Reports on Internal Control and Compliance

Republic of Palau

Year ended September 30, 2023

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Republic of Palau

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Contents

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Report of Independent Auditors 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 Surangel S. Whipps 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 (*Government Auditing Standards*), 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, 2023, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated May 26, 2026. Our report includes a qualified opinion due to the lack of implementation of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*,, and a reference to other auditors. Other auditors audited the financial statements of the Palau Community College, the Palau Housing Authority, the Palau National Communications Corporation, the Palau International Coral Reef Center, and the Belau Submarine Cable Corporation. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Report on 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) as a basis for designing 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 2023-001, 2023-002, and 2023-006 through 2023-008 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 items 2023-003 through 2023-005 and 2023-009 to be significant deficiencies.

Report on 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 financial statements. 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 Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Republic's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results 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.

Ernst + Young

May 26, 2026

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

His Excellency Surangel S. Whipps Jr.
President
Republic of Palau

Report on Independent Auditors Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the Republic of Palau's (the Republic's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (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, 2023. The Republic's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on the Health Center Program Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Republic complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Health Center Program Cluster for the year ended September 30, 2023.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Republic complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2023.

Basis for Qualified Opinion and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Republic and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions on compliance for each major federal program. Our audit does not provide a legal determination of the Republic's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on the Health Center Program Cluster

As described in findings 2023-013 and 2023-015 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

Finding No.	**Assistance Listing No.**	**Program** (*or Cluster*) **Name**	**Compliance Requirement**
2023-013	93.224	Health Center Program	Cash Management
2023-015	93.224	Health Center Program	Special Tests and Provisions - Sliding Fee Discounts

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Republic's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Republic's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Republic's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Republic's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Republic's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2023-010 through 2023-012, 2023-014, and 2023-016 . Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Republic's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Republic is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Republic's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2023-013 and 2023-015 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 2023-010, 2023-011, 2023-012, 2023-014, and 2023-016 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Republic's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Republic is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Republic's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2023, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We have issued our report thereon dated May 26, 2026, which contained qualified and unmodified opinions on those financial statements. 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 the Uniform Guidance 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 basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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.

Ernst + Young

May 26, 2026

Republic of Palau

Schedule of Expenditures of Federal Awards

Year ended September 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal ALN	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:				
Direct Programs:				
Cooperative Forestry Assistance	10.664			$ 107,765
Research Joint Venture and Cost Reimbursable Agreements	10.707			1,020
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766			18,259
Sub total Community Facilities Loans and Grants Cluster				18,259
Total U.S. Department of Agriculture				**127,044**
U.S. Department of Commerce:				
Direct Program:				
Economic Development Cluster:				
COVID-19- Economic Adjustment Assistance	11.307			14,075
Sub-Total Economic Development Cluster				14,075
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427			72,444
Total U.S. Department of Commerce				**86,520**
U. S. Department of Labor:				
Direct Programs:				
COVID-19- Pandemic Unemployment Assistance Administration	17.225			1,305,460
Apprenticeship USA Grants	17.285			28,838
WIOA Cluster:				
WIA/WIOA Adult Program	17.258			1,195
WIA/WIOA Youth Activities	17.259			6,778
WIA/WIOA Dislocated Worker Formula Grants	17.278			684
Sub-Total WIOA Cluster				8,657
Total U.S. Department of Labor				**1,342,955**
National Endowment for the Humanities (NEH)				
Direct Programs:				
COVID-19- IMLS LSTA Cares Act State Grants	45.310			72,985
IMLS LSTA State Grants	45.310			68,125
Total National Endowment for the Humanities (NEH)				**141,110**
U.S. Department of Education:				
Direct Programs:				
Adult Education and Family Literacy Act State Grant	84.002A			30,085
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027			1,079,705
Sub total Special Education Cluster (IDEA)				1,079,705
Career and Technical Education-Basic Grants to States	84.048			144,051
Education Grant Program for the Freely Associated States	84.256B			657,965
Total U.S. Department of Education				**1,911,806**
U.S. Department of Health and Human Services:				
Direct Programs:				
Public Health Emergency Preparedness	93.069			341,774
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			129,017
Material and Child Health Federal Consolidated Programs	93.110			48,076
COVID-19- Material and Child Health Federal Consolidated Programs	93.110			265,040
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			416,174
Emergency Medical Services for Children	93.127			135,468
Family Planning Services	93.217			220,764
Health Center Program Cluster:				
Health Center Program	93.224			1,249,188
COVID-19- Health Center Program	93.224			2,533,280
Health Center Program Income-Fund 1140	93.224			729,214
Grants for New and Expanded Services under the Health Center Program	93.527			120,373
Sub total Health Center Program Cluster				4,632,055
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243			404,077
Universal Newborn Hearing Screening	93.251			231,132
Scaling the National Diabetes Prevention Program to Priority Populations	93.261			21,552
Immunization Cooperative Agreements	93.268			353,641
COVID-19- Immunization Cooperative Agreements	93.268			92,669
Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	93.323			337,010
COVID-19- ELC Covid Response Activities	93.323			1,324,271
COVID-19- Public Health Emergency Response-PH Crisis Response	93.354			117,135
Prevention and Control of Chronic Disease	93.377			357,046

Republic of Palau

Schedule of Expenditures of Federal Awards, continued

Federal Grantor/Pass-Through Grantor/Program Title	Federal ALN	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
COVID- 19- Activities to Support State, Tribal, Local and Territorial (STLT) Health Department	93.391			335,490
COVID-19- Community Health Workers for Public Health Response and Resilient	93.495			194,179
State Targeted Response to the Opioid Crisis Grants	93.788			133,261
National Organizations for Chronic Disease Prevention and Health Promotion	93.809			1,873
National Bioterrorism Hospital Preparedness Program	93.889			207,665
Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations	93.898		$ 22,402	1,162,402
HIV Care Formula Grants	93.917			18,151
Block Grants for Community Mental Health Services	93.958			91,231
COVID-19- Block Grants for Community Mental Health Services	93.958			38,124
Block Grants for Prevention and Treatment of Substance Abuse	93.959			194,640
COVID-19- Block Grants for Prevention and Treatment of Substance Abuse	93.959			96,222
Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	93.967			115,562
Preventive Health and Health Services Block Grant	93.991			31,829
Maternal and Child Health Services Block Grant to the States	93.994			175,828
Subtotal Direct Programs				12,223,358
Pass Through From University of Hawaii:		99-6000354		
Center for Disease Control and Prevention Investigations and Technical Assistance (Palau Cancer Registry)	93.283			6,961
Racial and Ethnic Approaches to Community Health Program financed solely by	93.738			30,112
Subtotal Pass-Through Programs				37,073
Pass through From Association of State and Territorial Health Officials		35-1044487		
Strenghening Public Health Systems and Services through National Partnership to Improve and Protect the Nation's Health	93.421			88,445
Subtotal Pass-Through Programs				88,445
Total U.S. Department of Health and Human Services				**12,348,876**
U.S. Department of the Interior:				
Direct Program:				
Environmental Regulations Review	15.875			492
Palau 2020 Census	15.875			18,002
Community Health Assesment	15.875			236,163
Single Audit FY2020	15.875			329,450
Southern Water Project FY20-21	15.875			11,404
MOF - School and Hospital Repair	15.875			140,625
FY2021 Single Audit D22AF00085-00	15.875			151,900
Building a Healthier Palau	15.875			112,957
Household Income & Expense Survey	15.875			102,718
COVID-19- Cares Act OIA Grant	15.875			74,503
Historic Preservation Fund Grants-In-Aid	15.904			188,036
Compact of Free Association:				
S432 (2A) Infrastructure Maintenance Fund	15.875			929,583
S432 (5) Infrastructure Grants	15.875			260,742
Submarine Fibre Optic Cable	15.875		1,702,715	1,702,715
Subtotal Compact of Free Association:				2,893,040
Total U.S. Department of the Interior				**4,259,290**
Total U.S. Federal Grants Fund (Funds 3010, 3030 & 4040)				**20,217,602**
U.S. Department of Transportation:				
Direct Program:				
Airport Improvement Program	20.106			1,014,995
Total U.S. Department of Transportation				**1,014,995**
Total Federal Grants Fund (Fund 4010)				**1,014,995**
U.S. Department of Defense:				
Direct Program:				
Maritime Domain Awareness Radars	12. Unknown			2,110,000
Total U.S. Department of Defense				**2,110,000**
Total Federal Grants Fund (Fund 3000)				**2,110,000**
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,725,117	$ 23,342,597

See accompanying notes to schedule of expenditures of federal awards.

