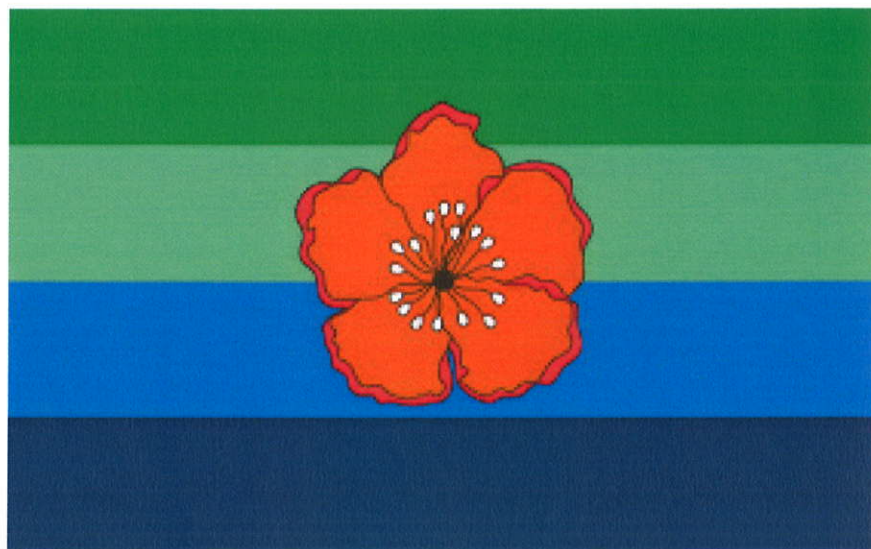




OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON



ANGAUR STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2010 THROUGH SEPTEMBER 30, 2013

Performed by the Office of the Public Auditor

ANG11-13*P07*opa00

REPUBLIC OF PALAU



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Office of the Public Auditor

October 4, 2016
Serial#: opa17-001au

Honorable Marvin T. Ngirutang
Governor
Angaur State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Performance Audit of Angaur State Government for the period October 1, 2010 through September 30, 2013.

Dear Governor Ngirutang:


This report presents the result of our performance audit of Angaur State Government for the period from October 1, 2010 through September 30, 2013.

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. The OPA considers the response unresponsive to the audit findings contained in said report pursuant to the Public Auditing Act Section 229(a). The response did not include your plans of corrective action to remedy the weaknesses/deficiencies cited in the report. Nonetheless, your response is published in the final report together with our comments.

As you did not provide corrective action plans in your response to remedy the weaknesses/deficiencies cited in the report, the OPA considers all the findings unresolved and outstanding.

If you have any questions regarding matters of audit findings and recommendations, the OPA will be available to discuss such matters at your request.

Sincerely,



Satrunio Tewid
Public Auditor
Republic of Palau

ANGAUR STATE GOVERNMENT
October 1, 2010 through September 30, 2013

TABLE OF CONTENTS

	<u>Page No.</u>
Executive Summary	1-3
Background	4
Budget and Finance	4
Objective, Scope and Methodology	4-5
Prior Audit Coverage	5
Findings and Recommendations:	
1. Checks Issued to "Cash"	6
2. Petty Cash Fund	7
3. Petty Cash Voucher and Supporting Documents	8
4. Revenues/Cash Receipts	8-9
5. Local Revenues Withheld, Used Petty Cash	9-10
6. Lack of State Unified Budget/Continuing Budget	10-11
7. Expenditures Without Documentations	11-13
8. Competitive Bidding	13
9. Payroll Advances to Employees	13-14
10. Fixed Assets	14-15
11. State Local Payroll/Personnel	15
Public Auditor's Comments	16

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Office of the Public Auditor

October 04, 2016

Honorable Marvin T. Ngirutang
Governor, Angaur State Government
Republic of Palau

Dear Governor Ngirutang:

This report presents the result of our audit on Angaur State Government for the three (3)-year period ended September 30, 2013. Specifically, the audit covered the period from October 01, 2010 to September 30, 2013.

