

**SONSOROL STATE GOVERNMENT**  
**(A State of the Republic of Palau)**

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**Independent Auditors' Report on**  
**Internal Control and on Compliance**

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**Year Ended September 30, 2019**



**BURGER · COMER · MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF A STATEMENT OF RECEIPTS AND DISBURSEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Nicolas Aquino  
Governor  
Sonsorol State Government:

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 statement of receipts and disbursements the Sonsorol State Government (the State), of the Republic of Palau for the year ended September 30, 2019, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated April 12, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the statement of receipts and disbursements, we considered the State'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 statement of receipts and disbursements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control as described in the accompanying Schedule of Findings and Responses as items 2019-01, 2019-03, 2019-04 and 2019-05 that we consider to be material weaknesses.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's statement of receipts and disbursements is 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 statement of receipts and disbursements 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 Standard* and is described in the accompanying Schedule of Findings and Responses as items 2019-02, 2019-03 and 2019-05.

## **The State's Response to Findings**

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



April 12, 2023

**SONSOROL STATE GOVERNMENT  
(A State of the Republic of Palau)**

Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-01**

**Area: Cash Receipts – Untimely Deposits**

Criteria:

A system of internal control policies and procedures should be in place over the cash handling and deposit of cash receipts in a timely manner, usually within three (3) business working days. Additionally, the Republic of Palau Office of the Public Auditor requires the State to maintain internal control policies and procedures to properly document and account for all cash receipts and sales collections and deposits are banked within 3 business days.

Condition:

Of the eighteen (18) cash receipts selected for testing, seven (7) or 39% were not deposited within 3 business days, as follows:

<u>No.</u>	<u>Date</u>	<u>Receipt No.</u>	<u>Amount</u>
1	11/27/18	555038	\$ 150.00
2	12/11/18	555040	\$ 15,000.00
3	01/09/19	555041	45,000.00
4	04/09/19	136	2,438.00
5	07/05/19	555050	4,678.00
6	09/27/19	555055	17,646.83
7	09/27/19	555056	1,500.00
			<u>\$ 86,412.83</u>

Cause:

There is a lack of internal control policies and procedures over the adherence of cash receipts being deposited in a timely manner.

Effect:

The State is not in compliance with its internal control policies and procedures for depositing cash receipts. The potential for fraud, theft and misappropriation exists and not be detected in timely manner.

Prior Year Status:

Lack of internal controls over untimely deposit of cash receipts was cited as a finding in the audit of the State for fiscal year 2018.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-01, Continued**  
**Area: Cash Receipts**

Recommendation:

We recommend that the State adhere to its existing internal control policies and procedures and monitor such procedures to ensure that cash receipts are deposited in a timely.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** The State assigns every Friday for all deposits checks. The State will take note of the number of days that checks should be deposited to the bank. We will review all attachments and ensure that deposit slip signed by the appropriate personnel who prepares, review and approve all deposits. Rest assured there were no missing checks and all are deposited to the State bank account. Also, we are waiting for the Office of the Public Auditor's Standard Operating Procedures to be distributed for implementation by each ROP State.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-02**

**Area: Cash Disbursements**

Criteria:

On small purchases under two thousand dollars (\$2,000) and on purchases of event hosting services under five thousand dollars (\$5,000), procurement officers are encouraged to obtain multiple price quotations, but it is not required. Written documentation of the three (3) price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file.

Condition:

For three (3) or 5% of the fifty-four (54) cash disbursements selected for testing, there was not documentation on-file evidence that three quotes obtained or phone calls to vendors were made for the following:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
10/25/18	4503	\$ 75.00
10/31/18	4548	209.62
01/07/19	4730	<u>93.89</u>
		<u>\$ 378.51</u>

Additionally, the Accounts Payable Voucher was not signed and authorized by the Governor or her designee for payment of check #5008 dated 4/17/2019 in the amount of \$6,757.87.

Cause:

There is a breakdown of internal control policies and procedures over the processing of purchases for goods and services.

Effect:

The State is not compliance with its internal control policies and procedures for procuring goods and services.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2018.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-02, Continued**  
**Area: Cash Disbursements**

Recommendation:

We recommend that the State adhere to its internal control policies and procedures in place for purchase of goods and services.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** State will double check all the vouchers and all attachment before disbursement. At the end of the month will review again for final filling at the end of the month.