Republic of Palau

Schedule of Expenditures of Federal Awards, continued

Reconciliation to financial statements:		
Total expenditures of Special Revenue Grants Fund	$	39,723,440
Less non-federal expenditures recorded in:		
COFA S432(2A) Infrastructure Maintenance Fund		(278,876)
ROC Grants Fund		(1,505,287)
Other Non U.S. Grants Fund		(5,857,573)
ROC Capital Projects Fund		(9,468,323)
Add federal expenditures recorded in:		
General Fund (Health Center Program)		729,216
Total Expenditures of Federal Awards	$	23,342,597

See accompanying notes to schedule of expenditures of federal awards.

1. Scope of Audit

The Republic of Palau (the "Republic") is a governmental entity governed by its own Constitution. All significant operations of the Republic are included within the scope of the Single Audit. The U.S. Department of Labor has been designated as the Republic's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Republic under programs of the federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Republic, it is not intended to and does not present the financial position or changes in financial position of the Republic.

3. Summary of Significant Accounting Policies

Basis of Accounting

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which the Republic maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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, 2023 basic financial statements; except that the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2023.

3. Summary of Significant Accounting Policies, continued

Reporting Entity, continued

The following component units incurred federal expenditures during the year ended September 30, 2023:

Component Unit	Federal Award Total
Palau Community College	$4,367,542
Palau Public Utilities Corporation	$ 18,500

Matching Costs

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

Indirect Cost Allocation

The Republic did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2023. The approved rate was 7.11%. There were no Federal programs charged for indirect costs.

Republic of Palau

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Qualified Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	X	**Yes**		**No**
Significant deficiency(ies) identified?	X	**Yes**		**None reported**
Noncompliance material to financial statements noted?		**Yes**	X	**No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	X	**Yes**		**No**
Significant deficiency(ies) identified?	X	**Yes**		**None reported**

Type of auditor's report issued on compliance for major federal programs:

ALN 12.U00	Unmodified
ALN 15.875	Unmodified
ALN 84.027	Unmodified
ALN 93.217	Unmodified
ALN 93.224	Qualified
ALN 93.898	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	**Yes**		**No**

Section I - Summary of Auditor's Results, continued

Identification of major federal programs:

Assistance Listing Numbers	Name of federal program or cluster
12.U00	Maritime Domain Awareness Radars
15.875	Economic, Social and Political Development of the Territories
84.027	Special Education Grants to States
93.217	Family Planning Services
93.224	Health Center Program
93.898	Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee? ____ **Yes** __X__ **No**

Section II - Financial Statement Findings

Reference Number	Findings
2023-001	Tax Refunds Payable
2023-002	Grants Expenditures
2023-003	Federal Agencies Receivable
2023-004	Implementation of GASB Statement No. 87
2023-005	Revenues – Fees and Charges
2023-006	Capital Assets
2023-007	Financial Statements
2023-008	Implementation of GASB Statement No. 94
2023-009	Fund Balance Designation

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2023-010	12.U00	Special Tests and Provisions	$ –
2023-011	15.875	Procurement, Suspension and Debarment	–
2023-012	84.027	Procurement, Suspension and Debarment	–
2023-013	93.224	Cash Management	1,183,611
2023-014	93.224	Procurement, Suspension and Debarment	–
2023-015	93.224	Special Tests and Provisions - Sliding Fee Discounts	1,354
2023-016	93.898	Procurement, Suspension and Debarment	–

Finding No.: 2023-001
Area: Tax Refunds Payable

Criteria:

Republic of Palau Public Law 11-11 enacted a new tax regime effective January 1, 2023 in which Palau Goods and Services Tax (PGST) are collected monthly, business profit tax (BPT) installment payments are collected quarterly, and annual BPT filings are due within three months after the individual taxpayers' tax year end. Accordingly, there should be a methodology to recognize any PGST refund payable at fiscal year-end, and to assess BPT quarterly installment payments against annual BPT filings to determine any BPT refund payable at fiscal year-end. The tax refund payable at fiscal year-end should be recorded and supported by sufficient audit trail with evidence of management review to verify that the recorded balance is complete and free of error.

Condition:

While over 90% of PGST (and BPT) registered taxpayers have tax year ending December 31st, there was no liability recognized at September 30, 2023 related to PGST and BPT refunds payable. A schedule of BPT refunds payable was eventually prepared during audit fieldwork; however, mathematical inaccuracies of $438,899 were noted and there was a lack of evidence to ensure completeness of the 261 taxpayers listed on the schedule, which was 69 less than the list re-extracted from the Tax Information System at September 30, 2023.

Cause:

The Republic is in its first year of BPT and PGST implementation and does not appear to be aware of the necessary tax assessment to ensure accurate reporting of tax refunds payable. The Bureau of Revenue and Taxation and the Bureau of National Treasury did not receive proper training related to recognition of PGST and BPT refunds payable at fiscal year end.

Effect:

Audit adjustments were proposed to recognize $2,678,007 in tax refund payable and correct overstatement of tax revenues in the same amount as of and for the year ended September 30, 2023.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No.: 2023-001, continued
Area: Tax Refund Payable

Recommendation:

We recommend that management adopt a methodology to properly recognize PGST and BPT refunds payable at fiscal year end. Control policies and procedures requiring timely tax refund assessment with evidence of management review and verification for completeness and validity of tax refund payable schedules should be implemented.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: 2023-002
Area: Grants Expenditures

Criteria:

Management is responsible for designing, implementing and maintaining internal controls that provide sufficient audit trail from the financial statements to source documents. Specifically, expenditures should be supported in whole by sufficient and appropriate documentation to substantiate existence, accuracy, and validity. Such documentation should be maintained in an organized and systematic manner and be accessible to facilitate an efficient and timely audit process.

Condition:

Of fifty-eight (58) Grants Fund expenditures samples tested totaling $5,268,842, there were no readily accessible supporting invoices or equivalent for nineteen (19) items totaling $684,846, after an initial request for supporting invoice or equivalent on December 2, 2025. No further response was received for over a month after a subsequent request on December 10, 2025.

No.	Project Name	GL Org.	JNL Date	JNL No.	Source	Amount
1	ONE STOP SHOP BLDG. PROJ. PHASE-II,	402F1272	9/30/23	1056	GEN	$ 106,333
2	ICT WORLD BANK	305A1020	5/19/23	616	GEN	100,100
3	NGCHESCHANG DSG	402G1272	9/30/23	1056	GEN	78,367
4	NGATPANG COMMUNITY CNTR PROJECT	402G0000	9/29/23	1009	GEN	74,374
5	NUTRITION TRAINING MON/EVAL 0797	305A1020	9/30/23	1028	GEN	62,958
6	NEW CORRECTIONAL FACILITY PROJECT	402D0000	9/29/23	1009	GEN	61,330
7	TABERNGESANG ROAD PHASE-I	402G0000	9/30/23	1010	GNI	41,554
8	TABERNGESANG ROAD PHASE-I	402G1272	9/30/23	1010	GNI	41,554
9	Automated Weather Monitoring Equip	303F1820	9/30/23	1054	GEN	40,570
10	MONGAMI ROAD PAVING PROJ PHASE VI	402G1272	9/30/23	1056	GEN	22,486
11	INDEPENDENCE DAY CELEB	304A1000	9/14/23	294	API	20,000
12	SHARING WITH FOREST STEWARDSHIP	305I1467	8/29/23	656	GEN	12,788
13	CHINESE TAIPEI TRUST FUND PROJECT	304I1450	9/30/23	915	GNI	11,939
14	TAIWAN SMALL GRANTS PROJECT FY22	304A1000	12/8/22	136	API	5,000
15	UNIVERSAL NEWBORN HEARING SCREENING	303C1424	4/30/23	231	API	1,771
16	PANDEMIC UNEMPLOYMENT BENEFITS	303E1909	11/22/22	355	API	1,200
17	DIABETES CONTROL & PREVENTION	303C1424	11/30/22	466	API	1,000
18	PANDEMIC UNEMPLOYMENT ASSISTANCE	303E1909	10/11/22	193	API	922
19	PANDEMIC UNEMPLOYMENT BENEFITS	303E1909	10/11/22	193	API	600
Total:						$ 684,846

Finding No.: 2023-002, continued
Area: Grants Expenditures

Cause:

The condition occurred due to the absence of a systematic filing and record-retention process for grants expenditures, resulting in supporting documentation that was either incomplete, improperly maintained, or not readily retrievable upon request. Voucher files were provided auditors upon request without verification that such auditor requested documents were indeed in the voucher files.

Effect:

The effect of the above condition is the inability to examine supporting invoice or equivalent documentation in a timely manner.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

Management should establish and maintain a systematic filing and record-retention process to ensure expenditures are consistently and adequately supported, properly organized, and readily available to facilitate a timely audit process.

