

**REPUBLIC OF PALAU**

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**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2015**

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

His Excellency Tommy E. Remengesau Jr.  
President  
Republic of Palau:

We have audited, 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, 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 (the Republic) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated July 15, 2016. Our report includes a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Other auditors audited the financial statements of the National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include our consideration of the results of the other auditors' testing of internal control over financial reporting and 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 Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, the Palau International Coral Reef Center, the Palau Visitors Authority, the Palau Public Utilities Corporation, and the Protected Areas Network, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors 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 the National Development Bank of Palau, the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority. The findings, if any, included in those reports are not included herein.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Republic's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 as items 2015-007 and 2015-018 to be material weaknesses.

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 consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2015-012 to be significant deficiencies.

## Compliance and Other Matters

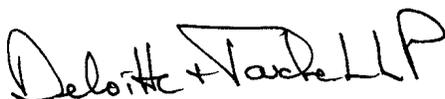
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## The Republic's Responses to Findings

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



July 15, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

His Excellency Tommy E. Remengesau Jr.  
President  
Republic of Palau:

**Report on Compliance for Each Major Federal Program**

We have audited the Republic of Palau's (the Republic's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Republic's major federal programs for the year ended September 30, 2015. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2015. 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-133, if required.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Republic's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Republic's compliance.

**Basis for Qualified Opinion on Each Major Federal Program**

As described in items 2015-001, 2015-002, 2015-005, 2015-007 through 2015-010, 2015-015 and 2015-017 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2015-015	11.460	Special Oceanic and Atmospheric Projects	Activities Allowed and Unallowed
2015-017	12.UNKNOWN	Exercise Tempest Wind	Procurement and Suspension and Debarment
2015-007	15.875	Economic, Social and Political Development of the Territories	Equipment and Real Property Management
2015-007	84.027	Special Education - Grants to States	Equipment and Real Property Management
2015-007	84.256	Territories and Freely Associated States Education Grant Program	Equipment and Real Property Management
2015-008	84.378	College Access Challenge Grant Program	Special Tests and Provisions
2015-009	84.378	College Access Challenge Grant Program	Reporting
2015-010	84.378	College Access Challenge Grant Program	Subrecipient Monitoring
2015-007	84.378	College Access Challenge Grant Program	Equipment and Real Property Management
2015-007	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Equipment and Real Property Management
2015-002	93.224	Consolidated Health Centers	Period of Availability of Federal Funds
2015-005	93.224	Consolidated Health Centers	Program Income
2015-007	93.224	Consolidated Health Centers	Equipment and Real Property Management
2015-001	93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Period of Availability of Federal Funds
2015-007	93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Equipment and Real Property Management
2015-007	93.283	CDC and Prevention - Investigations and Technical Assistance	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to each program.

**Qualified Opinion on Each Major Federal Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Republic complied, in all material respects, with the types of 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, 2015.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, 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 as items 2015-003, 2015-004, 2015-006, 2015-011 through 2015-014 and 2015-016. Our opinion on each major federal program is not modified with respect to these matters.

The Republic's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## Report on Internal Control Over Compliance

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Republic's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Republic'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 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 items 2015-001, 2015-002, 2015-005, 2015-007 through 2015-010, 2015-015 and 2015-017 to be material weaknesses.

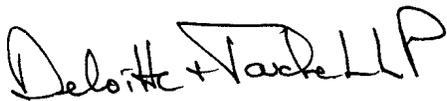
*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 as items 2015-003, 2015-004, 2015-006, 2015-011 through 2015-014 and 2015-016 to be significant deficiencies.

The Republic's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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 as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated July 15, 2016, which contained unmodified opinions on those financial statements, and which report included a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

July 15, 2016

**REPUBLIC OF PALAU**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

Grantor/ProgramTitle	Federal CFDA Number	Expenditures
<b>U.S. Department of Agriculture:</b>		
Grants for Agricultural Research, Special Research Grants	10.200	\$ -
Cooperative Forestry Assistance	10.664	5,757
Community Facilities Loans and Grants	10.766	34,846
<b>Total U.S. Department of Agriculture</b>		<u>40,603</u>
<b>U.S. Department of Commerce:</b>		
Special Oceanic and Atmospheric Projects	11.460	465,219
<b>Total U.S. Department of Commerce</b>		<u>465,219</u>
<b>U. S. Department of Defense:</b>		
Exercise Tempest Wind	12.UNKNOWN	98,897
<b>Total U.S. Department of Defense</b>		<u>98,897</u>
<b>U. S. Department of Labor:</b>		
WIA Cluster:		
WIA Adult Program	17.258	75,015
WIA Youth Activities	17.259	42,631
WIA Dislocated Worker Formula Grants	17.278	119,685
Subtotal WIA Cluster		<u>237,331</u>
WIA Dislocated Worker National Reserve Technical Assistance and Training	17.281	15,925
<b>Total U.S. Department of Labor</b>		<u>253,256</u>
<b>U. S. Department of State:</b>		
Academic Exchange Programs	19.011	3,293
<b>Total U.S. Department of State</b>		<u>3,293</u>
<b>U.S. Department of Education:</b>		
Adult Education - Basic Grants to States	84.002	25,183
Special Education - Grants to States	84.027	981,944
Career and Technical Education - Basic Grants to States	84.048	96,395
Territories and Freely Associated States Education Grant Program	84.256A	1,074,656
College Access Challenge Grant Program	84.378A	857,738
<b>Total U.S. Department of Education</b>		<u>3,035,916</u>

See accompanying notes to schedule of expenditures of federal awards.

**REPUBLIC OF PALAU**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2015

Grantor/Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services:</b>		
Civil Rights and Privacy Rule Compliance Activities	93.001	-
Public Health Emergency Preparedness	93.069	418,643
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance Program	93.079	8,946
Comprehensive Community Mental Health Services for Children with SED	93.104	49,264
Maternal and Child Health Federal Consolidated Programs	93.110AR	222,870
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	299,717
Emergency Medical Services for Children	93.127	57,244
Family Planning - Services	93.217	118,159
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	1,090,845
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	523,808
Universal Newborn Hearing Screening	93.251	143,846
Immunization Cooperative Agreements	93.268	259,142
CDC and Prevention - Investigations and Technical Assistance	93.283	836,361
Early Hearing Detection and Intervention Information System Surveillance Program	93.314	20,008
Epidemiology and Laboratory Capacity for Infectious Diseases Resources Program	93.323	22,275
Behavioral Risk Factor Surveillance System Resources Program Information	93.336	11,558
PPHF 2012 National Public Health Improvement Initiative	93.507	36,298
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in ELC and EIP Cooperative Agreements; PPHF	93.521	197,761
ACA authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	-
National Bioterrorism Hospital Preparedness Program	93.889	269,368
HIV Care Formula Grants	93.917	13,207
Assistance Programs for Chronic Disease Prevention and Control Program	93.945	193,079
Block Grants for Community Mental Health Services	93.958	68,715
Block Grants for Prevention and Treatment of Substance Abuse	93.959	115,963
Preventive Health and Health Services Block Grant	93.991	28,017
Maternal and Child Health Services Block Grant to the States	93.994	110,860
<b>Total Department of Health and Human Services</b>		<u>5,115,954</u>
<b>Total U.S. Federal Grants Fund (Fund 350100)</b>		<u>\$ 9,013,138</u>
<b>U.S. Department of the Interior:</b>		
Economic, Social, and Political Development of the Territories	15.875	\$ 1,307,813
<b>Total U.S. Department of the Interior</b>		<u>1,307,813</u>
<b>Total U.S. Federal Grants Fund (Fund 350200)</b>		<u>\$ 1,307,813</u>
<b>U.S. Department of Transportation:</b>		
Airport Improvement Program	20.106	6,720,992
<b>Total U.S. Department of Transportation</b>		<u>6,720,992</u>
<b>Total U.S. Federal Grants Fund (Fund 420100)</b>		<u>\$ 6,720,992</u>

See accompanying notes to schedule of expenditures of federal awards.

