

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

Year Ended September 30, 2023



**INDEPENDENT AUDITOR’S 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***

To the Board of Directors
Palau Housing Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palau Housing Authority (“the Authority”), which comprise the statement of net position as September 30, 2023, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 28, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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 did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be a material weakness as item 2023-001.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Koror, Republic of Palau
January 28, 2026

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Schedule of Findings and Responses
Year Ended September 30, 2023

Finding: 2023-001

Area: Internal Control Over Financial Reporting and Account Reconciliations

Criteria:

Management is responsible for establishing and maintaining effective internal control over financial reporting. Effective internal control requires that accounting records be properly maintained and that significant general ledger accounts be reconciled periodically to ensure financial information is complete and accurate.

Accounting principles generally accepted in the United States of America (GAAP) require that entities maintain accounting records that support the preparation of accurate financial statements. Additionally, internal control systems should ensure that transactions are recorded in the proper accounts and funds and that significant accounts are reconciled on a timely basis.

Condition:

During the audit, we noted that the Authority did not adequately maintain reconciled accounting records or prepare financial statements in a timely manner. Significant audit effort was required to identify and correct accounting errors in the general ledger. The following conditions were noted:

1. Although the general ledger balanced in total, the individual trial balances for each fund were not in balance. Separate retained earnings (net position) accounts were used to record balancing entries to offset differences within individual funds. Numerous audit adjustments were required to reconcile these balances.
2. Bank reconciliations were not prepared monthly for all accounts. Specifically, general ledger accounts #043011000 and #04309000 were not reconciled and reflected bank overdraft balances of approximately \$777,738 and \$110,957, respectively, as of September 30, 2023.
3. Transfers between funds were not properly recorded. Due to and Due from balances between funds did not reconcile, and certain transactions were recorded in incorrect funds. Numerous audit adjustments were required to reconcile interfund balances.
4. Allowances for doubtful loan losses related to the Home Rehabilitation Loan Program, Low-Income Housing Program, and Section 8 Program were recorded with debit balances rather than credit balances. Adjustments were required to properly record the allowance balances.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Schedule of Findings and Responses
Year Ended September 30, 2023

Finding: 2023-001, Continued

Area: Internal Control Over Financial Reporting and Account Reconciliations

Condition: (Continued)

5. Loan proceeds totaling \$5 million, along with related principal and interest repayments, were not properly recorded in the general ledger. Although the proceeds had been received and repayments were made, the loan continued to be reported as a receivable and principal and interest payments were reported separately in the Home Rehabilitation Loan Program's statement of net position. Audit adjustments were required to properly reflect the outstanding loan balance as of September 30, 2023.

Cause:

Based on discussions with management and our review of internal control processes, the condition appears to be primarily attributable to:

- Limited accounting personnel with specialized governmental accounting expertise, and
- The absence of formalized policies and procedures requiring periodic reconciliation and supervisory review of general ledger accounts and financial reporting processes.

Effect:

Failure to perform timely reconciliations of significant general ledger accounts increases the risk that errors, omissions, or misclassifications may occur and remain undetected.

This condition did result in:

- Material misstatements in the financial statements
- Increased audit adjustments and additional audit procedures
- Delays in the completion of financial reporting
- Reduced reliability of financial information used by the Board of Directors

Identification as a Repeat Finding

This condition was reported in the prior audit Finding 2022-001 and remains unresolved as of September 30, 2023.

PALAU HOUSING AUTHORITY
(A Component Unit of the Republic of Palau)

Schedule of Findings and Responses
Year Ended September 30, 2023

Finding: 2023-001, Continued

Area: Internal Control Over Financial Reporting and Account Reconciliations

Recommendation:

We recommend that the Authority strengthen internal control over financial reporting by implementing the following:

1. Perform monthly reconciliations of all significant general ledger accounts.
2. Prepare timely bank reconciliations for all bank accounts and investigate reconciling items.
3. Reconcile all Due to and Due from accounts between funds to ensure interfund balances agree.
4. Ensure allowances for loan losses are properly calculated and recorded in accordance with applicable accounting standards.
5. Properly record all loan transactions, including proceeds, repayments of principal and interest, and outstanding balances.
6. Provide additional accounting training for existing personnel and consider hiring additional accounting personnel with sufficient knowledge and experience in GAAP-based financial reporting.
7. Develop and implement comprehensive written accounting policies and procedures to guide accounting personnel and ensure consistent application of accounting standards.

Views of Responsible Officials and Corrective Action Plan

Contact Persons: Jovalyn Ilong Koshiba, Executive Director and Jun Ushibata, Accountant

Management concurs with the finding and will implement procedures to ensure that reconciliations of significant general ledger accounts are performed on a timely and consistent basis. Management also plans to provide training for accounting personnel and strengthen internal control procedures over financial reporting.

Estimated Completion Date: Fiscal Year 2026