

Republic of Palau
National Government
Independent Auditors' Reports
on Internal Control and on Compliance
for the year ended September 30, 2011



Fortenberry and Ballard, PC
Certified Public Accountants

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Republic of Palau
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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

His Excellency Tommy Remengesau
President
Republic of Palau

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Republic of Palau (the Republic), as of and for the year ended September 30, 2011, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated February 27, 2013. We did not audit the financial statements of the discretely presented component units, which represents 22%, 12% and 38%, respectively, of the assets, net assets and operating revenues of the Republic's Statement of Net Assets and Statement of Activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar, as it relates to the amounts included for the component units, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component units, as described in our report on the Republic's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the component units. Other auditors have issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

Management of the Republic of Palau is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Republic of Palau's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. [Findings 2011-01, 2011-02, 2011-03 and 2011-04.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. [Findings 2011-05 and 2011-06]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Republic of Palau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Republic of Palau's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic of Palau's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Honorable Members of Olbiil Era Kelulau, others within the entity, federal awarding agencies, passthrough entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than this specified parties.

Fortenberry & Ballard, PC

Fortenberry and Ballard PC
February 27, 2013

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

His Excellency Tommy Remengesau
President
Republic of Palau

Compliance

We have audited the Republic of Palau's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The Republic of Palau's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Republic of Palau's management. Our responsibility is to express an opinion on Republic of Palau's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operation of certain entities whose federal awards are not included in the Schedule of Federal Awards for the year ended September 30, 2011. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-122, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Republic of Palau's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Republic of Palau's compliance with those requirements.

As described in items [Findings 2011-06, 2011-08, 2011-09, and 2011-10] in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements

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regarding cash management; period of availability; Equipment and real property management; matching, level of effort, earmarking; and reporting. Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Republic of Palau complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs. [Finding 2011-12]

Internal Control Over Compliance

Management of the Republic of Palau, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Republic's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2011-6, 2011-07, 2011-08, 2011-09, and 2011-10 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance,

yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. [Findings 2011-11 and 2011-12]

The Republic of Palau's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic of Palau's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau as of and for the year ended September 30, 2011, and have issued our report thereon dated February 27, 2013. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Republic's basic financial statements. We did not audit the financial statements of the discretely presented component units, which represents 22%, 12% and 38%, respectively, of the assets, net assets and operating revenues of the Republic's Statement of Net Assets and Statement of Activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned component unit, is based on the reports of the other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Republic. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Honorable Members of Olbiil Era Kelulau, others within the entity, federal awarding agencies, passthrough entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than this specified parties.

Fortenberry & Ballard, PC

Fortenberry and Ballard, PC
February 27, 2013

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Republic of Palau

Schedule of Expenditures of Federal Awards

For the year ended September 30, 2011

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. DEPARTMENT OF AGRICULTURE/</u>		
Cooperative Forestry Assistance	10.664	\$ 136,733
Community Facilities Loans and Grants	10.766	208,776
TOTAL U.S. DEPARTMENT OF AGRICULTURE		345,509
<u>U.S. DEPARTMENT OF COMMERCE</u>		
Special Oceanic and Atmospheric Projects	11.460	311,248
TOTAL U.S. DEPARTMENT OF COMMERCE		311,248
<u>U.S. DEPARTMENT OF INTERIOR</u>		
Economic, Social, and Political Development of the Territories	15.875	18,873,789
TOTAL U.S. DEPARTMENT OF INTERIOR		18,873,789
<u>U.S. DEPARTMENT OF LABOR</u>		
WIA Adult Program	17.258	55,307
ARRA - WIA Adult Program, Recovery Act	17.258	1,540
WIA Youth Activities	17.259	54,381
ARRA - WIA Youth Activities	17.259	1,101
WIA Dislocated Workers	17.260	113,692
ARRA WIA Dislocated Workers	17.260	1,254
TOTAL U.S. DEPARTMENT OF DEFENSE		227,275
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>		
Airport Improvement Program	20.106	4,217,382
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		4,217,382
<u>U. S. DEPARTMENT OF EDUCATION</u>		
Direct Programs:		
Adult Education - Basic Grants to States	84.002A	24,609
Special Education - Grants to States	84.027	930,534
Byrd Honors Scholarships	84.185	18,000
Territories and Freely Associated States Education Grant Program	84.256	1,043,389
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	237,657
College Access Challenge Grant Program	84.378A	1,064,500
Total Direct Programs		3,318,689
Pass-Through Pacific Resources for Education and Learning:		
Career and Technical Education - Basic Grants to States	84.048	324,196
Total Pass-Through Pacific Resources for Education an Learning		324,196
TOTAL U.S. DEPARTMENT OF EDUCATION		3,642,885
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Civil Rights and Privacy Rule Compliance Activities	93.001	15,738
Public Health Emergency Preparedness	93.069	488,188
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	15,122

Republic of Palau

Schedule of Expenditures of Federal Awards

For the year ended September 30, 2011

Emergency System for Advance Registration of Volunteer Health Professionals	93.089	32,549
Material and Child Health Federal Consolidated Programs	93.110AR	204,262
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	146,197
Family Planning Services	93.217	164,431
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)	93.224	770,244
Consolidated Knowledge Development and Application Program	93.230	12,142
State Capacity Building	93.240	10,000
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	51,689
Universal Newborn Hearing Screening	93.251	144,367
Immunization Cooperative Agreements	93.268	259,298
CDC and Prevention - Investigations & Technical Assistance	93.283	1,073,699
PPHF 2012 National Public Health Improvement Initiative	93.507	49,326
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infectious Program (EIP) Cooperative Agreements; PPHF	93.521	29,925
ARRA - Grants to Health Center Programs	93.703	158,430
ARRA - Immunization	93.712	31,028
ARRA - Prevention and Wellness - State, Territories, and Pacific Islands	93.723	48,356
National Bioterrorism Hospital Preparedness Program	93.889	263,947
HIV Care Formula Grants	93.917	39,989
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	70,043
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	206,540
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	22,692
Block Grants for Community Mental Health Service	93.958	49,367
Block Grants for Prevention and Treatment of Substance Abuse	93.959	111,503
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	46,607
Preventive Health and Health Services Block Grant	93.991	45
Mental and Child Health Services Block Grant to the States	93.994	200,107
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>4,715,831</u>
TOTAL FOR ALL FEDERAL AWARDS	\$	<u><u>32,333,919</u></u>

Note: All of the awards are received in a direct capacity from the specified grantor with the exception of CFDA#84.048, which is received from the Pacific Resources for Education and Learning.