**REPUBLIC OF PALAU**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2015

Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875	Authorizations	Expenditures and Transfers
<u>211(a) &amp; 215 Compact Current Account</u>		
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000
Compact Section 215	5,147,000	5,147,000
Total 211(a) & 215 Current Account	\$ 11,147,000	\$ 11,147,000
<u>211(f) Trust Fund</u>		
Executive Branch	\$ 5,000,000	\$ 5,000,000
Total 211(f) Trust Fund	\$ 5,000,000	\$ 5,000,000
<u>221(b)(1) &amp; (2) Special Block Grant &amp; Education Special Grant</u>		
Ministry of Education	\$ 2,000,000	\$ 2,000,000
Total 221(b) Special Block Grant	\$ 2,000,000	\$ 2,000,000
Total Compact of Free Association CFDA #15.875		\$ 18,147,000
Less Compact Section 211(a) Current Account		(6,000,000)
Less Compact Section 215 Current Account		(5,147,000)
Less Compact Section 211(f) Trust Fund Investment Earnings		(5,000,000)
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		\$ 2,000,000
Total Federal Awards		\$ 19,041,943

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

**REPUBLIC OF PALAU**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

(1) Scope of Audit

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

• Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Republic and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. 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, 2015 basic financial statements; except that Republic of Palau Social Security Retirement Fund, Republic of Palau Civil Service Pension Trust Fund, 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, 2015. The following component units incurred federal expenditures during the year ended September 30, 2015:

Republic of Palau Social Security Retirement Fund	\$ 100,676
Palau Community College	\$ 3,341,937
Public Utilities Corporation	\$ 102,892

## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2014

#### (2) Summary of Significant Accounting Policies, Continued

c. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

d. Indirect Cost Allocation

The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2015. The approved rate was 5.20%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

e. CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the U.S. Department of the Interior, Office of the Inspector General (OIG) has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding has 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 OIG. The OIG took this position since there was no compliance requirement imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There is no compliance requirement 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.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |    |   |            |
|----|---|------------|
| 1. | Type of auditors' report issued:                      | Unmodified |
|    | Internal control over financial reporting:            |            |
| 2. | Material weakness(es) identified?                     | Yes        |
| 3. | Significant deficiency(ies) identified?               | Yes        |
| 4. | Noncompliance material to financial statements noted? | No         |

*Federal Awards*

- |    |  |     |
|----|--|-----|
|    | Internal control over major federal programs:  |     |
| 5. | Material weakness(es) identified?  | Yes |
| 6. | Significant deficiency(ies) identified?  | Yes |
| 7. | Type of auditors' report issued on compliance for major federal programs:  |     |
|    | Qualified for all major programs.  |     |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. | Identification of major federal programs:  |     |

<u>CFDA</u>	<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	11.460	Special Oceanic and Atmospheric Projects
12.UNKNOWN		Exercise Tempest Wind
	15.875	Economic, Social, and Political Development of the Territories
	15.875	Economic, Social, and Political Development of the Territories, Compact of Free Association
	84.027	Special Education - Grants to States
	84.256	Territories and Freely Associated States Education Grant Program
	84.378	College Access Challenge Grant Program
	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs
	93.224	Consolidated Health Centers
	93.243	Substance Abuse and Mental Health Services (SAMHS) - Projects of Regional and National Significance
	93.283	CDC and Prevention-Investigations and Technical Assistance

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

**Section I - Summary of Auditors' Results, Continued**

10. Dollar threshold used to distinguish between Type A and Type B Programs:	\$571,258
11. Auditee qualified as low-risk auditee?	No

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>
2015-007	Capital Assets
2015-012	Allowable Costs/Cost Principles
2015-018	Cash Receipts

**Section III - Federal Award Findings and Questioned Costs**

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2015-001	93.243	Period of Availability of Federal Funds	\$ 113,879
2015-002	93.224	Period of Availability Of Federal Funds	93,775
2015-003	93.243	Procurement and Suspension and Debarment	4,704
2015-004	93.283	Procurement and Suspension and Debarment	-
2015-005	93.224	Program Income	-
2015-006	84.378	Eligibility	-
2015-007	15.875	Equipment and Real Property Management	-
2015-007	84.378	Equipment and Real Property Management	-
2015-007	84.027	Equipment and Real Property Management	-
2015-007	84.256	Equipment and Real Property Management	-
2015-007	93.116	Equipment and Real Property Management	-
2015-007	93.224	Equipment and Real Property Management	-
2015-007	93.243	Equipment and Real Property Management	-
2015-007	93.283	Equipment and Real Property Management	-
2015-008	84.378	Special Tests and Provisions	17,868
2015-009	84.378	Reporting	-
2015-010	84.378	Subrecipient Monitoring	-
2015-011	84.378	Allowable Costs/Cost Principles	-
2015-012	15.875	Allowable Costs/Cost Principles	24,895
2015-013	15.875	Procurement and Suspension and Debarment	-
2015-014	11.460	Reporting	-
2015-015	11.460	Activities Allowed or Unallowed	-
2015-016	11.460	Procurement and Suspension and Debarment	-
2015-017	12.UNKNOWN	Procurement and Suspension and Debarment	<u>98,897</u>
			<b>\$ <u>354,018</u></b>

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-001  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.243 SAMHS - Projects of Regional and National Significance  
 Federal Award No.: 1U79SP020164-01, 5U79SP020164-02  
 Area: Period of Availability of Federal Funds  
 Questioned Costs: \$113,879

**Criteria:** In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

**Condition:** Of two awards tested aggregating \$523,808 of a population of \$2,853,606, we noted that for two grants (or 100%), the following expenditures were incurred after the grant expiration date and liquidated after the 90-day liquidation end date. Grantor-approved grant extensions were not provided:

<u>Cost Center Number</u>	<u>Check No.</u>	<u>Grant No.</u>	<u>Grant Expiration Date</u>	<u>General Ledger Date</u>	<u>Grant Liquidation End Date</u>	<u>Check Date</u>	<u>Questioned Costs</u>
H43670	380484	1U79SP020164-01H43670	12/29/14	01/14/15	12/29/14	07/15/15	\$ 1,379
H53670	388417	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	12,500
H53670	388418	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	5,000
H53670	388429	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	5,000
H53670	388427	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	5,000
H53670	388411	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	5,000
H53670	388418	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	10,000
H53670	388429	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	10,000
H53670	388416	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	5,000
H53670	388416	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	10,000
H53670	388427	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	10,000
H53670	388417	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	25,000
H53670	388411	5U79SP020164-02H53670	12/29/15	12/30/15	12/29/15	01/07/16	10,000
							<u>\$ 113,879</u>

**Cause:** The cause of the above condition is the lack of established policies and procedures for the proper monitoring and recording of expenditures within a grant's period of availability.

**Effect:** The effect of the above condition is noncompliance with period of availability requirements, and questioned costs of \$113,879.

**Recommendation:** We recommend that the Republic establish and implement policies and procedures to effect compliance with period of availability requirements.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-001, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.243 SAMHS - Projects of Regional and National Significance  
Federal Award No.: 1U79SP020164-01, 5U79SP020164-02  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$113,879

Auditee Response and Corrective Action Plan: The Federal Financial Report was sent to Grantor Agency along with a request to liquidate outstanding obligations and submit final Federal Financial Report. ROP has yet to receive communications from grantor. ROP will continue to communicate to grantor for their final decision.

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

Everlynn Temengil-Chief, Behavioral Health Program Manager  
Gandhi Ngirmidol-Chief, Division of Grants Management

Date the corrective action plan will be implemented:

Implemented

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-002  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Federal Award No.: 2 H80CS02467-29-00, 6 H80CS02467-29-02, 6 H80CS02467-29-09  
 Area: Period of Availability of Federal Funds  
 Questioned Costs: \$93,775

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of six awards tested aggregating \$1,090,845 of a population of \$3,133,265, for three grants (or 32%), the following expenditures were incurred after the grant expiration date and were liquidated after the 90-day liquidation end date. Grantor-approved extensions were not provided.

<u>Cost Center</u>	<u>Check No.</u>	<u>Grant No.</u>	<u>Grant Expiration Date</u>	<u>General Ledger Date</u>	<u>Grant Liquidation Date</u>	<u>Check Date</u>	<u>Questioned Costs</u>
H43690	377618	2 H80CS02467-29-00	12/31/14	05/14/15	03/31/15	05/14/15	\$39,980
H43690	377923	6 H80CS02467-29-02	12/31/14	05/18/15	03/31/15	05/19/15	15,000
H43690	377923	6 H80CS02467-29-02	12/31/14	05/18/15	03/31/15	05/19/15	33,000
H43690	376144	6 H80CS02467-29-09	12/31/14	03/30/15	03/31/15	04/14/15	<u>5,795</u>
							<u>\$ 93,775</u>

Cause: The cause of the above condition is the lack of established policies and procedures over monitoring and recording of expenditures within a grant's period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$93,775.

Recommendation: We recommend that the Republic establish and implement policies and procedures to effect compliance with period of availability requirements.

Auditee Response and Corrective Action Plan: We do not concur with this finding. Grantor instructions says as long as the equipment was ordered before the budget period ended, the expense is allowable under the budget period in question. If the Items were not received within the 90 days liquidation period, then it should be shown as unliquidated obligations on the FFR which the ROP did. Once the items were received, the FFR should have been revised to show the outstanding obligations as being expensed which ROP did.

