

Reports on Compliance and Internal Control

Republic of Palau

Year ended September 30, 2022



**Shape the future
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Republic of Palau
Reports on Compliance and Internal Control
Year ended September 30, 2022

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Report of Independent Auditors 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 (*Government Auditing Standards*), 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, 2022, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated October 2, 2025. Our report includes a qualified opinion due to the lack of implementation of GASB Statement No. 87, *Leases*, and a reference to other auditors. Other auditors audited the financial statements of the Palau Community College, the Palau Housing Authority, the Palau National Communications Corporation, the Palau International Coral Reef Center, and the Belau Submarine Cable Corporation. 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.

Report on 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) as a basis for designing 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 were not identified. We identified certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 through 2022-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

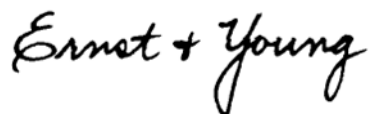
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Republic's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Republic's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

October 2, 2025

Report of Independent Auditors 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

Qualified Opinions

We have audited the Republic of Palau's (the Republic's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (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, 2022. The Republic's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on ALN 17.225 Unemployment Insurance, ALN 93.069 Public Health Emergency Preparedness, and ALN 93.224 Health Center Program Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the Republic complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on ALN 17.225 Unemployment Insurance, ALN 93.069 Public Health Emergency Preparedness, and ALN 93.224 Health Center Program Cluster for the year ended September 30, 2022.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Republic and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Republic's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on ALN 17.225 Unemployment Insurance, ALN 93.069 Public Health Emergency Preparedness, and ALN 93.224 Health Center Program Cluster

As described in findings 2022-006, 2022-008, 2022-009, and 2022-010 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

Finding No.	ALN	Program (or Cluster) Name	Compliance Requirement
2022-006	17.225	Unemployment Insurance	Eligibility
2022-008	93.069	Public Health Emergency Preparedness	Procurement and Suspension and Debarment
2022-009	93.224	Health Center Program Cluster	Procurement and Suspension and Debarment
2022-010	93.224	Health Center Program Cluster	Special Tests and Provisions - Sliding Fee Scales

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Republic's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Republic's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Republic's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Republic's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Republic's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Republic's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances 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 items 2022-005 and 2022-007. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Republic's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the other 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 auditor's 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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not 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 2022-006, 2022-008, 2022-009 and 2022-010 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-007 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

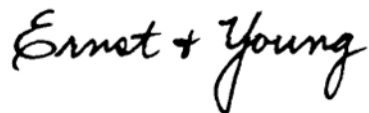
Government Auditing Standards requires the auditor to perform limited procedures on the Republic's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the other 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 auditor's 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, 2022, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We have issued our report thereon dated October 2, 2025, which contained qualified and unmodified opinions on those financial statements. The Republic has not implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, as of the end of the reporting period. 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 basic financial statements and certain other 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.

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October 2, 2025

Republic of Palau

Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	COVID-19	Federal ALN	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:					
Direct Programs:					
Cooperative Forestry Assistance		10.664			\$ 22,057
Community Facilities Loans and Grants Cluster:					
Community Facilities Loans and Grants		10.766			17,210
Subtotal Community Facilities Loans and Grants Cluster					17,210
Total U.S. Department of Agriculture					39,267
U.S. Department of Commerce:					
Direct Program:					
Economic Development Cluster:					
Economic Adjustment Assistance	COVID-19	11.307			177,909
Sub-Total Economic Development Cluster					177,909
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program		11.427			80,056
Total U.S. Department of Commerce					257,965
U. S. Department of Labor:					
Direct Programs:					
Pandemic Unemployment Assistance Administration	COVID-19	17.225			19,860,714
Apprenticeship USA Grants		17.285			41,786
WIOA Cluster:					
WIA/WIOA Adult Program		17.258			8,064
Sub-Total WIOA Cluster					8,064
Total U.S. Department of Labor					19,910,564
National Endowment for the Humanities (NEH)					
Direct Programs:					
IMLS LSTA Cares Act State Grants	COVID-19	45.310			131,724
IMLS LSTA State Grants		45.310			68,205
Total National Endowment for the Humanities (NEH)					199,929
U.S. Department of Education:					
Direct Programs:					
Adult Education and Family Literacy Act State Grant		84.002A			29,019
Special Education Cluster (IDEA):					
Special Education Grants to States		84.027			1,060,133
Subtotal Special Education Cluster (IDEA)					1,060,133
Career and Technical Education-Basic Grants to States		84.048			194,123
Education Grant Program for the Freely Associated States		84.256B			821,575
Subtotal Direct Programs					2,104,850
Pass Through from Northern Marianas College Adult Education – State Administered		84.002A	CS410		20,252
Subtotal Pass-Through Programs					20,252
Total U.S. Department of Education					2,125,102
U.S. Department of Health and Human Services:					
Direct Programs:					
Public Health Emergency Preparedness		93.069			329,017
Affordable Care Act (ACA) Personal Responsibility Education Program		93.092			169,691
Material and Child Health Federal Consolidated Programs		93.110			47,486
Material and Child Health Federal Consolidated Programs	COVID-19	93.110			32,669
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		93.116			381,038