In addition, there should be personnel assigned to monitor progress of audit requests and ensure such are addressed immediately.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: 2023-003
Area: Federal Agencies Receivable

Criteria:

Management should monitor status of outstanding accounts receivable and follow up to ensure timely collections.

Condition:

Federal agencies receivable at September 30, 2023 totaling $349,820 lacked evidence of subsequent collection as of January 2026 or over two years later. Summary is as follows:

No.	Project Code	Balance After Collections Subsequent to 9/30/2023	Balance 9/30/2022
1	H19IMMUN01	$ 78	$ 78
2	H19INFLU01	(2,228)	(2,228)
3	H21IMMUN02	46,567	124,145
4	H22NBCCEDP	393	113,297
5	H22FAMPLNG	180,261	84,247
6	H23FAMPLNG	124,749	-
Total:		$ 349,820	$ 319,539

Cause:

There is lack of monitoring controls to ensure receivables from federal agencies are timely reconciled and collected.

Effect:

The effect of the above condition is $927,177 projected overstatement of federal agencies receivables due to the inclusion of receivables that appear uncollectible.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

We recommend that management establish formal procedures to request reimbursement from grantor agencies on a timely basis, at least monthly to quarterly, as permitted under the applicable grant terms and conditions.

Monthly to quarterly reconciliation of grantor agencies receivables should be performed by the Division of Grants, reviewed by management, and evidence of review should be documented.

Finding No.: 2023-003, continued
Area: Federal Agencies Receivable

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action

Finding No.: 2023-004
Area: Implementation of GASB Statement No. 87

Criteria:

The Republic adopted GASB Statement no. 87 – Leases, effective October 1, 2021, which required government entities to recognize both a lease liability and a right-to-use lease asset for all leases with terms longer than 12 months, excluding short-term leases and certain exceptions. To comply with this standard, entities must:

- identify all lease agreements, whether acting as a lessee or a lessor;
- maintain a centralized inventory of lease agreements that includes key information such as:
    - a description of the leased asset,
    - start and end dates of the lease,
    - payment amounts and schedule, and
    - options to extend, terminate, or purchase the asset; and
- review each lease to determine whether it falls under the scope of GASB No. 87.

In addition, the lease liability and related right-to-use assets should be recognized and measured using the facts and circumstances that exist at the beginning period of implementation.

Condition:

The lease liability of $2,237,618 at September 30, 2023 was not measured at present value and there was no annual amortization recognized from the beginning period of implementation.

Additionally, the Republic's compilation of leases had been updated multiple times and lacked audit trail to verify completeness and accuracy of the lease information used for financial reporting.

Cause:

The Republic did not fully implement the requirements of GASB Statement No. 87, including the application of present value measurement, recognition and amortization of right-to-use assets. In addition, the Republic lacks a centralized inventory or master file of lease agreements, both as lessee and lessor. Lease terms such as asset descriptions and renewal or purchase options are not consistently recorded or readily accessible due to the absence of standardized procedures for identifying, recording, and maintaining lease agreements across departments.

Effect:

An adjustment was proposed to record $2,237,618 right-of-use-asset; however, the absence of proper discounting, amortization, and a complete lease inventory continues to create a risk of misstatement.

Identification as a Repeat Finding: 2022-004

Finding No.: **2023-004, continued**
Area: Implementation of GASB Statement No. 87

Recommendation:

Management should consider designating dedicated personnel with the necessary skill set and knowledge of the applicable government accounting standard to prepare a complete GASB Statement No. 87 list of leases and to maintain such records for ongoing pertinence.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: 2023-005
Area: Revenues – Fees and Charges

Criteria:

Management is responsible for designing, implementing and maintaining internal controls that provide sufficient audit trail from the financial statements to source documents. Specifically, revenues should be supported by sufficient and appropriate documentation to substantiate their completeness, accuracy, and validity. Additionally, adequate audit trail should exist to facilitate efficient and timely audit process.

Condition:

Of $2,452,640 ship registry fee revenues recorded in fiscal year 2023, $342,903 were selected for testing in which the amounts were recorded based on receipt of funds from the Palau International Ship Registry (PISR) but without supporting documentation. Follow-up request subsequently lead the Bureau of Marine Transportation to provide PISR revenue reports during audit fieldwork.

No.	Effective Date	Journal No.	Source	Description	Amount
1	5/15/2023	1809	GEN	Wire P.I.S.R. Ltd.	$ 139,330
2	8/15/2023	2332	GEN	P.I.S.R.	146,157
3	9/12/2023	729	GEN	Wire TRF P.I.S.R.	57,416
				Total	$ 342,903

Of $1,281,100 digital residency ID card revenues in fiscal year 2023, $146,600 was selected for testing in which the amount was recorded based on receipt of funds but without supporting documentation. A supporting electronic spreadsheet from the Digital Residency Office was subsequently provided during audit fieldwork.

Effective Date	Journal No.	Source	Description	Amount
7/14/2023	684	GEN	Cryptic Lab Deposit	$ 146,600

In both instances above, there was no independent data available to verify completeness and validity of the related supporting revenue reports.

Cause:

The Republic lacks control mechanism to ensure sufficient data and appropriate documentation are made available to independently confirm validity and completeness of ship registry and digital residency ID card fee revenues.

Effect:

The effect of the above conditions is inadequate evidential matter supporting ship registry and digital residency ID card fee revenues, and delayed audit process.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No.: 2023-005, continued
Area: Revenues – Fees and Charges

Recommendation:

The Republic should implement an internal control process requiring the Bureau of Marine Transportation and the Digital Residency Office to provide the Bureau of National Treasury access to pertinent evidential matter supporting ship registry and digital residency ID card revenues in a timely manner or upon receipt of funds.

The Republic may wish to consider requiring an audit of the ship registry and digital residency ID card revenues from which the Republic's shares are derived.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-006**
Area: Capital Assets

Criteria:

GASB Statement No. 34 requires government entities to prepare financial statements under the accrual basis of accounting in which capital assets should be recorded when the asset is acquired or constructed, regardless of when payment is made.

In addition, the Republic's property management policies and procedures manual, chapter III, section 203.4, requires semi-annual reconciliation of capital assets.

Condition:

Capital assets aggregating $3,420,653 were classified as construction in progress for over a year; however; it was represented that such assets were in use during the year ended September 30, 2023. No audit adjustment was proposed as net effect of the transfer from construction in progress to depreciable assets, and related depreciation expense of $342,065 were not considered material.

No.	CIP Description	Balance 9/30/2023
1	Angaur Dock Project	$ 2,330,236
2	Airport Design Seal Pavement Surface Project	1,090,417
Total:		$ 3,420,653

Capitalizable assets aggregating $1,246,612 were not captured in the reconciliation of capital assets as of September, 30, 2023. No audit adjustment was proposed as such capitalizable assets and related depreciation expense of $188,254 were not considered material.

No.	Check/ Contract no.	Description	Amount
1	1514/1540	Computer Software	$ 490,573
2	1652	Equipment & Machinery	463,320
3	124552/126891	Roads	193,384
4	CW-07	Building Construction	99,335
Total:			$ 1,246,612

Additionally, noncapitalizable item of $1,230,000 was included in land addition at September 30, 2023. An audit adjustment was proposed to correct overstatement of capital assets.

Cause:

There is lack of proper reconciliation of capital assets and management review to ensure completeness and validity. Completed projects are not transferred to depreciable capital asset accounts until final payments are disbursed rather than when capital assets are placed in service.

Effect:

The effect of the above condition is misstatements in capital assets before audit adjustments.

Finding No.: **2023-006, continued**
Area: Capital Assets

Identification as a Repeat Finding: 2022-002

Recommendation:

Capital assets should be reconciled at least semi-annually and reviewed by management. Evidence of management review to ensure completeness and validity should be documented.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-007**
Area: Financial Statements

Criteria:

GASB Statement no. 14, *The Financial Reporting Entity*, as amended by GASB Statement nos. 34 and 61, place responsibility on the primary government to make sure its overall financial reporting is complete and accurate, including ensuring that the financial information of all component units is appropriately evaluated and incorporated into its own financial statements when such units are financially accountable or integral to preventing misleading reporting.

Additionally, GASB Statement no. 68, *Accounting and Financial Reporting for Pensions*, requires government entities (including component units) to measure and report their proportionate share of the net pension liability and the related accounts based on actuarially determined amounts. The primary government is responsible for ensuring the aggregated government-wide balances reflect accurate amounts consistent with the audited pension valuation.

