

HATOHOBEL STATE GOVERNMENT
(A State of the Republic of Palau)

Independent Auditors' Report on
Internal Control and on Compliance

Year Ended September 30, 2018



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 Huana K. Nestor
Governor
Hatohobei 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 Hatohobei State Government (the State), of the Republic of Palau for the year ended September 30, 2018, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated June 8, 2021.

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 item 2018-01 that we consider to be a material weakness.

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 no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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.



Tamuning, Guam
June 8, 2021

HATOHOBEI STATE GOVERNMENT
(A State of the Republic of Palau)

Schedule of Findings and Responses
Year Ended September 30, 2018

Finding: 2018-01
Area: Cash Receipts

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 (7) seven randomly selected cash receipts for testing, we noted (4) four transactions for which deposits were not deposited in the bank within 3 business days, as follows:

<u>Item #</u>	<u>Date</u>	<u>Official Receipt #</u>	<u>Amount Received</u>	<u>Bank Deposit Date</u>	<u>Deposit Receipt Batch Total</u>
1	04/06/2018	3093	\$ 100.00	04/16/2018	\$ 3,500.00
2	05/25/2018	3107	1,500.00	06/22/2018	11,669.43
3	06/04/2018	3108	10.00	06/22/2018	93,993.43
4	06/29/2018	3115	1,500.00	07/11/2018	93,993.25
			<u>\$ 3,110.00</u>		<u>\$ 203,156.11</u>

Cause:

There is a breakdown of internal control policies and procedures over the adherence of cash receipts being banked on a timely manner.

Effect:

The State is in noncompliance 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.

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

Schedule of Findings and Responses
Year Ended September 30, 2018

Finding: 2018-01, 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: Charlotte Y. Andy, State Accountant

Correction Action Taken: The State concurs to the Auditor's finding and ensure that corrective action is taken and recommendation will be strictly implemented.

Proposed Completion Date: September 30, 2021

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

Summary Schedule of Prior Year Audit Findings
Year Ended September 30, 2018

Audit Finding #

2016-01	This finding is considered resolved.
2017-01	This finding is considered resolved.