Republic of Palau

Schedule of Expenditures of Federal Awards, continued

Federal Grantor/Pass-Through Grantor/Program Title	COVID-19	Federal ALN	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services, continued:					
Emergency Medical Services for Children		93.127			84,623
Family Planning Services		93.217			140,096
Health Center Program Cluster:					
Health Center Program		93.224			2,108,058
Health Center Program	COVID-19	93.224			980,808
Grants for New and Expanded Services under the Health Center Program		93.527			43,817
Subtotal Health Center Program Cluster					3,132,683
Substance Abuse and Mental Health Services Projects of Regional and National Significance		93.243			467,518
Universal Newborn Hearing Screening		93.251			137,993
Scaling the National Diabetes Prevention Program to Priority Populations		93.261			11,344
Immunization Cooperative Agreements		93.268			164,490
Immunization Cooperative Agreements	COVID-19	93.268			581,980
Epidemiology and Laboratory Capacity for Infectious Disease (ELC)		93.323			319,460
ELC Covid Response Activities	COVID-19	93.323			1,672,344
Public Health Emergency Response-PH Crisis Response	COVID-19	93.354			264,513
Prevention and Control of Chronic Disease		93.377			237,708
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	COVID-19	93.391			105,695
Community Health Workers for Public Health Response and Resilient	COVID-19	93.495			12,674
National Bioterrorism Hospital Preparedness Program		93.889			190,914
Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations		93.898		\$16,011	819,439
HIV Care Formula Grants		93.917			15,782
Block Grants for Community Mental Health Services		93.958			117,733
Block Grants for Community Mental Health Services	COVID-19	93.958			63,808
Block Grants for Prevention and Treatment of Substance Abuse		93.959			378,714
Block Grants for Prevention and Treatment of Substance Abuse	COVID-19	93.959			81,217
Preventive Health and Health Services Block Grant		93.991			27,941
Maternal and Child Health Services Block Grant to the States		93.994			118,994
Subtotal Direct Programs					10,107,564
Pass Through from University of Hawaii:			99-6000354		
Center for Disease Control and Prevention Investigations and Technical Assistance (Palau Cancer Registry)		93.283			18,174
Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds		93.738			7,490
Subtotal Pass-Through Programs					25,664
Pass through From Association of State and Territorial Health Officials			35-1044487		
Strengthening Public Health Systems and Services through National Partnership to Improve and Protect the Nation's Health		93.421			56,105
Subtotal Pass-Through Programs					56,105
Total U.S. Department of Health and Human Services					10,189,333

Republic of Palau

Schedule of Expenditures of Federal Awards, continued

Federal Grantor/Pass-Through Grantor/Program Title	COVID-19	Federal ALN	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of the Interior:					
Direct Program:					
Environmental Regulations Review		15.875			32,953
Palau 2020 Census		15.875			17,365
Community Health Assessment		15.875			4,030
Our Oceans Conference 2020		15.875			58,293
MOJ Data System Upgrade		15.875			15,207
Single Audit FY2020		15.875			180,760
Southern Water Project FY20-21		15.875			12,419
MOF - School and Hospital Repair		15.875			102,293
Household Income & Expense Survey		15.875			7,070
Cares Act OIA Grant	COVID-19	15.875			1,264,968
Historic Preservation Fund Grants-In-Aid		15.904			110,311
Compact of Free Association:					
S432 (2A) Infrastructure Maintenance Fund		15.875			935,481
S432 (5) Infrastructure Grants		15.875			308,668
Angaur Dock Improvement Project		15.875			46,106
Submarine Fibre Optic Cable		15.875		1,030,566	1,030,566
Subtotal Compact of Free Association:					2,320,821
Total U.S. Department of the Interior					4,126,489
Total U.S. Federal Grants Fund (Funds 3010, 3030 & 4040)					36,848,649
U.S. Department of Transportation:					
Direct Program:					
Airport Improvement Program		20.106			5,814,699
Total U.S. Department of Transportation					5,814,699
Total Federal Grants Fund (Fund 4010)					5,814,699
U.S. Department of Defense:					
Direct Program:					
Maritime Domain Awareness Radars		12.U00			1,178,619
Total U.S. Department of Defense					1,178,619
Total Federal Grants Fund (Fund 3000)					1,178,619
Total Federal Grants Funds Expenditures					\$ 43,841,967
Reconciliation to financial statements:					
Total expenditures of Grants Fund				\$ 64,097,619	
Total operating transfers out of Grants Fund				2,000,000	
					\$ 66,097,619
Less non-federal expenditures recorded in:					
COFA S432(2A) Infrastructure Maintenance Fund					(280,644)
U.S. Federal Grants Fund (National Weather Service)					(724,020)
ROC Grants Fund					(1,885,874)
Other Non U.S. Grants Fund					(4,813,741)
ROC Capital Projects Fund					(13,240,639)
Other Non U.S. Capital Projects Fund					(8,985)
Less non-federal operating transfers out recorded in:					
Other Non U.S. Grants fund					(2,000,000)
Add federal expenditures recorded in:					
General Fund (Health Center Program)					698,251
Total Expenditures of Federal Awards					\$ 43,841,967

Republic of Palau

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

1. Scope of Audit

The 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, 2022. 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 position or changes in financial position of the Republic.

3. Summary of Significant Accounting Policies

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.

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 1 to its September 30, 2022 basic financial statements; except that the Republic of Palau Social Security Administration, the Republic of Palau Civil Service Pension Plan, 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, 2022.

Republic of Palau

Notes to Schedule of Expenditures of Federal Awards, continued

3. Summary of Significant Accounting Policies, Continued

Reporting Entity, continued

The following component units incurred federal expenditures during the year ended September 30, 2022:

<u>Component Unit</u>	<u>Federal Award Total</u>
Palau Community College	\$5,050,708
Palau Public Utilities Corporation	\$ 32,250

Matching Costs

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

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 2022. The approved rate was 7.38%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

ALN 15.875

ALN 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 ALN 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, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified
Qualified

Internal control over financial reporting:

Material weakness(es) identified?

X Yes No

Significant deficiency(ies) identified?

 Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

X Yes No

Significant deficiency(ies) identified?

X Yes None reported

Type of auditor's report issued on compliance for major federal programs:

ALN 17.225

Qualified

ALN 93.069

Qualified

ALN 93.224

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X Yes No

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditor's Results, continued

Identification of major federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of federal program or cluster</u>
17.225	Pandemic Unemployment Assistance Administration
93.069	Public Health Emergency Preparedness
93.224	Health Center Program Cluster

Dollar threshold used to distinguish between
Type A and Type B programs:

\$1,315,259

Auditee qualified as low-risk auditee?