The objective of the audit was to determine whether: (1) expenditures were incurred in accordance with national and State laws and regulations, (2) cash receipts were properly deposited into the State Treasury, (3) expenditures and cash receipts were supported by adequate documentation, (4) earmarked CIP grants were expended for purpose for which they were earmarked, and (5) the State has established proper internal control to ensure that its properties are safeguarded and its transactions properly recorded.

As a result of the review, the Office of the Public Auditor found a number of problems and deficiencies noted below relating to the administration of Angaur State funds, which we believe should be brought to the attention of management for appropriate corrective action. We also propose recommendations, which, we believe, if implemented, will correct these problems/deficiencies.

First, our audit disclosed that from fiscal year October 01, 2010 to September 30, 2013, the State issued twelve (12) checks to cash totaling \$ 10,279.64,

Second, the State expended \$25,709.70 of Petty Cash Fund without the essential policies and procedures to regulate the use of the Fund,

Third, the use of a Petty Cash Voucher was inconsistent and often times prepared incomplete as to purpose, recipient of cash, vendor, date, authorizing official, etc.,

Fourth, the audit revealed numerous internal control weaknesses over local revenue collections that led to the breakdown of the State's cash receipts system,

Fifth, from fiscal year 2011 through 2013, the State collected and withheld a total of \$28,563.46 of local revenues and used the collections for petty cash without first depositing the collections into the State Treasury,

Sixth, the State operated under a Continuing Resolution budget for the entire fiscal year 2012 and failed to pass a Continuing Resolution budget for fiscal year 2013 but continued to expend funds without a budget until a Unified Annual Budget was enacted on August 21, 2013,

Seventh, the State expended the sum of \$30,612.81 without proper supporting documents (invoices, receipts, contacts, etc.) to justify the purpose of the expenditures, cost of goods or services and to support the recording of expenditures,

Eighth, the State procured parts for the State boat in the amount of \$14,919.75 without competitive bidding,

Ninth, thirteen (13) State employees received salary advances totaling \$3,857.81 during the period fiscal year 2012 to 2013,

Tenth, the State was not able to provide a list of prior and current year fixed assets and the fixed asset listing provided lacked details as to cost, date, vendor, condition, etc.,

Eleventh, personnel files for the Office of the Governor's staff were missing and not provided for our examination.

Recommendations

To correct the above deficiencies, we recommend the Governor implements the following recommendations:

First, we recommend that all payments for goods and services be made by check and issued in the name of the vendor or company,

Second, we recommend that the Governor establish Petty Cash Fund policies and procedures to regulate the use of Petty Cash Fund,

Third, we recommend the Governor use a Petty Cash Voucher to initiate and document the use of petty cash,

Office of the Public Auditor

Fourth, we recommend the Governor establish and enforce controls over cash collections (i.e. boat fares) to ensure that cash receipts are properly reconciled to the appropriate cash receipts reports and deposits,

Fifth, we recommend the Governor comply with Article XI, Section 1 of the Angaur State Constitution by depositing all revenue collections into the State Treasury,

Sixth, we recommend the Governor and the State Legislature coordinate and collaborate in the process of enacting State Budget laws, it be a Unified Annual Budget, Supplemental or Continuing Resolution, to ensure the timely adoption and availability of funds for proper planning and execution of expenditures,

Seventh, we recommend that the Governor direct the State Treasurer to conduct periodic reviews of disbursements to ensure that they contain the proper documents to support expenditure of State funds,

Eighth, we recommend the Governor adhere to the Republic of Palau's Procurement Law and Regulations by ensuring that State procurements greater or equal to \$5,000 are subject to competitive bidding,


Ninth, we recommend the Governor suspend all future payroll advances to employees unless specifically authorized by state law,

Tenth, we recommend that all fixed assets purchased or donated be recorded in the State's fixed asset accounting system with sufficient details as to cost, date, vendor, condition, etc.,

Eleventh, we recommend the Governor use the personnel system to document all personnel actions of employees.

