

REPUBLIC OF PALAU

**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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

His Excellency Surangel S. Whipps Jr.
President
Republic of Palau:

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 financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated February 15, 2021. Our report includes a reference to other auditors and emphasis-of-matters paragraphs regarding an uncertainty, the impact of COVID-19 and collectability of federal grants receivable. Other auditors audited the financial statements of Palau International Coral Reef Center, Palau Community College, Palau National Communications Corporation, Belau Submarine Cable Corporation, and Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, National Development Bank of Palau, Palau Visitors Authority, Palau Public Utilities Corporation, and the Protected Areas Network Fund, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for Palau International Coral Reef Center, Palau Community College, Palau National Communications Corporation, Belau Submarine Cable Corporation, and Palau District Housing Authority. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Republic'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control. Accordingly, we do not express an opinion on the effectiveness of the Republic'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 Questioned Costs as items 2019-003 and 2019-005 through 2019-007 that we consider to be material weaknesses.

Compliance and Other Matters

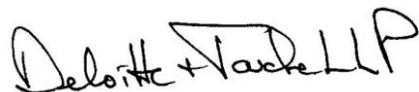
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-007.

The Republic's Response to Findings

The Republic's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Republic'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.



February 15, 2021

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

His Excellency Surangel S. Whipps Jr.
President
Republic of Palau:

Report on Compliance for Each Major Federal Program

We have audited the Republic of Palau's (the Republic's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Republic's major federal programs for the year ended September 30, 2019. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2019. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Republic's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Republic's compliance.

Basis for Qualified Opinion on CFDA 12.Unknown and CFDA 15.875

As described in items 2019-001 and 2109-004 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-001	12.Unknown	Maritime Domain Awareness Radars	Special Tests and Provisions
2019-004	15.875	Economic, Social, and Political Development of the Territories	Allowable Costs/Cost Principles

Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 12.Unknown and CFDA 15.875

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Republic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 12.Unknown Maritime Domain Awareness Radars and CFDA 15.875 Economic, Social, and Political Development of the Territories for the year ended September 30, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Republic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed other instance of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

The Republic’s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Republic’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Republic is responsible for preparing a corrective action plan to address each audit finding included in our auditors’ report. The Republic’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Republic's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-004 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2019-002 to be significant deficiencies.

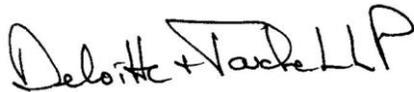
The Republic's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Republic is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Republic's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated February 15, 2021, which contained unmodified opinions on those financial statements, and which report included a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

February 15, 2021

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:				
Direct Programs:				
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766			\$ 21,204
Subtotal Community Facilities Loans and Grants Cluster				<u>21,204</u>
Total U.S. Department of Agriculture				\$ 21,204
U.S. Department of Commerce:				
Direct Program:				
Special Oceanic and Atmospheric Projects	11.460			\$ 584,598
Total U.S. Department of Commerce				\$ 584,598
U. S. Department of Labor:				
Direct Programs:				
WIOA Cluster:				
WIA/WIOA Adult Program	17.258			\$ 74,794
WIA/WIOA Youth Activities	17.259			57,977
WIA/WIOA Dislocated Worker Formula Grants	17.278			<u>111,886</u>
Subtotal WIOA Cluster				<u>244,657</u>
Apprenticeship USA Grants	17.285			17,137
Total U.S. Department of Labor				\$ 261,794
U.S. Department of Education:				
Direct Programs:				
Adult Education - Basic Grants to States	84.002			\$ 10,193
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027			989,104
Sub total Special Education Cluster (IDEA)				<u>989,104</u>
Career and Technical Education-Basic Grants to States	84.048			150,000
Territories and Freely Associated States Education Grant Program	84.256			<u>1,107,495</u>
Total U.S. Department of Education				\$ 2,256,792