 Yes X No

Section II - Financial Statement Findings

Reference Number	Findings
2022-001	Schedule of Expenditures of Federal Awards
2022-002	Capital Assets
2022-003	Procurement
2022-004	Implementation of GASB 87, <i>Leases</i>

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2022-005	15.875	Subrecipient Monitoring	\$1,030,566
2022-006	17.225	Eligibility	154,427
2022-007	17.225	Reporting	—
2022-008	93.069	Procurement and Suspension and Debarment	35,267
2022-009	93.224	Procurement and Suspension and Debarment	187,764
2022-010	93.224	Special Tests and Provisions - Sliding Fee Discounts	1,358

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-001
Area: Schedule of Expenditures of Federal Awards

Criteria:

1. The Code of Federal Regulations Section 200.510 (b) stipulates that the Schedule of Expenditures of Federal Awards (SEFA) must include the total amount provided to subrecipients from each Federal program.
2. In accordance with Table 1 in 2 CFR Part 200, Subpart B, Section 200.101, the Subpart F – Audit Requirements are not applicable to fixed-price contracts awarded under the Federal Acquisition Regulation.
3. In accordance with 2 CFR Part 200.510(b), the SEFA must include the total Federal awards expended as determined in accordance with §200.502. In addition, for a cluster of programs, the non-Federal entity must provide the cluster name, a list of individual Federal programs within the cluster, and provide the Federal agency name and the applicable Assistance Listing number(s).
4. In accordance with 2 CFR Part 200.502(a), the determination of when a federal award is expended must be based on when the activity related to the federal award occurs—such as, in the case of program income, when the income is received or used.

Condition:

1. The Republic passed through \$1,030,566 (Doc #626) to Belau Submarine Cable Corporation for the year ended September 30, 2022 under grant number D22AF00029-00; however, the Republic did not identify and disclose such amount as provided to subrecipient on the SEFA.
2. The expenditures amounted to \$724,020 related to ALN 11.460 Special Oceanic and Atmospheric Projects were initially included in the SEFA. However, it was determined that this program operates under a fixed-price contract with the National Weather Service, part of the U.S. Department of Commerce – NOAA.
3. The Notice of Awards for ALN 93.224 – Health Center Program indicated that it also included awards for ALN 93.527 – Grants for New and Expanded Services under the Health Center Program, which is part of the Health Center Program Cluster. Expenditures related to ALN 93.527, amounting to \$43,817, were presented and included under ALN 93.224.
4. Expenditures related to the program income of ALN 93.224, amounting to \$698,250, were not properly included in the SEFA.

Cause:

The Republic lacks internal control policy and procedures to require identification of subrecipient relationship. Also, the Republic did not properly reconcile the SEFA to identify, and report correct expenditures funded by federal grants.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-001, continued
Area: Schedule of Expenditures of Federal Awards

Effect:

The Republic is in noncompliance with above criteria prior to the adjustments made to correct the SEFA.

Recommendation:

Management should develop and implement internal control policy and procedures to require determination of subrecipient relationship upon disbursement of grant funds and identification of pass-through amounts on the SEFA.

The Republic should also enhance its SEFA preparation and review process to ensure accurate reporting. This includes verifying the nature of funding (e.g., contracts vs. federal awards), properly identifying all applicable ALNs, and ensuring program income expenditures are fully included in accordance with federal requirements.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-002
Area: Capital Assets

Criteria:

GASB Statement No. 34 states that government-wide financial statements must be prepared using the accrual basis of accounting. Under the accrual basis:

- Capital assets should be recorded when the asset is acquired or constructed, regardless of when payment is made.
- Liabilities, including mortgage or other long-term payables, must be recognized when incurred, not when cash is disbursed.

Moreover, management should ensure accurate and timely recordkeeping of capital assets.

Condition:

The Republic partially recorded the acquisition of the UN Missions Office using the cash basis method, recognizing only the portion of the capital asset based on actual disbursements. The acquisition of the UN Missions Office was funded, in part, by an unrecorded mortgage note payable. As a result, both the capital asset and the related mortgage payable were understated by \$2 million at September 30, 2022. An audit adjustment was proposed to correct this misstatement.

Cause:

The Republic lacks adequate internal controls and an effective system to properly identify and record capitalizable assets within the reporting period.

Effect:

An unrecorded capital asset of \$2,142,113 and a mortgage payable of \$2,230,000 were not recorded prior to proposed audit adjustment.

Recommendation:

The Republic should set up a control system to properly track capital assets and regularly monitor asset transactions in each government agency to ensure all assets are recorded correctly and timely.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-003
Area: Procurement

Criteria:

Chapter 6 of the Palau National Code and the Republic's Property Management Policies and Procedures stipulates the following:

- Except as otherwise provided by law, all rights, powers, duties and authority relating to the procurement of construction materials, goods, and services, and the management, control, warehousing, sale, and disposal of construction materials, goods, and services are hereby vested in the duly authorized Procurement Officer. Chapter III §608 further designates procurement officers.
- A procurement officer may delegate his authority with the prior written approval of the Minister of Finance. Delegations must be in writing from the Procurement Office involved and include the name and title of the individual being delegated the authority.
- §614 stipulates competitive sealed bidding, §626 competitive negotiated contracts, and §627 sole source procurement

Condition:

The Republic acquired real property for \$3.8 million in September 2022 in New York City, however, there was no evidence of compliance with the Republic's procurement policies and procedures; and there was no evidence of an independent valuation of the real property. There was lack of evidence to ensure that all costs related to the acquisition was necessary, cost effective and maximized purchasing value of public funds.

Cause:

There is lack of control system in place requiring application of procurement regulation by the overseas office of the Republic.

Effect:

The effect of the above condition is noncompliance with procurement regulation thereby resulting in lack of evidence to ensure all costs related to the real property acquisition were necessary, cost effective and maximized purchasing value of public funds.