Finally, the Office of the Public Auditor would like to thank the staff and management of Angaur State Government for the professional courtesy and cooperation extended to us during the audit.

Sincerely,



Satrunino Tewid
Public Auditor

Background

Angaur State is one of the sixteen States of the Republic of Palau organized and structured pursuant to Article XI, Section 1, of the Constitution of the Republic of Palau and Angaur State. The Angaur State Constitution was adopted and approved on October 8, 1982. Pursuant to its Constitution, the Angaur State is organized into three branches: The Executive, Legislative, and Judiciary.

Pursuant to Article IX, Section 1 of the Constitution, the executive power of the State of Angaur shall be vested in the chief executive who shall be called the Governor. The Governor shall serve a two (2)–year term. The Governor shall have power to appoint heads of the executive branch subject to advice and consent of the Olbiil Era Ngeaur. The Governor shall submit the state annual budget to the Olbiil Era Ngeaur during its July regular session. The Olbiil Era Ngeaur may, by law, prescribe monetary compensation for the Governor.

The Legislative power of the State of Angaur shall be vested in the Legislative Branch, which shall be called the “Olbiil Era Ngeaur”. The Olbiil Era Ngeaur shall consist of the four (4) high chiefs of the State of Angaur and five (5) other members who shall be elected at–large. Members of the Olbiil Era Ngeaur shall serve two (2)–year term. Each Olbiil Era Ngeaur may, by law, prescribe monetary compensation of the members of the succeeding Olbiil Era Ngeaur; provided that no outgoing Olbiil Era Ngeaur shall increase the compensation of its own members.

Judicial power of Angaur State shall be as prescribed under Article X of the Constitution of the Republic of Palau, provided the State of Angaur shall reserve the right to establish its own judicial system at the time which the state shall determine appropriate.

Budget and Finance

The State Constitution requires that the Governor submit to the State Legislature an annual budget for State operations. Article XI, Section 1, of the State’s Constitution state: “There shall be an Angaur State Treasury into which all revenues derived from taxes and other sources except Angaur Trust Funds shall be deposited. No funds shall be withdrawn from the Treasury except by law. In addition, Section 6 states: “No officer or employee of Angaur State Government shall obligate or expend money for any purpose in excess of the amount of funds for which they were appropriated.

Objective, Scope and Methodology

The objective of the audit was to determine whether (1) expenditures were incurred in accordance with national and state government laws and regulations, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts were supported

Office of the Public Auditor

by adequate documentation, (4) earmarked CIP grants were expended for purposes for which they were earmarked, and (5) the state has established proper internal controls to ensure that its properties are safeguarded and its transactions properly recorded.

The scope of the audit covered the period beginning October 01, 2010 to September 30, 2013. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the State or any component or account within those financial statements and therefore express no opinion on the financial statements.

We conducted this performance audit in accordance with the Public Auditing Act and *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our audit objective, we reviewed accounting records maintained at the office of Angaur State, including budgetary laws and other relevant laws and regulations. We also reviewed records and reports maintained at the Bureau of National Treasury. In addition, we examined relevant sections of the Republic of Palau's (National Government) Unified Budget Acts and other applicable laws and regulations. Finally, we interviewed appropriate state officials regarding the financial operations of the State.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor to specifically act to prevent fraud, waste and abuse in the collection and expenditures of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste and abuse of public funds.

Prior Audit Coverage

The most recent audit of Angaur State was a performance audit conducted by the Office of the Public Auditor covering the period October 01, 2008 to September 30, 2010, which a report was issued dated June 24, 2011. Since then, there have been no other audits conducted, financial or otherwise, pertaining to the financial operations of the State. The last financial statement audit of Angaur State Government was conducted for fiscal year 1997.

Findings and Recommendations

Finding No. 1: Checks Issued to “Cash”

Payments by check for goods and services should be issued to a vendor or company, not to cash, to promote accountability and sound record keeping.