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services:				
Direct Programs:				
Public Health Emergency Preparedness	93.069		\$	317,900
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			119,550
Maternal and Child Health Federal Consolidated Programs	93.110			38,115
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			352,296
Emergency Medical Services for Children	93.127			160,379
Family Planning Services	93.217			130,043
Health Center Program Cluster:				
Health Center Program	93.224			1,295,249
Subtotal Health Center Program Cluster				1,295,249
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243			411,921
Early Hearing Detection and Intervention	93.251			220,285
Immunization Cooperative Agreements	93.268			158,235
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283			-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314			-
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323			433,584
Behavioral Risk Factor Surveillance System	93.336			11,956
Medicaid Cluster				
Medical Assistance Program	93.778			74,560
Subtotal Medicaid Cluster				74,560
Opioid STR	93.788			56,744
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817			82,759
National Bioterrorism Hospital Preparedness Program	93.889			279,786
Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations	93.898		\$ 16,011	880,436
HIV Care Formula Grants	93.917			13,924
Assistance Programs for Chronic Disease Prevention and Control	93.945			311,365
Block Grants for Community Mental Health Services	93.958			55,318
Block Grants for Prevention and Treatment of Substance Abuse	93.959			82,807
Preventive Health and Health Services Block Grant	93.991			31,264
Maternal and Child Health Services Block Grant to the States	93.994			131,128
Subtotal Direct Programs				5,649,604
Pass-Through Program From University of Hawaii:		99-6000354		
Centers for Disease Control and Prevention Investigations and Technical Assistance (Palau Cancer Registry)	93.283			18,573
PPHF: Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds	93.738			10,155
Pass-Through Program From Association of State and Territorial Health Officials		35-1044487		
Building Capacity of the Public Health System to Improve Population Health through National, Nonprofit Organizations- financed in part by Prevention and Public Health Funds (PPHF)	93.524			27,471
Subtotal Pass-Through Programs				56,199
Total U.S. Department of Health and Human Services				5,705,803
Total Federal Grants (Fund 350100)			\$	8,830,191
U.S. Department of the Interior:				
Direct Program:				
Economic, Social, and Political Development of the Territories	15.875		\$	962,620
Total U.S. Department of the Interior				962,620
Total U.S. Federal Grants Fund (Fund 350200)			\$	962,620
U.S. Department of Transportation:				
Direct Program:				
Airport Improvement Program	20.106		\$	70,345
Total U.S. Department of Transportation				70,345
Total Federal Grants Fund (Fund 420100)			\$	70,345
U.S. Department of Defense:				
Direct Program:				
Maritime Domain Awareness Radars	12. Unknown		\$	6,339,352
Total U.S. Department of Defense				6,339,352
Total Federal Grants Fund (Fund 322000)			\$	6,339,352
Total Federal Grants Funds Expenditures			\$	16,202,508

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875	Authorizations	Passed Through to Subrecipients	Expenditures and Transfers
<u>211(f) Trust Fund</u>			
Executive Branch	\$ 15,000,000	\$ -	\$ 15,000,000
Total 211(f) Trust Fund	<u>\$ 15,000,000</u>	<u>\$ -</u>	<u>\$ 15,000,000</u>
<u>Infrastructure Projects S432 (5)</u>			
Ministry of Finance S432 (5)	2,600,000	-	1,091,794
Total Infrastructure Projects	<u>\$ 2,600,000</u>	<u>\$ -</u>	<u>\$ 1,091,794</u>
Total Compact of Free Association CFDA #15.875			\$ 16,091,794
Less Compact Section 211(f) Trust Fund Investment Earnings			(15,000,000)
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing			<u>\$ 1,091,794</u>
Total Expenditures of Federal Awards		<u>\$ -</u>	<u>\$ 17,294,302</u>

The above awards are received in a direct capacity.

Reconciliation to financial statements:		
Total Expenditures of Federal Awards		\$ 17,294,302
Non-Federal Grants		14,845,064
Total Special Revenue Grants expenditures		<u>\$ 32,139,366</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2019

1. Scope of Audit

Republic of Palau (the "Republic") is a governmental entity governed by its own Constitution. All significant operations of the Republic are included within the scope of the Single Audit. The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Republic under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Republic, it is not intended to and does not present the financial positions or changes in financial positions of the Republic.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which the Republic maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2019 basic financial statements; except that the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2019.

The following component units incurred federal expenditures during the year ended September 30, 2019:

Palau Community College	\$ 2,770,734
Palau Public Utilities Corporation	\$ 45,000

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

3. Summary of Significant Accounting Policies, Continued

D. Indirect Cost Allocation

The Republic did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2019. The approved rate was 6.62%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

E. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the U.S. Department of the Interior, Office of the Inspector General (OIG) has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | |
| CFDA 12.Unknown | Qualified |
| CFDA 15.875 | Qualified |
| All other major federal programs | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |

9. Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.048	Career and Technical Education-Basic Grants to States
93.898	Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations
15.875	Economic, Social, and Political Development of the Territories
12.Unknown	Maritime Domain Awareness Radars
15.875	Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Section II – Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2019-003	Receivables
2019-005	Unearned Revenues
2019-006	Local Noncompliance – Procurement Regulations
2019-007	Net Pension Liability

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2019-001	12.Unknown	Special Tests and Provisions	\$ -
2019-002	93.224	Allowable Costs/Cost Principles	44,448
2019-004	15.875	Allowable Costs/Cost Principles	<u>-</u>
			\$ <u>44,448</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2019

Finding No.: 2019-001
Federal Agency: U.S. Department of Defense
CFDA Program: 12.Unknown Maritime Domain Awareness Radars
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria:

In accordance with the Compliance Supplement, the auditor must review the program's contract and grant agreements to identify the compliance requirements which could have a direct and material effect on a major program.