Recommendation:

The Republic should comply with the above criteria or consider revising procurement policy in line with current procurement practice.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-004
Area: Implementation of GASB 87, *Leases*

Criteria:

Under GASB Statement No. 87 – Leases, government entities are required to recognize both a lease liability and a right-to-use lease asset for all leases with terms longer than 12 months, excluding short-term leases and certain exceptions.

To comply with this standard, entities must:

- Identify all lease agreements, whether acting as a lessee or a lessor.
- Maintain a centralized inventory of lease agreements that includes key information such as:
 - A description of the leased asset
 - Start and end dates of the lease
 - Payment amounts and schedule
 - Options to extend, terminate, or purchase the asset
- Review each lease to determine whether it falls under the scope of GASB 87.

Condition:

The Republic's compilation of lease agreements has been updated multiple times and lacks a documented audit trail to verify its completeness and accuracy.

Cause:

The Republic lacks a centralized inventory or master file of lease agreements, both as lessee and lessor. Key lease terms such as asset descriptions, lease start and end dates, payment schedules, and renewal or purchase options are not consistently recorded or easily accessible. This is due to a lack of standardized procedures for identifying, recording, and maintaining lease agreements across departments.

Effect:

The Republic should establish a centralized lease inventory system that includes all lease agreements, whether as lessee or lessor. This system should capture key lease terms such as asset descriptions, lease dates, payment schedules, and renewal options. Additionally, the Republic should implement standardized procedures to regularly review and verify the completeness and accuracy of lease data to ensure compliance with GASB 87.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-005
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D22AF00029-00
Area: Subrecipient Monitoring
Questioned Costs: \$1,030,566

Criteria:

In accordance with applicable subrecipient requirements (CFR §200.332), a pass-through entity (PTE) must:

- a. Ensure that the subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the PTE must provide the best information available to describe the Federal award and subaward. Required information includes:
 1. Federal award identification:
 - (i) Subrecipient's name,
 - (ii) Subrecipient's unique entity identifier,
 - (iii) Federal Award Identification Number (FAIN),
 - (iv) Federal Award Date,
 - (v) Subaward Period of Performance Start and End Date,
 - (vi) Subaward Budget Period Start and End Date,
 - (vii) Amount of Federal Funds Obligated by this action by the PTE to the subrecipient,
 - (viii) Total Amount of Federal Funds Obligated to the subrecipient by the PTE including the current financial obligation,
 - (ix) Total Amount of the Federal Award committed to the subrecipient by the PTE,
 - (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA),
 - (x) Name of Federal awarding agency, PTE, and contact information for awarding official of the PTE, and
 - (xi) Assistance Listings Number and Title; the PTE must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement.
 2. All requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-005, continued
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D22AF00029-00
Area: Subrecipient Monitoring
Questioned Costs: \$1,030,566

Criteria, continued:

- b. Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved,
- c. Verify that every subrecipient is audited as required by CFR Subpart F when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in CFR § 200.501,
- d. Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the PTE's own records, and
- e. Consider taking enforcement action against noncompliant subrecipients as described in CFR §200.339.

Condition:

An amount of \$1,030,566 (Doc #626) was passed through to Belau Submarine Cable Corporation (BSCC), a component unit of the Republic, for the submarine fiber optic cable project for the year ended September 30, 2022; however, there was lack of evidence to indicate that the above criteria was met.

Cause:

The Republic lacks internal control policies and procedures to identify subrecipient relationships and monitor subrecipients to ensure compliance with applicable subrecipient requirements.

Effect:

The Republic is in noncompliance with applicable subrecipient requirements and therefore \$1,030,566 is questioned.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-005, continued
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D22AF00029-00
Area: Subrecipient Monitoring
Questioned Costs: \$1,030,566

Recommendation:

The Republic should develop and implement internal control policy and procedures to identify subrecipient relationship and monitor activities of subrecipients to ensure compliance with applicable subrecipient requirements.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-006
Federal Agency: U.S. Department of Labor
AL Program: 17.225 Pandemic Unemployment Assistance Administration
Federal Award No.: UI-34839-20-55-A-70
Area: Eligibility
Questioned Costs: \$154,427

Criteria:

1. In accordance with Title II, Subtitle A, Section 2102 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a claimant must be unemployed, partially unemployed, or unable or unavailable to work due to one of the COVID-19 related reasons identified in the Attachment I to Unemployment Insurance Program Letter (UIPL) No. 16-20, Change 5. Additionally, the claimant must self-certify availability to work.

Condition:

During the audit, the following matters were noted:

1. For 3 (or 16%) of the 19 initial applications tested, case file documentation is not sufficient to support the claimant's eligibility to receive benefits. The claimant answered "No" to the "Able and Available to Work" question and did not answer the COVID-19 reasons section.

No.	Check date	Check no.	Weeks paid	Benefit Amount
1	05/23/2022	90369	1/2/2021 – 9/4/2021	\$25,092
2	05/30/2022	92067	1/2/2021 – 9/4/2021	23,462
3	05/30/2022	92066	1/2/2021 – 9/4/2021	23,398
Subtotal:				\$71,952

2. For 5 (or 6%) of 80 case files tested, amounting to \$81,081 case file documentation is not sufficient to support the claimant's eligibility to receive benefits. The claimants certified "not" able and available to work and no COVID-19 related reasons identified as a basis of unemployment status in their initial applications.

No.	Check date	Check no.	Weeks paid	Benefit Amount
1	05/30/2022	92060	1/2/2021 – 9/4/2021	\$21,948
2	05/10/2022	89253	1/2/2021 – 9/4/2021	25,092
3	05/16/2022	89793	1/2/2021 – 9/4/2021	24,980
4	10/22/2021	67474	7/4/2021 – 9/4/2021	6,273
5	10/11/2021	66685	5/1/2021 – 9/4/2021	2,788
Subtotal:				\$81,081

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-006, continued
Federal Agency: U.S. Department of Labor
AL Program: 17.225 Pandemic Unemployment Assistance Administration
Federal Award No.: UI-34839-20-55-A-70
Area: Eligibility
Questioned Costs: \$154,427

Condition, continued:

3. For 1 (or 1%) of 80 case files tested, case file documentation is incomplete as the claimant did not submit weekly claim forms for two weeks ending 08/28/2021 and 09/04/2021, which are included in the weeks paid column in the table below.

