Office of the Public Auditor

12-085

April 26, 2012

Honorable Johnson Toribiong  
President of the Republic of Palau  
Office of the President  
Ngerulmud, Republic of Palau

And

Honorable Mlib Tmetuchl  
President of the Senate  
Eight Olbiil Era Kelulau  
Ngerulmud, Republic of Palau

And

Honorable Noah Idechong  
Speaker of the House of Delegates  
Eight Olbiil Era Kelulau  
Ngerulmud, Republic of Palau

Re: Performance Report Covering the Period April 2011-March 2012

Gentlemen:

Pursuant to RPPL No. 6-11, as amended by RPPL No. 7-7, I hereby transmit the Office of the Public Auditor’s Performance Report for the period April 2011-March 2012.

Thank you for your attention in this submission.

Sincerely,

Satrunio Tewid  
Acting Public Auditor
2012 PERFORMANCE REPORT
Vision

To be an effective and efficient public watchdog on the use of public resources

Mission Statement

The mission of the Office of the Public Auditor (OPA) is to conduct audits to institutionalize economy, efficiency, accountability, and transparency in government operations, programs, activities, and functions.

The OPA endeavors to fulfill this mission by providing management with tools (audit reports) to improve operations. This is accomplished by conducting audits in an objective, impartial, and unbiased manner and providing management with findings and recommendations for improvement. The quality of audits the OPA conducts is guided by Generally Accepted Government Auditing Standards (GAGAS) promulgated by the United States Government Accountability Office. In accordance with the Standards, the OPA undergoes an External Quality Control Review every three years to ensure the OPA is conducting its audits in accordance with GAGAS.

In the conduct of audits, the OPA acts to prevent and detect fraud, waste and abuse in the expenditure of public funds. Any suspected cases of fraud, violations of laws, or other irregularities uncovered during audits are reported to the Office of the Attorney General or the Office of the Special Prosecutor for further investigation and prosecution. The successful prosecution of financial crimes against the Republic creates an environment of deterrence to prevent future incidents.

Highlights

One of the significant highlights in 2011 occurred when the OPA had its triennial External Quality Control Review (Peer Review) in November. The Peer Review concluded that the OPA was in satisfactory compliance with GAGAS for audits conducted during the past three (3) years. Another significant highlight was when the U.S. DOI approved funding for the OPA to establish its Website which was completed and launched in February 2012. In addition, in October 2011 the OPA completed and finalized its second Cooperative Performance Audit on Access to Safe Drinking Water. Finally, on behalf of the Association of Pacific Islands Public Auditors (APIPA), the OPA applied for and was approved a grant by the U.S. DOI for $143,910 for the conduct of APIPA Peer Reviews and the update of APIPA Peer Review Guide.

Priority and Critical Achievement Areas

1. Funding to fill key positions: Public Auditor and Audit Manager

   The Public Auditor position has been vacant for over five (5) years. The position needs to be filled in order for the OPA to move forward with a permanent Public Auditor directing the way.
2. Funding for Staff Continuing Professional Education (CPE)

The Public Auditing Act mandates that the OPA conduct its audits in accordance with Generally Accepted Government Auditing Standards (GAGAS). Under GAGAS, auditors are required to maintain their professional competence through continuing professional education (CPE). Specifically, each auditor performing work under GAGAS are required to obtain a minimum of 80 hours of CPE every 2 years, 20 hours of which must be completed in a given year of the two year period. According to GAGAS, when auditors fail to maintain their CPE’s, and are assigned to conduct an audit, the resulting audit report will have to be “qualified” to state that the auditor (s) did not comply with the CPE requirements.

In the previous years, the OPA was able to obtain training grants from the U.S. Department of the Interior to fund its training needs, however; the OPA was unable to secure a training grant for fiscal year 2011. And observing the U.S. budget deliberations for FY 2011 and 2012, with unprecedented cuts in anticipated funding, the prognosis for future and continued training grants is highly unlikely.

3. Audit Recommendation Tracking System

The Audit Recommendation Tracking System (ARTS) is a follow-up process to ensure that the auditee’s management has taken appropriate actions to implement recommendations or has taken corrective action to remedy audit findings.