Republic of Palau

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2011

(1) Scope of Review

The Republic of Palau (the Republic) is a governmental entity governed by its own Constitution. The U.S. Department of the Interior has been designated as the Republic's cognizant's agency for the OMB Circular A-133 audit (the Single Audit).

The Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Interior
- U.S. Department of Labor
- U.S. Department of Transportation
- U.S. Department of Education
- U.S. Department of Health and Human Services
-

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2011 basic financial statements, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2011.

Republic of Palau

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2011

c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2011. The approved rate was 5.26%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

d. Single Audit Excluded Funding

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding of \$6,000,000 and Compact Section 215 Current Account Funding of \$4,260,000 have been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the U.S. Department of the Interior, Office of the Inspector General (OIG). The OIG took this position since there were no compliance requirements imposed on the abovementioned funds. In the case of the Section 211(f) Trust Fund Compact funding of \$5,000,000 has been excluded. There are no compliance requirements associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

e. Component Units

The Palau Community College (PCC) is a component unit of the Republic of Palau, and received Federal Awards in a sub recipient capacity during the fiscal year ended September 30, 2011. Those expenditures were reported in their Single Audit Act report for that year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Republic of Palau

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2011

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes.
 - b. Significant deficiencies identified? Yes.
3. Noncompliance material to the financial statements noted? Yes.

Federal Awards:

4. Internal control over major programs:
 - a. Material weaknesses identified? Yes.
 - b. Significant deficiencies identified? Yes.
5. Type of auditor's report issued on compliance for major programs: Qualified
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes.
7. Identification of major programs:

CFDA#	Name of Federal Cluster
15.875	Economic, Social and Political Development of Territories
20.106	Airport Improvement Program
84.027	Special Education - Grants to States
84.256	Territories and Freely Associated States Education Grant Program
84.378A	College Access Challenge Grant Program
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Care Centers)

93.283 CDC and Prevention - Investigations & Technical Assistance

8. Dollar threshold used to distinguish between type A and type B programs: \$512,218
9. Auditee qualified as low-risk auditee? No.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Section II - Financial Statement Findings Index

<u>Reference Number</u>	<u>Findings</u>
Material Weaknesses	
2011-01	Financial Software Procedures
2011-02	Financial Reporting
2011-03	Capital Assets
Significant Deficiencies	
2011-04	Aged General Ledger Entries
2011-05	Receivables

Section III - Federal Award Findings and Questioned Costs Index

<u>Finding #</u>	<u>CFDA #</u>	<u>Requirement</u>	<u>Questioned Costs</u>	<u>Control Category</u>
2011-06	15.875	Cash Management & Period of Availability	184,890	Material Weakness
2011-07	15.875	Reporting	-	Material Weakness
2011-08	15.875	Equipment and Real Property Management	-	Material Weakness
2011-10	15.875	Reporting	-	Material Weakness
2011-11	15.875	Procurement, Suspension & Debarment	-	Significant Deficiency
2011-07	20.106	Reporting	-	Material Weakness
2011-08	20.106	Equipment and Real Property Management	-	Material Weakness
2011-10	20.106	Reporting	-	Material Weakness
2011-11	20.106	Procurement, Suspension & Debarment	-	Significant Deficiency
2011-06	84.027	Cash Management & Period of Availability	-	Material Weakness
2011-07	84.027	Reporting	-	Material Weakness
2011-08	84.027	Equipment and Real Property Management	20,833	Material Weakness
2011-09	84.027	Matching, Level of Effort, Earmarking	-	Material Weakness
2011-10	84.027	Reporting	-	Material Weakness

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2011-11	84.027	Procurement, Suspension & Debarment	-	Significant Deficiency
2011-06	84.256	Cash Management & Period of Availability	13,451	Material Weakness
2011-07	84.256	Reporting	-	Material Weakness
2011-08	84.256	Equipment and Real Property Management	-	Material Weakness
2011-10	84.256	Reporting	-	Material Weakness
2011-11	84.256	Procurement, Suspension & Debarment	-	Significant Deficiency
2011-07	84.378A	Reporting	-	Material Weakness
2011-10	84.378A	Reporting	-	Material Weakness
2011-11	84.378A	Procurement, Suspension & Debarment	-	Significant Deficiency
2011-08	93.069	Equipment and Real Property Management	-	Material Weakness
2011-06	93.224	Cash Management & Period of Availability	11,040	Material Weakness
2011-07	93.224	Reporting	-	Material Weakness
2011-08	93.224	Equipment and Real Property Management	106,088	Material Weakness
2011-10	93.224	Reporting	-	Material Weakness
2011-11	93.224	Procurement, Suspension & Debarment	-	Significant Deficiency
2011-12	93.224	Reporting	-	Significant Deficiency
2011-07	93.283	Reporting	-	Material Weakness
2011-08	93.283	Equipment and Real Property Management	-	Material Weakness
2011-10	93.283	Reporting	-	Significant Deficiency
2011-11	93.283	Procurement, Suspension & Debarment	-	Significant Deficiency

Section II - Financial Statement Findings

Material Weaknesses

Financial Software Procedures

Finding No. 2011- 01

Criteria:

The controls over financial software at a governmental entity should include steps to ensure that government operations and services are not interrupted.