During the period from October 1, 2010 to September 30, 2013, we found that the State issued twelve (12) checks totaling \$10,279.64 to “cash” as payments for goods and services instead of a vendor or company as shown below:

Date	Check No.	Payee	Amount
3/25/2011	1047	Cash	\$ 50.00
4/13/2011	1076	Cash	3,000.00
5/11/2011	1150	Cash	2,500.00
9/29/2011	1372	Cash	500.00
12/9/2011	1456	Cash	1,067.14
2/3/2012	1530	Cash	400.00
10/18/2012	1864	Cash	878.00
6/6/2013	2205	Cash	100.00
7/1/2013	2237	Cash	739.50
9/11/2013	2342	Cash	45.00
9/26/2013	2366	Cash	<u>1,000.00</u>
	Total		\$ 10,279.64

We were unable to determine the reason why the Governor issued checks to cash instead of a vendor or company for the payment of goods and services.

As a result, the State issued checks payable to cash totaling \$10,279.64 as payments for goods and services for which we were unable to ascertain the legitimacy of the purchases and the existence of the companies.

Recommendation: We recommend that all payments for goods and services be made by check and issued in the name of the vendor or company. In addition, we recommend the Office of the Attorney General or the Special Prosecutor investigate the above payments and take appropriate action for any improprieties.

Angaur State’s Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 2: Petty Cash Fund

A proper system of internal control dictates that operation of a petty cash fund should be governed by policies and procedures such as authorized limit of the fund, method of replenishment, documentation requirements, reconciliation, restrictions on type of purchases, etc.

During the audit we found that the State operated a Petty Cash Fund without the essential policies and procedures to regulate the use of the fund. As such, during the period fiscal year 2011-2013, the State expended \$25,709.70 of petty cash for various activities. The Petty Cash Fund was funded by checks issued from the State checking account and from daily collections. We also found that there was no established limit and therefore the petty cash fund amount varied from month to month. The Petty Cash Voucher intended to control the use of petty cash was often times misapplied and incomplete as to recipient, purpose and authorization. Furthermore, documentation (Petty cash voucher, invoices/receipts, etc.) supporting the use of petty cash were incomplete and in disarray. On a number occasion the amount of petty cash taken was more than the invoice(s) amount and the leftover cash was not returned to the Petty Cash Fund.

The cause of the above condition is lack of policies and procedures for operating a Petty Cash Fund and management's failure to institute and enforce the proper controls over the use of the Petty Cash Fund.

As a result, we were unable to rely on the petty cash system used by the State for replenishing and recording petty cash expenditures. In addition, we were unable to determine the proper classification of petty cash expenditures due to lack of documentation and/or improper use of the petty cash vouchers. Moreover, a total of \$4,955.16 of petty cash expenses tested had problems such as lack of supporting documents, improper processing of voucher forms, lack of proper authorization, etc.

Recommendation: We recommend that the Governor establish Petty Cash Fund policies and procedures to regulate the use of Petty Cash Fund. At a minimum, the policies and procedures should include the following: petty cash fund limit, method of replenishment, documentation requirements, restrictions on type of purchases, reconciliation, etc. In addition, the Petty Cash fund voucher should be processed showing, among other things, the recipient of cash, purpose, amount, and approved by an authorized official. Finally, we recommend the Office of the Attorney General or the Special Prosecutor investigate the use of petty cash and take appropriate action for any improprieties.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 3: Petty Cash Voucher and Supporting Documents

Sound internal controls dictate that use of Petty Cash should be supported by a Petty Cash Voucher showing, among other things, the purpose of the petty cash, vendor, amount, approval by an authorized official, and filed together with the proper supporting documents (i.e., invoices/receipts).

During our audit we found that the use Petty Cash Voucher was inconsistent and often times deficient as to purpose, recipient of cash, vendor, date, authorizing official, etc. In addition, the voucher was not attached to invoices or other supporting documents and filed in an orderly fashion. On the contrary, the vouchers and supporting documents were crammed into envelopes in a disorganized manner making verification and matching (invoices to vouchers) extremely difficult.