- Item#1 was a payment for newspaper advertisement for bidding announcement for Solar Refrigerator;
- Item # 2 was food supplies for stevedore for November 2019 trip to Sonsorol; and
- Item # 3 was cleaning supplies for Merir Municipality for January 2019 trip. All the disbursements are not related to events hosting. The field trip is the regular trip to Sonsorol to deliver supplies and to transport people to and from the island.

For the Accounts Payable vouchers, check #5008 was for Social Security Administration payment for first quarter 2019 tax. The check was signed but the voucher got overlooked by the Governor. But the rest of the attachments are complete to support the amount.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-03**  
**Area: Procurement**

Criteria:

Republic of Palau Law No. 10-26, Section 8 (b) Amended Procurement Law (40 PNC §625), requires that any procurement not exceeding \$20,000 may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Finance. However, procurement requirements shall not be artificially divided so as to constitute a small purchase. Formal bidding is not required, but it is encouraged for all items not exceeding \$20,000, except that the competitive bidding procedures shall be required on any item sought by State governments of \$10,000 or more. For small purchased over \$5,000 but less than \$20,000, the procurement officer shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time, preferential treatment of locally produced goods and local services, and other relevant factors. A written documentation of the three quotes, the vendors submitting the quotes, and the basis for selection shall be maintained in the purchase order file.

Condition:

Of the eight (8) cash disbursements selected for procurement compliance testing, there was no documentation on-file to evidence that the State complied with competitive bidding. There was no written documentation of vendor quotes or determination of the basis for selection documented in the purchase order file for the following:

<u>No.</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
1	11/27/18	4622	\$ 8,029.00
2	12/12/18	4650	2,575.00
3	10/03/18	4447	18,150.00
4	10/30/18	4546	18,150.00
5	01/02/19	4696	20,925.00
6	01/14/19	4787	20,925.00
7	06/14/19	6079	38,000.00
8	09/30/19	6428	42,000.00
			<u>\$ 168,754.00</u>

Cause:

There is a lack of internal control and monitoring procedures over the State's compliance with the procurement regulations.

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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-03, Continued**  
**Area: Procurement**

Effect:

The State is in noncompliance with the Republic of Palau procurement regulations. The potential exists for fraud to occur and not be detected in a timely manner.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2018.

Recommendation:

We recommend that the State adhere to its internal control policies and monitoring procedures to comply with procurement rules and regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** During March 2022, we did some renovations in the office. Each worker has their own responsibility of files assigned to them for safekeeping. Unfortunately, the worker in-charge of the said documents misplaced the files due to the office renovation. Only the vendor's quotes are missing, but the public bidding announcements are attached to the check voucher files, especially the bidding announcement for the boat charter. As part of the corrective action taken, the State will make sure the accountant has the copy of all the bid documents for backup in case they are misplaced again.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-04**  
**Area: Payroll**

Criteria:

Employee timesheets should be properly reviewed, approved and maintained on-file prior to processing and disbursement of funds. Additionally, employee personnel action forms should be properly maintained reflecting all salary increments and annual salaries approved by the Governor.

Condition:

Of the (15) fifteen payroll cash disbursements selected for testing; we noted the following:

An approved and signed timesheet was missing and not on file for check #5018 dated 4/23/2019 in the amount of \$219.80.

Additionally, approved Personnel Action Form reflecting the current salary for fourteen (14) employees were not on file for the following:

<u>No.</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
1	10/04/18	4450	\$ 164.85
2	11/06/18	4561	40.00
3	11/08/18	4576	100.00
4	12/04/18	4625	40.00
5	12/04/18	4626	178.46
6	01/02/19	4705	469.78
7	01/31/19	4825	104.90
8	04/08/19	4993	226.20
9	04/23/19	5025	164.80
10	05/21/19	5099	389.62
11	07/02/19	6142	324.46
12	07/30/19	6230	424.62
13	08/13/19	6266	78.50
14	08/29/19	6299	188.40
			<u>\$ 2,894.59</u>

Cause:

There is a breakdown of internal control policies and procedures over the processing of payroll disbursements.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-04, Continued**  
**Area: Payroll**

Effect:

The State is in noncompliance with its internal control policies and procedures over its payroll processing system and related file maintenance.

Recommendation:

We recommend that the State adhere to its internal control policies and procedures in place for processing payroll disbursements for its employees and maintain all documentation support approved hours worked and current salaries approved by the Governor.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** The State did office renovation and some of the files are misplaced. And the worker in-charge was not able to double check if all her files are complete for each employee. Correction action taken is to ensure that aside from the hard copies, state should have soft copies of personal action files for all the workers.