Condition:

There was not a procedure in place to store a duplicate backup of software data files offsite which is a recommended practice in case of fire or flood damage at on location.

There was no written disaster recovery plan in case of a calamity.

Recommendation:

We recommend that ISS implement these internal control procedures described above. Additional specific training on the DILOG software may be beneficial. Also a management review of the current software capabilities and available upgrades is encouraged.

Auditee Response and Corrective Action Plan:

We will review our operational procedures and the software package's design, controls, and capabilities to consider whether an upgrade would be beneficial and cost effective. The ISSS Team will review any existing practices to ensure written procedures are established and implemented on the security of backup of software data files.

Full name of the person responsible for the corrective action plan:

Minister of Finance and the Ministry's management staffs, including the ISSS personnel.

When will the corrective action plan be implemented:

During the fiscal year ended September 30, 2013.

Financial Reporting

Finding No. 2011- 02

Criteria:

An effective system of internal control exists when the design or operation of a control allows management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A reconciliation process should occur on a monthly, quarterly or annual basis to confirm that all balance sheet accounts are reconciled and supported by existing, valid and detail schedules.

Condition:

Schedules of balance sheet accounts did not agree with the general ledger.

REPUBLIC OF PALAU

1. The following cash accounts did not agree with the 104P report which is a type of general ledger report:

<u>account #</u>	<u>variance</u>
105	\$22,413,70
108	(9,477.92)
120	(49,888.13)

2. Investment statements were not reconciled with the Republic of Palau's financial account balances.
3. Accounts payable general ledger balance did not agree with the Schedule of Accounts Payable.
4. Journal entries were posted incorrectly.

Cause:

Timeliness of the reconciliations caused the task to be more arduous.

Effect:

Elected officials and ministers did not have timely, accurate financial and budgeting information with which to make decisions. Adjustments were made by the auditors to adjust these financial account balances in order to agree with the supporting documentation and schedules.

Recommendation:

We recommend the account balances be routinely reconciled on a monthly or quarterly basis.

Prior Year Status:

These control deficiencies have been reported as findings in the Single Audit Act audits since fiscal year 2008.

Auditee Response and Corrective Action Plan:

Republic of Palau acknowledges this finding, and further notes the following: With a limited budget, Bureau of National Treasury & Information System and Support Services (ISSS) within the Ministry of Finance has not been able to fill a few of its key areas such as IT/Management Information System, System Accountant, and Senior Accountants within the ministry. With a limited budget to fund additional qualified staff, Ministry of Finance will continue to face these similar challenges in achieving its goals and objectives. Republic of Palau /Ministry of Finance will continue to work with its available financial and human resources as we strive to achieve timely reconciliations.

Full name of the person responsible for the corrective action plan:

Marino Rechesengel, Director of MoF/Bureau of National Treasury, and Priscilla Soalablai, Chief of BNT-Div. of Finance & Accounting

REPUBLIC OF PALAU

When will the corrective action plan be implemented:

On an ongoing basis while the Ministry of Finance work diligently with the available staff and resources on human resource capacity building and succession plans, and at the same time work on funding options to fund the much needed positions.

Capital Assets
Finding No. 2011-03

Criteria:

The RPPM Chapter IV stipulates in Section 203.7, “Accountable officers will maintain complete property management records, and a physical inventory must take place annually.”

Condition:

There was no evidence to indicate an annual physical inventory or reconciliation was performed by an accountable officer for the fiscal year ended September 30, 2011.

Cause:

The cause of the above condition was a lack of performance of the mandated procedures with capital assets.

Effect:

Property and equipment access and maintenance could be hindered. Also overspending could occur for unneeded or misplaced assets.

Recommendation:

We recommend that the Republic comply with the existing property management policies and procedures.

Prior Year Status:

Lack of controls as specified in the property management policies and procedures have been reported as a finding in the audits of the Republic since fiscal year 2009.

Auditee Response and Corrective Action Plan:

ROP concurs with audit finding no. 2011-03. Physical inventory and reconciliation was not performed as required by Property Management Policy. Executive Order No. 270 was issued on September 09, 2009 creating Inventory Task Force to carry out physical inventory. As Chief of Property & Supply, it is my understanding that the final report has not been officially submitted to Minister of Finance or forwarded to me. Property and Supply Office will conduct FY2013 Physical Inventory and reconciliation this year.

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Full name of the person responsible for the corrective action plan:

Milan Isaack, Chief of Property & Supplies

When will the corrective action plan be implemented:

Internal controls manual along with Property Management and Preventive Maintenance Plan are now in draft and being reviewed by appropriate management team. With the New Administration in, draft policies and regulations will be submitted for review and approval. Expected implementation is within Fiscal Year 2013.

Significant Deficiencies

Aged General Ledger Entries

Finding No. 2011-04

Criteria:

An effective system of internal control exists when the design or operation of a control allows management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A review and reconciliation process should occur on a monthly, quarterly or annual basis to confirm that all balance sheet accounts are accurate and up to date.

Condition:

Prepaid expenses and Accounts payable accounts contained aged entries which have need of elimination.

Cause:

Monitoring and the follow-up procedures were not performed during reconciliations of schedules to the general ledger.

Effect:

Republic of Palau resources were not safeguarded.

Recommendation:

We recommend the account balances be monitored and that aged entries be resolved and eliminated during the reconciliation process. The general ledger should be reviewed monthly using comparisons to prior months, a search for unusual transactions, inaccuracies as well as searching for any aged entries.

Prior Year Status:

These control deficiencies have been reported as a finding in the Single Audit Act audits since fiscal year 2008.