Condition:

Certain component units reported net pension liability, and the related deferred outflows and inflows of resources that did not align with the amounts supported by the audited schedule of employer allocation at September 30, 2023.

Cause:

The differences noted in the above condition occurred because audited financial statements for certain component units were issued before the actuarial valuation was issued by the Republic of Palau Civil Service Pension Plan and Trust. There is lack of formal review procedures and controls over the evaluation and incorporation of component unit financial statements.

Effect:

The component units net pension liability, deferred outflows and inflows of resources were materially misstated before proposed audit adjustments.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

The Republic, as primary government, should implement standardized procedures to comply with the requirements of GASB Statement No. 14, as amended by GASB Statement nos. 34 and 61.

Finding No.: **2023-007, continued**
Area: Financial Statements

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-008**
Area: Implementation of GASB Statement No. 94

Criteria:

GASB Statement no. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective October 1, 2022, requires government entities to recognize receivables for payments or other consideration provided by the operator and a corresponding deferred inflow of resources, amortized over the public-private or public-public partnership (PPP) term, and a liability for future payments for availability payment arrangement (APA). Government entities must provide expanded note disclosures describing the nature, terms, assets, payment provisions, commitments and risks associated with PPPs and APAs.

To comply with this standard, entities must:

- Review contract to determine whether they are public-private or public-public partnerships (PPP), including service concession arrangements (SCAs) or availability payment arrangements (APAs).
- Assess whether a PPP meets the definition of a lease to apply GASB Statement no. 87, *Leases*, or be subject to GASB Statement No. 94.
- Recognize receivable and deferred inflows for consideration received from the operator (cash, installments, or improvements).
- Account for availability payment obligations if applicable.
- Provide required disclosures.

Condition:

The Republic has not implemented GASB Statement No. 94 as of September 30, 2023 with respect to the PPP associated with the Palau International Airport Corporation (PIAC).

Cause:

The Republic was unaware that PIAC, which is 49% owned by the Republic, with property and equipment net cost of $29,470,425 at December 31, 2023, is potentially subject to the requirements of GASB Statement No. 94.

Effect:

The lack of implementation of GASB Statement No. 94 results in a potential material understatement of assets and liability at September 30, 2023.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No.: **2023-008, continued**
Area: Implementation of GASB Statement No. 94

Recommendation:

Management should implement internal control policies and procedures requiring documentation and monitoring of applicable GASB pronouncements and related effective dates. Management should designate dedicated personnel to obtain proper training in the implementation of applicable GASB pronouncements.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-009**
Area: Fund Balance Designation

Criteria:

GASB Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* requires all governmental fund balances to be classified into five categories:

- nonspendable,
- restricted,
- committed,
- assigned, and
- unassigned.

Government entities are expected to implement internal and monitoring controls for the purpose of tracking restricted and nonspendable balances separately, preventing overspending of legally restricted resources, and reconciling beginning and ending fund balances regularly on a monthly or quarterly basis.

Condition: The General Fund did not report nonspendable and restricted fund balance at September 30, 2023.

Cause: There was no evidence of periodic reconciliation and monitoring procedures over fund balances in accordance with the requirements of GASB Statement no. 54.

Effect: The effect of the above condition is reclassification entries to recognize $65,103,432 nonspendable fund balance and $9,333,725 restricted fund balance within the General Fund as of September 30, 2023.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management implement periodic reconciliation, internal and monitoring control procedures to comply with the requirements of GASB Statement no. 54.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-010**
Federal Agency: U.S. Department of Defense
AL Program: 12.U00 Maritime Domain Awareness Radars
Area: Special Tests and Provisions
Questioned Costs: $−

Criteria:

In accordance with 2 CFR Part 200, Appendix X1, the Compliance Supplement, the auditor should perform reasonable procedures to identify compliance requirements that could have both a direct and material effect on the federal program selected for testing. Reasonable procedures would include a review of the federal awards for programs selected for testing i.e., major program.

Condition:

No program contract or grant agreement was provided to identify the terms and conditions or the applicable federal compliance requirements that are applicable to the Republic's expenditures of $2,110,000 for the Maritime Domain Awareness Radars program for the year ended September 30, 2023.

Cause:

The Republic lacks effective control over the documentation of program contracts and grant agreements.

Effect:

The Republic is in potential noncompliance with applicable special tests and provisions requirements. No questioned costs are presented as we are aware that the program expenditures appear necessary and reasonable for the performance of the known project objectives.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

The Republic should provide the program's contract and grant agreements to demonstrate compliance with requirements, which could have a direct and material effect on the program. The Republic's management should establish and implement controls over obtaining and retaining federal award documents for all federal awards received by the Republic.

Views of Responsible Officials:

The Republic's Corrective Action Plan indicates disagreement with the finding. The Republic's position is set forth in the accompanying Corrective Action Plan.

Finding No.:	**2023-011**
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social and Political Development of the Territories
Federal Award No.:	D20AF00041-02, D23AF00108-00, D19AP00097-02, D22AP00197-01 D22AP00198-00, D20AP00113-01
Area:	Procurement, suspension and debarment
Questioned Costs:	$−

Criteria:

1. In accordance with 2 CFR § 200.319(a), all procurement transactions under a Federal award must be conducted in a manner that provides full and open competition. Further, 2 CFR § 200.320(a)(1)(i) requires that, to the extent practicable, micro-purchases be distributed equitably among qualified suppliers.

2. 2 CFR § 200.214 subjects non-Federal entities to the non-procurement suspension and debarment regulations in 2 CFR part 180, which restrict awards, subawards, and contracts with parties that are debarred, suspended, or otherwise excluded from Federal awards. Under 2 CFR § 180.300, before entering into a covered transaction with another person or entity at the next lower tier, the non-Federal entity must verify that the party is not excluded or disqualified. This verification may be completed by reviewing the SAM.gov Exclusions, obtaining a certification from the entity, or including an appropriate suspension and debarment clause or condition in the contract or agreement. Further, in accordance with 2 CFR § 200.318(i), non-federal entities must maintain records sufficient to document the history of procurement transactions; and 2 CFR § 200.334 requires retention of all supporting documentation for Federal awards. Together, these regulations require that documentation of the suspension and debarment verification be retained to demonstrate compliance with Federal procurement and suspension and debarment requirements.

Condition:

1. The Republic’s procurement regulation § 625(c)(3) permits small purchases under $2,500 after obtaining one written price quotation. However, the policy does not demonstrate full and open competition to ensure that to the extent practicable, small purchases are distributed equitably among qualified suppliers. Of the 131 procurement transactions, 54 were identified as within the threshold established under § 625(c)(3).

Finding No.: **2023-011, continued**
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: D20AF00041-02, D23AF00108-00, D19AP00097-02, D22AP00197-01 D22AP00198-00, D20AP00113-01
Area: Procurement, suspension and debarment
Questioned Costs: $–

Condition, continued:

No.	No. of Transactions	General Ledger Account Name	Amount
1	20	General Supplies	$ 16,123
2	18	Fuel & Other Pol Products	9,220
3	7	Advertising	5,480
4	4	All Other Rentals	3,467
5	3	Boat Rentals	4,900
6	1	Medical Supplies	364
7	1	Vehicle Cycle Etc Rentl	540
Total:	**54**		$ **40,094**

2. The Republic represents that vendors are verified in SAM.gov before entering into covered transactions; however, no documentation was retained to demonstrate that the required verification occurred. Documentation such as screenshots, printouts, approval records, or other system-based evidence showing that the SAM.gov check was performed, was not available in the procurement or vendor files. Of the 57 purchase orders issued during the year ended September 30, 2023, 4 were identified as covered transactions subject to federal suspension and debarment requirements, totaling $1,978,024.

No.	Purchase Order #	Vendor	Amount
1	22301491	PATIENT FOCUS ARFICA (PTY) TD.	$ 48,349
2	22303764	ARC CONSULTANCY	131,924
3	22305075	GOPHER SPORT	95,036
4	PC2 ROJECT	BELAU SUBMARINE CABLE CORPORATION	1,702,715
Total:			$ **1,978,024**

Auditor verification of the above vendors in SAM.gov did not identify any as suspended or debarred. However, the absence of documentation prevents the Republic from demonstrating compliance with Federal suspension and debarment requirements.

Finding No.: **2023-011, continued**
Federal Agency: U.S. Department of Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: D20AF00041-02, D23AF00108-00, D19AP00097-02, D22AP00197-01 D22AP00198-00, D20AP00113-01
Area: Procurement, suspension and debarment
Questioned Costs: $−

Cause:

The Republic's procurement policy does not ensure full and open competition for small purchases due to lack of required procedures to equitably distribute small purchases among qualified suppliers. Additionally, the Republic's procurement procedures do not require the retention of documentation evidencing that suspension and debarment checks were performed.