When it comes to the Procedure and Policy for payroll processing, we will continue to improve while waiting for the Office of the Public Auditor to release the Standard Operating Procedures for each ROP State to implement.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-05**

**Area: Procurement – Fanna Municipality**

Criteria:

Republic of Palau Law No. 10-26, Section 8 (b) Amended Procurement Law (40 PNC §625), requires that any procurement not exceeding \$20,000 may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Finance. However, procurement requirements shall not be artificially divided so as to constitute a small purchase. Formal bidding is not required, but it is encouraged for all items not exceeding \$20,000, except that the competitive bidding procedures shall be required on any item sought by State governments of \$10,000 or more. For small purchased over \$5,000 but less than \$20,000, the procurement officer shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time, preferential treatment of locally produced goods and local services, and other relevant factors. A written documentation of the three quotes, the vendors submitting the quotes, and the basis for selection shall be maintained in the purchase order file.

Additionally, travel trip reports must be submitted within 30 days after the completion of official travel.

Condition:

Of the 54 cash disbursements tested, for two of the Fanna municipality cash disbursements, we noted that the following:

<u>No.</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	<u>Description</u>
1	3/13/2019	3841	\$ 7,900.00	Purchase of construction materials
2	3/13/2019	4308	649.44	Airfare to Philippines
			<u>\$ 8,549.44</u>	

Cash was given to a Fanna Municipality government official to purchase materials in the Philippines for the repair of his personal residence used to provide living quarters for the employees. There was no documentation to evidence of local quotations or solicitation were made. Construction design and list of materials needed for the renovation and repair was not provided to quantify or justify the cost of materials to be purchased We were not able to determine what portion of the materials were specifically for the municipality.

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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-05, Continued**  
**Area: Procurement – Fanna Municipality**

Condition: (continued)

The government official wrote to advise the Governor that he was ceasing operations and laying off employees effective April 18, 2018 because there was a lack of funds available for operations; however, the off-island trip to purchase materials for a construction was approved in March 2019.

Furthermore, a trip report was not provided within 30 days after returning.

Cause:

There is a lack of internal control and monitoring procedures over the State's compliance with the procurement regulations.

Effect:

The State is in noncompliance with the Republic of Palau procurement regulations and travel policies. It appears that State funds were used for personal benefit. The potential exists for fraud to occur and not be detected in a timely manner.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2018.

Recommendation:

We recommend that the State adhere to its internal control policies and monitoring procedures to comply with procurement rules and regulations and travel policies.

The Governor, in consultation with the Treasurer, should consider handling all of the accounting functions, procurement and cash management for each municipality at the state-level. This will better ensure that procurement regulations, policies and procedures are strictly followed and funds are properly maintained and accounted for. Cash management and the disbursement of funds should be administered and maintained at the state-level for better accountability and overall financial management and reporting. Additional staff should be hired at the state-level to assume responsibility and take on the accounting functions for all municipalities.

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Schedule of Findings and Responses  
Year Ended September 30, 2019

**Finding: 2019-05, Continued**

**Area: Procurement – Fanna Municipality**

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** The State is releasing share to all municipality from the state block grant. Among all of the four municipalities of Sonsorol State, Fanna is the one handling its own funds, bookkeeping and financial reporting. The State has no control over Fanna Funds once released to them specially for the cash disbursement of funds.

As correction action taken, State passed the law (SSPL #10-2S-1) which requires all municipality funds be handled and administered by the State treasury. All prior years' funds from Fanna's bank account must be transferred to the State Treasury for accounting and year-end financial performance reporting. Even though the State will handle the funds, Fanna will authorize the State for all the disbursements. Fanna will submit vendor price quotations and purchase requisitions to the State to review for completeness prior to check preparation and disbursement.

As of July 2023, Fanna Municipality has yet to relinquish and transfer the remaining funds to the State. The municipality is requesting that it continue maintaining its funds and for the State to take care of the bookkeeping and accounting. This doesn't make sense to us because state block grants are deposited into the State's bank account. Fanna has repeatedly demonstrated that it is not capable of handling the funds which is why we have this findings. We will continue to implement SSPL #10-2S-1 and hope that the Fanna Municipality will likewise comply.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT  
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Unresolved Prior Year Comments  
Year Ended September 30, 2019

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