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Auditee Response and Corrective Action Plan:

Republic of Palau acknowledges this finding, and further notes the following: With a limited budget, and staff, Bureau of National Treasury & Information System & Support Services within the Ministry of Finance has not been able to fill key areas such as IT/Management Information System, System Accountant, and Senior Accountants within the ministry. With a limited budget to fund additional qualified staff, Ministry of Finance will continue to face these similar challenges in achieving its goals and objectives. Republic of Palau /Ministry of Finance will continue to work with its available financial and human resources as we strive to achieve timely reconciliations.

Full name of the person responsible for the corrective action plan:

Marino Rechesengel, Director of MoF/Bureau of National Treasury, and Priscilla Soalablai, Chief of BNT-Div. of Finance & Accounting

When will the corrective action plan be implemented:

On an ongoing basis while the Ministry of Finance work diligently with the available staff and resources on human resource capacity building and succession plans, and at the same time work on funding options to fund the much needed positions.

Receivables

Finding No. 2011-05

Criteria:

Collectability of receivables should be monitored and collection efforts should be enforced so that account balances are maintained.

Condition:

At September 30, 2010 as well as at September 30, 2011 the Hospital Trust Fund reported Accounts receivable of \$13,732,509.73 along with an offsetting Allowance for doubtful accounts for the same amount. These National Hospital receivables exist in two separate accounting systems. Since April of 2011, an internet based Sage system has been in place and is functioning well. However previous patient receivables also exist in a non-functioning Legacy system, whereas there is no available summary of the total existing receivables and collection was sporadic rather than concerted in effort. There was no evidence that statements of accounts and/or collection notice letters were prepared and sent to those pre-April 2011 patients.

Cause:

The non-functioning Legacy Pre-April 2011 patient receivables have not been entered into the new internet based Sage patient accounting software.

Effect:

The effect of the above condition is a misstatement of National Hospital receivables and revenues and the potential for a lack of revenue collection by the National Hospital exists.

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Recommendation:

We recommend that the Ministry of Health assign personnel to enter the old account receivables into the new accounting system so as statements of account (SOA) and collection notices may be sent to customers in a timely manner and subsequently collected.

Prior Year Status:

Although the prior year finding has been partially corrected, this lack of control procedures over National Hospital cash receipts have been reported as a finding in the Single Audit of the Republic since fiscal year 2009.

Auditee Response and Corrective Action Plan:

Ministry of Health concurs with the finding. There were two factors contributing to these issues. 1). The billing system was not reliable at the time and was subject to frequent downtime. 2). The level of available human resources is not sufficient to manage all aspects of the complete billing & collections system, (i.e., to address accounts receivables). Recruitment was subject to hiring freezes thus Billing & Collections elected to use alternative methods to control A/R by providing statement of account during each patient’s visit rather than the traditional method of mailing notices. A new billing and collection system was developed and implemented in April 2011 following the implementation of the National Health Insurance. With the hiring freeze, there is an ongoing effort to identify an employee in the system to address the accounts receivables on a full-time basis.

Full name of the person responsible for the corrective action plan:

Dr. Stevenson Kuartei, Minister of Health Health and Regis Emesiochel, MoH Financial Comptroller

When will the corrective action plan be implemented:

October 1, 2012

Section III - Federal Award Findings and Questioned Costs

Material Weaknesses

Finding No. 2011-06

- CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
- CFDA Program: U.S. ED 84.027 Special Education - Grants to States
- CFDA Program: U.S. ED 84.256 Freely Associated States - Education Grant Program
- CFDA Program: U.S. DHS 93.224 Consolidated health Centers

Requirement:

Cash Management
Period of Availability

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Questioned Cost:

U.S. DOI 15.875	\$184,890
U.S. DOE 84.027	\$0
U.S. DOE 84.256	\$13,451
U.S. DHS 93.224	\$11,040

Criteria:

Grant accruals, which are due from or payable to grantor agencies, should be timely reconciled and monitored to promptly resolve any differences.

Aged and inactive grant receivables and payables should be resolved and eliminated after written instructions from the grantor agency when appropriate.

Conditions:

During tests of receivables due from and payables due to grantor agencies, we noted the following:

Old account balances remain in inactive (CFDA #15.875) grants. These old account balances constituted a total of \$209,867 in uncollected accounts receivables and (\$184,890) in deferred revenues or unexpended grant revenue.

Comprehensive Maint. OMIP-ROP-2007-2	15.875	E73877	3,035
TA-ROP-Investigator Training	15.875	A93879	14,108
TA-ROP-BMS-2010-7	15.875	J03881	36,500
TA-ROP-BETP-2010-06	15.875	F03882	17,030
Public & Law Access Unit PAL-86	15.875	J23821	(406.00)
Grant Coordination PAL-87	15.875	A23824	(423)
Develop Grant Aid Office PAL-110	15.875	A53824	(341)
Koror Legis. Draft Training Seminar	15.875	A33825	(1,213)
PIRRAF Grants Balance	15.875	A33833	15,000
SS Program FSM,ROP&RMI PAL-98	15.875	A33834	(4)
ROP Y2K Remediation	15.875	A03846	(10,195)
Revenue & Customs Collection Imp.	15.875	A0RCT3	(3,995)
Fixed Asset Accounting System	15.875	A13850	34,734
Health Information System Imp. MCI-6	15.875	H23851	10,869
Tax Association TA Expenses PAL-104	15.875	F43854	(8,202)

