

NGARAARD STATE GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2019

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 Sharp Sakuma
Governor
Ngaraard State Government

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Ngaraard State Government (the State), which comprises the statement of receipts and disbursements for the years ended September 30, 2019 and 2018, and the related notes to the financial statement, and have issued our report thereon dated April 13, 2023. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statement due to the inability to obtain written representations from the State's management as required by auditing standards generally accepted in the United States of America.

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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2019-001 through 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

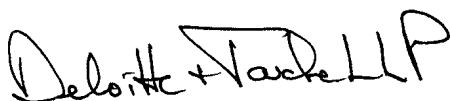
As part of obtaining reasonable assurance about whether the State's statement of receipts and disbursements is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2019-003.

The State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The State'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.



April 13, 2023

NGARAARD STATE GOVERNMENT

Schedule of Findings and Responses
Year Ended September 30, 2019

Financial Statements

Finding No.: 2019-001

Criteria: Financial statements should properly report all State receipts and disbursements.

Condition: Recorded receipts were overstated by \$34,218, as the amounts were recorded directly to fund balance. Audit adjustments were proposed to correct the errors.

Cause: Cash collections were not properly accounted and reconciled to the bank accounts and receipts for activities were not timely deposited to the bank.

Effect: The effect of the above condition is a material misstatement of receipts and possible usage of cash collections for unaccounted disbursements.

Recommendation: We recommend that management review financial statements to determine that all receipts are properly recorded.

Prior Year Status: Improper recording of receipts was reported as a finding in the audits of the State for fiscal years 2016 through 2018.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Latoya Besebes-State Treasurer

Corrective Action: Classification of restricted amount will be recorded as receipts and disbursements accordingly in current fiscal year 2023. Corrective adjustment will be made for previous year 2020 with the guidance of Public Auditor.

Proposed Completion Date: April 07, 2023

NGARAARD STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Cash Receipts

Finding No.: 2019-002

Criteria: Cash receipts should be issued in sequential order to verify completeness, should be reviewed and approved by management prior to timely deposit, and should be issued upon actual receipt of payment.

Condition:

1. Tests of cash collections deposited on 09/06/2019 noted the following:
 - a. The cash collection report had no evidence of independent review prior to deposit;
 - b. Collections were not timely deposited; cash receipts were dated between 06/05/2019 and 08/15/2019; and
2. Tests of cash collections deposited on 11/27/2018 had no evidence of independent review prior to deposit.

Cause: The State did not require management review of cash receipts and did not timely deposit collections.

Effect: The effect of the above condition is the lack of control over cash receipts.

Recommendation: We recommend that management establish a control process requiring daily review of the completeness of cash receipts and timely deposits.

Prior Year Status: Lack of controls over cash receipts was reported as a finding in the audits of the State for fiscal years 2016 through 2018.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Latoya Besebes-State Treasurer

Corrective Action: Drafting of cash collection policies will be done which will include guidelines for issuing receipts in sequence and only upon receiving cash. It is inefficient for the State to deposit daily due to the travel time and cost from Ngaraard to Koror. Thus, we will be proposing that the Treasurer make deposits weekly. We will be seeking guidance from the Public Auditor as we draft the policies.

Proposed Completion Date: April 07, 2023

NGARAARD STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Disbursements

Finding No.: 2019-003

Criteria: Procurement regulations require the following for purchases over \$5,000:

- at least fifteen days public notice prior to the date of the initial day of the bidding time;
- the notice shall be furnished to all state governments and to all persons who have requested to be included in bidder's mailing list within the previous 12 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;
- minimum of fifteen days bidding period;
- bid opening to be conducted by the Procurement Officer or his designee; the bids should be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation for bid; and
- written determination required by the procurement regulations shall be retained in the appropriate official contract file of the Procurement Officer.

In addition, price quotations should be obtained for small purchases.

Disbursements should be adequately and properly supported.

Condition: There is no centralized filing system for written determinations of official contracts and documentation evidencing compliance with procurement requirements. Tests of twenty three disbursements noted lack of evidence of compliance with procurement requirements for the following:

- Boarding passes, tickets and supporting invoices for travel expenses were not provided (check no. 7310);
- Inadequate quotations, justification and documentation of the vendor selection process were noted for check nos. 7808, 7287, 7316, 7393, 7462, 7547, 7610, 7856, 7877, 7911 and 7984.
- Missing or incomplete invoices and or liquidation report for check nos. 7316, 7877 and 7997.
- For recipients of check no. 7393 for typhoon assistance, the donation lacked acknowledgement of receipt.
- No details of scope of the change order was provided for check no. 7911.
- There is no process in place requiring evidence of the receipt of procured items.

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

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

NGARAARD STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No.: 2019-003, Continued

Recommendation: We recommend that the State comply with procurement regulations and that management establish control procedures requiring compliance with procurement regulations such as checklists to verify that procurement requirements are met. We recommend that management establish policies requiring adequate supporting invoices for disbursements. In addition, we recommend that the State establish control procedures requiring evidence of the receipt of goods procured such as a signature of the receiver on the invoice, receiving form or equivalent.

Prior Year Status: Lack of controls over disbursements was reported as a finding in the audits of the State for fiscal years 2016 through 2018.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Latoya Besebes- State Treasurer

Corrective Action: A thorough review of procurement policies will be done. Copies of the policies will be distributed to key officers for guidance. Additional policies on how to liquidate per diem and representation of funds will be drafted. We will seek guidance from the Office of the Public Auditor on resolving this matter.

Proposed Completion Date: April 07, 2023

NGARAARD STATE GOVERNMENT

Unresolved Prior Year Comments
Year Ended September 30, 2019

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