No.	Check date	Check no.	Weeks paid	Benefit Amount
1	10/11/2021	66685	5/1/2021 – 9/4/2021	\$ 1,394
Grand total:				\$154,427

Cause:

The Republic did not effectively monitor compliance with applicable eligibility requirements.

Effect:

The Republic is in noncompliance with applicable eligibility requirements. The reportable questioned cost is \$154,427.

Identification as a Repeat Finding: Finding 2021-004

Recommendation:

The Republic should strengthen monitoring and administrative controls over recordkeeping and processing to substantiate compliance with applicable eligibility requirements. Qualified personnel should be assigned to support proper review of eligibility determination, period of eligibility, level of assistance, and other PUA eligibility requirements.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-007
Federal Agency: U.S. Department of Labor
AL Program: 17.225 Pandemic Unemployment Assistance Administration
Federal Award No.: UI-34839-20-55-A-70
Area: Reporting
Questioned Costs: \$0

Criteria:

In accordance with the 2 CFR section 200.303 Internal Controls, the recipient of Federal award must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

In addition, in accordance with the 2022 OMB Compliance Supplement, Part 3, Section L: Reporting Compliance Requirements, for financial reporting, the reported amounts should be supported by the underlying accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

Condition:

Internal controls over the reporting requirements are not implemented. The Republic's internal controls are unlikely to operate effectively, as we are unable to ascertain proper review of the required reports, including the accuracy of reported amounts.

For 4 (or 33%) of 12 ETA 9130, Financial Status Report tested, cumulative expenditures reported are not accurately supported by the underlying accounting records as follows:

No.	Report	Period	Document Number	Program Category	Cumulative Expenditures per ETA 9130	Cumulative Expenditures per accounting records	Absolute Amount of Variance
1	Quarterly Report - Q1	10/01/2020-12/31/2020	UI34839CA0	FPUC Administration – FY21	\$122,647	\$ 64,533	\$ 58,114
2	Quarterly Report - Q1	10/01/2020-12/31/2020	UI34839C80	PUA Administration – FY21	188,221	166,157	22,064
Total for Q1:					310,868	230,690	80,178
3	Quarterly Report - Q2	01/01/2021-3/31/2021	UI34839CA0	FPUC Administration – FY21	122,647	64,533	58,114
4	Quarterly Report - Q2	01/01/2021-3/31/2021	UI34839C80	PUA Administration – FY21	188,221	209,597	21,376
Total for Q2:					310,868	274,130	79,490
Grand Total:					\$621,736	\$504,820	\$159,668

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-007, continued
Federal Agency: U.S. Department of Labor
AL Program: 17.225 Pandemic Unemployment Assistance Administration
Federal Award No.: UI-34839-20-55-A-70
Area: Reporting
Questioned Costs: \$0

Cause:

The Republic did not maintain effective internal controls over the review process of the ETA 9130 Financial Status Reports.

Effect:

The Republic is in noncompliance with applicable internal control requirements. This represents a significant deficiency, and the compliance report is modified accordingly. No question cost is presented as there is no effect on the amount expended or received from the Federal award.

Identification as a Repeat Finding: Finding 2021-005

Recommendation:

The Republic should strengthen monitoring controls over applicable reporting requirements. Responsible personnel should reconcile reported amounts to the underlying accounting records.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-008
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.069 Public Health Emergency Preparedness
Federal Award No.: 5 NU90TP922038-02-00, 5 NU90TP922038-03-00,
5 NU90TP922038-04-00
Area: Procurement, Suspension and Debarment
Questioned Costs: \$35,267

Criteria:

In accordance with 2 CFR 200.320(a)(1)(i) and (ii), to the maximum extent practicable, non-Federal entities should distribute micro-purchases equitably among qualified suppliers. Additionally, micro-purchases may be awarded without soliciting competitive price or rate quotations if the non-Federal entity considers the price to be reasonable based on research, experience, purchase history, or other relevant information and maintains documents to support its conclusion in the procurement files accordingly.

Condition:

The Republic's procurement policy, 40 Palau National Code Annotated (PNCA) §625(c)(2), states that small purchases under two thousand five hundred dollars (\$2,500) may be made after receiving one (1) written price quotation. However, the Republic's procurement policy on small purchases does not meet the federal procurement requirement on micro-purchases as stated in the above criteria. As a result, for 33 (or 48%) of the 69 procurement transactions tested, no documentation was maintained to substantiate that the small purchases were distributed equitably among qualified suppliers as follows:

No.	No. of transactions	GL Account Name	Amount
1	12	General Supplies	\$22,146
2	11	Vehicle Cycle Repair	5,371
3	2	Conference	4,113
4	1	Equipment Rentals	1,600
5	5	All Other Purchased Serv	1,333
6	1	All Other Rentals	605
7	1	Fuel & Other Pol Products	99
Total:	33		\$35,267

Cause:

The Republic did not include documentation in the procurement file to evidence that the program made effort to distribute small purchases equitably among qualified vendors. In addition, the Republic's procurement policy does not address micro-purchases distribution to meet the federal requirements.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-008, continued
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.069 Public Health Emergency Preparedness
Federal Award No.: 5 NU90TP922038-02-00, 5 NU90TP922038-03-00,
5 NU90TP922038-04-00
Area: Procurement, Suspension and Debarment
Questioned Costs: \$35,267

Effect:

The Republic is in noncompliance with applicable procurement requirements. The reportable questioned cost is \$35,267.