The OPA issues follow up letters to agencies with outstanding audit recommendations to determine the status of the recommendations. The agency’s responses are evaluated and compiled into a report entitled “Report on Agencies’ Implementation of Audit Recommendations” and transmitted to the President of the Republic, the Presiding Officers of the Olbiil Era Kelulau and the Interagency Audit Coordinating Advisory Group (IACAG) members apprising them of agencies efforts to implement the OPA’s audit recommendations.

Failure to implement audit recommendations and/or resolve audit findings allows weaknesses and deficiencies in programs or activities to perpetuate. In terms of local-funded programs, this results in inefficiency and ineffectiveness in the provision of goods and services to the public. If programs are funded by grants or donations, the results are similar except that it puts the grants or donations at risk of reduction, suspension, or other adverse consequence.

Due to budget constraints and lack of manpower, the OPA has been unable to implement the system.

4. Permanent Office for Office of the Public Auditor

The OPA has been renting office space to house its office for well over twenty five (25) years, and spending hundreds of thousands of dollars in the process and yet still without a permanent structure for office space. The OPA will propose to the leadership to seek a
grant or loan (low interest) to fund the construction of its office building the repayment of which can be covered with funds which would otherwise be used for office space rental.
### Mission Medium-Term Goals

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Baseline/Status</th>
<th>Verifiable Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Government Building to house Office of the Public Auditor</td>
<td>Negotiation for funding</td>
<td>Identify and discuss proposal with potential lenders</td>
</tr>
<tr>
<td>2.</td>
<td>Audit Recommendation Tracking System</td>
<td>No. of outstanding recommendations</td>
<td>Request funding for position to maintain tracking system</td>
</tr>
<tr>
<td>3.</td>
<td>Audit Time budget</td>
<td>Identify audit as test model for time budget</td>
<td>Keep track of actual time vs. estimates</td>
</tr>
<tr>
<td>4.</td>
<td>Professional certifications for staff</td>
<td>No. of staff enrolled in professional certification programs</td>
<td>Discuss proposal with PITI and Guam AGA for certification courses</td>
</tr>
<tr>
<td>5.</td>
<td>Performance-Based budgeting test model</td>
<td>Identify agency as model test run</td>
<td>Identify activity in agency to conduct measurement system</td>
</tr>
<tr>
<td>6.</td>
<td>State finance officers training</td>
<td>Number of State finance officer</td>
<td>Number of State Finance Officers completing training</td>
</tr>
</tbody>
</table>

### Core Business Process (CBP)

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Performance Measure</th>
<th>Benchmark/Target</th>
<th>2010</th>
<th>2011</th>
<th>YTD</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Public Auditing Act (40 PNCA 2) - Financial Audits</td>
<td>Oversight of Single Audits of the National Government and Component Units</td>
<td>100%</td>
<td>100%</td>
<td>80%</td>
<td>15%</td>
<td>85%</td>
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<tr>
<td>2.</td>
<td>Public Auditing Act (40 PNCA 2) - Performance Audits</td>
<td>Target vulnerable national government programs, state governments, and requests</td>
<td>100%</td>
<td>100%</td>
<td>70%</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>3.</td>
<td>Palau Board of Accountancy (RPPL 3-71) - Screening, licensing, and permitting CPAs to practice Accountancy in the Republic of Palau</td>
<td>Number of applicants</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
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<td>4.</td>
<td><strong>Budget Reform Act of 2001 (RPPL 6-11) - Attestation Audits of Performance Reports</strong></td>
<td>Conduct attestation audits of Performance Reports. OPA has not conducted attestation audits due to lack of manpower</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5.</td>
<td><strong>Code of Ethics Act (RPPL 5-32) - Audits of Financial Disclosure Statements</strong></td>
<td>Conduct audits of campaign statements of candidates to the Office of the President and Vice President of the Republic and randomly audit other campaign statements filed under this chapter. The OPA has not conducted mandatory audits as it lacks the manpower to do so</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Work with the Special Prosecutor or Attorney General in conducting investigations</strong></td>
<td>On a need basis, based on audit findings</td>
<td>100%</td>
<td>40%</td>
<td>15%</td>
<td>10%</td>
<td>90%</td>
</tr>
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</table>
Identification of Service Population:

The OPA is mandated by law to transmit its audit reports to the auditee and the leadership of the Republic. Hence, if management of the audited organization does not take corrective action to implement the audit recommendations or to address the deficiencies contained in the audit report, employees of the organization could be affected, services provided by the organization could be affected, the consumer public receiving these services could be affected, and most importantly, the taxpayers whose tax dollars may be funding the organization or program may not be receiving the goods or services in the most economical and effective manner. In addition, if the audited organization receives U.S. Federal grants, and fails to take corrective action, future grant assistance may be jeopardized, resulting in either the suspension or reduction of program services to program recipients. Likewise, failure to implement audit recommendations could also put at risk contributions or donations from other donor countries and organizations or future potential contributors.

The OPA’s audit reports, as well as those conducted by private CPA firms, provide information and tools in the form of audit findings and recommendations to management of the organization on how to improve operations in order to safeguard the organizations resources and use its resources more efficiently and effectively. In addition, the public has access to these audit reports (information) to provide a forum for the taxpaying public to assess how their tax dollars are at work and whether those entrusted the responsibility are administering the money in accordance with applicable laws and regulations of the Republic. The OPA’s Website publishes these audit reports to provide the public easy access to the reports.

In addition, donor countries, organizations, and individuals use these reports to assess how effective their donations are performing and whether the Republic is administering the grants in accordance with terms and conditions of the grant agreement.

Proposals for Collecting New Performance Information

The OPA is in the process of refining its audit budget to get a more accurate estimate on the cost of each audit that it conducts. This will enable the OPA to analyze its processes, identify procedures that can be made more effective and efficient in order to reduce cost. In addition, in executing the audit recommendation tracking system, the OPA will device a system to measure the length of time it takes an entity to take corrective action to resolve audit findings and implement recommendations. Moreover, the OPA has established its Website and will monitor the website to keep track of people and entities inquiring information from the website. The OPA also has oversight responsibilities in the conduct of the Single Audit of the Republic of Palau National Government and its Component Units. The OPA plans to hold meetings with the auditors and management of each audited entity to discuss how the audit process can be made more efficient and effective in terms of 1) preparing and issuing a Request for Proposal, 2) selection of contractor, 3) provision of records and schedules for audit, 4) issuance of draft report, 5) preparing responses to draft report, and 6) issuance of final report.

Documentation and Analysis of Past and Projected Performance

The OPA’s main Core Business Process (CBP) is conducting audits and audit oversight. The CBP is driven primarily by human resource. In the past, the OPA professional staff consisted of an Acting Public Auditor, 3 Senior Auditors, 1 Semi-Senior Auditor, and 1 Junior Auditor, and an investigator.
At present, the OPA professional staff consists of only 5 auditors, including the Acting Public Auditor. With only four (4) auditors available for assignment to an audit, a more complex audit would require two (2), audit coverage is very limited. More worrisome, a professional staff of 4 auditors is very vulnerable to a major disruption - departure of one (1) auditor reduces OPA’s audit capacity by twenty-five percent (25%). With a severely limited capacity, the OPA is unable to achieve its statutory mandate, much less achieve its medium term goals. In addition to conducting performance audits, the OPA is mandated by law to conduct attestation audits (performance reports) and audits of campaign statements of elected public officials, the latter two the OPA is unable to perform due to insufficient budget to hire more auditors. In addition, the OPA has not been able to implement the audit recommendation tracking system due to shortage of manpower.

One of the medium term goals the OPA is able to work towards is reviewing the audit process to identify areas where improvements can be made to make the process more effective and efficient. Hopefully, when the process is complete, the OPA will be able to create a time budget for each audit. One aspect of the audit process that has continued to frustrate time budget is the provision of records and documents by clients, most notably state governments. The timely provision of records dictates the amount of time spent on an audit. The OPA will continue to work with its clients to ensure timely provision of records.

Performance Objectives as an Incentive for Improving Programs and Services

1. Sufficient budget to provide Competitive compensation for staff based on skill level and experience: Previous and existing budget are not sufficient to provide increments to staff.