The State lacked standard policies and procedures for operating a Petty Cash Fund. In addition, the Governor failed to strictly enforce the use of the Petty Cash Voucher to ensure that it was properly prepared and approved before releasing funds. Moreover, there was no structured system for filing and retaining the petty cash vouchers and supporting documents

As a result, we were unable to determine if all petty cash expenditures were properly authorized. In addition, the Petty Cash Vouchers and supporting documents were in disarray, making the process of verifying or matching vouchers to supporting documents extremely difficult. Consequently, we were unable to determine whether the State received the goods and services and whether the petty cash expenditures were properly classified.

Recommendation: We recommend the Governor use a Petty Cash Voucher to initiate and document the use of petty cash. The petty cash voucher should be processed showing the purpose of the petty cash, vendor, amount, date, and approved by an authorized official, among other information. Finally, the voucher should be filed securely with supporting documents in an orderly fashion.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 4: Revenues/Cash Receipts

Cash receipts are an essential component of the State's record keeping system to support revenue collections and their deposit. In addition, cash receipts serve as source documents for recording revenues and their classification in the State's financial statements.

In our examination of the State's Local revenues from fiscal year 2012 through 2013, we found numerous internal control weaknesses that led to the breakdown of the State's cash receipts

system. The issues include deposits not made in a timely manner, missing supporting deposit tickets, Boat Collection Reports not properly prepared, and missing cash receipts, to name a few. However, the most concerning issue was that local collections (Boat fares) were withheld and used to fund petty cash without first being deposited into the State bank account. Compounding the problem was the lack reconciliation between cash collected, cash receipts and Boat Collection Report.

The cause of the above problem is the failure of the Governor to implement and enforce strict controls over cash collections to ensure accountability and transparency in the use of public funds.

As a result, for boat fares collections, we were unable to verify and agree the total cash receipts to boat collection reports and deposits. In addition, we were unable to determine the propriety of all local revenues collected and whether all collections were properly deposited. Moreover, the lapse in internal controls creates an environment for fraudulent activities.

Recommendation: We recommend the Governor establish and enforce controls over cash collections (i.e. boat fares) to ensure that cash receipts are properly reconciled to the appropriate cash receipts reports and deposits. In addition, we recommend that all cash receipts be deposited first into the State treasury and disbursements be made by check, not from daily cash collections. We further recommend the Office of the Attorney General or the Special Prosecutor investigate the use of local revenue collections for petty cash and take appropriate action for any improprieties.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 5: Local Revenues Withheld, Used for Petty Cash

Article XI, Section 1 of Angaur State Constitution states "There shall be an Angaur State Treasury into which all revenues derived from taxes and other sources except Angaur Trust Funds shall be deposited. No funds shall be withdrawn from the Treasury except by law".

Our audit of Angaur State Government from fiscal year 2011 through 2013 found that the State collected and withheld a total \$28,563.46 of local collections for petty cash without depositing the collections first into the State Treasury.

It appears that the State was not aware that all cash receipts have to be deposited into the State Treasury and disbursed in accordance with the State budget.

Office of the Public Auditor

As a result, the State collected and withheld \$28,563.46 of local collections to fund various petty cash expenses in violation of State laws. Consequently, questioned costs of \$28,563.46 exist.

Recommendation: We recommend the Governor comply with Article XI, Section 1 of the Angaur State Constitution by depositing all collections into the State Treasury. In addition, all cash receipts deposited into the State Treasury should be authorized and appropriated (budget) before expenditure of funds.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 6: Lack of State Unified Budget/Continuing Budget

Article XI, Section 2, of the Angaur State Constitution states: "The Governor of the State of Angaur, with the assistance of the National Government of the Republic of Palau, shall submit his annual budget to the Olbiil Era Ngeaur for review and approval. In addition, Article XI, Section 6, states: "No officer or employee of Angaur State Government shall obligate or expend money for any purpose in excess of the amount of funds for which they were appropriated. Further, Article VIII, Section 7, states: A two-third (2/3) of the total membership (9) shall constitute a quorum to transact business.