Also, we do not concur the question cost of \$5,795 because it was processed within the grant period and check date is still in the liquidation period.

Auditor Response: The 90-day liquidation period ended March 31, 2015. The drawdown request approval was after the fact on July 28, 2015, and there was no letter from the grantor agency specifically waiving the period of availability requirement. Thus, the finding remains.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-003  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.243 SAMHS - Projects of Regional and National Significance  
 Federal Award No.: 1U79SP020164-01, 5U79SP020164-02  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$4,704

Criteria: It is the policy of the Republic that all procurement and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements, and such approvals should be documented in the procurement file.

For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors.

Purchases of \$10,000 require a formal bidding process. Public notice of the invitation for bid shall be announced on all radio or television stations and at a reasonable time, at least fifteen days prior to the date of the initial day of the bidding time. Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified. Procurement file should contain public notice, invitation for bids or request for proposal, notice of unsuccessful bidder or offeror, basis for cost or price and determination.

Condition: Of twenty-five non-payroll expenditures tested aggregating \$230,418, we noted the following:

1. For two (or 8%), three price quotations were not obtained.

<u>Contract No.</u>	<u>Document No.</u>	<u>Date.</u>	<u>Amount</u>	<u>Questioned Costs</u>
T50017	137125	10/03/14	\$ 1,362	\$ 1,361
T51042	167046	09/16/15	\$ 3,004	<u>3,004</u>
				\$ <u>4,365</u>

2. For three contracts (or 12%), the award letter was not issued within 30 days of bid opening. No questioned costs result as the bidding was properly performed.

<u>Contract No.</u>	<u>Document No.</u>	<u>Opening Bid Date.</u>	<u>Award Letter Date</u>
15-044	165397	11/03/14	04/20/15
15-042	161312	11/03/14	04/20/15
15-045	164566	11/03/14	04/20/15

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-003, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.243 SAMHS - Projects of Regional and National Significance  
Federal Award No.: 1U79SP020164-01, 5U79SP020164-02  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$4,704

Condition, Continued

- 3. For one contract (or 4%), the award letter was not on file. No questioned costs result as the bidding was properly performed.

<u>ITB No.</u>	<u>Document No.</u>
PCS-2012-020	169369

- 4. For one travel (or 4%), airfare was not purchased within a reasonable time, which led to a higher purchase rate.

<u>Center No</u>	<u>Document No.</u>	<u>Contract No.</u>	<u>Date</u>	<u>Questioned Costs</u>
H53670	147746	T50287	01/27/15	\$339

The difference between the lowest and the purchase rate is the amount questioned above.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$4,704 as the projected questioned cost exceeds the threshold.

Recommendation: We recommend that compliance with procurement regulations occur.

Auditee Response and Corrective Action Plan:

Item 1: We do not concur on T50017 as quotations were obtained. Please see attached documents. However, we concur on T51042 as quotations were obtained only by verbal without documenting evidence to support that local agent had higher rates than purchasing online.

Item 2: We concur with the finding. Evaluation and scoring was delayed as this was the holidays and the members of the evaluation committee were not available to meet immediately.

Item 3: ROP-Finance concurs with this finding. The award letters are issued by MOF-Bureau of Personnel Service System and we will ensure that all award letters will be issued and filed accordingly.

Item 4: We do not concur with this finding. The increase of the ticket was the result of overbooked flight. MOF were ready to issue the ticket on January 22, 2015, which deadline for the cheaper fare was Jan. 23, 2015, but due to overbooked flight, we could not take the cheaper fare and had to choose the next available fare and that is the regular fare that were available because the travelers had to change their travel dates originally from February 1, 2015 to January 31, 2105. All lowest fare was sold out during the time. Hence, it should not be a questioned cost because we cannot control when flight is overbooked.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-003, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.243 SAMHS - Projects of Regional and National Significance  
Federal Award No.: 1U79SP020164-01, 5U79SP020164-02  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$4,704

Auditor Response: For Condition no. 1 contract no. T50017, the documents provided appeared to be invoices to support request for reimbursement and there were no quotations provided. For Condition no. 4, there was no evidence to indicate that the traveler made timely flight reservation and submitted travel authorization timely. Thus, the findings remain.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention-Investigations and Technical Assistance  
Federal Award No.: 5U58DP003939-03  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

**Criteria:** It is the policy of the Republic that all procurement and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements, and such approvals should be documented in the procurement file.

Purchases of \$10,000 require a formal bidding process. Public notice of the invitation for bid shall be announced on all radio or television stations and at a reasonable time, at least fifteen days prior to the date of the initial day of the bidding time. Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified. Procurement file should contain public notice, invitation for bids or request for proposal, notice of unsuccessful bidder or offeror, basis for cost or price and determination.

**Condition:** Of twenty-five nonpayroll expenditures tested aggregating \$127,914, we noted the following:

1. For two contracts (or 8%), the award letter was not issued within 30 days of bid opening. No questioned costs result as the bidding was properly performed.

<u>Contract No.</u>	<u>Voucher No.</u>	<u>Opening Bid Date.</u>	<u>Award Letter Date</u>
14-080	146126	09/03/13	10/14/13
15-016	152461	12/04/14	02/02/15

2. For one contract (or 4%), awards were given to all who submitted bids regardless of cost.

<u>Cost Center</u>	<u>Document No.</u>	<u>Contract No.</u>	<u>Date</u>	<u>Amount</u>
H43683	152461	15-016	03/06/15	\$ 2,250

**Cause:** The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement requirements.

**Effect:** The effect of the above condition is noncompliance with procurement regulations. No questioned costs result as we could not formulate a basis to do so given the variety of services requested, which were not specified in the request for proposal.

**Recommendation:** We recommend that the Republic comply with procurement regulations.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-004, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention-Investigations and Technical Assistance  
Federal Award No.: 5U58DP003939-03  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan:

Item 1: We concur with the finding. Program will work closely with Bureau of Public Service System to ensure that award letter will be issued to all vendors in an appropriate timely manner.

Item 2: Program does not concur. Program selected more than one vendor due to various needs that one vendor cannot provide. There are needs of the program that one of the vendor can't provide but the other is able to provide. In the future, the Program will continue to ensure that the proposal request will specifically needs more than one vendor to satisfy the program needs.

Auditor Response: For Condition no. 2, the basis for selecting all bidders was not specified in the bid file. Thus, the finding remains.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-005  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Federal Award No.: 2 H80CS02467-29-00, 6 H80CS02467-29-02, 6 H80CS02467-29-09  
Area: Program Income  
Questioned Costs: \$0

Criteria: In accordance with standard operating procedures, non-federal funds (e.g., State, Local and other operational funding and fees, premiums, and third-party reimbursements) which the program may reasonably be expected to receive, including any such funds in excess of those originally expected, shall be used as permitted under law and may be used for such other purposes as are not specifically under the law if such use furthers the objectives of the project.

Condition: The program performs billing and collection functions. All fees collected are deposited and recorded in the Hospital Trust Fund Account, which is a Special Revenue Fund. However, there was no cost analysis performed or study that supports the 50/50 percentage split allocated between the program and the local government share. We were informed that a recent study was performed by an independent company which was completed in January 2015; however, no action was taken to implement recommended changes.

Cause: The cause of the above condition is the delayed action by the program to use the independent cost study report analysis to implement changes to the program income.

Effect: The effect of the above condition is potential noncompliance with program income requirements. No questioned costs result as we were unable to determine the dollar amount of potential program income.

Recommendation: We recommend that the Republic establish procedures to comply with program income requirements.

Prior Year Status: Noncompliance with program income requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2008 through 2010 and 2012 through 2014 as items 2008-22, 2009-41, 2010-30, 2012-14, 2013-16 and 2014-011.

Auditee Response and Corrective Action Plan: We concur with this finding. The cost analysis study conducted during fiscal year 2015 and completed in fiscal year 2016 that would show how much of patient bill is allocated to medications, services and overhead cost. Of these, it will determine the cost of how much was charged for each item and will enable us to trace back to revenue source. It will also allow us to develop detailed charges of individual bills or specific services and procedures.