2. Sufficient budget to provide for professional certification of qualified staff: Previous and existing budget are not sufficient to obtain professional certification of qualified staff.

3. Sufficient budget to provide for professional development (training) including CPEs of staff: Previous and existing budget is not sufficient to obtain professional development training for staff.

4. Previous and existing budgets are not sufficient to support operations, i.e. purchase equipment and Auditing software.

Justification: Performance Measures

1. Core Business Process: Conducting Audits, Line Item # 1 and 2

The Annual Single Audits of the Republic of Palau National Government and Component Units is required by ROP law and U.S. Federal financial assistance. The only meaningful performance measure that can be applied to these audits is the timeliness by which the audits are completed and submitted to the appropriate authorities, which is set by law.

Performance Audits on the other hand, in terms of timeliness, are dependent on the complexity of the audit, the amount of resources assigned to the audit, and the objectives of the audit. Thus, in terms of effectiveness and efficiency of a given audit, it can be measured by comparing time budget to actual time. As previously mentioned, however, when records and documents are not
provided on time, it can significantly distort actual time spent on an audit. In addition, agencies, programs, or activities pre-selected for audit are not set in stone, as requests for audits may require immediate priority, which would compel the OPA to set aside planned audits in order to accommodate a request.

2. Core Business Process: Screening, Licensing, and Permitting CPAs to Practice in Palau, Line Item # 3

The Palau Board of Accountancy’s primary responsibility is screening, licensing, and permitting CPAs (individuals and firms) to practice accountancy in the Republic of Palau. The Public Auditor is the Chairman and responsible for the administrative functions of the Board. A useful performance measure that can be attached to the function of the Board is the timeliness by which applications are processed (screened) and licenses and permits issued. However, this also depends on the application of the applicant.

3. Core Business Process: Attestation Audits of Performance Reports, Line Item # 4

The Budget Reform Act, RPPL No. 6-11, requires the OPA to conduct attestation audits of agencies performance reports. The OPA has not been able to undertake these audits due to insufficient manpower resources.


The Code of Ethics Act mandates the OPA to conduct financial disclosure statements of the President, Vice President and selected candidates to Palau National Congress. The OPA has not been able to comply with the requirement due to insufficient manpower resources.

Personnel Positions

At present, the OPA’s personnel is comprised of an Acting Public Auditor, 2 Senior Auditors, 1 Semi-Senior Auditor, 2 Junior Auditor, 1 Investigator, and 2 Administrative support staff. Due to budget constraints, the OPA has been unable to fill its key positions – Public Auditor, Legal Counsel, and Audit Manager; including additional auditors, thus, its capacity to conduct audits has been greatly diminished. Similarly, the OPA has not been able to raise salaries of professional staff to maintain competitiveness of salary levels with other government agencies.

Public Auditor - VACANT

Pay Level:
Base Salary: Discretion of the President to set salary and wages of the Public Auditor
Status: Appointment
Duties and Responsibilities: Manages the administrative functions of the OPA; Manages and reviews audits performed by staff auditors; Prepares and drafts all audit reports; Assigns and supervises the work of the Investigator; Carry-out duties of national, regional and international memberships; Prepares and testifies the OPA’s Budget

* Efforts are ongoing to recruit and hire the Public Auditor. Advertisements have been published announcing the vacancy and Office of the President is awaiting responses from interested
applicants. The Office of the President has submitted its nominee to the Congress for confirmation. As of the date of this report, the Congress has yet to schedule a hearing.

**Acting Public Auditor**
Pay Level: 
Base Salary: $50,000  
Status: Appointed by Chief Justice to carry-out duties of the Public Auditor until the position is filled

**Audit Manager - VACANT**
Pay Level: 17-7  
Base Salary: $37,040 
Status: Exempt 
Duties and Responsibilities: Plans and schedules all audit activities; Supervises and reviews the work of staff auditors; Prepares and drafts audit reports; Functions include obtaining, reviewing, recording, cataloging and if appropriate, distributing literature that applies to audit techniques and procedures; Provides on-the-job training for staff auditors; Prepares audit planning and audit programs with staff auditors; Advise the Public Auditor of the progress of audits; Ensure that government auditing standards are followed in audit work; Perform other related duties assigned by the Public Auditor

* Due to budget constraints, the OPA is unable to fill this key position.