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ROP Auditor Training Program PAL-103	15.875	F43855	(1,217)
IGFOA Travel Reimbursement PAL-117	15.875	F63866	(2,893)
PPUC OMIP Drawdowns Holding Acct.	15.875	A33871	(17,180)
Water System Needs Assesment	15.875	R13873	(7,228)
Water System Cons/Educ & Mtr	15.875	R13874	(299)
Palau Wastewater Collection System	15.875	R33876	26,000
ROP / PCC Joint Traiing	15.875	R23880	6,988
PCC-ROP Joint Training	15.875	F43880	(2,396)
ROP / PCC Joint Traiing	15.875	A63880	(2,958)
Highway O&M Engineer	15.875	R23886	(30,302)
Water Maintenance Program	15.875	R73890	(667)
Nat'l Hospital Program	15.875	H73892	(50)
Gis Development & Training PAL-85	15.875	R23897	(2,946)
Gis Develop & Training	15.875	S93897	(599)
Gis Development & Training	15.875	R53897	(329)
Project Wet	15.875	A03898	(2)
Crocodile Project	15.875	R53899	347
Statistical Srvys & Trnng	15.875	A73840	(21)
Wtr&Wswtr Tng Prog (Aspa)	15.875	R83895	(4)
Omip Coordinator	15.875	A63870	(1,107)
Law Enf./Anti Drug Training	15.875	J53832	(125)
Trmnt/Prev Block Grants	15.875	J53836	(14,880)
Voc Educ Trng (Pcc)	15.875	R53880	45,256
Voc Educ Trng (Pcc)	15.875	R63880	(74,819)
Land & Surveys Program	15.875	S73822	(89)

Old account balances remain in inactive (CFDA #84.027) grants. These old account balances constituted a total of \$1,034 in uncollected accounts receivables and (\$3,979) in deferred revenues or unexpended grant revenue.

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Special Education Program FY99	84.027	E93586	(848)
Special Education Program FY01	84.027	E13586	8
Special Education Program FY03	84.027	E33586	509
Special Education Program FY05	84.027	E53586	(2,223)
Special Education Program FY06	84.027	E63586	(740)
Special Education Program-State Grant	84.027	E63561	(168)
Special Education Program-State Grant	84.027	E73561	517

An old account balance remains in inactive (CFDA #84.256) grants. This old account balance constitutes a (\$13,451) in deferred revenues or unexpended grant revenue.

T&FASEG Program 2005 84.256A E33595 (13,451)

An old account balance remains in inactive (CFDA #93.224) grants. This old account balance constitutes a (\$11,040) in deferred revenues or unexpended grant revenue.

CHC Program FY08 93.224 H83690 (11,040)

Cause:

Progress has been made on this prior year finding however the progress was not timely.

Effect:

Grant awards were not timely expended per the grant agreement for the benefit of Palauan citizens.

Recommendation:

We recommend that the continuing procedures be expedited.

Prior Year Status:

This has only been partially corrected from prior year findings dated from 2005 to the present.

Auditee Response and Corrective Action Plan:

Republic of Palau continues to reconcile some of these old grants that expired more than 10 years ago. Republic of Palau has informed and is currently working with ministries and agencies who are implementing these projects/grants in fiscal year 2012 to have them communicate to respective grantor agency for reconciliation and proper removal or adjustment in order to close out these accounts from Republic of Palau's books. Republic of Palau continues to communicate with grantor agencies and has received some of the old receivables. Some adjustments have been made to close out these old accounts. Republic of Palau continues to clean up its Schedule of Federal Awards. Republic of Palau just recently implemented a new standard operating procedure, in response to similar

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findings, regarding timely obligation and liquidation of grants and assistance. Ministry of Finance will continue to educate and monitor all ministries to ensure these aged accruals are eliminated and maintained current in the future.

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol, Senior Accountant, Grant Management Coordinator.

When will the corrective action plan be implemented:

This is already in process on an ongoing basis.

Finding No. 2011-07

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. ED 84.027 Special Education - Grants to States
CFDA Program: U.S. ED 84.256 Freely Associated States - Education Grant Program
CFDA Program: U.S. ED 84.378A College Access Challenge
CFDA Program: U.S. DHS 93.224 Consolidated health Centers
CFDA Program: U.S. DHS 93.283 CDC Investigations, Technical Assistance and Affordable Care Act Projects

Requirement: Reporting
Questioned Costs: \$0

Criteria:

A functioning system of internal controls requires that reconciliations of the general ledger to supporting registers allow for accurate federal reports from the underlying financial system and provide a resource to management for control and compliance procedures.

Condition:

The 2011 Schedule of Federal Expenditures was not reconciled to the general ledger records until after September 1, 2012.

Cause:

The cause of this condition is that timeliness was not a component of the quality control system during fiscal year 2011.

Effect:

The effect of this condition is that there was no timely identification and resolution of misclassifications or adjustments that might have affected federal reporting. Because of the lower emphasis placed on timeliness, noncompliance could occur with requirements of the awarding federal program.

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Prior Year Status:

This condition was cited in the 2010 Single Audit.

Recommendation:

The Department of Finance and Accounting should place priority on timeliness.

Auditee Response and Corrective Action Plan:

We agree with this finding. The Chief of Finance & Accounting will review the current staffing situation in order to determine who this corrective action will be taken.

Responsible Party:

Gandhi Ngirmidol, Senior Accountant/ Grant Management Coordinator

When will the corrective action plan be implemented:

This is already in process on an ongoing basis.

Finding No. 2011-08

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
U.S. DOT 20.106 Airport Improvement Program
U.S. DOE 84.027 Special Education – Grants to States
U.S. DOE 84.256 Freely Associated States – Education Grant Program
U.S. DHS 93.069 Public Health Emergency Preparedness
U.S. DHS 93.224 Consolidated Health Centers
U.S. DHS 93.283 CDC and Prevention – Investigations and Technical Assistance

Requirement: Equipment and Real Property Management

CFDA Program: U.S. DOE 84.027 Special Education – Grants to States
Questioned Costs: \$20,833

CFDA Program: U.S. DHS 93.224 Consolidated health Centers
Requirement: Equipment and Real Property Management
Questioned Costs: \$106,088

Criteria:

Procedures for managing equipment, whether acquired in whole or in part with grant funds, should meet the following requirements:

Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, the acquisition date, the cost of the property, the percentage of Federal participation in the cost of the property, the location use and condition of property, and any ultimate disposition data including the

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date of disposal and sale price of the property;

A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;

A control system must be developed to provide adequate safeguards to prevent loss, damage, or theft of the property;

Adequate maintenance procedures must be developed to keep property in good condition.