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

Darnelle Decherong-Director, Bureau of Health Admin & Support Services-MOH  
Cindy Fritz- Administrator, Budget & Finance Office-MOH

Date the corrective action plan will be implemented:

September 2016

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-006  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Requirement: Eligibility  
Questioned Costs: \$0

Criteria: In accordance with US Code Title 20, Chapter 28, subchapter IV, part F, section 1091, a student to be eligible to receive grant aid must file a statement as part of the original financial aid application process, a certification, which need not be notarized, but which shall include –

- (a) a statement of educational purpose stating that the money attributable to such grant, loan, or loan guarantee will be used solely for expenses related to attendance or continued attendance at such institution; and
- (b) such student's social security number;

Further, the Program must establish policies and procedures to verify applicants' information from a reliable third party. The Program is responsible for determining if the verification documentation is adequate and credible. If written third-party verification is not used, supporting documents and signed affidavits by the applicant must be submitted. All students' files must be reviewed prior to eligibility approval.

Condition: Of five grant-aid expenditures tested aggregating \$49,155 of a population of \$85,549, the following were noted:

- 1. For five (or 100%), the Program sends the check payable directly to the institution of higher education in lieu of requiring a student to file a statement of educational purpose. However, this practice does not necessarily satisfy the requirement as stated in the criteria above without approval by the grantor agency.
- 2. For three (or 60%), there was no evidence of review and approval of student files/applications.
- 3. For two (or 40%), estimated educational cost detail and financial aid was not certified by the school official.
- 4. For three (or 60%), there was no evidence of review and approval of student files/applications.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
367413	10/22/14	\$ 5,730
367426	10/22/14	<u>6,286</u>
Total		<u>\$12,016</u>

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-006, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Requirement: Eligibility  
Questioned Costs: \$0

Cause: The cause of the above condition is lack of controls over eligibility requirements.

Effect: No questioned costs result as student files show that participants met eligibility requirements.

Recommendation: We recommend that the Republic comply with eligibility requirements in US Code Title 20, Chapter 28, subchapter IV, part F, section 1091 and establish policies and procedures to verify applicants' information. We further recommend that the Republic obtain approval by the grantor agency for alternate procedures in conforming to applicable requirements.

Prior Year Status: The lack of adherence to established policies and procedures regarding eligibility requirements was reported as a finding in the Single Audit of the Republic for fiscal year 2014 as item 2014-003.

Auditee Response and Corrective Action Plan:

Item 1: We do not concur with this finding. Nothing in the grant terms and conditions stated that we can't directly pay to the institution of higher education nor directly pay to the students. Students filed statements as directly stated on criteria A and provided passport copies to support criteria B.

Item 2, 3, & 4: We concur with this finding. Program has implemented procedures to be followed and ensure that all required documents and signatures are adhered to.

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

Andrew Tabelual, PCACGP Coordinator/Director, Bureau of Education Administration

Date the corrective action plan will be implemented:

August 1, 2016 for this particular procedure (Today is June 30, 2016).

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: In accordance with, 34 CFR section 74.34 (b), the recipient shall not use equipment acquired with Federal funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute, for as long as the Federal Government retains an interest in the equipment.

Further, in accordance with applicable equipment and real property management, procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, provide that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Proper records must be maintained for equipment acquired with Federal awards and equipment must be adequately safeguarded. Additionally, adequate maintenance procedures must be implemented to keep the equipment in good condition.

Condition:

CFDA #15.875:

1. Of the thirty-two assets listed as program equipment totaling \$471,544, acquired between 1997 and 2015, fourteen (or 44%) totaling \$312,363 were tested for verification with results as follows:
  - a. Two assets or 14% (tag nos.RP-99185 and RP-3653) could not be located.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Condition, Continued

- b. Three assets or 21% (tag nos. RP-3507, RP-3511 and RP-3585) were not operable, but were still listed in the property records.
  - c. One asset (tag nos. RP-3503) was not operable, and parts were used, but still listed in the property records; and there was no documentation indicating that such parts were being used with another asset.
2. A physical inventory was performed in FY2015; however, reconciliation was not performed with capital asset records.
  3. There is no evidence of effective maintenance and safekeeping procedures (invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.).

#### CFDA #84.027:

1. A physical inventory was performed; however, a reconciliation was not performed against capital asset records over the last two fiscal years.
2. Of the twelve capital assets listed as program equipment totaling \$264,199, acquired between 1996 and 2013, eight (or 67%), totaling \$227,815 were tested for physical existence. An asset valued at \$23,875 with tag number RP-2826 was transferred to the Ministry of Education; however, no transfer form was on file.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161, H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03; 2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00; 6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01; 5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03; 5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

CFDA #84.256:

1. A physical inventory was performed in FY2015; however, a reconciliation was not performed with the applicable capital asset records.
2. Of twenty-one capital assets listed as program equipment totaling \$472,774 acquired between 1998 to 2014, twelve (or 57%), totaling \$411,421 were tested for physical existence. Seven assets (tag numbers RP-99636, RP99637, RP-99639, RP-99640, RP99641, RP-99646, and RP-99649) were surveyed, but continue to be listed in the property records. One asset (tag RP2955) was not located.

CFDA #84.378:

1. A vehicle log sheet intended to monitor usage of the Program's vehicle (#RP-4104) was not updated and lacked information, such as the driver using the car, the date returned, and the purpose of the usage. Without this information, we could not determine if the Program used the equipment to provide services to non-Federal related organizations.
2. We noted two discrepancies between the Program's physical inventory count sheets and property records, thereby indicating a lack of reconciliation:

Asset #	Listed Location Per	
	Physical Count	Property Records
RP-4104	Not found	Ministry of Education parking lot
RP-4405	Program office	Palau Community college

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

CFDA #93.116:

Tests of ten assets noted the following:

1. Three assets (30%) could not be located:

<u>Date Acquired</u>	<u>Property Number</u>	<u>Cost</u>
12/04/2008	RP-3818	\$ 10,075
09/30/2002	RP-3278	\$ 22,995
01/06/2003	RP-3331	\$ 23,750

2. There is no documentation that a complete physical inventory of equipment and property and a reconciliation was performed of fixed asset records over the last two fiscal years.
3. There is no evidence of effective maintenance and safekeeping procedures (e.g., invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.)
4. Fixed asset listing provided by the Program Office was incomplete so testing was not completed, leaving a discrepancy between the listing prepared by the Procurement and Supply Office.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

CFDA #93.224:

Tests of fourteen assets noted the following:

1. One (tag no. RP-2688) (7%) could not be located and one (tag no. RP-3990) (7%) was disposed in FY2015, but remains on the equipment listing.

<u>Date Acquired</u>	<u>Property Number</u>	<u>Cost</u>
02/06/2001	RP-2688	\$ 6,900
01/04/2011	RP-3990	\$ 6,103

2. There is no evidence of effective maintenance and safekeeping procedures (e.g., invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.)
3. A variance of \$83,386 exists between the fixed asset listing prepared by the Procurement and Supply Office (\$298,122) and the Program Office (\$214,736).

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161, H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03; 2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00; 6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01; 5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03; 5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued:

CFDA #93.243:

Test of one asset noted the following:

1. There is no evidence of effective maintenance and safekeeping procedures (e.g., invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.)
2. There is no documentation that a complete physical inventory of equipment and property and a reconciliation was performed of fixed asset records over the last two fiscal years.

CFDA #93.283:

Tests of twelve assets noted the following:

1. Two assets (17%) could not be located:

<u>Date Acquired</u>	<u>Property Number</u>	<u>Cost</u>
12/15/2004	RP-3492	\$ 25,250
04/10/2006	RP-3598	\$ 6,250

2. There is no evidence of effective maintenance and safekeeping procedures (e.g., invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.)

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Condition, Continued:

3. There is no documentation that a complete physical inventory of equipment and property and a reconciliation was performed of fixed asset records over the last two fiscal years.
4. A variance of \$29,502 exists between the fixed asset listing prepared by the Procurement and Supply Office (\$310,107) and the Program Office (\$280,605).

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the cumulative dollar amount of the deficiencies.

Recommendation: We recommend that the ROP maintain complete records of property and equipment acquired with grant funds, perform physical inventories at least once every two years, and comply with applicable property management policies and procedures.

Prior Year Status: Lack of compliance with equipment and real property management requirements was reported as a finding in the Single Audits of ROP for fiscal years 1988 through 2014.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan:

CFDA #15.875:

Item 1: We concur with this finding:

1. Conduct fixed asset training with Accountable Officer for the departments to help them understand RPPM Policy and their functions as Accountable Officers. The staff will assist each Accountable Officer to address their unlocated assets. Given the magnitude of each bureau unlocated assets we will address unlocated assets that has exceeded its useful life first by processing a single Request for Survey form for them and submit it to Supply Office so it can be forwarded to the Survey Board for their appropriate action.
2. Solicit assistance from management and designated staff to assign a dedicated Property Custodian so more time and effort can be invest in locating the remaining unlocated assets and submit updated list to Supply Office for its appropriate action. Time line for appointment Property Custodian for the departments is July 15, 2016 and updated asset report is August 30, 2016.