Effect:

The Republic is not in compliance with Federal procurement, suspension and debarment requirements. Without federally compliant procedures and supporting documentation, the extent of questioned costs cannot be determined, resulting in an undeterminable question cost.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

We recommend that the Republic update its procurement policies and procedures to include specific guidance to ensure full and open competition to equitably distribute small purchases among available qualified suppliers. Management should ensure that documentation supporting the basis for supplier selection is consistently maintained in procurement files.

Additionally, we recommend that the Republic strengthen its procurement and vendor-approval procedures to require retention of evidence demonstrating that suspension and debarment verification was performed for each covered transaction. Acceptable documentation may include date-stamped screenshots of the SAM.gov search, system-generated verification logs, or signed certifications. Documentation should be consistently retained in the procurement or vendor file to support compliance with Federal requirements.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-012**
Federal Agency: Office of Special Education and Rehabilitative Services, U.S. Department of Education
AL Program: 84.027 Special Education Grants to States
Federal Award No.: H027A210006-21A, H027A220006-22A, H027A230006-23A
Area: Procurement, Suspension and Debarment
Questioned Costs: $−

Criteria:

1. In accordance with 2 CFR § 200.319(a), all procurement transactions under a Federal award must be conducted in a manner that provides full and open competition. Further, 2 CFR § 200.320(a)(1)(i) requires that, to the extent practicable, micro-purchases be distributed equitably among qualified suppliers.

2. 2 CFR § 200.214 subjects non-Federal entities to the non-procurement suspension and debarment regulations in 2 CFR part 180, which restrict awards, subawards, and contracts with parties that are debarred, suspended, or otherwise excluded from Federal awards. Under 2 CFR § 180.300, before entering into a covered transaction with another person or entity at the next lower tier, the non-Federal entity must verify that the party is not excluded or disqualified. This verification may be completed by reviewing the SAM.gov Exclusions, obtaining a certification from the entity, or including an appropriate suspension and debarment clause or condition in the contract or agreement. Further, in accordance with 2 CFR § 200.318(i), non-federal entities must maintain records sufficient to document the history of procurement transactions, and 2 CFR § 200.334 requires retention of all supporting documentation for Federal awards. Together, these regulations require that documentation of the suspension and debarment verification be retained to demonstrate compliance with Federal procurement and suspension and debarment requirements.

Condition:

1. The Republic's procurement regulation § 625(c)(3) permits purchases under $2,500 after obtaining one written price quotation. However, the policy does not demonstrate full and open competition to ensure that to the extent practicable, small purchases are distributed equitably among qualified suppliers. Of the 143 procurement transactions, 46 were identified as within the threshold established under § 625(c)(3).

Finding No.: **2023-012, continued**
Federal Agency: Office of Special Education and Rehabilitative Services, U.S. Department of Education
AL Program: 84.027 Special Education Grants to States
Federal Award No.: H027A210006-21A, H027A220006-22A, H027A230006-23A
Area: Procurement, Suspension and Debarment
Questioned Costs: $−

Condition, continued:

No.	No. of transactions	GL Account Name	Amount
1	19	Machinery & Equip Repair	$ 6,103
2	24	General Supplies	17,106
3	1	Professional	425
4	1	Advertising	500
5	1	Conference	504
Total:	**46**		**$ 24,638**

2. The Republic represents that vendors are verified in SAM.gov before entering into covered transactions; however, no documentation was retained to demonstrate that the required verification occurred. Documentation such as screenshots, printouts, approval records, or other system-based evidence showing that the SAM.gov check was performed was not available in the procurement or vendor files. Of the 38 purchase orders issued during the year ended September 30, 2023, 2 were identified as covered transactions subject to federal suspension and debarment requirements, totaling $92,149.

No.	Purchase Order #	Vendor	Amount
1	22305991	EDHANNAH EDUCATION CONSULTING SERVICES	$ 21,000
2	22300871	GUAM CEDDERS	71,149
Total:			**$ 92,149**

Auditor verification of the above vendors in SAM.gov did not identify any as suspended or debarred. However, the absence of documentation prevents the Republic from demonstrating compliance with Federal suspension and debarment requirements.

Cause:

The Republic's procurement policy does not ensure full and open competition for small purchases due to lack of required procedures to equitably distribute micro-purchases among qualified suppliers. Additionally, the Republic's procurement procedures do not require the retention of documentation evidencing that suspension and debarment checks were performed.

Finding No.:	**2023-012, continued**
Federal Agency:	Office of Special Education and Rehabilitative Services, U.S. Department of Education
AL Program:	84.027 Special Education Grants to States
Federal Award No.:	H027A210006-21A, H027A220006-22A, H027A230006-23A
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$−

Effect:

The Republic is not in compliance with Federal procurement, suspension and debarment requirements. Without federally compliant procedures and supporting documentation, the extent of questioned costs cannot be determined, resulting in an undeterminable question cost.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

We recommend that the Republic update its procurement policies and procedures to include specific guidance to ensure full and open competition to equitably distribute small purchases among available qualified suppliers. Management should ensure that documentation supporting the basis for supplier selection is consistently maintained in procurement files.

Additionally, we recommend that the Republic strengthen its procurement and vendor-approval procedures to require retention of evidence demonstrating that suspension and debarment verification was performed for each covered transaction. Acceptable documentation may include date-stamped screenshots of the SAM.gov search, system-generated verification logs, or signed certifications. Documentation should be consistently retained in the procurement or vendor file to support compliance with Federal requirements.

Views of Responsible Officials:

The Republic’s Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-013**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 1 H8FCS41190-01-00, 3 H8FCS41190-01-03, 4 H8FCS41190-01-07
Area: Cash Management
Questioned Costs: $1,183,611

Criteria:

In accordance with the 2023 OMB Compliance Supplement, Part 3, Section C: Cash Management, when non-federal entities are funded under the reimbursement method, the supporting expenditures should be incurred prior to the date of the reimbursement request.

Condition:

During the testing of cash management requirements, we identified that the Republic submitted a duplicate drawdown request to the grantor agency. A drawdown request dated July 31, 2023, was submitted for $1,183,611. A subsequent drawdown request dated August 7, 2023, totaling $1,214,654, included the same expenditure details and supporting documentation used for the original $1,183,611 request. As a result, the July 31 drawdown request amount of $1,183,611 was duplicated within the August 7 drawdown request.

No.	Subaccount	Subaccount Requested Amount	Request Date	Debit Date	Schedule Number
1	21H8FCS41190C6	$ 1,183,611	7/31/2023	8/2/2023	83463
2	21H8FCS41190C6	$ 1,214,654	8/7/2023	8/9/2023	83480

Cause:

The duplicate drawdown occurred due to lack of review and monitoring controls in preparing drawdown requests.

Effect:

The Republic received federal funds in excess of the allowable reimbursement and is not in compliance with applicable cash management requirements. The reportable questioned cost is the duplicated portion of the August 7 drawdown request, which amounted to $1,183,611.

Identification as a Repeat Finding: This is not a repeat finding.

Finding No.:	**2023-013, continued**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.224 Health Center Program
Federal Award No.:	1 H8FCS41190-01-00, 3 H8FCS41190-01-03, 4 H8FCS41190-01-07
Area:	Cash Management
Questioned Costs:	$1,183,611

Recommendation:

The Republic should strengthen the effectiveness of its existing reconciliation and review procedures to ensure duplicate drawdown requests are avoided. The Republic should require a check of prior drawdowns before submitting new requests and maintain a clear log to prevent re-requesting the same expenditures.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.:	**2023-014**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.224 Health Center Program
Federal Award No.:	1 H8FCS41190-01-00, 3 H8FCS41190-01-03, 4 H8FCS41190-01-07, 5 H80CS02467-37-00, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07, 3 H80CS02467-36-01, 1 H8GCS47659-01-00, 4 H8GCS47659-01-02
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$−

Criteria:

1. In accordance with 2 CFR § 200.319(a), all procurement transactions under a Federal award must be conducted in a manner that provides full and open competition. Further, 2 CFR § 200.320(a)(1)(i) requires that, to the extent practicable, micro-purchases be distributed equitably among qualified suppliers.

