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AIRAI STATE GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED DECEMBER 31, 2018

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Deloitte & Touche LLC
Isa Drive, Capitol Hill
P.O. Box 500308
Saipan, MP 96950-0308
CNMI

Tel: (670) 322-7337/8
Fax: (670) 322-7340
www.deloitte.com

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

Honorable Tmewang Rengulbai
Governor
Airai State Government

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 statement of receipts and disbursements of the Airai State Government (the State) for the year ended December 31, 2018, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated October 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the statement of receipts and disbursements, we considered the State'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 statement of receipts and disbursements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 statement of receipts and disbursements 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-001 that we consider to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's statement of receipts and disbursements is 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 statement of receipts and disbursements 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 2018-001.

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.

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October 1, 2020

Disbursements

Finding No.: 2018-001

Criteria: In accordance with the Republic of Palau Public Laws (RPPL Nos. 3-54, 7-25 and 10-26), procurement regulations require the following:

- For disbursements procured prior to June 20, 2018, public notices of the invitation for bids shall be furnished to all State Governments and to all persons that have requested to be included in the bidder's mailing list within the previous twelve months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government; shall be publicly posted for at least fifteen days at the office of the Procurement Office, the post office building, the Courthouse and the Bureau of Domestic Affairs Office; and announced on all radio and television stations within the Republic. In addition, the Procurement Officer shall maintain a bidder's mailing list containing a list of potential bidders and suppliers requesting copies of invitations for bids in response to the public notice. The list is to be updated annually by the Procurement Officer.

- For disbursements procured on or after June 20, 2018, public notices shall be furnished to all persons and State governments who have requested to be included in the bidders mailing lists within the previous twelve months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government; shall be publicly posted for at least fifteen days at the Ministry of Finance's centralized bid website, at least two other Palau governmental or agency websites including the procuring agency's website; and announced on two radio and one television stations within the Republic.

- A bidding time of at least thirty calendar days shall be provided unless the Procurement Officer makes a written and substantiated determination that a shorter time period is reasonable and necessary.

- Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids and RPPL No. 3-54. Unsuccessful bidders shall also be promptly notified.

- Government contracts shall contain a clause which states that the signature of the private contractor shall be the last in time to be affixed to a contract and that no contract can be formed prior to the approval of all required government officials such as the Procurement Officer or his designee, the Attorney General or State's Attorney, if any, and the Governor or his designee.

- Competitive bidding procedure shall be required on any items sought by the State Governments of $5,000 or more for disbursements procured prior to June 20, 2018 and $10,000 or more for disbursements procured on or after June 20, 2018.

- Disbursements procured prior to June 20, 2018, three price quotations are not required on any small purchases under $10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Finding No.: 2018-001, Continued

Condition: Tests of thirty-eight disbursements noted lack of evidence of compliance with procurement requirements for the following:

- For nine disbursements (check nos. 34862, 35012, 35216, 35366, 36131, 36137, 36505, 37115 and wire transfer no. 003712603; totaling $11,225, $22,450, $6,375, $19,800, $15,250, $4,500, $28,000, $28,000 and $15,000, respectively), we were not able to determine that public notices were furnished to all State Governments and were posted at the designated public places for fifteen days due to lack of sufficient documentation such as written acknowledgement and/or certifications from the State Governments and the respective designated public places. In addition, the bidding periods were less than 30 calendar days; however, there was no written determination by the Procurement Officer that a shorter time period is reasonable and necessary.

- For three disbursements (check nos. 36137, 36505 and 37115; totaling $4,500, $28,000 and $28,000, respectively), the following was noted:

  - Documentation that the Request for Proposal was published in a newspaper and announced on the radio and television stations was not provided for check no. 36137.

  - Documentation that the Request for Proposal was announced on the radio and television stations was not provided for check nos. 36505 and 37115.

  - Documentation provided for the 15-day public notice announcements was only for one radio station for check nos. 36505 and 37115.

- A bidder's mailing list, containing a list of potential bidders and suppliers requesting copies of invitation for bids in response to the public notices, is not maintained.

- For four disbursements (check nos. 34862, 35012, 35216 and 35366; totaling $11,225, $22,450, $6,375 and $19,800, respectively), notices to unsuccessful bidders were not provided.

- For eight disbursements (check nos. 34862, 35012, 35216, 35366, 36131, 36137, 36505 and 37115; totaling $11,225, $22,450, $6,375, $19,800, $15,250, $4,500, $28,000 and $28,000, respectively), the contract agreements did not contain the required clauses and were signed solely by the Governor.

- For one disbursement (check no. 35023; totaling $19,387), the item was not procured through use of competitive bidding procedure.

- For two disbursements (check nos. 35675 and 35830; totaling $2,000 and $2,210, respectively), less than three quotations were obtained; however, adequate documentation was not on file substantiating that there are fewer than three suppliers of the items within the Republic.

- For one disbursement (check no. 35846; totaling $2,273), the approved purchase requisition was not provided. In addition, the approved accounts payable voucher for one disbursement (wire transfer no. 003712603; totaling $15,000) was not provided.

Finding No.: 2018-001, Continued

Condition, Continued:

- For four disbursements (check nos. 34928, 36427, 37048 and 37055; totaling $5,356, $5,265, $10,136 and $2,167, respectively), related procurement documents were not provided.
- For one disbursement (check no. 37055; totaling $2,167), the related contract or equivalent was not provided.
- For one disbursement (check no. 36505; totaling $28,000), supporting procurement and expenditure documents were not provided.

Cause: The cause of the above condition is a lack of controls over disbursements and documented compliance with procurement regulations.

Effect: The effect of the above condition is potential malfeasance with disbursements and noncompliance with procurement regulations.

Recommendation: We recommend the State comply with procurement regulations. Additionally, we recommend management strengthen procedures for obtaining and filing supporting approved purchase requisition forms, invoices or equivalent for disbursements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vilma Yoshiwo, Administrative Officer/Procurement Officer, Harriet Alfonso, Accounting Officer, Maria Evelyn G. Villarin, Accountant, Wanda Adolf, Treasurer/Budget Officer and Tmewang Rengulbai, Governor

Corrective Action:

- A log sheet/checklist was created for the Procurement Officer to determine that future public notices and requests for bidding proposal is furnished to the State Governments, Office of the Procurement Officer, the Post Office building, the Courthouse, the Bureau of Domestic Affairs Office and other public places.
- A checklist was created for the Procurement Officer to help monitor compliance requirements of RPPL 3-54.
- The State Treasurer/Budget Officer will ensure to include the required clauses on the contract.
- The Governor hired a Procurement Clerk on August 31, 2020 to help the Procurement Officer ensure that all compliance requirements of RPPL No. 3-54 are met and that all transactions will be properly documented.
- The Procurement Officer will create electronic files for all procurement documents before forwarding it to the Accounting Officer for payment.
- The Procurement Officer will obtain quotations from other internet providers and will consider the competitive price and the quality of service provided.
- The Accounting Officer who is in-charge of filing hard copies of disbursement documents will also ensure to scan issued checks and its attachments as backup for hard copy documentation.

Finding No.: 2018-001, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- The Accounting Officer will monitor and ensure documentation for payments be returned and will keep on file both hard and electronic copies and by maintaining a log book.

- The Accountant will ensure that the accounts payable voucher be completed before processing the bank wire transfer for payment.

Proposed Completion Date: August 17, 2020

Unresolved Prior Year Comments
Year Ended December 31, 2018

There are no unresolved findings from prior year audits of the State.