Recommendation:

We recommend that the Republic update its procurement policies and procedures to include specific guidance on equitably distributing micro-purchase procurements among qualified suppliers. Additionally, management should ensure that documentation supporting the basis for supplier selection is consistently maintained in the procurement files.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-009
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03,
1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01,
5 H80CS02467-37-00
Area: Procurement, Suspension and Debarment
Questioned Costs: \$187,764

Criteria:

In accordance with 2 CFR 200.320(a)(1)(i) and (ii), to the maximum extent practicable, non-Federal entities should distribute micro-purchases equitably among qualified suppliers. Additionally, micro-purchases may be awarded without soliciting competitive price or rate quotations if the non-Federal entity considers the price to be reasonable based on research, experience, purchase history, or other relevant information and maintains documents to support its conclusion in the procurement files accordingly.

Condition:

The Republic's procurement policy, 40 Palau National Code Annotated (PNCA) §625(c)(2), states that small purchases under two thousand five hundred dollars (\$2,500) may be made after receiving one (1) written price quotation. However, the Republic's procurement policy on small purchases does not meet the federal procurement requirement on micro-purchases as stated in the above criteria. As a result, for 260 (or 39%) of the 660 procurement transactions tested, no documentation was maintained to substantiate that the small purchases were distributed equitably among qualified suppliers as follows:

No.	No. of transactions	GL Account Name	Amount
1	109	General Supplies	\$101,254
2	18	Boat Rentals	30,700
3	58	Vehicle Cycle Repair	18,102
4	34	Medical Drugs	13,055
5	4	Conference	6,502
6	5	Medical Supplies	6,257
7	7	Building Rentals	3,650
8	1	Computer Software	1,999
9	4	All Other Rentals	1,985
10	9	Dues & Fees	1,500

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-009, continued
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03,
1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01,
5 H80CS02467-37-00
Area: Procurement, Suspension and Debarment
Questioned Costs: \$187,764

Condition, continued:

No.	No. of transactions	GL Account Name	Amount
11	4	Machinery & Equip Repair	1,030
12	1	Training	700
13	1	Building/Space Rentals	575
14	4	Advertising	255
15	1	Vehicle Cycle Etc Rentl	200
Total:	260		\$187,764

Cause:

The Republic did not include documentation in the procurement file to evidence that the program made effort to distribute small purchases equitably among qualified vendors. In addition, the Republic's procurement policy does not address micro-purchases distribution to meet the federal requirements.

Effect:

The Republic is in noncompliance with applicable procurement requirements. The reportable questioned cost is \$187,764.

Recommendation:

We recommend that the Republic update its procurement policies and procedures to include specific guidance on equitably distributing micro-purchase procurements among qualified suppliers. Additionally, management should ensure that documentation supporting the basis for supplier selection is consistently maintained in the procurement files.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03,
1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01,
5 H80CS02467-37-00
Area: Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs: \$1,357

Criteria:

In accordance with the 2022 OMB Compliance Supplement, Part 4, Agency Program for ALN 93.224, Section III-N: Special Tests and Provisions – Sliding Fee Discounts, health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay as follows:

- a. Sliding fee discounts are applied to fees for health center services provided to all individuals and families with annual incomes at or below 200 percent of the Federal Poverty Guidelines (FPG).
- b. A full discount is applied to fees for health center services provided to individuals and families with annual incomes at or below 100 percent of the FPG, or the health center applies only a nominal charge.
- c. Fees for health center services are discounted based on gradations in family size and income for individuals and families with incomes above 100 and at or below 200 percent of the FPG.
- d. No sliding fee discount is applied to fees for health center services provided to individuals and families with annual incomes above 200 percent of the FPG.

Condition:

- a. The sliding fee discount schedule used by the Republic is the Ministry of Health's Sliding Fee Scale, which is not in accordance with Federal requirements, and has not been updated since January 2006 as shown below. The discounts were applied and determined based on whether the patient is a resident or a nonresident, tourist or non-tourist, with insurance or none, senior citizen, and behavioral health patient.

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010, continued
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03, 1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01, 5 H80CS02467-37-00
Area: Special Tests and Provisions
Questioned Costs: \$1,357

Condition, continued:

Family Size	Ministry of Health Sliding Fee Schedule						2022 Federal Poverty Guidelines	
	Percentage of Maximum Charge based on Family Income & Size							
	20%	30%	40%	50%	60%	70%	100%	200%
1	0-5,700	5,701-10,050	10,051-12,600	12,601-14,100	14,101-17,500	>17,500	\$13,590	\$27,180
2	0-6,600	6,601-13,500	13,501-16,300	16,301-19,000	19,001-21,800	>21,800	18,310	36,620
3	0-7,400	7,401-17,000	17,001-20,500	20,501-23,900	23,901-27,500	>27,500	23,030	46,060
4	0-8,500	8,501-20,600	20,601-24,800	24,801-28,900	28,901-32,500	>32,500	27,750	55,500
5	0-9,700	9,701-24,200	24,201-29,000	29,001-33,800	33,801-38,700	>38,700	32,470	64,940
6	0-10,700	10,701-27,700	27,701-33,200	33,201-37,500	37,501-43,000	>43,000	37,190	74,380
7	0-11,500	11,501-31,200	31,201-37,400	37,401-43,700	43,701-46,000	>46,000	41,910	83,820
8	0-12,600	12,601-34,700	34,701-41,600	41,601-48,600	48,601-55,600	>55,600	46,630	93,260
9	0-14,800	14,801-38,300	38,301-45,900	45,901-53,600	53,601-65,000	>65,000	51,350	102,700
10	0-16,600	16,601-41,800	41,801-50,200	50,201-58,500	58,501-70,000	>70,000	56,070	112,140
11	0-18,900	18,901-45,300	45,301-54,400	54,401-63,400	63,401-75,000	>75,000	60,790	121,580
12	0-23,500	23,501-48,800	48,801-58,600	58,601-68,400	68,401-85,000	>85,000	65,510	131,020

- b. For 51 (or 85%) of the 60 invoices tested, \$1,960 out of \$1,037,361 in total billed amounts, patients were not properly billed in accordance with the FPG. A full discount was not applied to fees for health center services provided to individuals and families with annual incomes at or below 100% of the FPG, or a nominal charge.