2. 2 CFR § 200.214 subjects non-Federal entities to the non-procurement suspension and debarment regulations in 2 CFR part 180, which restrict awards, subawards, and contracts with parties that are debarred, suspended, or otherwise excluded from Federal awards. Under 2 CFR § 180.300, before entering into a covered transaction with another person or entity at the next lower tier, the non-Federal entity must verify that the party is not excluded or disqualified. This verification may be completed by reviewing the SAM.gov Exclusions, obtaining a certification from the entity, or including an appropriate suspension and debarment clause or condition in the contract or agreement. Further, in accordance with 2 CFR § 200.318(i), non-federal entities must maintain records sufficient to document the history of procurement transactions, and 2 CFR § 200.334 requires retention of all supporting documentation for Federal awards. Together, these regulations require that documentation of the suspension and debarment verification be retained to demonstrate compliance with Federal procurement and suspension and debarment requirements.

Condition:

1. The Republic's procurement regulation § 625(c)(3) permits purchases under $2,500 after obtaining one written price quotation. However, the policy does not demonstrate full and open competition to ensure that small purchases are distributed equitably among qualified suppliers. Of the 583 procurement transactions, 140 were identified as within the threshold established under § 625(c)(3).

Finding No.: **2023-014, continued**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 1 H8FCS41190-01-00, 3 H8FCS41190-01-03, 4 H8FCS41190-01-07, 5 H80CS02467-37-00, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07, 3 H80CS02467-36-01, 1 H8GCS47659-01-00, 4 H8GCS47659-01-02
Area: Procurement, Suspension and Debarment
Questioned Costs: $−

Condition, continued:

No.	No. of Transactions	General Ledger Account Name	Amount
1	7	Boat Rentals	$ 9,400
2	64	General Supplies	60,349
3	7	Advertising	1,045
4	6	Conference	11,800
5	1	All Other Purchased Serv	1,999
6	39	Vehicle Cycle Repair	7,987
7	12	Building/Space Rentals	5,830
8	4	Machinery & Equip Repair	837
Total:	**140**		**$ 99,247**

2. The Republic represents that vendors are verified in SAM.gov before entering into covered transactions; however, no documentation was retained to demonstrate that the required verification occurred. Documentation such as screenshots, printouts, approval records, or other system-based evidence showing that the SAM.gov check was performed was not available in the procurement or vendor files. Of the 185 purchase orders issued during the year ended September 30, 2023, 19 were identified as covered transactions subject to federal suspension and debarment requirements, totaling $2,101,228, of which 12 totaling $1,919,175 were selected for testing.

Finding No.: **2023-014, continued**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 1 H8FCS41190-01-00, 3 H8FCS41190-01-03, 4 H8FCS41190-01-07, 5 H80CS02467-37-00, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07, 3 H80CS02467-36-01, 1 H8GCS47659-01-00, 4 H8GCS47659-01-02
Area: Procurement, Suspension and Debarment
Questioned Costs: $−

Condition, continued:

No.	Purchase Order #	Vendor	Amount
1	22300843	MEDPHARM	$ 93,032
2	22301907	PACIFIC SOURCE INC. LTD.	490,573
3	22301908	PACIFIC SOURCE INC. LTD.	512,382
4	22301909	PACIFIC SOURCE INC. LTD.	463,320
5	22302788	MEDPHARM	111,550
6	22300845	MD WHOLESALE	55,160
7	22301465	MD WHOLESALE	11,952
8	22302557	MD WHOLESALE	29,607
9	22302790	MEDPHARM	80,946
10	22303546	G&N CLEANING EXPRESS	16,560
11	22306254	ARC HEALTH	37,125
12	22307066	MD WHOLESALE	16,968
Total:			$ **1,919,175**

Auditor verification of the above vendors in SAM.gov did not identify any as suspended or debarred. However, the absence of documentation prevents the Republic from demonstrating compliance with Federal suspension and debarment requirements.

Cause:

The Republic's procurement policy does not ensure full and open competition for small purchases and does not include procedures to equitably distribute micro-purchases among qualified suppliers. Additionally, the Republic's procurement and vendor compliance procedures do not require the retention of documentation evidencing that suspension and debarment checks were performed.

Finding No.:	**2023-014, continued**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.224 Health Center Program
Federal Award No.:	1 H8FCS41190-01-00, 3 H8FCS41190-01-03, 4 H8FCS41190-01-07, 5 H80CS02467-37-00, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07, 3 H80CS02467-36-01, 1 H8GCS47659-01-00, 4 H8GCS47659-01-02
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$−

Effect:

The Republic is not in compliance with Federal procurement, suspension and debarment requirements. Without federally compliant procedures and supporting documentation, the extent of questioned costs cannot be determined, resulting in an undeterminable question cost.

Identification as a Repeat Finding: Finding 2022-009

Recommendation:

We recommend that the Republic update its procurement policies and procedures to include specific guidance to ensure full and open competition and to equitably distribute micro-purchases among qualified suppliers. Management should ensure that documentation supporting the basis for supplier selection is consistently maintained in procurement files.

Additionally, we recommend that the Republic strengthen its procurement and vendor-approval procedures to require retention of evidence demonstrating that suspension and debarment verification was performed for each covered transaction. Acceptable documentation may include date-stamped screenshots of the SAM.gov search, system-generated verification logs, or signed certifications. Documentation should be consistently retained in the procurement or vendor file to support compliance with Federal requirements.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.: **2023-015**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 5 H80CS02467-37-00, 6 H80CS02467-37-01, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07
Area: Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs: $1,354

Criteria:

Per the 2023 OMB Compliance Supplement, Part 4, Agency Program for ALN 93.224, Section III-N: Special Tests and Provisions – Sliding Fee Discounts, health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay as follows:

a. Sliding fee discounts are applied to fees for health center services provided to all individuals and families with annual incomes at or below 200 percent of the Federal Poverty Guidelines (FPG).
b. A full discount is applied to fees for health center services provided to individuals and families with annual incomes at or below 100 percent of the FPG, or the health center applies only a nominal charge.
c. Fees for health center services are discounted based on gradations in family size and income for individuals and families with incomes above 100 and at or below 200 percent of the FPG.
d. No sliding fee discount is applied to fees for health center services provided to individuals and families with annual incomes above 200 percent of the FPG.

Conditions:

a. The sliding fee discount schedule used by the Republic is the Ministry of Health and Human Service's Sliding Fee Scale, which is not in accordance with Federal requirements, and has not been updated since January 2006 as shown below. The discounts were applied and determined based on whether the patient is a resident or a nonresident, tourist or non-tourist, with insurance or none, senior citizen, and behavioral health patient.

Family Size	Ministry of Health and Human Services Sliding Fee Schedule Percentage of Maximum Charge based on Family Income & Size					
	20%	**30%**	**40%**	**50%**	**60%**	**70%**
1	0-5,700	5,701-10,050	10,051-12,600	12,601-14,100	14,101-17,500	>17,500
2	0-6,600	6,601-13,500	13,501-16,300	16,301-19,000	19,001-21,800	>21,800
3	0-7,400	7,401-17,000	17,001-20,500	20,501-23,900	23,901-27,500	>27,500
4	0-8,500	8,501-20,600	20,601-24,800	24,801-28,900	28,901-32,500	>32,500
5	0-9,700	9,701-24,200	24,201-29,000	29,001-33,800	33,801-38,700	>38,700
6	0-10,700	10,701-27,700	27,701-33,200	33,201-37,500	37,501-43,000	>43,000
7	0-11,500	11,501-31,200	31,201-37,400	37,401-43,700	43,701-46,000	>46,000
8	0-12,600	12,601-34,700	34,701-41,600	41,601-48,600	48,601-55,600	>55,600

2023 Federal Poverty Guidelines	
100%	**200%**
$14,580	$29,160
19,720	39,440
24,860	49,720
30,000	60,000
35,140	70,280
40,280	80,560
45,420	90,840
50,560	101,120

Finding No.: **2023-015, continued**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 5 H80CS02467-37-00, 6 H80CS02467-37-01, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07
Area: Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs: $1,354

Conditions, continued:

Family Size	Ministry of Health Sliding Fee Schedule Percentage of Maximum Charge based on Family Income & Size					
	20%	30%	40%	50%	60%	70%
9	0-14,800	14,801-38,300	38,301-45,900	45,901-53,600	53,601-65,000	>65,000
10	0-16,600	16,601-41,800	41,801-50,200	50,201-58,500	58,501-70,000	>70,000
11	0-18,900	18,901-45,300	45,301-54,400	54,401-63,400	63,401-75,000	>75,000
12	0-23,500	23,501-48,800	48,801-58,600	58,601-68,400	68,401-85,000	>85,000

2023 Federal Poverty Guidelines	
100%	200%
55,700	111,400
60,840	121,680
65,980	131,960
71,120	142,240

b. For 53 (or 88%) of the 60 invoices tested, $2,123 out of $2,602,954 in total billed amount, patients were not properly billed in accordance with the FPG. A full discount was not applied to fees for health center services provided to individuals and families with annual incomes at or below 100% of the FPG, or a nominal charge.

