

NGARAARD STATE GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2016

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 Benjamin Iskawa
Governor
Ngaraard State Government

We have audited, in accordance with the 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 Ngaraard State Government (the State) as of and for the year ended September 30, 2016, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated January 24, 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 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 2016-001 through 2016-003 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 2016-003.

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.

Deloitte & Touche LLC

January 24, 2020

NGARAARD STATE GOVERNMENT
Schedule of Findings and Responses
Year Ended September 30, 2016

Financial Statements

Finding No.: 2016-001

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

Condition: Receipts and disbursements were understated by \$29,925 and \$102,108, respectively, as restricted amounts were recorded directly to fund balance. Audit adjustments were proposed to correct the understatements.

Cause: The cause of the above condition is that restricted receipts and disbursements were recorded directly to fund balance.

Effect: The effect of the above condition is a material misstatement of receipts and disbursements.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Latoya Besebes - State Treasurer

Corrective Action: Classification of restricted amounts will be recorded as receipts and disbursements accordingly in current fiscal year 2020. Corrective adjustments will also be made for previous years 2018 and 2019 with the guidance from the Office of the Public Auditor.

Proposed Completion Date: February 28, 2020

NGARAARD STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Cash Receipts

Finding No.: 2016-002

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. Additionally, Ngarraard State Public Law (NSPL) no. 7-17 requires vehicle tax to be paid annually on the date when the owner registers the vehicle with the National Bureau of Public Safety.

Condition: The fiscal year 2016 cash receipts listing did not include the following cash receipts and there was no documented explanation for the gaps:

<u>Cash Receipt No.</u>	<u>Cash Receipt No.</u>	<u>Cash Receipt No.</u>
7186	7372	7503
7192	7380 - 7381	7506
7224	7391	7509
7280	7409	7518
7305	7426	7524
7313	7445	7548
7326	7470	7593
7362	7486	7603
		7614 - 7615

In addition, tests of cash collections noted the following:

a. Cash collections were not deposited timely as follows:

<u>Total Deposits</u>	<u>Cash Receipts Date</u>	<u>Deposit Date</u>	<u>Days Lapsed</u>
\$ 480	03/25/15 - 03/31/16	04/01/16	5
\$ 5,058	05/27/16	06/02/16	5
\$ 5,031	09/22/16	09/29/16	6

b. Differences between amounts deposited and cash receipts were noted. Certain cash receipts were issued to expedite the vehicle registration process with an understanding that payments would be collected at a later date. Details follow:

<u>Deposit Date</u>	<u>Total Deposits</u>	<u>Total Cash Receipts</u>	<u>Difference</u>
04/01/16	\$ 480	\$ 507	\$ 27
05/17/16	\$ 296,399	\$ 296,439	\$ 40
09/29/16	\$ 4,891	\$ 5,031	\$ 140

c. There was no statutory basis or equivalent for the following rental rate, cost of materials, and permit fee sold:

<u>Cash Receipt No.</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
7475	05/16/16	\$ 296,292	99 year lease, \$20 per sq. ft.
7490	05/27/16	\$ 4,950	40 steel sheet pile
7609	09/22/16	\$ 3,500	Research permit fee

d. A 99-year lease agreement lacked a control number (receipt no. 7475).

The State is not consistently collecting vehicle tax at the time of vehicle registration as stated at b. above.

NGARAARD STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-002, Continued

Cause: The State did not sequentially issue and record cash receipts, did not require management review of cash receipts, did not timely deposit cash receipts, and certain cash receipts were prepared to expedite the vehicle registration process without payment.

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 cash receipts completeness, issue cash receipts sequentially, timely deposit of cash receipts and only issue cash receipts upon payment.

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 Ngarard to Koror. Thus, we will be proposing that the Treasurer make deposits weekly. We will be seeking guidance from the Office of the Public Auditor as we draft the policies.

As for the cash receipts that lacked "statutory basis or equivalent", copies of the agreements were presented to the auditor. We will seek guidance from the Office of the Public Auditor on how to further resolve this matter.

Proposed Completion Date: February 28, 2020

Auditor Response: For Condition c. above, there was no State law or equivalent establishing official rates for land lease, materials and permit fee.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Disbursements

Finding No.: 2016-003

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.

Disbursements should be adequately and properly supported.

Condition: There is no centralized filing system for the retention of written determinations of official contracts and documentation evidencing compliance with procurement requirements. Tests of twenty-eight disbursements noted that four, totaling \$133,442, for construction of the Public Works building lacked evidence of a formal bid process (check nos. 4994, 5099, 5157 and 5247).

Additionally, we noted the following:

- For one \$8,995 disbursement for a vehicle, the selected vendor quotation was \$2,000 more than the other price quotation and there was no written rationale for the vendor selected (check no. 5556);
- One \$2,500 disbursement for legal fees lacked evidence of compliance with procurement regulations such as price quotations or bid documents (check no. 5519);
- One \$1,960 disbursement combined per diem (\$1,130) and representation funds (\$830) which was supported by various receipts without distinction between what is per diem and what is representation (check no. 5371);
- The State paid \$118 of cellular phone services in excess of the agreed service provider plan (check nos. 5561 and 5170);
- One \$2,500 disbursement for legal fees lacked a supporting invoice or equivalent (ref no. 2016-016);
- Three disbursements totaling \$920 for meals of official meetings lacked attendance sheets or minutes of meetings to substantiate occurrence of the meeting (check nos. 5200, 5469 and 5578); and

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No.: 2016-003, Continued

Condition, Continued:

- Three disbursements totaling \$884 for food and donation (check nos. 5200, 5469 and 5542) were charged to Kerradel Conservation Network (KCN); however, such were not identified in the KCN budget management plan.

In addition, there is no process in place requiring evidence of receipt of items procured.

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 a potential for disbursement malfeasance and noncompliance with procurement regulations.

Recommendation: We recommend 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. Evidence of public notice advertisement such as invoice or newspaper ads should be retained in the appropriate official file of the Procurement Officer. We recommend that management establish policies requiring adequate supporting invoices for disbursements. Disbursements for payment of meals of official meetings should be accompanied by attendance sheets and meeting minutes. Disbursements should be made in accordance with State budgets. 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.

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 funds will be drafted. We will seek guidance from the Office of the Public Auditor on resolving this matter.

Regarding the KCN disbursement, the Treasurer and the Accountant attended a PAN meeting and training on January 15, 2020 and are now fully aware that any transaction not included in the workplan shall require prior approval before disbursement is made.

Proposed Completion Date: February 28, 2020

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Unresolved Prior Year Comments
Year Ended September 30, 2016

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