

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2020

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

Board of Trustees
Republic of Palau Civil Service Pension Trust Fund:

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 Republic of Palau Civil Service Pension Trust Fund (the Fund), which comprise the statement of fiduciary net position as of September 30, 2020, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, and have issued our report thereon dated July 25, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2020-001 and 2020-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2020-001.

The Fund's Response to the Finding

The Fund's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fund'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.

Deloitte + Touche LLC

July 25, 2022

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Findings and Responses
Year Ended September 30, 2020

Actuarial Deficiency

Finding No. 2020-001

Criteria: Under the provisions of Republic of Palau Public Law (RPPL) No. 2-26, the Board adopted a Trust Fund Operation Plan (the Plan) which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code.

Condition: The Fund's actuarial valuation has determined that the Fund has a net pension liability of \$308,480,463 which would cause the Fund's fiduciary net position to become negative in 2024. The Fund's Board of Trustees has adopted a formal funding plan to correct the potential funding deficiency; however, the funding plan has not yet been implemented.

Cause: The cause of the above condition is the lack of implementation of the funding plan.

Effect: The effect of the above condition is that the Fund may not be able to meet its benefit obligations.

Recommendation: We recommend that the Fund implement the formal funding plan to correct the potential funding deficiency.

Prior Year Status: The lack of a formal plan to fund the net pension liability was reported as a finding in the audits of the Fund for fiscal years 2014 through 2019.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eve Rechebei, Chief Financial Officer

Response: The ROP, Civil Service Pension Plan Board of Trustees and Management are working tirelessly on their part to resolve this matter. The most recent actions was to increase the contribution rate from 6% to 7% effective October 01, 2021 through the Administrative Procedure Act. This was agreed upon by the President of the Republic but was vetoed by a Joint House Resolution on September 21, 2021.

Corrective Action: As of November 2021, an Advisory Group consisting of representatives from the National Government, the Ministry of Finance, the ROP, Civil Service Pension Plan, various stakeholders, the Asian Development Bank and the Graduate School USA, are working on a full reform to the ROP, Civil Service Pension Plan. The actuarial consulting firm of Callund Consulting have collected all necessary data and will be providing viable reform options to the Advisory Group. The final reform and necessary legislation is to be presented to the Republic of Palau's Leadership no later than January 2022.

Proposed Completion Date: Effective October 01, 2022

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Bank Reconciliations

Finding No. 2020-002

Criteria: Bank reconciliations should be completed at least monthly and should be subject to substantive review procedures by someone other than the preparer.

Condition:

1. General ledger (GL) cash account 1050 included double recorded cash collections. The bank reconciliation included a deposit in transit as of September 30, 2020; however, this amount had been received and collected by the bank on September 24, 2020. Cash was accordingly overstated by \$216,095. An audit adjustment was proposed to correct this misstatement.
2. GL cash account 1100 - As of September 30, 2020, cash reported is \$18,061 more than the balance reported per the bank reconciliation. A reconciliation of this difference was not provided.
3. GL cash account 1100 - Check number 207882 in the amount of \$631 was dated September 15, 2020 and cleared the bank in November 2020. This check, however, was not included in the bank reconciliation as of September 30, 2020 as an outstanding check.

Cause: The cause of the above condition is due to untimely completion of bank reconciliations and monthly management reviews of the bank reconciliations are not performed.

Effect: The effect of the above condition is that the Fund may be subject to misappropriation of cash.

Recommendation: We recommend that the Fund strengthen internal controls over the accurate and timely completion of bank reconciliations. Additionally, we recommend management consider training personnel responsible for completing and reviewing bank reconciliations and how to correctly complete and review such.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eve Rechebei, Chief Financial Officer

Response and Corrective Action Plan:

GL Account 1050: All cash collections for on the last business day of each month will be deposited on time and cash receipts verified before recorded.

GL Account 1100: Account to be monitored on a monthly basis including outstanding checks. Any cancelled after an electronic bank transfer but before check printing will be noted and transferred back to GL account 1050.

Proposed Completion Date: Effective October 01, 2022

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Unresolved Prior Year Comments
Year Ended September 30, 2020

The status of unresolved findings is discussed in the Schedule of Findings and Responses section of this report.