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Billed Amount	Audit Calculation	Overbilled
1	787277	764957	1	$ –	$ 64	$ 39	$ 25
2	787819	765457	4	–	18	15	3
3	789092	766766	4	–	11	6	5
4	848190	824175	4	12,571	101	89	12
5	793230	770873	3	–	8	6	2
6	796501	774039	1	–	6	6	-
7	797128	774688	4	27,000	21	18	3
8	797721	775240	1	–	57	45	12
9	797818	775349	1	–	103	39	64
10	801261	778707	1	–	9	–	9
11	802290	779671	1	5,426	71	34	37
12	804927	782163	6	18,200	21	-	21
13	806898	784035	1	644	19	10	9
14	807608	784780	2	–	31	–	31
15	813192	790462	6	118	46	–	46
16	814856	791804	1	–	21	12	9
17	815213	792247	4	–	131	–	131
18	815876	792751	2	–	7	6	1
19	818029	794944	2	–	36	34	2
20	818263	795048	1	–	15	–	15
21	820650	797464	1	–	8	–	8
22	820731	797364	1	–	22	5	17
23	821582	798229	1	–	79	10	69
24	822114	798690	1	4,020	22	18	4
25	822216	798815	1	–	136	–	136
26	824758	801180	2	–	41	39	2

Finding No.: **2023-015, continued**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 5 H80CS02467-37-00, 6 H80CS02467-37-01, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07
Area: Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs: $1,354

Conditions, continued:

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	Overbilled
27	827135	803468	4	$ 27,000	$ 5	$ –	5
28	808787	786091	3	18,162	121	29	92
29	834360	810455	1	–	68	6	62
30	840094	816261	1	–	55	–	55
31	840363	816597	2	10,654	39	5	34
32	842882	819135	1	–	112	10	102
33	849755	837941	3	252	52	35	17
34	851139	826909	1	14,344	31	5	26
35	856826	832215	3	6,311	19	5	14
36	858240	833919	7	–	18	11	7
37	861380	836621	2	14,657	28	11	17
38	861518	836728	9	–	182	11	171
39	863886	839511	3	–	8	–	8
40	845667	821845	5	16,894	13	–	13
41	829948	806271	2	–	4	–	4
42	794661	772305	2	6,000	5	–	5
43	804242	781544	1	1,974	33	29	4
44	805480	782731	1	–	31	29	2
45	808859	785946	1	–	11	10	1
46	818784	795565	1	–	36	20	16
47	826380	802729	1	11,085	12	5	7
48	850512	826525	2	–	12	–	12
49	851026	826812	1	–	1	–	1
50	791924	769826	2	–	3	–	3
51	857073	833490	5	–	8	–	8
52	857388	832805	3	252	53	44	9
53	859027	834391	2	8,074	61	12	49
				Subtotal:	$2,125	$708	$1,417

Finding No.: **2023-015, continued**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program
Federal Award No.: 5 H80CS02467-37-00, 6 H80CS02467-37-01, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07
Area: Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs: $1,354

Conditions, continued:

c. For 1 (or 1%) of 60 invoices tested, $13 of $2,602,954 in total billed amount, patients were not properly billed based on the FPG. The fees for health center services were not properly discounted based on gradations in family size and income for this individual with income above 100 and at or below 200% of the FPG.

Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	Overbilled
852731	828622	1	$14,991	$13	$10	$3

d. For 2 (or 3%) of 60 invoices tested, $285 of $2,602,954 in total billed amount, patients were not properly billed based on the FPG. The sliding fee discount was applied to fees for health center services provided to this with annual income above 200% of the FPG.

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	(Underbilled)
1	850308	826165	1	$ 37,920	$ 210	$ 244	$ (34)
2	859829	835191	1	$ 46,675	75	107	(32)
				Grand Total:	**$ 285**	**$ 351**	**$ (66)**

Cause:

Republic of Palau Public Law (RPPL) 7-13 Section 19, which amends RPPL 5-7, requires Palauan citizens and their spouses to be charged hospital fees at a subsidized rate compared to non-Palauans. Accordingly, the Ministry of Health and Human Services implemented its sliding fee schedule policy in 2006 in accordance with RPPL 7-13.

The community health centers program adopted its fee schedule policy based on income and family size. However, this policy cannot be implemented without the support of the Olbiil era Kelulau (National Congress).

Effect:

The Republic is in noncompliance with applicable special tests and provisions requirements for sliding fee discounts. Reportable questioned cost is $1,354.

Finding No.:	**2023-015, continued**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.224 Health Center Program
Federal Award No.:	5 H80CS02467-37-00, 6 H80CS02467-37-01, 2 H80CS02467-38-00, 6 H80CS02467-38-03, 5 H80CS02467-39-00, 6 H80CS02467-39-01, 6 H80CS02467-39-03, 6 H80CS02467-39-06, 6 H80CS02467-39-07
Area:	Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs:	$1,354

Identification as a Repeat Finding: Finding 2022-010

Recommendation:

We recommend that the Republic implement policies related to the sliding fee discount based on family income and size, in accordance with the aforementioned criteria.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Finding No.:	**2023-016**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.898 Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations
Federal Award No.:	1 NU58DP007116-01-00, 1 NU58DP007116-01-00, 6 NU58DP007116-01-01, 6 NU58DP007116-01-01, 5 NU58DP007116-02-00, 5 NU58DP007116-02-00
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$−

Criteria:

1. In accordance with 2 CFR § 200.319(a), all procurement transactions under a Federal award must be conducted in a manner that provides full and open competition. Further, 2 CFR § 200.320(a)(1)(i) requires that, to the extent practicable, micro-purchases be distributed equitably among qualified suppliers.

2. 2 CFR § 200.214 subjects non-Federal entities to the non-procurement suspension and debarment regulations in 2 CFR part 180, which restrict awards, subawards, and contracts with parties that are debarred, suspended, or otherwise excluded from Federal awards. Under 2 CFR § 180.300, before entering into a covered transaction with another person or entity at the next lower tier, the non-Federal entity must verify that the party is not excluded or disqualified. This verification may be completed by reviewing the SAM.gov Exclusions, obtaining a certification from the entity, or including an appropriate suspension and debarment clause or condition in the contract or agreement. Further, in accordance with 2 CFR § 200.318(i), non-federal entities must maintain records sufficient to document the history of procurement transactions, and 2 CFR § 200.334 requires retention of all supporting documentation for Federal awards. Together, these regulations require that documentation of the suspension and debarment verification be retained to demonstrate compliance with Federal procurement and suspension and debarment requirements.

Condition:

1. The Republic's procurement regulation § 625(c)(3) permits small purchases under $2,500 after obtaining one written price quotation. However, the policy does not demonstrate full and open competition to ensure that micro-purchases are distributed equitably among qualified suppliers. Of the 224 procurement transactions, 72 were identified as within the threshold established under § 625(c)(3).

Finding No.: **2023-016, continued**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.898 Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations
Federal Award No.: 1 NU58DP007116-01-00, 1 NU58DP007116-01-00, 6 NU58DP007116-01-01,6 NU58DP007116-01-01, 5 NU58DP007116-02-00, 5 NU58DP007116-02-00
Area: Procurement, Suspension and Debarment
Questioned Costs: $-

Condition, continued:

No.	No. of transactions	General Ledger Account Name	Amount
1	18	General Supplies	$ 19,541
2	1	All Other Rentals	240
3	13	Freight	6,894
4	3	Boat Rentals	3,000
5	3	All Other Purchased Serv	1,635
6	3	Conference	6,463
7	5	Vehicle Cycle Repair	628
8	11	Advertising	4,309
9	1	Dues & Fees	700
10	3	Machinery & Equip Repair	899
11	11	Fuel & Other Pol Products	5,865
Total:	**72**		**$ 50,174**

2. The Republic represents that vendors are verified in SAM.gov before entering into covered transactions; however, no documentation was retained to demonstrate that the required verification occurred. Documentation such as screenshots, printouts, approval records, or other system-based evidence showing that the SAM.gov check was performed was not available in the procurement or vendor files. Of the 70 purchase orders issued during the year ended September 30, 2023, 7 were identified as covered transactions subject to federal suspension and debarment requirements totaling $229,639.