The audit revealed that in Fiscal Year 2012, the State operated under a Continuing Resolution budget in ASPL No. 15-003 covering the period 10/1/11 – 1/31/2012. After expiration of the first Continuing Resolution, the Governor and the Legislature failing to pass a Unified Budget for Fiscal Year 2012 enacted a second Continuing Resolution under ASPL No. 15-004 to fund State operations for the remainder of Fiscal Year 2012. Therefore, Angaur State operated under a Continuing Budget Authority for the entire Fiscal Year 2012. In fiscal year 2013, the State, again, failed to enact a Unified Budget for fiscal year 2013 and failed to pass a Continuing Resolution budget; however, instead of shutting down government operations, the State continued to expend funds beginning on October 01, 2012 through August 21, 2013 without a budget. On August 21, 2013, the State enacted ASPL No. 16-001, the Unified Budget Act for Fiscal Year 2013.

The failure to enact a state budget was caused by the inability of the Office of the Governor and the State Legislature to work together to enact a State Unified Annual Budget or a Continuing Resolution budget. In addition, the State Unified Annual Budget for Fiscal Year 2012 and the Continuing Resolution budget for Fiscal year 2013 was not approved by the two-thirds (2/3) majority of the State Legislature, as required by the State Constitution, but signed by the President of the State Legislature and approved by the Governor giving the appearance of a State public law.

Office of the Public Auditor

As a result, the State operated without a financial plan for the entire fiscal year 2012, as Continuing Resolutions ASPL No.15-003 and ASPL No. 15-004 was based on fiscal year 2011 budget. In addition, the State expended funds from October 1, 2012 to August 21, 2013 in violation of Angaur State Constitution by expending funds without budget authority. Thus, Questioned costs of \$289,092.75 exist.

Recommendation: We recommend the Governor and the State Legislature coordinate and collaborate in the process of enacting State Budget laws, be it a Unified Annual Budget, Supplemental or Continuing Resolution, to ensure the timely approval of the budget and the availability of funds to plan and execute expenditures more effectively and efficiently. In addition, the Governor should shutdown State operations when the State leadership fails to enact a State budget authorizing and appropriating funds for expenditure, as mandated by Angaur State Constitution. Finally, we recommend the Office of the Attorney General or the Special Prosecutor investigate Angaur State expenditures from October 01, 2012 through August 21, 2013 and take appropriate action for any violation of Angaur State laws.

Angaur State’s Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 7: Expenditures Without Documentations

A sound system of internal control dictates that expenditures contain proper supporting documents to justify the purpose of the expenditures, cost of goods or services and to support the recording and classification of expenditures in the accounting records.

The audit revealed that the following disbursements were made without proper supporting documents (invoices, receipts, contacts, etc.) to justify the purpose of the expenditures, cost of goods or services and to support the recording of expenditures:

Date	Check No.	Amount	Description
10/04/11	Petty Cash	\$ 9.00	Liberation Day Expense
10/8/11	1389	50.00	Liberation Day Expense
10/8/11	1390	50.00	Liberation Day Expense
10/10/11	Petty Cash	50.00	Labor Fee
11/14/11	1431	399.50	Car Rental
11/14/11	1431	1,000.00	Contingency Fund – Cash
11/29/11	2739	677.55	Auto Repair
12/22/11	1473	32.50	State Equipment/Fuel & Lube
12/28/11	1479	48.45	Equipment Repair & Maintenance
1/05/12	1489	20.00	State Vehicle
1/16/12	Petty Cash	46.00	Miscellaneous Expense