Condition:

No program contract or grant agreement was provided to identify the terms and conditions or the applicable federal compliance requirements that are applicable to the Republic's expenditures of \$6,339,352 for the Maritime Domain Awareness Radars project.

Cause:

The Republic lacks effective controls over the documentation of program contracts and grant agreements.

Effect:

The Republic is in potential noncompliance with applicable special tests and provisions requirements. No questioned costs are presented as we are aware that the program expenditures appear necessary and reasonable for the performance of the known project objectives.

Recommendation:

The Republic should provide the program's contract and grant agreements to demonstrate compliance with requirements, which could have a direct and material effect on the major program. Republic management should establish and implement controls over obtaining and retaining Federal award documents for all Federal awards received by the Republic.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic's Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-002
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program Cluster
Federal Award No.: 6 H80CS02467-30-04
Area: Allowable Costs/Cost Principles
Questioned Costs: \$44,448

Criteria:

In accordance with applicable allowable costs/cost principles requirements, the general costs of government are unallowable.

Condition:

The Health Center Program Cluster was not audited as a major program. However, we became aware that Federal funds of \$44,448 received on July 13, 2016 were transferred to the General Fund on September 29, 2019. No documents were provided to substantiate that the stated funding was expended for federal program purposes.

Cause:

The Republic lacks controls over compliance with applicable allowable costs/cost principles.

Effect:

The Republic is in noncompliance with applicable allowable costs/cost principles, and questioned costs of \$44,448 exist.

Recommendation:

The Republic should establish and implement internal controls over the use of Federal awards. Prior to using Federal funds for the unallowable general costs of government, responsible personnel should obtain approval from the Federal grantor.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic's Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-003
Area: Receivables

Criteria:

Receivables from Federal agencies should be timely reconciled to the subsidiary ledger. Management should monitor collections of receivables and follow up with the respective Federal agencies as to delays in the collection process.

Condition:

Receivables from Federal agencies were understated by \$2M at September 30, 2019. An adjustment was proposed to correct the misstatement.

The Republic did not timely request reimbursement from the U.S. Treasury, and as a result, receivables from Federal agencies at September 30, 2019 increased by \$2M, of which approximately \$1M has not been collected for over 2 years.

<u>Grant Fund</u>	<u>Receivable 9/30/2019</u>	<u>Receivable 9/30/2018</u>
350100 U.S. Federal Grants	\$ 2,271,266	\$ 2,160,381
350200 OTIA Direct Grants	1,471,800	573,575
420100 Non-DOI Capital Projects	593,808	637,248
540000 Infrastructure Grants	<u>1,091,794</u>	-
	\$ <u>5,428,668</u>	\$ <u>3,371,204</u>

Cause:

The Republic did not perform reconciliations throughout fiscal year 2019. The Republic lacks monitoring controls over receivables from Federal agencies to verify that the balance is reconciled and is valid.

Effect:

Receivables from Federal agencies were misstated.

Identification as a Repeat Finding: 2018-004

Recommendation:

The Republic should establish control procedures for the timely reconciliation of receivables from Federal agencies.

Republic management should implement procedures for timely requesting reimbursements from the U.S. Treasury at a minimum frequency of monthly, and should consider processing Federal draws on a pay-period basis.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic's Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-004
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D17AP00099 and D18AP00117
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

In accordance with applicable allowable costs/cost principles requirements, payments disbursed to vendors should be for actual services rendered and received.

Condition:

For two (or 33%) of six expenditures tested, aggregating \$606,016 of total program costs of \$962,619, disbursements represent 50% advances of the contract amount. No receiving report or other supporting document was provided to substantiate that services were rendered, as follows:

<u>Acct No.</u>	<u>Cost Center</u>	<u>Date</u>	<u>Voucher No.</u>	<u>Amount</u>
1106	F83826	07/19/2019	377291	\$ 149,400
1106	R73825	06/05/2019	372378	\$ 144,300

Cause:

The Republic lacks controls over compliance with applicable allowable costs/cost principles requirements relative to adequate documentation.

Effect:

The Republic is in noncompliance with applicable allowable costs/cost principles requirements. No questioned cost is presented as Federal funds were not drawn to reimburse the locally funded disbursements.

