Board of Trustees
Republic of Palau Civil Service Pension Trust Fund:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Republic of Palau Civil Service Pension Trust Fund (the Fund), which comprise the statement of fiduciary net position as of September 30, 2019, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 29, 2020.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2019-001 that we consider to be a material weakness.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

The Fund’s Response to the Finding

The Fund’s response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fund’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Deloitte & Touche LLC

January 29, 2020
Actuarial Deficiency

Finding No. 2019-001

Criteria: Under the provisions of Republic of Palau Public Law (RPPL) No. 2-26, the Board adopted a Trust Fund Operation Plan (the Plan) which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code.

Condition: The Fund’s actuarial valuation has determined that the Fund has a net pension liability of $250,868,784 which would cause the Fund’s fiduciary net position to become negative in 2023. The Fund’s Board of Trustees has adopted a formal funding plan to correct the potential funding deficiency; however, the funding plan has not yet been implemented.

Cause: The cause of the above condition is the lack of implementation of the funding plan.

Effect: The effect of the above condition is that the Fund may not be able to meet its benefit obligations.

Recommendation: We recommend that the Fund implement the formal funding plan to correct the potential funding deficiency.

Prior Year Status: The lack of a formal plan to fund the net pension liability was reported as a finding in the audits of the Fund for fiscal years 2014 through 2018.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Elliot Udui, Administrator/Chief Executive Officer and Everdil Rechebei, Chief Financial Officer

Corrective Action: In fiscal year 2018, after the failed attempt through the Administrative Procedure Act to get the Palau Civil Service Pension Plan Funding Plan into law, The Fund, through RPPL No. 10-25, was appropriated $150,000 to work in collaboration with the Olbiil Era Kelulau and the Ministry of Finance to commission an Actuarial Study that shall determine viable options toward a comprehensive reform.

In fiscal year 2019, Milliman Private Limited was tasked to conduct such study. The final report from the actuarial firm offered three recommendations: 1.) No change to vested leavers as well as current beneficiaries and active employees currently at age 55 and over. For active employees under age 55 - The normal retirement age would increase by 1 year every 5 years until it reaches 65. The current benefit formula would be 1% instead of 2% to be funded by 3% employee and employer contributions instead of 6%. All other features of the defined benefit rules would remain the same. 2.) Enrollment of the Private Sector employees to a separate section of the Plan, however, the Private Sector would not accrue the 1% defined benefit pension. The new defined contribution section would be extended to the private sector with the same employee/employer contribution rate of 6% similar with public sector employees. 3.) Government subvention where the current subvention is to be increased to at least $2 million annually with the above initiatives or be at least $5 million annually without the above initiatives.
Finding No. 2019-001, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

At the beginning of the new fiscal year 2020, the Plan has continued to work closely with the Olbiil Era Kelulau leaders as well as the Ministry of Finance to decide on which of the above recommendation would be the best solution to correct the current funding deficiency. On January 20, 2020, House Bill No. 10-126-13, A Bill for an Act, To amend Titles 33 and 41 of the Palau National Code to reform the Civil Service Pension Plan and extend the pension plan to the private sector, was introduced. It is currently being deliberated on.

Proposed Completion Date: Ongoing
REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Unresolved Prior Year Comments
Year Ended September 30, 2019

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