Office of the Public Auditor

2/28/12	Petty Cash	200.00	Contingency
3/5/12	1572	50.00	Legislator's Expenses
3/09/12	Petty Cash	184.79	Contingency
3/16/12	1589	37.95	State Vehicle
4/26/12	1649	100.00	Equipment Rental
5/29/12	1686	1,332.53	Diesel State Boat (250 gal) – No signed invoice
6/18/12	Petty Cash	1,246.38	Contingency
6/18/12	Petty Cash	127.35	Building Repair and Maintenance
6/25/12	1706	1,569.03	Diesel (300 gal)
7/13/12	1733	1,006.02	Fuel for State Boat
7/13/12	Petty Cash	130.04	Governor's Expense
8/6/12	1764	55.00	Materials and Supplies
8/8/12	1768	314.75	Toyota Rav 4 Repair
8/16/12	1778	200.00	Car Repair Maintenance
8/17/12	1780	156.00	Materials and Supplies
8/24/12	General Ledger	269.01	Food Supplies
9/19/12	1825	3,335.00	Trench Rental – Rock Saw 3700
9/21/12	1829	100.00	Legislator's Expenses
9/21/12	1831	243.06	Materials and Supplies
10/01/12	Petty Cash	23.25	Food Supplies
10/04/12	Petty Cash	21.73	Food Supplies
10/5/12	General Journal	2,565.05	State Boat Fuel
10/07/12	Petty Cash	84.33	Food Supplies
10/25/12	1879	1,470.00	Car Repair and Maintenance
11/30/12	Petty Cash	790.00	Contingency
12/14/12	1955	1,000.00	Contingency- Other/Trip to Guam
01/30/13	Petty Cash	378.44	Public Services
5/25/13	0749 (Bill)	2,680.00	Diesel Fuel for State Boat
7/15/13	2250	2,565.05	Diesel for State Boat
8/13/13	2325	1,000.00	Desktop Computer
8/14/13	2310	1,000.00	Contingency- Other/Trip to Taiwan
9/30/13	2380	2,565.05	Fuel for State Boat
9/30/13	2385	1,525.00	Contingency/Transportation
	Total	\$ 30,612.81	

The cause of the above condition is lack of emphasis from management to ensure that disbursements contain the proper supporting documents.

As a result, we were unable to determine the propriety of the above expenditures and whether the state received the goods or services. Similarly, we were unable to verify the recording and classification of the above expenditures. Consequently, the total amount of \$30,612.81 is questioned cost.

Recommendation: We recommend that the Governor direct the State Treasurer to conduct periodic reviews of disbursements to ensure that they contain the proper documents to support expenditure of State funds.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 8: Competitive Bidding

40 PNCA Section 625 (b) requires that any procurements of goods or services by a State Government greater or equal to \$5,000 shall be subject to competitive bidding.

We found that the State procured parts for the State boat in the amount of \$14,919.75 without competitive bidding as shown below:

Check Date	Check No.	Amount	Description
2/17/2012	1548	\$ 6,337.00	Boat parts
1/03/2013	1997	\$ 8,582.75	Boat parts
	Total	\$ 14,919.75	

The Governor failed to comply with the 40 PNCA Section 625 (b) by procuring the above goods without competitive bidding.

As a result, we were unable to determine if the State obtained the lowest price or best quality for the boat parts without competitive bidding. In addition, questioned costs of \$14,919.75 exist.

Recommendation: We recommend the Governor adhere to the Republic of Palau's Procurement Law and Regulations by ensuring that State procurements greater or equal to \$5,000 are subject to competitive bidding.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 9: Payroll Advances to Employees

Expenditures should be made in accordance with the State budget. Those responsible for the administration of state funds should ensure that funds are spent only for those programs and activities authorized in the State budget act.

Office of the Public Auditor

The audit showed that thirteen (13) State employees received salary advances totaling \$3,857.81 during the period fiscal year 2012 and 2013. The advances ranged from \$30-\$300.

We were unable to determine the legal basis by which the state authorized salary advances to its employees. Although the advances were being repaid by the employees, the State's Continuing Budget for fiscal year 2012 and Unified Budget for fiscal year 2013 did not authorize and appropriate funds for salary advances.

As a result, Angaur State may have expended \$3,857.81 for salary advances without budget authority. In addition, the salary advances create additional administrative burden on the staff to keep records and monitor the advances.