RP 99185: Unlocated; Designated personnel will process appropriate survey document with narrative and submit to Property and Supply Division by June 30 , 2016 so it can be forwarded to Survey Board for their appropriate action.

RP 4375, RP 3653,RP 3587,RP 3585, and RP 3507 are all located and Supply office will update location status in the master list by June 30, 2016.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan, Continued:

RP 3503 and RP 3511, are unlocated and Management and Accountable Officer will process appropriate Survey documentation with narrative report and submit to Property and Supply by June 30, 2016 so it can be forwarded to the Survey Board for their appropriate action.

Item 2: We concur with this audit findings. MOF management and Supply office will work with all departments to reconcile their fixed asset listings with the ROP master list. Once custodian officers from each department have been identified, series of meetings and trainings will take place in order to appropriately reconcile fixed assets.

Item 3: We concur with this audit finding: Will propose to MOF management that each Ministry must provide copy of their Vehicle Preventive Maintenance Plan for their Bureau, Division, Board and Commission to Supply Office before Aug. 30, 2016. This will be a prerequisite in order for each Ministry, Bureau, Division, Board before open account for fuel or vehicle service is approved for FY 2017 and beyond. It must and should be a policy and driven from top down.

#### CFDA #84.027:

Special Education Program thus concurs. The program will work with Milan Isack, Chief of Property & Supply Division, Ministry of Finance to transfer the equipment as required by Procurement Policy.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued

CFDA #84.256:

Item 1: Concur with this audit finding: MOF management and Supply office will work with all departments to reconcile their fixed asset listings with the ROP master list. Once custodian officers from each department have been identified, series of meetings and trainings will take place in order to appropriately reconcile fixed assets.

Item 2: Concur with this audit findings

Corrective Action Plan: Create a Log sheet to keep track of all survey activities which begin after “Request for Survey” is received and routed through Survey Board and terminate after surveyed asset is retired. This will ensure that there is a mechanism in place to keep track of all surveyed assets is processed in accordance with RPPM policy.

Surveyed assets RP 99636, 99637, 99639, 99640, 99641, 99646 & 99649 will be retired no later than July 07, 2016.

RP 2955: Will work with Accountable Officer for Grant S256A10005-14 to ensure appropriate action is taken to address this unallocated asset.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007, Continued

Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
84.256 Territories and Freely Associated States Education Grant Program  
84.378 College Access Challenge Grant Program

Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.116 Project Grants and Cooperative Agreements for Tuberculosis Ctrl  
93.224 Consolidated Health Centers  
93.243 Substance Abuse and Mental Health Services  
93.283 CDC and Prevention – Investigations and Technical Assistance

Federal Award No.: P378A130057; P378A140057, H027A140006-12A, H027A130161,  
H027A130161-13A, S256A10005-14, 5U52PS004104-02; 5U52PS004104-03;  
2 H80CS02467-29-00; 6 H80CS02467-29-02; 2 H80CS02467-30-00;  
6 H80CS02467-30-05; 6 H80CS02467-30-07; 1U79SP020164-01;  
5U58SO000023-03 Revised; 5U58DP001952-05; 5U58DP003939-03;  
5UR3DD000809-04; 5 NU58DP003939-04-00

Requirement: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued

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

Helen Sengebau-Special Education Program Coordinator

Date the corrective action plan will be implemented:

CFDA #15.875: August 30, 2016; CFDA #84.256: July 15, 2016

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-008  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Area: Special Tests and Provisions  
Questioned Costs: \$17,868

Criteria: US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 (G) (2) requires a grantee receiving a grant payment under this section shall, in carrying out any activity or service described in subsection (f) (1) (A) to (G) with the grant funds, prioritize students and families who are living below the poverty line applicable to the individual's family size (as determined under section 9902(2) of title 42).

Condition: The Program defines the poverty line as a \$0 Expected Family Contribution per the Free Application for Federal Student Aid (FAFSA). The Program does not use the required poverty line applicable to the individual's family size (as determined under section 9902(2) of title 42). No evidence of approval from the Grantor Agency was available.

We noted that, of five grant-aid expenditures tested aggregating \$49,155 of a population of \$85,549 (to carry out the activity described in subsection (f)(1)(E)), for four items (or 80%), there was no evidence provided to verify that grant aid was given to students who are living below the poverty line described above. Details are as follows:

<u>Check #</u>	<u>Award Date</u>	<u>Check Date</u>	<u>Amount</u>
367413	9/30/2014	10/22/2014	\$ 5,730
367425	9/30/2014	10/22/2014	678
367426	9/30/2014	10/22/2014	5,730
381714	7/4/2015	08/11/2015	<u>5,730</u>
			<u>\$ 17,868</u>

Cause: The cause of the above condition is a lack of controls and sufficient understanding over the requirements and applicable guidelines

Effect: The effect of the above condition is potential noncompliance with the above criteria and questioned costs of \$17,868.

Recommendation: We recommend that the Republic establish policies and procedures to document that students and families who are living below the poverty line are given priority for grant funds and that relevant supporting documents and certifications be filed

Prior Year Status: The lack of adherence to established policies and procedures regarding the poverty prioritization requirements was reported as a finding in the Single Audit of the Republic for fiscal year 2014 as item 2014-004.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-008, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Area: Special Test and Provision  
Questioned Costs: \$17,868

Auditee Response and Corrective Action Plan: We do not concur with this finding, PCACGP retained expertise to guide this year's grant aid. The procedure used for this grant aid follows TITLE VIII—PARTNERSHIP GRANTS SEC. 801. COLLEGE ACCESS CHALLENGE GRANT PROGRAM, "(D) in the case of an activity providing grant aid, not require a student to meet any condition other than eligibility for Federal financial assistance under title IV of the Higher Education Act of 1965, except as provided for in the loan cancellation or repayment or interest rate reductions described in subsection (f)(1)(G)."

According to the expert advice, FAFSA is the process used by Title IV for eligibility.

Auditor Response: There was no evidence of grantor approval on exceptions to the above criteria therefore, the finding remains.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-009  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.378 College Access Challenge Grant Program  
 Federal Award No.: P378A130057; P378A140057  
 Requirement: Reporting  
 Questioned Costs: \$0

Criteria: US Code Title 20, Chapter 28, subchapter VII, part e, section 1141 (h) requires the Program to prepare and submit an annual report to the Secretary on the activities and services carried out under this section, and on the implementation of such activities and services which include (2) the cost of providing each activity or service; (4) the total contributions from private organizations included in the grantee's non-Federal share for the fiscal year. An effective system of internal control includes policies and procedures so that transactions reported as federally funded costs and local match are substantiated by accounting records.

Condition: The Program does not have policies and procedures in place requiring that costs reported on the annual performance report (APR) be substantiated by accounting records.

For APRs submitted on 5/15/15 covering reporting period 4/16/14-4/15/15, federal cost of activities and services reported in the APRs were overstated compared with expenditures outlined in the general ledger.

<u>Grant Award No.</u>	<u>APR submission</u>	<u>Period covered by our testing</u>	<u>Federal expenditures</u>		<u>Variance</u>
			<u>Per GL</u>	<u>Per APR</u>	
P378A130057	05/15/2015	4/16/14-4/15/15	\$ 1,101,865	\$ 1,214,085	\$ 112,220
P378A140057	05/15/2015	4/16/14-4/15/15	\$ 8,611	\$ 481,136	472,525
				Total variance	\$ <u>584,745</u>

Cause: The cause of the above condition is the lack of conformance with existing procedures that require adequate documentation to support annual performance reports.

Effect: The effect of the above condition is noncompliance with applicable requirements. No questioned costs result as the reimbursed expenditures per the general ledger are less than the reported expenditures per the APR.

Recommendation: We recommend that the Republic strengthen procedures to maintain adequate accounting records.

Prior Year Status: The lack of adherence to established policies and procedures regarding reporting requirements was reported as a finding in the Single Audit of the Republic for fiscal year 2014 as item 2014-006.

Auditee Response and Corrective Action Plan: We concur with the finding. For future APR's we will work with the Ministry of finance to compile the report.

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

Andrew Tabelual, PCACGP Coordinator/Director, Bureau of Education Administration

Date the corrective action plan will be implemented:

Immediately (June 30, 2016)

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-010  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Requirement: Subrecipient Monitoring  
Questioned Costs: \$0

**Criteria:** In accordance with applicable subrecipient monitoring requirements, the Program should monitor the subrecipient's use of funds during the award, and evaluate the impact of subrecipient activities on the Program's ability to comply with requirements.