Conditions:

The capital asset software module was not being utilized to allow for a physical location coding which could be accommodated using a 'responsible organization' coding which would identify to monitors the ministry, bureau, and division as well as the responsible organization. Another necessary control, reconciliation of fixed assets, was not performed in fiscal year 2011 on any capital assets of federal programs and during our tests we noted:

CFDA #84.027

Six of the twenty-one assets tested at the Ministry of Education were not located. Also a reconciliation of fixed assets to the capital asset listing at Finance and Administration was not performed during the fiscal year 2011.

CFDA #93.224

Of the twenty-four assets tested at the Ministry of Health, 16 items were not located. A reconciliation of fixed assets to the capital asset listing at Finance and Administration was not performed in the fiscal year 2011.

Cause:

The cause of the above conditions was a lack of automatic additions of the purchased assets to the asset inventory and the lack of specific location codes being included with the asset information. Also a needed monitoring control over these assets includes the reconciliation of inventoried capital assets with the Finance and Administration's capital asset lists.

Effect:

The effect of the above condition was noncompliance with federal equipment management regulations.

Recommendation:

We recommend that the Republic strengthen control procedures to facilitate compliance with federal equipment management regulations and to adhere to the Republic's *Property Management Policies and Procedures Manual (RPPM)* dated September 17, 2003 which stipulates in Chapter IV, section 203.4 § (d), that "the total value of capitalized property recorded in the property accountability records will be compared with the related balances shown in the general ledger control account at least quarterly. Property records must be integrated with or reconciled with the related general ledger account. Any differences will be documented, reconciled, and adjusted in accordance with sound

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accounting practices to bring the two records into complete agreement.” The capital asset module should be further utilized by entering a physical location coding which could be accommodated using the ‘responsible organization’ coding of the DILOG software. This would identify to monitors not only the ministry, but the bureau, division and also a responsible organization or which could serve as a location code.

Prior Year Status:

Weaknesses in controls over capital assets were reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2010.

Auditee Response and Corrective Action Plan:

ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these asset control deficiencies. Ministry of Finance management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2010 in establishments, developments, and enhancements on internal controls guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures. Ministry of Finance management is currently communicating with the FMS provider, namely APTEAN Software, Inc. on the possibility of utilizing the Fixed Asset module for recording and maintenance of ROPNG fixed assets records.

Full name of the person responsible for the corrective action plan:

Dr. Stevenson Kuartei and Regis Emesiochel at the Ministry of Health, and the Program Managers; and Director Emery Wenty at the Ministry of Education, and Milan Isaack, MoF/BNT – Chief, Division of Property and Supply

When will the corrective action plan be implemented:

The establishment and development of guidelines and procedures will be completed by the end of September 2013, with training and implementation to follow thereafter.

Finding No. 2011-09

CFDA Program: U.S.DOE 84.027 Special Education – Grants to States
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Criteria:

Part B funds received by an Local Educational Agency (LEA) cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the

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LEA in the prior fiscal year.

Condition:

Sufficient local expenditures could not be determined to comply with level of effort requirements.

Cause:

The Ministry of Education was in correspondence with the Department of Education on this issue. However funding for the maintenance of effort was never identified nor a waiver obtained.

Effect:

The effect of this condition is that the Republic of Palau is at risk of questioned costs for not complying with requirements of the awarding federal program.

Recommendation:

We recommend that the program director perform and document this monitoring duty on an annual basis.

Auditee Response and Corrective Action Plan:

ROP concur with this finding as there were no approved written procedures by which program could be utilized in calculating local Match such as;

- Use of Ministry’s office space free of charge
- Portion of staff salaries- paid by local funding
- Use of Ministry’s machineries and equipment and vehicles while performing program activities.

However; Program Managers and Management will work with respective grantor representatives to resolve this issue.

Full name of the person responsible for the corrective action plan:

Priscilla Soalablai, Chief of Finance & Accounting

When will the corrective action plan be implemented:

The establishment and development of guidelines and procedures will be completed by the end of September 2013, with training and implementation to follow thereafter.

Finding No. 2011-10

CFDA Program:	U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program:	U.S. DOT 20.106 Airport Improvement Program
CFDA Program:	U.S. ED 84.027 Special Education - Grants to States
CFDA Program:	U.S. ED 84.256 Freely Associated States - Education Grant Program
CFDA Program:	U.S. ED 84.378A College Access Challenge
CFDA Program:	U.S. DHS 93.224 Consolidated health Centers
CFDA Program:	U.S. DHS 93.283 CDC Investigations, Technical Assistance and Affordable Care

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Act Projects
Requirement: Reporting
Questioned Costs: \$0

Criteria:

The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, and auditor's reports to the Federal clearinghouse and make it available for public inspection 9 months after the end of the period audited, or within a longer timeframe as authorized by the Federal agency when the 9-month timeframe would place an undue burden on the entity.

In addition, Section 432 Appendix D of the Compact of Free Association states: "The Government of Palau shall perform a financial and compliance audit, within the meaning of the Single Audit Act, as amended (31 U.S.C. 7501 et seq.), of the uses of the funding provided pursuant to the Agreement Between the Government of the United States of America and the Government of the Republic of Palau following the Compact of Free Association Section 432 Review (the "Agreement") for each fiscal year during which the Agreement is in effect. The results of these Audits shall be available not later than the beginning of the fourth fiscal quarter following the end of the fiscal year under review, as required by the Single Audit Act."

Condition:

The Republic did not transmit the 2011 audit reporting package to the Federal Audit Clearinghouse within the required timeline, and there was no authorized extension.

Cause:

The cause of the above condition is primarily due to management not prioritizing timeliness.