Recommendation: We recommend the Governor suspend all future payroll advances to employees unless specifically authorized by state law. The State budget act is very clear in appropriating funds for specific programs and activities upon which those responsible for the administration of state funds must follow in the expenditure of funds.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 10: Fixed Assets

A Fixed Asset accounting system is essential to properly account for, identify, safeguard and conduct periodic inventory of State properties.

The audit revealed that the State was not able to provide a list of prior and current year fixed assets; however, it was able to provide a list of fixed assets, which were mostly donated. The list of donated assets however lacked detailed information as to date of acquisition, costs, name of donor, etc.

It appears that the State did not consider the fixed asset accounting system a priority. In addition, the State did not conduct periodic physical inventory of State fixed assets to determine their existence, location and condition.

As a result, the State's fixed asset listing was incomplete and lacked detailed information with regards to cost, condition and location. In addition, we were unable to determine whether all fixed assets purchased or donated were recorded in the State's records.

Recommendation: We recommend that all fixed assets, purchased or donated, be recorded in the State's fixed asset accounting system. In addition, supporting documents (invoices) should be retained to substantiate the cost of the assets. Further, policies and procedures should be established to conduct periodic physical inventory and inspections to determine the location and conditions of fixed assets, among other things. Finally, fixed assets that are no longer operational should be removed from the fixed asset listing.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Finding No. 11: State Local Payroll/Personnel

Sound internal control requires that the State maintains personnel files for each employee that contains, at a minimum, employment application, a personnel action form, employment contract (if any), allotment forms, evaluations, disciplinary actions, etc.

The audit revealed that the State had established a personnel system for State employees; however, personnel files for staff working for the Governor's office were missing. Thus, we were unable to test payroll expenditures for these employees.

It appears that the State did not use the personnel system for all the State employees.

As a result, for the Governor's staff, we were unable to determine if their personnel action forms and pay rates were properly approved. In addition, for those employees hired under a contract (if any), we were unable to determine their duties and responsibilities, salaries, and other terms and conditions of their employment contract. Moreover, we were not able to determine if allotment deductions, if any, were properly approved by employees.

Recommendation: We recommend the Governor use the personnel system for all State employees. Each employee should have a Personnel file which contain, at a minimum, personnel action form showing position, rate of pay, effective date of hire, and approved by the appropriate authorizing official. In addition, employees hired under a contract should have copies of their employment contracts in their personnel file. Moreover, all allotment deductions from employees' pay should be evidenced by allotment authorization form signed by employees. Finally, we recommend that the Governor consult with the National Government's Bureau of Public Service System, Ministry of Finance, for assistance in implementing their personnel system.

Angaur State's Response: *The Office of the Public Auditor received a response from the current Governor, Marvin T. Ngirutang, which is unresponsive to this finding.*

Office of the Public Auditor's Comments to Unresponsive Response from the Governor

The Office of the Public Auditor (OPA) did not receive a response from the current Governor, Marvin T. Ngirutang, responding to the findings in the Draft report. Instead, Governor Ngirutang submitted the following response: "I am returning the Draft Audit Report for the State of Angaur covering period 2011-2013 with no comments. The reason why there are no comments is because I was not part of the Administration covering that period.

The OPA takes the position that even though the period covered by the audit, 2011-2013, was outside Governor Ngirutang's administration, the findings in the report reveal weaknesses/deficiencies in the accounting and internal controls systems that created an environment of lack of accountability and transparency that, if not corrected, will only perpetuate the problems. Therefore, it is incumbent upon the current Governor to review the Draft report and provide a response on a proposed plan of action to correct the weaknesses/deficiencies. This is the primary reason the Public Auditing Act under § 229(a) states: ...The agency shall submit to the Public Auditor within 30 days after the receipt of the list of findings, its written statement of explanation or rebuttal concerning any of the adverse or critical audit findings, including any corrective action to be taken to preclude a recurrence of any adverse findings...



**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO:**

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E-MAIL ADDRESS: admin@palauopa.org**

**MONDAY THRU FRIDAY
7:30 a.m. - 4:30 p.m.**

(Closed on Legal Holidays)