NGCHESAR STATE GOVERNMENT

INDEPENDENT AUDITORS’ REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017
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 Florencio Adelbai
Governor
Ngchesar 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 Ngchesar State
Government (the State) as of and for the year ended September 30, 2017, and the
related notes to the statement of receipts and disbursements, and have issued our

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 2017-002 that we consider
to be a material weakness.
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 2017-001.

The State's Response to Finding

The State's response to the finding 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 result 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.

March 11, 2020
Local Procurement

Finding No. 2017-001

Criteria: The State’s procurement regulations state the following:

- Any procurement not exceeding $10,000 may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Administration. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

- Formal bidding is not required but is encouraged for procurement not exceeding $10,000. Except that competitive bidding procedure shall be required on any items sought by the State governments of $5,000 or more.

Further, an effective system of internal control includes policies and procedures to determine that transactions are adequately substantiated.

Condition: Of twenty-four disbursements tested, totaling $49,017, formal bidding procedures were not performed for one purchase.

<table>
<thead>
<tr>
<th>General Ledger Date</th>
<th>Accounts Payable Voucher No.</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>07/12/17</td>
<td>FY2017-337</td>
<td>$15,339</td>
<td>Purchase of boat engine, parts, accessories and labor</td>
</tr>
</tbody>
</table>

Cause: The cause of the above conditions is the lack of control over adherence to procurement rules and regulations.

Effect: The effect of the above conditions is noncompliance with procurement regulations.

Recommendation: We recommend that Ngchesar State strengthen procedures to comply with procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Rosslyn Guardiano Tayag, Accountant

Corrective Action: We will strengthen internal control policies and procedures and comply with procurement law.

Proposed Completion Date: September 30, 2020
Receipts

Finding No. 2017-002

Criteria: Transactions should be recorded in the period incurred.

Condition: Tests of $220,646 of recorded receipts determined they were receipted in prior years. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is carrying forward prior year receipts.

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

Recommendation: We recommend that Ngchesar State cease carrying forward receipts of prior years for financial statement purposes.

Prior Year Status: Carrying forward receipts of prior years was reported as a finding in the audit of the State for fiscal year 2016.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Rosslyn Guardiano Tayag, Accountant

Corrective Action: We will record receipts accordingly and make proposed adjustments at fiscal year-end.

Proposed Completion Date: September 30, 2020
There are no unresolved findings from prior year audits of the State.