Recommendation:

Republic management should establish and implement internal controls over the adequate documentation of transactions to substantiate compliance with applicable allowable costs/cost principles. Responsible personnel should periodically monitor prepayments and document such supporting records as receiving reports.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic's Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-005
Area: Unearned Revenues

Criteria:

Unearned revenues representing advanced non-federal grant funds should be supported by grant awards or equivalent to identify grant terms and conditions, and status reports or equivalent to substantiate validity.

Condition:

Tests of unearned revenues from non-federal sources noted the following:

- a. Advanced funds at 9/30/2019 under the following cost centers lacked status reports, subsequent activity reports or equivalent to evidence that grant projects are valid and active:

<u>Cost center no.</u>	<u>Unearned revenue 9/30/2019</u>
G7SGS1	\$ 400,000
P9SGS1	\$ 400,000
P8MCS1	\$ 210,000
R78996	\$ 123,111
M88926	\$ 16,666

- b. There were no grant awards or equivalents for cost center nos. G7SGS1, P9SGS1, R78996 and P8MCS1.

Cause:

The Division of Grants did not maintain a centralized grant filing system to support the existence and validity of the recorded advanced funds. Recording of advanced funds is primarily based on instructions from implementing offices with or without a supporting grant award or equivalent. The Republic appears to lack monitoring controls over the status of advanced funds.

Effect:

Unearned revenues are potentially misstated.

Recommendation:

Republic management should implement controls over monitoring the status reports of all advanced funds at fiscal year end. The Republic should establish a centralized filing system for all advanced funds.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic’s Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2019

Finding No.: 2019-006
Area: Local Noncompliance – Procurement Regulations

Criteria:

In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the ROP Property Management Policies and Procedures Manual sections 621 and 624 state the following:

§621. Bid Opening and recording

Bids shall be evaluated based on the requirements set forth in the invitation for bids.

§624. Awards

(a) Unsuccessful bidders shall be promptly notified.

(d) The person responsible for the obligation or expenditure of funds shall accept the lowest responsible bid from the lowest responsible bidder who offers to perform the projects according to the set standards at the lowest cost within 30 days following the opening of a bidding.

Section 332 of Title 40 states that when the Minister of Health certifies an unavoidable emergency, the use of funds shall be exempt from the requirements of 40 PNC Chapter 6.

Condition:

Of \$4,209,147 in Other Fund (non-federal) non-payroll expenditures, fifty (50) samples totaling \$1,634,223 were tested with the following deficiencies:

1. Thirty-four (or 68%) aggregating \$931,334 represent medical drugs and supplies purchases pursuant to Invitation for Bid no. 18-17, which relate to prior year finding no. 2018-005, which has not been corrected. A contract award was provided to seven of the nine who submitted bids without detailed description of the findings and the basis for selection.
2. A \$217,000 oxygen system improvement and upgrade of the Belau National Hospital was procured through emergency procurement (check nos. 455896, 452695). Although the procurement files included certification from the Minister of Health, a purchase order dated 6/4/2019 was processed 25 days after the receipt of the vendor proposal (5/10/2019), while there was no evidence of competition such as solicitation of quotes from other vendors. In addition, management was aware of the deteriorating condition of the existing system as noted in the file, but there was no immediate initiation of a competitive bid process.
3. A \$32,700 automatic transfer switch (ATS) controller upgrade for the Belau National Hospital generator (check no. 452810) was procured through emergency procurement. However, the purchase order was processed on 5/22/2019 or approximately 120 days after the receipt of the vendor quotation (1/20/2019). There appears to have been sufficient time for a competitive bid process to occur.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-006, Continued
Area: Local Noncompliance – Procurement Regulations

Cause:

The Republic did not effectively enforce controls over compliance with applicable procurement regulations.

Effect:

The Republic is in potential noncompliance with applicable procurement regulations.

Identification as a Repeat Finding: 2018-005

Recommendation:

The Republic should strengthen controls over procurement to maximize competition while maintaining the best interest of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement files.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic's Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-007
Area: Net Pension Liability

Criteria:

The Republic should assess contingent liabilities as to their potential impact on the financial statements.

Condition:

The Republic of Palau Civil Service Pension Trust Fund's (CSPP's) actuarial valuation has determined that the Fund has a net pension liability of \$250,868,784. Republic of Palau Public Law 10-12 appropriated \$150,000 to fund the CSPP Reform Options Actuarial Study to determine viable options toward a comprehensive reform that will ensure long-term financial viability of CSPP. The funding plan and recommendations from the actuarial study have not yet been implemented.