**Condition:** The Program does not have policies and procedures in place to monitor the subrecipient's activities during the award period. There was no evidence that the Program monitored the subrecipient's use of funds and evaluated the impact of subrecipient activities in conformance with applicable requirements.

<u>Subrecipient</u>	<u>Check Date</u>	<u>Check No.</u>	Amount passed through to <u>subrecipient</u>
Palau Community College	9/20/2015	383415	\$ 35,000

**Cause:** The cause of the above condition is the lack of conformance with existing procedures that require monitoring of subrecipient activities to confirm compliance with laws, regulations, and the provisions of contracts or grant agreements.

**Effect:** The effect of the above condition is noncompliance with applicable requirements. No questioned costs result as the subrecipient was audited for fiscal year 2015 and there were no questioned costs reported.

**Recommendation:** We recommend that the Republic implement procedures to monitor the subrecipient's use of funds.

**Auditee Response and Corrective Action Plan:** We concur with the finding. The sub-recipient, being the only institution of higher learning (IHE) in Palau, servicing most of Palauan students' initial college level degree needs, is a critical player in the PCACGP's goals and objectives. Because of this, it was written into the grant as a partner and sub recipient.

In grant application, specific objectives and activities were identified to be performed by them, and its membership and full participation in the PCACGP board was maintained to ensure that there was a clear understanding of how grant funds were to be used. They had a say, not only in what they spent for their institution, but also in the other activities of the PCACGP. The sub-recipients activities and use of funds were agreed to in the grant application process, during action planning, and during specific activity planning.

We do concur that, while the above is done well, there is weakness in ground level monitoring. We took too long to verify purchases against the expenditure plans, and at the time of the audit, were still working on the verification.

The resolution to this issue is very clear, one that the ministry knows how to do. Such sub-recipient activities will be verified in a timely manner, similar to how the ministry handles its primary activities.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-010, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Requirement: Subrecipient Monitoring  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

The method will be through a formal expenditure and activity verification process with a reporting deadline. Without this, funds will not be obligated. This will provide the evidence needed to protect the viability of such a critical relationship in the effort to graduate Palau's students at post-secondary institutions.

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

Andrew Tabelual, PCACGP Coordinator/Director of the Bureau of Education

Date the corrective action plan will be implemented:

Immediately (June 30, 2016)

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: US Code Title 20, Chapter 28, Subchapter VII, Part E (f) (3) stipulates that a grantee may use not more than 6 percent of the total amount of the sum of the Federal share provided under this section and the non-Federal share required under this section for administrative purposes relating to the grant under this section.

Condition: Based on prior year experience and per expenditure tests, we noted expenditures which appear to be for administrative purposes, such as office supplies, communication and salaries and wages. The Program was able to distinguish between administrative and operational costs. However, details of all administrative costs were not provided. We were unable to determine the Program's total administrative costs and whether the Program used up to 6 percent of the total amount of the sum of the Federal share for administrative purposes.

<u>Cost Center #</u>	<u>Date</u>	<u>Amount</u>	<u>Ref. #</u>	<u>Purpose</u>
E33597	07/21/15	\$ 1,566	U5013001	Phone, internet, TV for the Program
E33597	08/20/15	\$ 9,230	F50306	Office supplies for Program Director
E33597	07/24/15	\$ 796	L50826	Toner, cartridge, black
E33597	08/17/15	\$ 1,990	L51260	MacBook computer
E43597	09/29/15	\$ 735	L50677	3 drum GPR16 cartridge toners

Cause: The cause of the above condition is a lack of controls and sufficient understanding over the requirements and applicable guidelines

Effect: The effect of the above condition is potential noncompliance with the above criteria. No questioned costs result due to our inability to assess expenditures pertaining to administrative costs, if any.

Recommendation: We recommend that the Republic establish policies and procedures to document that students and families who are living below the poverty line are given priority for grant funds and that relevant supporting documents and certifications be filed

Auditee Response and Corrective Action Plan: We acknowledge the difficulty the auditor had with ascertaining which supplies were used for administrative purposes. The government's purchase process tends to make it expedient to combine purchases into a single requisition, and clerical staff end up justifying the purchase based on who authorized it and not on intended use.

We need to more explicitly identify administrative expenditures either within the requisition's justification field, or through separate tagging of intended use.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Federal Award No.: P378A130057; P378A140057  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

This corrective action is already underway for all the ministry requisitions, as the issue exists generally. Staff have been reviewing every requisition and identifying where each item went as part of an MOE-wide effort to measure the impact of expenditures on program outcomes.

Obviously, separation of administrative and overhead expenditures from those related to outputs and outcomes is critical, and the ministry's commitment to quantify this will address the issue.

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

Andrew Tabelual, PCACGP Coordinator/BEA Director

Date the corrective action plan will be implemented

Ongoing. Review and tagging of this year's expenditures (all programs under the Bureau of Education Administration, includes PCACGP) are targeted for completion by the end of the fiscal year (September 30, 2016).

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-012  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$24,895

Criteria: In accordance with applicable allowable costs/cost principles requirements, charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the following standards:

- a. They must reflect an after-the-fact distribution of the actual activity of each employee;
- b. They must account for the total activity for which each employee is compensated;
- c. They must be prepared at least monthly and must coincide with one or more pay periods; and
- d. They must be signed by the employee.

Additionally, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

Condition: Tests of expenditures noted the following:

- 1. Of six payroll expenditures tested of \$47,669, of a total population of \$73,229, one (or 16%) employee worked for two cost centers, but that distribution was not supported by a timesheet or equivalent documentation that reflected the distribution of the actual activity as follows:

<u>Cost Center</u>	<u>Pay period</u>	<u>Hours</u>	<u>Amount</u>	<u>Check No.</u>
M53822	2015-18	48	\$1,749	1625443

The employee charged salaries of \$8,528 in FY2015. No questioned costs result as we are unable to quantify the extent of noncompliance.

- 2. Of thirty non-payroll expenditures tested, of a total population of \$804,920, an invoice for one payment (or 3%) (PV#DF150193, transfer ref. no. 70000247) was not addressed to ROP, but to a third party. We noted that ROP has a memorandum of understanding (MOU) with the third party. The MOU was included neither in the procurement file nor in the voucher package for the expense. No questioned costs result as the MOU was provided only when the deficiency was raised with the program.
- 3. Indirect costs noted a variance between amounts recorded against expectation based on approved indirect cost agreement:

Total payroll expenses	\$73,229
Indirect cost rate	<u>5.20%</u>
Expected indirect cost	3,808
Actual indirect cost	<u>28,703</u>
Excess indirect cost charged over expectation	<u>\$24,895</u>

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-012, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$24,895

Cause: The cause of the above condition is lack of reviews of payroll for employees working on two or more federal program and lack of monitoring of indirect costs.

Effect: The effect of the above condition is noncompliance with the applicable allowable costs/cost principles requirement and questioned costs of \$24,895.

Recommendation: We recommend procedures be implemented to comply with the above criteria.

Auditee Response and Corrective Action Plan:

Item 1: We concur with this finding. MOF will work with the department to allocate percentage accordingly to support timesheet of the distribution of the actual activity.

Item 2: We concur with this finding and we will include MOU for future similar transaction.

Item 3: We do not concur with this finding. DOI Grants Indirect/Administrative costs are based on the total fiscal year expenditures and not the payroll expenditures. Attached are the SF424s (Budget Information) for the DOI Grants that allowed for indirect/administrative cost. These SF424s shows indirect cost based on the total budget. Again these SF424s are budgets approved by Grantor Agencies. Please see attached reports for supporting documents (SF424 reports).

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

Gwen Sisor- Project Manager-Bureau of Tourism  
Gandhi Ngirmidol-Chief, Division of Grants  
Milan Isack- Chief, Division of Supply & Procurement

Date the corrective action plan will be implemented:

Implemented

Auditor Response: There was no grantor letter of approval or agreement to indicate that indirect cost should be based on total expenditures rather than on personnel costs. Thus, the finding remains.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-013  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria: In accordance with applicable procurement regulations, all procurement transactions will be conducted in a manner providing for full and open competition that is best suited to the circumstances. Further, the Republic procurement regulations state the following:

- All procurement and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements, and such approvals should be documented in procurement file.
- Any procurement not exceeding ten thousand dollars (\$10,000) may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Finance. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Condition: Of thirty non-payroll expenditures tested totaling \$754,123, of a total population of \$1,307,814, we noted the following:

1. For one expenditure (or 3%), price quotations from at least three vendors were not obtained for PV No. 153827 for \$8,986. No questioned costs result as ROP solicited price quotations; however, no documentation was provided to support that vendors declined to provide quotations.
2. For one expenditure (3%), the procurement waiver request for P.O. no. Q50013 for \$46,066 was dated November 4, 2015 which is two months after the product was ordered on September 9, 2014. No questioned costs result as the noncompetitive procurement method was approved by the grantor in a letter dated April 4, 2016.
3. For three expenditures (10%), justification for the sole-source procurement submitted and acknowledged by the grantor was not included in the procurement file and was provided only when the deficiency was raised with the program:

<u>Cost Center</u>	<u>Amount</u>	<u>P.O. Number</u>
F43897	\$ 45,066	Q50013
F43897	29,442	Q50012
F43897	<u>11,703</u>	Q50011
	<u>\$ 86,211</u>	

No questioned costs result as the noncompetitive procurement method was approved by the grantor in a letter dated April 4, 2016.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-013, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Cause: The cause of the above condition is lack of adherence with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with the applicable procurement regulations.