No.	Purchase Order #	Vendor	Amount
1	22300343	TLAU T. RIDPATH	$ 32,500
2	22301468	MD WHOLESALE	5,371
3	22302270	UNIVERSITY OF HAWAII - OFFICE OF RESEARCH SERVICES	59,738
4	22304018	JMI-EDISON	93,300
5	22304084	SOCIAL SECURITY ADMINISTRATION	7,500
6	22306331	BELAU MEDICAL CLINIC	21,870
7	22307680	DIAGNOSTIC LABORATORY SERVICES, INC	9,360
Total:			$ **229,639**

Finding No.:	**2023-016, continued**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.898 Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations
Federal Award No.:	1 NU58DP007116-01-00, 1 NU58DP007116-01-00, 6 NU58DP007116-01-01,6 NU58DP007116-01-01, 5 NU58DP007116-02-00, 5 NU58DP007116-02-00
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$−

Condition, continued:

Auditor verification of the above vendors in SAM.gov not identify any as suspended or debarred. However, the absence of documentation prevents the Republic from demonstrating compliance with Federal suspension and debarment requirements.

Cause:

The Republic's procurement policy does not ensure full and open competition for small purchases due to lack of procedures to equitably distribute small purchases among qualified suppliers. Additionally, the Republic's procurement and vendor compliance procedures do not require the retention of documentation evidencing that suspension and debarment checks were performed.

Effect:

The Republic is not in compliance with Federal procurement, suspension and debarment requirements. Without federally compliant procedures and supporting documentation, the extent of questioned costs cannot be determined, resulting in an undeterminable question cost.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

We recommend that the Republic update its procurement policies and procedures to include specific guidance to ensure full and open competition and to equitably distribute small purchases among available qualified suppliers. Management should ensure that documentation supporting the basis for supplier selection is consistently maintained in procurement files.

Additionally, we recommend that the Republic strengthen its procurement and vendor-approval procedures to require retention of evidence demonstrating that suspension and debarment verification was performed for each covered transaction. Acceptable documentation may include date-stamped screenshots of the SAM.gov search, system-generated verification logs, or signed certifications. Documentation should be consistently retained in the procurement or vendor file to support compliance with Federal requirements.

Finding No.:	**2023-016, continued**
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.898 Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations
Federal Award No.:	1 NU58DP007116-01-00, 1 NU58DP007116-01-00, 6 NU58DP007116-01-01,6 NU58DP007116-01-01, 5 NU58DP007116-02-00, 5 NU58DP007116-02-00
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$−

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

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CORRECTIVE ACTION PLAN
2 CFR Section 200.511(c)
Year ended September 30, 2023

Finding Number	Corrective Action Plan	Proposed Completion Date	Name and Contact of Responsible Person
2023-001	We concur with the finding. A draft SOP to formalize recognition of PGST and BPT refunds at fiscal year end is under review and once finalized, will ensure timely preparation, reconciliation, and proper documentation. The Bureau is also finalizing procurement and implementation of a new system to enhance reporting and tracking of these refunds.	On-going	Elway Ikeda Director Bureau of Revenue & Taxation Ministry of Finance Contact:680-767-2561 Email: elwayi@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-002	We concur with the finding. Management will strengthen filing and tracking procedures, including assigning personnel to monitor audit requests, to ensure all required documents are compiled and submitted within established deadlines to prevent recurrence.	On-going	Darla Babauta Chief, Finance & Accounting Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: darlab@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-003	We concur with the finding. The outstanding federal receivable resulted from grants recorded under an incorrect UEI, which delayed drawdowns. The issue has been resolved, and the related drawdowns were processed in FY2026.	Corrected	Gandhi Ngirmidol Chief, Grants Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gngirmidol@palaugov.org Gail Rengiil Director

			Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-004	We concur with the finding and have begun compiling a centralized inventory of all lease agreements, including lessee and lessor arrangements. Designated staff will be trained to ensure consistent application and ongoing compliance with reporting requirements.	On-going	Darla Babauta Chief, Finance & Accounting Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: darlab@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-005	We concur with the finding. Management will strengthen controls to require timely submission of complete documentation and formalize access to records to ensure an adequate audit trail and independent verification.	On-going	William Moses Director Bureau of Marine Transportation Ministry of Public Infrastructure Industry Contact:680-767-2561 Email: whayesm@gmail.com Jay Anson Director Digital Residency Office Ministry of Finance Email: jaya@palaugov.org
2023-006	Management concurs with the finding and will implement semi-annual reconciliations and coordinate with the CIP Office to monitor project status. This will ensure timely reclassification of completed projects and accurate, complete recording of capital assets	On-going	Masato Ushibata System Accountant Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: masatou@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-007	We concur with the finding. Timing differences between	On-going	Gail Rengiil Director

	component unit reporting and actuarial valuation availability caused the variance. MOF is coordinating with CSPP to ensure timely issuance of future reports.		Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-008	We concur with the finding. MOF will gather and evaluate PPP documents, determine appropriate accounting treatment, and implement GASB 94.	Ongoing	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-009	We concur with the finding. Controls will be strengthened through quarterly reconciliations, formal classification procedures, and enhanced supervisory review.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-010	Management disagrees with the finding. Under Title III of the Amended Compact of Free Association (COFA), the United States may designate defense sites in Palau, and related funding is governed exclusively by the Compact and its agreements, not by 2 CFR Part 200 federal compliance requirements.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-011	We concur with the finding. Management has issued guidance to obtain at least two quotes when practicable. Procurement procedures are being reviewed to strengthen competition, and staff will retain date-stamped SAM.gov screenshots to document suspension and debarment checks before awards.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-012	We concur with the finding. Management has issued guidance to obtain at least two quotes when practicable. Procurement procedures are being reviewed to strengthen	On-going	Ida R. Kilcullen Director Bureau of Curriculum & Instruction Ministry of Education Contact: 680-488-2547 Email: ikilcullen@palauschools.org

	competition, and staff will retain date-stamped SAM.gov screenshots to document suspension and debarment checks before awards.		Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-013	We concur with the finding and are implementing corrective actions to strengthen review procedures, maintain clear drawdown logs, and guide staff, preventing duplicate requests and ensuring compliance.	On-going	Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palauhealth.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-014	We concur with the finding. Management has issued guidance to obtain at least two quotes when racticable. Procurement procedures are being reviewed to strengthen competition, and staff will retain date-stamped SAM.gov screenshots to document suspension and debarment checks before awards.		Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palauhealth.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2023-015	We concur with the findings. MHHS has noted to HRSA the conflict between the sliding fee requirement and national law and is working, with legal support, to resolve it. While full compliance is challenging, MHHS prioritizes equitable access and has never denied services based on inability to pay, ensuring all residents and visitors continue to receive care.	On-going	Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palauhealth.org

2023-016	We concur with the finding. Management has issued guidance to obtain at least two quotes when practicable. Procurement procedures are being reviewed to strengthen competition, and staff will retain date-stamped SAM.gov screenshots to document suspension and debarment checks before awards.	On-going	Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palauhealth.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2023

FINDING NO.	Program Area	Brief Description	Status of Finding	Comments
2022-001 2021-002	Schedule of Expenditures of Federal Awards	SEFA wasn't reconciled properly	Implemented	Management recently hired a consultant to help reconcile all accounts and train staff
2022-002	Capital Assets	Lack of control system to properly track and monitor asset transactions	On-going	Management is working with departments to require prompt submission of all asset transactions for timely recording.
2022-003	Procurement	Lack of control system for overseas office of the ROP.	On-going	Current procurement policy does not address real property acquisitions, MOF working with Legal Counsel to amend policy to include property acquisitions.
2022-004	GASB 87 Leases	Lack centralized inventory of lease agreements	On-going	Management recently hired staff to compile and keep track of all lease agreements.
2022-005	Subrecipient Monitoring	Lacks internal control policies to identify subrecipient relationships to ensure compliance	Resolved	MoF has implemented policies and procedures to identify and document subrecipient relationships and monitoring.
2022-006	17.225 Unemployment Insurance – Eligibility	Noncompliance with applicable eligibility requirements	On-going	MoF working with WIOA and DOL to correct this finding.
2022-007	17.225 Unemployment Insurance – Reporting	Noncompliance with reporting requirements	On-going	MoF working with WIOA and DOL to correct this finding.
2022-008	93.069 Public Health Emergency Preparedness – Procurement,	Noncompliance with Micro-purchase distribution	On-going	Management working with program to document micro-purchases

	Suspension & Debarment			
2022-009	93.224 Health Center Program – Procurement, Suspension & Debarment	Noncompliance with Micro-purchase distribution	On-going	Management working with program to document micro-purchases
2022-010 2021-007 2020-005	93.224 Health Center Program – Special Tests and Provisions	Noncompliance with applicable special tests and provisions requirements for sliding fee discounts	On-going	MHHS working to correct this finding
2021-008	93.268 Immunization Cooperative Agreements – Other information	Noncompliance with applicable other information	On-going	MOF and MHHS are working to correct this finding