable and payable and fixed assets. Further, the State continues to struggle to administer its procurements in compliance with the Republic of Palau Procurement Law and regulations, payroll, and is not consistently applying controls over disbursements (Accounts Payable Voucher). Moreover, the State leadership needs to evaluate and strengthen the structure of Ngardmau State Public Lands Authority.

While we note that the State Finance office is making improvements in the application of the QuickBooks accounting system, the Governor should meet the staff of the State Finance Office to discuss the causes for slow-paced progress in the use of the system and provide the appropriate support, including additional training.

The RPPL No. 9-9 mandates annual financial audits of State Governments, beginning with fiscal year 2014. It is critical that the State finance office fully implement the QuickBooks accounting system in order to produce financial statements to be audited and, at the same time, take corrective action to resolve the findings in this report.

Finally, we would like to thank the staff and management of Ngardmau State Government for their professional courtesy and cooperation extended to us during the audit.

Sincerely,

Satrunino Tewid
Public Auditor, ROP
ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO:

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P. O. BOX 850
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7:30 a.m. - 4:30 p.m.

(Closed on Legal Holidays)