Recommendation: We recommend that the Republic strengthen controls over procurement procedures to maximize competition while maintaining the best interests of the Republic. Exceptions that are allowed by procurement regulations should be reviewed, approved and documented in the procurement files.

#### Auditee Response and Corrective Action Plan:

Item 1: Only one bid was received and it was hardly competitive, providing quote that was triple the standard price outside of Palau.

Item 2 & 3: Procurement was suspended following the procurement regulations in line with PNC 40. Chapter 6 Section 644 (e) which governs occasions when following the normal procurement process would conflict with fulfilling the objectives of a grant from a foreign donor. None of the other companies had an ordering system that would allow us to pre-select what we wanted in order to assure that quality is good. No other company was set up to allow us to purchase precisely what we needed.

Also, the equipment and software available from other competitive vendors was not compatible with that already being used and it would have required extensive training to bring staff up on operation of new equipment and software that they were not familiar with.

#### Full Name of the person responsible for the corrective action plan:

Kyonori Tellames-Project Supervisor  
Milan Isack- Chief, Division of Supply & Procurement

#### Date the corrective action plan will be implemented:

Implemented

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2015

Finding No.: 2015-014  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.460 Special Oceanic and Atmospheric Projects  
Federal Award No.: AB-133W-13-CN-0007 M0005; AB-133W-13-CN-0007 M0006  
Area: Reporting  
Questioned Costs: \$0

Criteria: Section G. *Contract Administration Data* subsection G.6 *Invoicing Instructions* of the AB-133W-13-CN-0007 Award Document requires the Program to submit quarterly reports of invoices sent to allow for ease of auditing paid and unpaid invoices. In addition, expenditures reported to the Grantor agency should agree with the underlying accounting records.

Condition: We could not agree reported invoices to the underlying accounting records as the Program did not prepare and submit required quarterly reports.

Cause: The cause of the above condition is lack of internal control requiring preparation of quarterly reports of invoices.

Effect: The effect of the condition is noncompliance with applicable requirements. No questioned costs result as expenditures were not over-reimbursed by the grantor agency.

Recommendation: We recommend that the Republic prepare and submit quarterly reports in accordance with award requirements.

Auditee Response and Corrective Action Plan: ROP Concur with finding. ROP has established a Division of Grants within the Ministry of Finance and is now hiring additional staff to make sure comprehensive review of all administrative and financial reporting requirements are noted and complied with.

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

Gandhi Ngirmidol, Chief, Division of Grants

Date the corrective action plan will be implemented:

April 2016

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-015  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.460 Special Oceanic and Atmospheric Projects  
Federal Award No.: AB-133W-13-CN-0007 M0005; AB-133W-13-CN-0007 M0006  
Area: Activities Allowed or Unallowed  
Questioned Costs: \$0

Criteria: Section J.1 *Statement of Work* subsection C.4 *Personnel Requirements* of the AB-133W-13-CN-0007 Award Document requires the Program to maintain the following minimum staffing level:

- one Supervisory Weather Service Specialist,
- four Weather Service Specialists, and
- one Electronics Program Specialist and one Facilities Technician.

If ROP requires more staff beyond the minimum staffing level, such must be justified and negotiated with the Contracting Officer's Representative and Contracting Officer prior to employment. In addition, all personnel who are assigned the duties of taking observations must be certified by the National Weather Service (NWS). At least two staff members, including Supervisory Weather Service Specialist must be currently certified for Upper Air Observations by the NWS. All other employees must be certified by the end of the phase-in period. Observers not certified must be directly supervised by a certified observer until they are certified.

Condition: Tests of fifty-nine payroll files noted the following:

1. The Program hired employees for the following positions which is beyond or is not listed in the minimum staffing level. There is no evidence on file of justification or negotiations with the Contracting Officer's Representative or Contracting Officer prior to employment.

<u>Employee No</u>	<u>Position</u>
407662	Public Affairs Officer / AO
416457	Weather Service Specialist Trainee
417327	Staff Meteorologist (SM)
428206	Weather Service Specialist Trainee
428863	Electronics Programs Specialist (EPS)
430882	Weather Service Specialist Trainee

2. There is no evidence on file that thirteen (or 100%) employees were certified by National Weather Service.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-015, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.460 Special Oceanic and Atmospheric Projects  
Federal Award No.: AB-133W-13-CN-0007 M0005; AB-133W-13-CN-0007 M0006  
Area: Activities Allowed or Unallowed  
Questioned Costs: \$0

Condition, Continued

<u>Employee No</u>	<u>Position</u>
54830	Weather Service Specialist (WSS) or Met Tech
61826	Meteorologist In Charge (MIC)
67334	Weather Service Specialist (WSS)
67377	Electronics Programs Specialist (EPS)
401054	Supervisory Weather Service Specialist (SWSS)
407662	Public Affairs Officer / AO
408184	Maintenance Coordinator
409598	Weather Service Specialist (WSS)
416457	Weather Service Specialist Trainee
417327	Staff Meteorologist (SM)
428206	Weather Service Specialist Trainee
428863	Electronics Programs Specialist (EPS)
430882	Weather Service Specialist Trainee

Cause: The cause of the above condition is the lack of controls over compliance with grant requirements and the lack of established policies and procedures to maintain documents to support compliance with grant requirements.

Effect: The effect of the condition is noncompliance with applicable requirements but does not result in questioned costs.

Recommendation: We recommend that the Republic comply with the award document requirements.

Auditee Response and Corrective Action Plan: We do not concur with this finding. The staff issues was left for the person in charge (Official in Charge or Meteorologist in charge) to proceed with a hiring process as he or she see fit and deemed necessary that a funding is available and PD's (Position Descriptions) are authorizes by our main office in Hawaii.

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

Maria Ngemaes, Meteorologist in Charge

Date the corrective action plan will be implemented:

Implemented

Auditor Response: As stated in Condition 1. above, there was no evidence on file for justification or negotiations with the Contracting Officer's Representative prior to employment. Therefore the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-016  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.460 Special Oceanic and Atmospheric Projects  
Federal Award No.: AB-133W-13-CN-0007 M0005; AB-133W-13-CN-0007 M0006  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, ROP procurement regulations requires that for small purchases over \$5,000 not put to bid, the procurement officer concerned or his designee should obtain price quotations from at least three vendors and base the selection of vendor on competitive price, quality, delivery time, and other relevant factors. Written documentation of the three quotes, the vendors submitting the quotes, and the basis for selection should be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Condition: Of nine non-payroll expenditures tested totaling \$23,609, six (or 67%) were not supported by price quotations. There was no evidence on file that there are fewer than three suppliers within the Republic.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Date</u>	<u>Amount</u>
382979	165872	09/04/2015	\$504
382794	164921	08/26/2015	\$4,190
376113	150748	03/30/2015	\$3,681
377969	155856	05/20/2015	\$3,681
380528	160762	07/15/2015	\$4,190
375701	150957	03/31/2015	\$64

Cause: The cause of the above condition is weaknesses in controls over documenting compliance with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations. No questioned costs result as the expenditures were not reimbursed by the grantor.

Recommendation: We recommend that the Republic strengthen controls over procurement procedures to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and be approved, and the reasons should be documented in procurement files.

Auditee Response and Corrective Action Plan: ROP concurs with reservations. Since the National Weather Service Program began, they have been in charge of their own procurement. ROP recently had a conference call with Grantor and we all agreed to follow ROP's procurement policies and procedures.

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

Maria Ngemaes, Meteorologist in Charge  
Gandhi Ngirmidol, Chief, Division of Grants

Date the corrective action plan will be implemented:

Implemented

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-017  
Federal Agency: U.S. Department of Defense  
Program: 032/2015 Exercise Tempest Wind  
Area: Procurement Suspension and Debarment  
Questioned Costs: \$98,897

Criteria: The Republic's Procurement Law and Regulations under Section 603(b), Application, states in part: Except as otherwise specified by law, this chapter applies to every expenditure of public funds by the national government or any government agency that receives national government funding or state governments, irrespective of source, including United States Federal assistance monies...