Effect:

The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996, noncompliance with Section 432 Appendix D of the Compact of Free Association and the automatic penalty of high risk auditee status.

Recommendation: We recommend that the Republic prioritize timeliness in order to compliance with the above criteria.

Prior Year Status: The lack of timely transmittal of the annual audit reporting package was reported as a finding in the Single Audit of the Republic since fiscal year 2009.

Auditee Response and Corrective Action Plan:

ROP acknowledges the late submission of FY2011 audit report; and further noted the following reasons for late submission:

- FY2011 Single Audit funding became available through FY2012 Budget Appropriation Act on March 25, 2012, which is already six (6) months into 2012 fiscal year.

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- Audit service contract with current Audit Firm was signed in July 2012, which is one month after Single Audit reporting deadline date of June 2012, and Auditors entrance conference and mobilization commenced in September 2012,
- With Ministry of Finance limited staff knowledgeable and capable of reports generation, and limited budget for hiring additional staff, Ministry of Finance continues to work with those few main ministries and agencies on their timely responses as it strives to achieve timely transmittal of future reporting requirements.

Full name of the person responsible for the corrective action plan:

New Minister of Finance, and Bureau of National Treasury Director Marino Rechesengel, and Priscilla Soalblai, Chief of Finance & Accounting Division.

When will the corrective action plan be implemented:

On going

Significant Deficiencies

Finding No. 2011-11

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. ED 84.027 Special Education - Grants to States
CFDA Program: U.S. ED 84.256 Freely Associated States - Education Grant Program
CFDA Program: U.S. ED 84.378A College Access Challenge
CFDA Program: U.S. DHS 93.224 Consolidated health Centers
CFDA Program: U.S. DHS 93.283 CDC Investigations, Technical Assistance and Affordable Care Act Projects

Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$0

Criteria:

Office of Management and Budget 2 CFR Parts 180 and 215 offers guidance for government-wide Debarment and Suspension compliance.

Condition:

Controls were not in place for U.S. federal program expenditures to comply with procurement, suspension, and debarment requirements.

Cause:

The cause of this condition is that Office of Administrative Services was not aware of the requirement.

Effect:

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The effect of this condition is that the Republic of Palau was at risk of questioned costs for not complying with requirements of the awarding federal program.

Recommendation:

We recommend that appropriate personnel be assigned the task of checking utilized vendors and contractors against the Excluded Party database maintained at www.epls.com.

Auditee Response and Corrective Action Plan:

ROPNG do not concur with the audit finding. ROP procurement policy address this issue, 40 PNC 632, Pre-qualification of offerors or bidders, "Prospective suppliers may be pre-qualified for particular types of supplies, services, and construction. Solicitation of mailing lists of potential contractors shall include but shall not be limited to such pre-qualified suppliers. Pre-qualification lists shall be maintained for one year. When a bidder or offeror is disqualified for failure to meet the standards of responsibility, a written determination shall be prepared and placed in the contract file." 40PNC632 applies to ALL government procurement.

There is control in place to ensure such disqualified, suspended or debarred vendor does not participate in government procurement, 40PNC632 and it is a function that fall under each respective procurement officer.

Full name of the person responsible for the corrective action plan:

Milan Isaack, Chief of Procurement & Supply Division/Bureau of National Treasury, and Goretty Masayos, Director of Bureau of Public Service System, and Techur Rengulbai, Director of Bureau of Public Works

When will the corrective action plan be implemented:

On going

Finding No.: 2011-12

CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
Requirement: Reporting
Questioned Costs: \$0

Criteria:

Reports submitted to a grantor agency should include all activities of the reporting period, should be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements.

Condition:

The calendar year 2011 universal data system (UDS) report due on February 15, 2012 reported program revenues and expenditures for which there were no underlying accounting records provided or maintained on file to compare with the Republic's fiscal year 2011 financial records.

Cause:

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The cause of the above condition is that the Republic's recorded general ledger transactions were not utilized to prepare the UDS report.

Effect:

The effect of the above condition is noncompliance with the above criteria. No questioned costs result from this finding as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation:

We recommend that the UDS revenues and expenditures be derived from the Ministry of Finance's general ledger transactions.

Auditee Response and Corrective Action Plan:

UDS report is generated based on calendar year January-December following budget period for grant, whereby the Republic of Palau fiscal year runs from October-September. Therefore, expenditure data presented in this finding are not comparable.

At this time, revenues are deposited and recorded to specified account under Hospital Trust Fund. It is required that all revenues generated by the Ministry of Health shall be deposited to the Hospital Trust Funds. Program will work with Ministry of Finance on possibility of segregating program revenues to meet this new requirement.

In the future, a report will be prepared from the Ministry of Finance general ledger transactions entailing such requirement.

Full name of the person responsible for the corrective action plan:

Dr. Stevenson Kuartei, Ministry of Health, and Regis Emesiochel, MOH Finance Comptroller, and Priscilla Soalablai and Gandhi Ngirmidol from the Ministry of Finance.

When will the corrective action plan be implemented:

Fiscal Year 2013

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SUMMARY OF PRIOR AUDIT FINDINGS

As required by Section ____315(b) of OMB Circular A-133, the Republic of Palau Ministry of Finance prepared and hereby submits the following summary schedule of prior audit federal findings for the year ended September 30, 2011:

<u>Finding</u>	<u>CFDA #</u>	<u>Description</u>	<u>Status</u>
2009-30	10.766	Matching, Level of Effort, Earmarking	Corrected in 2011
2009-33	10.766	Period of Availability	Corrected in 2011
2009-40	10.766	Procurement, Suspension & Debarment	Corrected in 2011
2009-22	15.875	Allowable Cost/Cost Principal	Corrected in 2011
2009-23	15.875	Allowable Cost/Cost Principal	Corrected in 2011
2009-25	15.875	Cash Management	Repeated in 2011
2009-32	15.875	Period of Availability	Repeated in 2011
2009-38	15.875	Procurement, Suspension & Debarment	Repeated in 2011
2009-42	15.875	Reporting	Repeated in 2011
2009-44	15.875	Sub-recipient Monitoring	Corrected in 2011
2010-06	15.875	Cash Management	Repeated in 2011
2010-07	15.875	Allowable Costs/Cost Principles	Corrected in 2011
2010-09	15.875	Allowable Costs/Cost Principles	Corrected in 2011
2010-10	15.875	Equipment and Real Property Management	Repeated in 2011
2010-13	15.875	Period of Availability	Repeated in 2011
2010-24	15.875	Procurement, Suspension & Debarment	Corrected in 2011
2010-25	15.875	Sub-recipient Monitoring	Corrected in 2011
2009-24	20.106	Allowable Cost/Cost Principal	Corrected in 2011
2009-25	20.106	Cash Management	Corrected in 2011
2010-06	20.106	Cash Management	Corrected in 2011
2010-10	20.106	Equipment and Real Property Management	Repeated in 2011
2010-23	20.106	Cash Management	Corrected in 2011
2009-18	84.027	Allowable Cost/Cost Principal	Corrected in 2011
2009-19	84.027	Allowable Cost/Cost Principal	Corrected in 2011
2009-29	84.027	Matching, Level of Effort, Earmarking	Repeated in 2011
2009-37	84.027	Procurement, Suspension & Debarment	Repeated in 2011
2010-10	84.027	Equipment and Real Property Management	Repeated in 2011
2010-23	84.027	Cash Management	Repeated in 2011
2010-26	84.027	Procurement, Suspension & Debarment	Repeated in 2011
2010-32	84.027	Allowable Costs/Cost Principles	Corrected in 2011
2010-38	84.027	Allowable Costs/Cost Principles	Corrected in 2011
2010-06	84.185	Cash Management	Corrected in 2011
2010-14	84.185	Eligibility	Corrected in 2011
2009-25	84.256	Cash Management	Repeated in 2011

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2009-36	84.256	Procurement, Suspension & Debarment	Repeated in 2011
2009-39	84.256	Procurement, Suspension & Debarment	Repeated in 2011
2010-06	84.256	Cash Management	Repeated in 2011
2010-10	84.256	Equipment and Real Property Management	Repeated in 2011
2010-10	93.069	Equipment and Real Property Management	Repeated in 2011
2010-11	93.069	Procurement, Suspension & Debarment	Corrected in 2011
2010-15	93.069	Allowable Costs/Cost Principles	Corrected in 2011
2010-27	93.069	Matching, Level of Effort, Earmarking	Corrected in 2011
2010-28	93.069	Period of Availability	Corrected in 2011
2010-29	93.069	Reporting	Corrected in 2011
2009-34	93.224	Procurement, Suspension & Debarment	Repeated in 2011
2009-41	93.224	Program Income	Corrected in 2011
2009-45	93.224	Special Tests and Provisions	Repeated in 2011
2010-10	93.224	Equipment and Real Property Management	Repeated in 2011
2010-12	93.224	Allowable Costs/Cost Principles	Corrected in 2011
2010-16	93.224	Procurement, Suspension & Debarment	Repeated in 2011
2010-18	93.224	Reporting	Repeated in 2011
2010-30	93.224	Program Income	Corrected in 2011
2010-31	93.224	Special Tests and Provisions	Corrected in 2011
2009-15	93.283	Allowable Cost/Cost Principal	Corrected in 2011
2009-16	93.283	Allowable Cost/Cost Principal	Corrected in 2011
2009-17	93.283	Allowable Cost/Cost Principal	Corrected in 2011
2009-18	93.283	Allowable Cost/Cost Principal	Corrected in 2011
2009-28	93.283	Matching, Level of Effort, Earmarking	Corrected in 2011
2009-31	93.283	Period of Availability	Corrected in 2011
2009-35	93.283	Procurement, Suspension & Debarment	Repeated in 2011
2009-42	93.283	Reporting	Repeated in 2011
2010-10	93.283	Equipment and Real Property Management	Repeated in 2011
2010-19	93.283	Procurement, Suspension & Debarment	Repeated in 2011
2010-32	93.283	Allowable Costs/Cost Principles	Corrected in 2011
2010-33	93.283	Matching, Level of Effort, Earmarking	Corrected in 2011
2010-34	93.283	Period of Availability	Corrected in 2011
2009-20	17.258-60	Allowable Cost/Cost Principal	Corrected in 2011
2009-21	17.258-60	Allowable Cost/Cost Principal	Corrected in 2011
2009-26	17.258-60	Eligibility	Corrected in 2011
2009-43	17.258-60	Reporting	Corrected in 2011
2009-06	Major	Cash Management	Repeated in 2011
2009-11	Major	Single Audit Report	Repeated in 2011
2009-27	Major	Equipment & Real Property Mgmt	Repeated in 2011
2010-17	Major	Period of Availability	Corrected in 2011
2010-20	Major	Single Audit Report	Repeated in 2011

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2010-21 Nonmajor Reporting

Not repeated in
2011

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 Schedule of Questioned Costs
 For the year ended September 30, 2011

Questioned Costs

For the year ended September 30, 2011, the following questioned costs remain unresolved:

Unresolved Question Cost for Fiscal Year	Questioned Costs per 2010 Report	Questioned Costs Resolved per OMB Circular A-133 Section .315(b)(4)	Questioned Costs at September 30, 2011
2008	\$ 577,977		577,977
2009	967,990	557,949	410,041
2010	1,668,099		1,668,099
	<u>\$ 3,214,066</u>	<u>557,949</u>	<u>2,656,117</u>
2011			<u>336,302</u>
		\$	<u><u>2,992,419</u></u>

The prior year status of findings is contained in the accompanying Schedule of Findings and Questioned Costs.