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	Overbilled / (Underbilled)
1	754877	733395	4	\$7,488	\$11	\$-	\$11
2	781518	759290	3	-	6	5	1
3	776395	754269	1	5,093	3	-	3
4	722461	707096	1	-	45	43	2
5	715155	700604	2	11,338	13	-	13
6	749290	728071	1	8,566	52	-	52
7	736712	717063	1	-	23	10	13
8	723144	707747	3	-	19	10	9
9	726603	711146	5	12,195	58	-	58
10	731023	715830	1	-	34	25	9
11	722752	707357	5	19,231	18	5	13
12	774214	752121	2	1,200	38	29	9
13	769428	747435	1	4,344	98	39	59
14	723611	708224	3	-	6	-	6
15	766923	745041	4	-	35	5	30
16	779565	757371	1	-	20	12	8

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010, continued
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03,
 1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01,
 5 H80CS02467-37-00
Area: Special Tests and Provisions
Questioned Costs: \$1,357

Condition, continued:

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	Overbilled / (Underbilled)
17	727345	711861	1	3,702	51	18	33
18	769371	747360	1	10,927	27	10	17
19	767654	745740	1	—	13	10	3
20	731034	715563	1	—	50	29	21
21	740365	719508	2	8,122	13	—	13
22	714110	699086	3	17,478	118	34	84
23	712029	697030	1	7,306	18	5	13
24	776827	754683	1	—	12	10	2
25	738228	717403	1	—	39	5	34
26	754313	732878	1	—	73	30	43
27	749494	728248	1	—	60	17	43
28	714372	699352	1	—	82	6	76
29	770602	748538	1	204	13	10	3
30	768935	746954	2	—	17	15	2
31	712849	697933	4	—	7	5	2
32	749370	728205	3	—	3	—	3
33	786662	764376	3	—	96	94	2
34	728123	712628	4	—	43	—	43
35	786837	764570	1	9,996	48	—	48
36	755679	734248	1	11,947	25	—	25
37	724867	709483	1	—	109	—	109
38	754765	733308	1	—	12	11	1
39	782259	760033	1	12,308	48	5	43
40	774749	752638	3	11,050	22	—	22
41	747768	726722	2	—	1	—	1
42	785311	763047	2	3,775	52	12	40
43	714852	699863	1	—	54	10	44
44	763221	741361	4	12,571	18	5	13
45	760077	738373	4	14,123	23	10	13
46	748797	727743	1	—	201	—	201
47	746736	725464	2	6,000	8	5	3
48	751147	729789	1	—	20	—	20
49	745654	724406	2	15,825	42	25	17
50	769401	750456	3	—	52	39	13
51	724470	709093	2	560	11	—	11
Subtotal:					\$1,960	\$603	\$1,357

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010, continued
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03, 1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01, 5 H80CS02467-37-00
Area: Special Tests and Provisions
Questioned Costs: \$1,357

Condition, continued:

- c. For 1 (or 1%) of 60 invoices tested, \$117 of \$1,037,361 in total billed amount, patients were not properly billed based on the FPG. The fees for health center services were not properly discounted based on gradations in family size and income for this individual with income above 100 and at or below 200% of the FPG.

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	Overbilled / (Underbilled)
1	716428	701344	1	\$25,532	\$117	\$104	\$13

- d. For 1 (or 1%) of 60 invoices tested, \$84 of \$1,037,361 in total billed amount, patients were not properly billed based on the FPG. The sliding fee discount was applied to fees for health center services provided to this with annual income above 200% of the FPG.

No.	Encounter No.	Invoice Number	Payor Family Size	Payor Income	Bill Charge	Audit Calculation	Overbilled / (Underbilled)
1	732587	716990	1	\$50,000	\$84	\$97	(\$13)

Grand Total: \$2,161 \$804 \$1,357

Cause:

Republic of Palau Public Law (RPPL) 7-13 Section 19, which amends RPPL 5-7, requires Palauan citizens and their spouses to be charged hospital fees at a subsidized rate compared to non-Palauans. Accordingly, the Ministry of Health implemented its sliding fee schedule policy in 2006 in accordance with RPPL 7-13.

The community health centers program adopted its fee schedule policy based on income and family size. However, this policy cannot be implemented without the support of the Olbiil era Kelulau (National Congress).

Republic of Palau

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010, continued
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 Health Center Program Cluster
Federal Award No.: 1 H8DCS36516-01-00, 4 H8DCS36516-01-01, 6 H80CS02467-35-03,
1 H8FCS41190-01-00, 6 H80CS02467-36-08, 3 H80CS02467-36-01,
5 H80CS02467-37-00
Area: Special Tests and Provisions
Questioned Costs: \$1,357

Effect:

The Republic is in noncompliance with applicable special tests and provisions requirements for sliding fee discounts. The reportable questioned cost is \$1,357.

Identification as a Repeat Finding: Finding 2021-007

Recommendation:

We recommend that the Republic implement policies related to the sliding fee discount schedule based on family income and size, in accordance with the aforementioned criteria.

Views of Responsible Officials:

The Republic's Corrective Action Plan does not indicate disagreement and provides planned corrective action.