In addition, Section 608, Procurement Officer, state: The Procurement Officer for the purchase of goods shall be the Chief of the Property and Supply...

Furthermore, Section 613, Methods of Source Selection, states: It is the policy of the Republic that all purchase and procurement actions be executed in a manner that provides open and free competition...

Condition: The audit performed by the Office of the Public Auditor for the period from April 01, 2015 to October 31, 2015 reported the following:

1. The Exercise Tempest Wind grant was administered separate from and independent of the National Treasury and therefore its procurement process bypassed the required procurement process of National Treasury, i.e., removed from the rights, powers, duties and authority of the Procurement Officer. Thus, the procurement of goods for the Exercise Tempest Wind including food items, fuel, and other goods did not comply with the Republic's Procurement Law and Regulations, i.e., competitive bidding and price quotations.
2. The administrators of the grant made nine (nine) withdrawals totaling \$98,897 to pay expenditures for the Exercise Tempest Wind. Since all the withdrawals were made in bulk amounts and payments were made in cash, it impeded efforts to match or trace withdrawals to payments to supporting invoices/receipts.
3. The expenditures of the grant were not recorded in the Schedule of Expenditures of Federal Awards. An audit adjustment was proposed to record the expenditures.

Cause: It appears the causes of the above condition are the deliberate act to deposit and administer the grant outside National Treasury and circumventing National Treasury laws and depositing the funds into a private account outside of the National Treasury.

Effect: The procurement process of the Exercise Tempest Wind were not executed in a manner that provides open and free competition in accordance with the ROP Procurement law and regulations. In addition, the Public Auditor was unable to determine the propriety of \$98,897 of grant expenditures.

Recommendation: We recommend that all public revenues from local sources, grants or otherwise be deposited in the National Treasury to invoke the application of the Republic's Procurement Law and Regulations.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-017, Continued  
Federal Agency: U.S. Department of Defense  
Program: 032/2015 Exercise Tempest Wind  
Area: Procurement Suspension and Debarment  
Questioned Costs: \$98,897

Auditee Response and Corrective Action Plan: We concur with the finding and recommendation. All employees of the Ministry of Justice are reminded to work with the Ministry of Finance to ensure procurement laws and regulations are adhered to regardless of funding sources.

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

Date the corrective action plan will be implemented

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-018

Cash Receipts

Criteria: An effective system of internal control includes policies and procedures requiring the completeness of cash receipts issued.

Condition: We noted receipts that were without documentation and without explanation, as follows:

1. National Treasury:

<u>Date</u>	<u>DILOG Receipt no.</u>
01/02/2015	1437621 – 1437622
02/25/2015	1444453
03/30/2015	1448694
07/31/2015	1464998
08/10/2015	1466126
08/11/2015	1466505
09/29/2015	1473291
09/30/2015	1473398

2. Palau Postal Service:

<u>Control no.</u>	<u>PIS receipt no.</u>
20593	2015042400067
21389	2015050800004
21417	2015050800032
22136	2015052100009
26764	2015081400032

3. Seventy-six cash receipts from tax collections under the Division of Revenue and Taxation from five daily collections (4/24/2015, 8/7/2015, 8/12/2015, 8/14/2015, 9/29/201)

We could not determine the sequential integrity of cash receipts issued by the Customs Information System due to Airport collections update at different intervals, thereby interrupting sequential integrity of control numbers assigned.

Cause: There were no consistent procedures in place to determine that gaps in sequential orders of daily receipts are identified, investigated, documented and approved by immediate supervisors.

Effect: The absence of an approval of exceptions in the sequential order of daily receipts is a control weakness whereby the Republic’s collections may be subject to malfeasance.

Recommendation: We recommend that the Republic establish policies and procedures to determine that cash receipts are issued in sequential order. Exceptions in the sequential order should be documented and be approved by an immediate supervisor on a daily basis.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-018, Continued

Cash Receipts

Auditee Response and Corrective Action Plan: We concur with the finding. Bureau of National Treasury will work with the departments/agencies in ensuring that missing receipts or errors made will be documented with explanation.

Palau Postal Service Response:

Based on our record, all five receipts were cancelled (void) due to errors caused by different clerks on separate occasions. How they were not listed with other control number in sequence order, it was an error in the system, which later our IT specialist identified them as void receipts. Also, I am fully aware now that all voided transactions were not noted in the report, which should have been noted. What contributed to the failure of our part not noting the voids was, clerks did not require supervisor's approval or password to void any transactions before. Total void receipts were \$91.60.

As to what measure (s) or changes has been implemented to address the above concerns or issues:

- New program has been implemented into our Postal Information System (PIS) to prevent clerks from any unauthorized error correct or void without supervisor's approval or authorization. The only time that void can be authorized is when supervisor approves it with his/her password, which will authorized the system to allow the changes.
- All voids from this point on must be attached to the end of day report with supervisors note justifying the void.
- All cancelled (void) transactions are now showing in system with rest of control numbers in sequence order, which before it was not included. It will show should anyone require print out sheet for control number or PIS receipts.

National Treasury Response:

All mentioned receipt numbers were lost due to power fluctuations or system malfunction. These receipt numbers were not issued to the customers. While we have a process to explain any lost receipt number, cashiers fail to note or catch lost numbers during busy time.

Auditee will ensure this will not happen again by running reports in receipt sequence and making sure there is explanation for any lost number. We will always lose numbers due to power fluctuation or other system malfunction, so we will ensure there is explanation for those missing numbers.

BRT Response:

All collections dated in this finding were collected by Tax Office. We made sure the new system does not give access to any other than Treasury Staff to collect Tax revenues. The new system was implemented this FY2016. Treasury will make sure daily tax collection receipts are in sequence and all accounted for.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-018, Continued

Cash Receipts

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

Noria Manahane - Chief, Division of National Treasury  
Timothy Sinsak – Postmaster General  
Conrad Ellechel- Tax IT Manager

Date the corrective action plan will be implemented:

July 20, 2016

**REPUBLIC OF PALAU**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2015

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2015:

	Questioned Costs		Total
	Republic	Subrecipient	
Questioned costs of the Republic as previously reported:			
Fiscal year 2012 Single Audit	\$ 651,698	\$ -	\$ 651,698
Fiscal year 2013 Single Audit	101,954	-	101,954
Fiscal year 2014 Single Audit	<u>72,875</u>	<u>-</u>	<u>72,875</u>
	<u>826,527</u>	<u>-</u>	<u>826,527</u>
Less questioned costs resolved in fiscal year 2015:			
Questioned costs of fiscal year 2012 Single Audit (1)	<u>(651,698)</u>	<u>-</u>	<u>(651,698)</u>
Questioned costs of fiscal year 2013 Single Audit reported in:			
Finding No. 2013-003 (2)	(13,166)	-	(13,166)
Finding No. 2013-007 (2)	(9,985)	-	(9,985)
Finding No. 2013-008 (2)	(1,769)	-	(1,769)
Finding No. 2013-014 (2)	<u>(8,724)</u>	<u>-</u>	<u>(8,724)</u>
	<u>(33,644)</u>	<u>-</u>	<u>(33,644)</u>
Questioned costs of fiscal year 2014 Single Audit reported in:			
Finding No. 2014-003 (4)	(9,914)	-	(9,914)
Finding No. 2014-004 (4)	(4,000)	-	(4,000)
Finding No. 2014-002 (3)	(1,013)	-	(1,013)
Finding No. 2014-002 (3)	<u>(52,867)</u>	<u>-</u>	<u>(52,867)</u>
	<u>(67,794)</u>	<u>-</u>	<u>(67,794)</u>
	73,391	-	73,391
Questioned costs of fiscal year 2015 Single Audit	<u>354,018</u>	<u>-</u>	<u>354,018</u>
Unresolved questioned costs of the Republic at September 30, 2015	<u>\$427,409</u>	<u>\$ -</u>	<u>\$427,409</u>

## REPUBLIC OF PALAU

### Unresolved Prior Year Findings and Questioned Costs, Continued Year Ended September 30, 2015

- (1) Questioned costs considered resolved pursuant to OMB circular A-133 section.315 (b) (4) (i)(ii)(iii) which states when the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse;
  - (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
  - (iii) A management decision was not issued.
- (2) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated July 24, 2015.
- (3) Questioned cost considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated February 29, 2016 and August 14, 2015.
- (4) Questioned cost considered resolved as the Republic reimbursed the U.S. Department of Education on April 08, 2016.

#### Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report.