Cause:

The net pension liability would cause the Fund's fiduciary net position to become negative in 2023.

Effect:

The Fund is potentially at risk of failure to provide future benefits and the Republic's actuary has determined that cash flow may be impacted by the Fund's net pension liability by 2023.

Identification as a Repeat Finding: 2018-006

Recommendation:

The Republic should identify measures to address the net pension liability and the potential impact of this matter on the General Fund.

Views of Responsible Officials:

The Republic concurs with reservation and provides details in the Republic's Corrective Action Plan.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2019

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2019:

	<u>Total</u>
Questioned costs of the Republic as previously reported:	
Fiscal year 2015 Single Audit	\$ 217,480
Fiscal year 2016 Single Audit	97,206
Fiscal year 2018 Single Audit	<u>174,130</u>
	<u>488,816</u>
Less questioned costs resolved in fiscal year 2019:	
Questioned costs of fiscal year 2018 Single Audit reported in Finding 2018-003 (1)	(174,130)
Questioned costs of fiscal year 2019 Single Audit	<u>44,448</u>
Unresolved questioned costs of the Republic at September 30, 2019	\$ <u>359,134</u>

- (1) Questioned cost considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated February 27, 2020



REPUBLIC OF PALAU
Ministry of Finance
Bureau of National Treasury

P.O. BOX 6011•KOROR•REPUBLIC OF PALAU 96940
 Phone : (680) 488-2566/5965 Fax : (680) 488-5973



CORRECTIVE ACTION PLAN
 2 CFR § 200.511(c)
 Year Ended September 30, 2019

FINDING NO.	CORRECTIVE ACTION PLAN	PROPOSED COMPLETION DATE	NAME AND CONTACT OF RESPONSIBLE PERSON
2019-001	12.Unknown ROP concurs with reservation. The Ministry of Finance have requested the needed documents to no avail.		Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2019-002	ROP concurs with reservation. MOF is communicating with the Federal Grantor to resolve the questioned cost.	March 2021	Gandhi Ngirmidol Chief Division of Grants Ministry of Finance Contact:680-767-2561 Email: gngirmidol@palaugov.org
2019-003	ROP concurs with reservation. MOF submitted the required reports and drawdown, but due to some changes in the system, ROP hasn't received the Grants. MOF is still working with OTIA to resolve this. Infrastructure Grant was awarded in FY2020, therefore we couldn't request for drawdown, this has been requested and received.	March 2021	Gandhi Ngirmidol Chief Division of Grants Ministry of Finance Contact:680-767-2561 Email: gngirmidol@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2019-004	ROP concurs with the finding. MOF has established a receivable account where all advance payments are entered, reconciled, and monitored	February 2021	Darla Babauta Chief Division of Finance and Accounting Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: darlab@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2019-005	ROP concurs with the finding. MOF management are working with all the implementing offices to make sure that all grant documents be submitted to the Division		Gandhi Ngirmidol Chief Division of Grants Ministry of Finance Contact:680-767-2561 Email: gngirmidol@palaugov.org



REPUBLIC OF PALAU
Ministry of Finance
Bureau of National Treasury

P.O. BOX 6011•KOROR•REPUBLIC OF PALAU 96940
 Phone : (680) 488-2566/5965 Fax : (680) 488-5973



CORRECTIVE ACTION PLAN
 2 CFR § 200.511(c)
 Year Ended September 30, 2019

	of Grants under the Ministry of Finance for appropriate record keeping and filing.		Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org
2019-006	<p>ROP concurs with the finding. MOH committee did submit their evaluation and recommendation but not the detailed matrix, P&S will ensure that all the required documents be filed together in one file.</p> <p>2. We concur with the finding. MOF will work closely with MOH on resolving this issue.</p> <p>3. We concur with the finding. MOF will work closely with MOH on resolving this issue</p>		<p>Sharnnel Sumang Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: Sharnnels@palaugov.org</p> <p>Darnelle Worswick Director Bureau of Health Administration and Support Services Ministry of Health Contact: 680-488-2552 Email: darnelle.worswick@palahealth.org</p> <p>Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org</p>
2019-007	MOF management are aware of this and are working with the policy makers to find the best solution to resolve the issue.		<p>Kaleb Udui Jr. Minister Ministry of Finance PH: 680-767-2561 Email: kalebu@palaugov.org</p> <p>Casmir Remengesau Director Bureau of Budget, Planning and Statistics Ministry of Finance PH: 680-767-2561 Email: casmirer@palaugov.org</p> <p>Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contacts: 680-767-2561 Email: gailr@palaugov.org</p>