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CORRECTIVE ACTION PLAN
2 CFR Section 200.511(c)
Year ended September 30, 2022

Finding Number	Corrective Action Plan	Proposed Completion Date	Name and Contact of Responsible Person
2022-001	We concur with the finding. Corrective actions have been initiated to address the finding. MOF hired a consultant assigned to reconcile and train relevant staff.	Implemented	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org
2022-002	We concur with the finding. While a centralized system to track capital assets is in place, not all departments and offices have been submitting the required information for timely recording. Management is working with the departments and offices to require prompt submission of all asset transaction information (acquisitions, disposals, and transfers). Enhanced monitoring procedures and staff training will also be implemented to ensure that asset data is complete, accurate, and recorded in a timely manner going forward.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org
2022-003	We concur with the finding. The current procurement policy does not address real property acquisitions, and the unique nature of real estate transactions makes regular procurement procedures difficult to apply. The Ministry of Finance, in consultation with legal counsel, is amending the procurement policy to include specific provisions for property acquisitions to ensure proper compliance and accountability in the future.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org



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CORRECTIVE ACTION PLAN
2 CFR Section 200.511(c)
Year ended September 30, 2022

Finding Number	Corrective Action Plan	Proposed Completion Date	Name and Contact of Responsible Person
2022-004	We concur with the finding. Management has already begun gathering all lease agreements and compiling a centralized lease inventory list to include both lessee and lessor arrangements. Designated staff will be trained to ensure consistent application of these procedures and ongoing compliance with reporting requirements.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org
2022-005	We concur with the finding. The Republic has executed a signed subrecipient subaward agreement to formalize the relationship and ensure compliance with applicable requirements. Applicable laws and regulations include the COMPACT Fiscal Procedures for Palau, which take precedence as special terms and conditions where both these procedures and 2 CFR 200 address the same matter. The Ministry of Finance has implemented internal control policies and procedures to identify and document subrecipient relationships at the time of award, monitor subrecipient activities through periodic reporting, and verify compliance with federal and local requirements prior to processing drawdown requests. We further confirm that the program audit requirement for this subrecipient has been met through the separate single audit.	On-going	Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org



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CORRECTIVE ACTION PLAN
2 CFR Section 200.511(c)
Year ended September 30, 2022

Finding Number	Corrective Action Plan	Proposed Completion Date	Name and Contact of Responsible Person
2022-006	We concur with the finding. Beginning in FY25, claimants have been required to come in and correct errors on their weekly claim forms. Regarding the overpayment, the claimant has been provided with a completed overpayment waiver form covering the two weeks of paid benefits.	On-going	Glendalynn Ngirmeriil Executive Director Palau WIOA Office Contact: 680-488-2513 Email: gngirmeriil.wioa@gmail.com
2022-007	We concur with the finding. The ETA 9130 reports for FY22 were based on estimates due to limitations in the reliability of the WIOA accounting system at that time.	On-going	Glendalynn Ngirmeriil Executive Director Palau WIOA Office Contact: 680-488-2513 Email: gngirmeriil.wioa@gmail.com
2022-008	We concur with reservations. While policy calls for equitable distribution of micro-purchases, during the pandemic it was necessary to procure supplies from reliable vendors who could meet urgent operational needs. Supply chain disruptions and Palau's small market meant awards were concentrated among a smaller group of suppliers able to provide timely and quality inventory.	On-going	Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palahealth.org



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CORRECTIVE ACTION PLAN
2 CFR Section 200.511(c)
Year ended September 30, 2022

Finding Number	Corrective Action Plan	Proposed Completion Date	Name and Contact of Responsible Person
2022-009	We concur with reservations. While policy requires grantees to distribute micro-purchases equitably among qualified suppliers, during the reporting period it was necessary to secure supplies from any available and reliable source to meet urgent operational needs. This occurred during the pandemic, when Palau experienced significant supply chain disruptions, including delayed shipments and stock unavailability from most vendors. Consequently, micro-purchase awards were concentrated among a smaller group of suppliers able to meet immediate needs. Given Palau's small market and limited supply availability, it is often necessary to procure from vendors who can consistently provide quality inventory.	On-going	Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palauhealth.org
2022-010	We concur with the findings. MHHS Management has noted to HRSA that there's a conflicting law in terms of the sliding fee and are working to change the legislation which will take time.	On-going	Sherilynn Madraisau Director Bureau of Public Health & Human Services Contact: 680-488-2552 Email: Sherilynn.madraisau@palauhealth.org



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2022

FINDING NO.	Program Area	Brief Description	Status of Finding	Comments
2021-001 2020-003	Financial Statements	Lack of timely reconciliation and GASB 84 requirements	Corrected	US DOL Final Determination letter dated February 26, 2025
2021-002	Schedule of Expenditures of Federal Awards	SEFA wasn't reconciled properly	Corrected	US DOL Final Determination letter dated February 26, 2025
2021-003 2020-002	17.225 Unemployment Insurance - Activities Allowed/Unallowed	Noncompliance with applicable activities allowed/unallowed requirements.	Corrected	US DOL Final Determination letter dated February 26, 2025
2021-004	17.225 Unemployment Insurance - Eligibility	Noncompliance with applicable eligibility requirements	Corrected	US DOL Final Determination letter dated February 26, 2025
2021-005	17.225 Unemployment Insurance - Reporting	Noncompliance with reporting requirements	Corrected	US DOL Final Determination letter dated February 26, 2025
2021-006	17.225 Unemployment Insurance - Specials Tests and Provisions	Noncompliance with applicable special tests and provisions	Corrected	US DOL Final Determination letter dated February 26, 2025
2021-007 2020-005	93.224 Health Center Program – Special Tests and Provisions	Noncompliance with applicable special tests and provisions requirements for sliding fee discounts	Corrected from Federal side and referred Nonmonetary finding to Bureau of Public Health.	HRSA Final Determination Letter dated June 05, 2025
2021-008	93.268 Immunization Cooperative Agreements – Other information	Noncompliance with applicable other information	MHHS management working to resolve this finding.	MOF and MHHS are working to correct this finding

2020-004	17.225 – Pandemic Unemployment Assistance Administration	Noncompliance with allowable costs requirements	Corrected	US DOL Final Determination letter dated February 26, 2025
2018-004 2017-011	Financial Statements	Lack of timely reconciliation of General Ledger Accounts and Cap Assets	Implemented	MOF continues to train staff to manage reconciliation of all GL accounts