**Senior Auditor (2)**
Pay Level: 15-12 and 14-13 
Base Salary: $33,307 and $29,639 
Status: Exempt 
Duties and Responsibilities: Conduct interviews; perform on-site reviews; and collect, verify, and analyze information; Ensure that General Accepted Governmental Auditing standards are followed in audit work; Plan audit work to ensure that audit results satisfy audit objectives; Prepare audit reports, as required; Follow-up on prior audits to ensure implementation of corrective action; Review the work of Junior Auditors; Perform other duties as assigned.

**Semi-Senior Auditor**
Pay Level: 13-13  
Base Salary: $25,999  
Status: Exempt 
Duties and Responsibilities: Conduct interviews; perform on-site reviews; and collect, verify, and analyze information; Ensure that General Accepted Governmental Auditing standards are followed in audit work; Plan audit work to ensure that audit results satisfy audit objectives; Prepare audit reports, as required; Follow-up on prior audits to ensure implementation of corrective action; Review the work of Junior Auditors; Perform other duties as assigned.

**Junior Auditor (1)**
Pay Level: 12-8  
Base Salary: $18,282  
Status: Exempt
Duties and Responsibilities: Conduct interviews; perform on-site reviews; and collect, verify, and analyze information; Ensure that General Accepted Governmental Auditing standards are followed in audit work; Plan audit work to ensure that audit results satisfy audit objectives; Prepare audit reports, as required; Follow-up on prior audits to ensure implementation of corrective action; Perform other duties as assigned.

**Investigator**
Pay Level: 12-7
Base Salary: $17,579
Status: Exempt
Duties and Responsibilities: To investigate all cases relating to fraud, waste, abuse and theft in the collection and expenditure of public funds; To investigate transactions relating to the procurement of goods and services by the Republic of Palau and any of its instrumentalities; To investigate the use of Government property; To investigate complaints and matters relating to the compliance with the Procurement regulations; Develop facts and evidence to support criminal and civil actions; Locate and interview witnesses; serve subpoenas and other legal documents; and evidence summaries and trial exhibits; Provide investigation services for other law enforcement agencies; Perform other related duties assigned by the Public Auditor.

Currently, the OPA’s Investigator is assigned to the Office of the Special Prosecutor for extended on-the-job training

**Administrative Officer/System Administrator**
Pay Level: 13-13
Base Salary: $25,999
Status: Exempt
Duties and Responsibilities: Provides advice and counsel to the Public Auditor with respect to the administrative procedures within the office; Maintain all fiscal activities; Reviews legislative material, audit literature, program laws and regulations for briefing and report formatting and processing purposes; Maintains the Office Technical library; Develops administrative control system to provide adequate maintenance, accountability, and control over the office’s equipment and supplies; Develops office administrative policies and procedures for uniform application; Develops and implements the office performance appraisal system; Develops all administrative forms and database programs essential to office operations; Develops and implements training and orientation materials for staff members; Maintains and controls all administrative files and all correspondences for review and/or signature by the Public Auditor; Maintains all correspondences, information files, and all confidential information for security purposes of the office; Maintains office computer system and provides computer training to the staff; Perform other duties as assigned.

**Administrative Assistant**
Pay Level: 12-9
Base Salary: $19,013
Status: Exempt
Duties and Responsibilities: Prepares letters, memos, planners, and audit related request forms; Maintains the agenda calendar for the Public Auditor and schedules all meetings; Monitors staff trips and maintains a log of staff fieldwork locations; Controls all correspondences for review and/or signature by the Public Auditor; Maintains all correspondences and information files for the
office; Maintains confidential information for security purposes of the office; Provides research assistance and follow-up for requests received regarding audit problems; Maintains, controls, and catalogs all audit reports, working papers files, and other audit related data and information; Receives all incoming telephone calls and visitors; Maintains all incoming and outgoing audit related correspondences and confirmations; Perform other duties as assigned.