

AIMELIIK STATE GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

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 Browny Simer
Governor
Aimeliik 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 of the Aimeliik State Government (the State) as of and for the year ended September 30, 2017, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated May 15, 2020.

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 statement of receipts and disbursements 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002 and 2017-003 that we consider to be material weaknesses.

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 Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2017-003.

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 result 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

May 15, 2020

AIMELIIK STATE GOVERNMENT
Schedule of Findings and Responses
Year Ended September 30, 2017

Financial Statements

Finding No.: 2017-001

Criteria: Financial statements should properly report all State receipts and disbursements.

Condition: The Republic of Palau block grant appropriation was understated by \$343,748. An audit adjustment was proposed to correct the understatement.

Cause: The cause of the above condition is the Republic of Palau block grant appropriation were not recorded as receipts. The State lacked an Accountant to ensure proper recording of receipts.

Effect: The effect of the above condition is a material misstatement of receipts.

Recommendation: We recommend that management review financial statements to determine that all receipts are properly recorded.

Prior Year Status: Improper recording of receipts was reported as a finding in the audit of the State for fiscal year 2016.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Brownny Simer, Governor and Jeralda Koshiba, Administrative Officer

Corrective Action: This is addressed in the 2016 finding where we explained we have recently employed an accountant to ensure that proper recording of revenues and expenditures will be recorded and financial statements to be reviewed by management to ensure controls are put in place.

Proposed Completion Date: April 2020

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Cash Receipts

Finding No.: 2017-002

Criteria: Cash receipts should be issued in sequential order to verify completeness and should be reviewed and approved by management prior to deposit.

Condition:

1. The State did not consistently issue cash receipts for all collections. Total cash receipts issued for the year ended September 30, 2017 amounted to \$43,378 while the financial statements reported \$589,313 receipts.
2. Tests of the sequential integrity of cash receipts noted two missing cash receipts without written rationale (cash receipt nos. 16583 and 16726).
3. Test of collections deposited on 03/23/17 noted the following:
 - a. There was no evidence of independent review prior to deposit.
 - b. Cash receipts no. 16-332 was deposited approximately 6 months after collection.

4. Tests of four receipts noted the following:

- a. Collections were not deposited timely as follows:

<u>Date Collected</u>	<u>Date Deposited</u>	<u>Days Lapsed</u>	<u>Receipt No.</u>	<u>Amount</u>
01/27/17	07/02/17	156	16-486	\$ 4,123
11/14/16	03/23/17	129	16-375	\$ 20
08/08/17	08/17/17	9	16-716	\$ 6,900
09/25/17	10/13/17	18	2009-4029	\$ 158

- b. Supporting deposit summary reports for the four receipts above indicated collections of cash and checks; however, deposit slips indicated deposit of checks only.

Cause: The State did not sequentially issue and record cash receipts for all collections and there was lack of segregation of duties in the collection and recording of cash receipts. Further, the State did not require review of cash receipts, did not timely deposit cash receipts and used cash collections for State employees payroll checks.

Effect: The effect of the above condition is the lack of control over cash receipts.

Recommendation: We recommend that management establish a control process requiring daily review of cash receipt completeness, issuance of cash receipts sequentially, and timely deposit. We further recommend that management require segregation of duties in the collection and recording of cash receipts.

Prior Year Status: Lack of controls over cash receipts was reported as a finding in the audit of the State for fiscal year 2016.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-002, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Brownny Simer, Governor and Jeralda Koshiba, Administrative Officer

Corrective Action: This finding is addressed in the 2016 finding as well. In regards to the lack of procedures and or policies in place, we are in the process of working towards the adoption of a policy that can identify who will be responsible and what management role will be to ensure proper recording of receipts and making timely deposits.

Proposed Completion Date: May 2020

AIMELIIK STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Disbursements

Finding No.: 2017-003

Criteria: Procurement regulations require the following for purchases over \$5,000:

- At least fifteen days public notice prior to the date of the initial day of the bidding time;
- The notice shall be furnished to all state governments and to all persons who have requested to be included in bidder's mailing list within the previous 12 months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government;
- Minimum of fifteen days bidding period;
- Bid opening to be conducted by the Procurement Officer or his designee; the bids should be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation for bid;
- Written determination required by the procurement regulations shall be retained in the appropriate official contract file of the Procurement Officer; and
- Contracts of \$5,000 or less may be awarded for a supply, service, or construction item without competition when the Procurement Officer determines in a substantiated writing that there is only one reliable source of the required supply, service or construction item.

Disbursements should be approved within authorized budget limits.

Check disbursements should be issued in sequential order to verify completeness, and should be reviewed and approved by management prior to recording in the financial statements.

Condition: There is no centralized filing system requiring written documentation evidencing compliance with procurement requirements. Additionally, there is no process requiring evidence of receipt of items procured. Tests of twenty-seven disbursements noted lack of evidence of compliance with procurement requirements for the following:

- One \$48,750 disbursement for an excavator (check no. 8413) with no supporting invoice (only vendor quotation);
- Three disbursements totaling \$39,375 for roof repair (check nos. 8292, 8362 and 8431) were not supported by a certification of completion or equivalent;
- One \$17,995 disbursement for a vehicle (check no. 970) had a request for proposal on file; however, there was no evidence that such was publicly advertised. Three vendor quotes were on file with the vendor selected being \$3,295 higher than the other vendors without written rationale for the selection;
- One \$12,000 disbursement for a flatbed truck (check no. 8195);
- Two disbursements totaling \$10,040 for aggregate (check nos. 8281 and 8301);

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No. 2017-003, Continued

Condition, Continued:

- One \$6,500 disbursement for an environmental assessment fee (check no. 8233);
- One \$5,116 disbursement for seven airline tickets which lacked trip reports for six travelers (check no. 8031); and
- One \$4,457 disbursement for heavy equipment tires (check no. 7998).

Additionally, we noted the following:

- One \$1,400 disbursement for a 34th Constitution Day banner lacked a purchase requisition form (check no. 8417);
- One \$196 disbursement for meals at an official meeting lacked attendance sheets or minutes of meetings to substantiate the occurrence of the meeting (check no. 8455);
- \$5,116 was charged to the 3rd Aimeliik State Supplemental Budget Authorization and Appropriation Act of 2016 which lapsed at September 30, 2016;
- Certain disbursements exceeded budgets as follows:

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
03d-Petroleum & Maintenance	\$ 6,000	\$ 8,668	\$ (2,668)
05e-Office Supplies & Equipment	\$ 4,000	\$ 6,252	\$ (2,252)
03r-ASCA - Pan Site	\$ 92,888	\$ 112,881	\$ (19,993)
08d- Elechui Cmty & Road Proj.	\$ 25,000	\$ 30,250	\$ (5,250)
11a-2017 Constitution Day	\$ 35,000	\$ 35,710	\$ (710)
03p-2017 Constitution Day Event	\$ 15,000	\$ 15,152	\$ (152)

- The 2017 check listing did not include the following check disbursements aggregating \$1,198 and there was no indication that such were recorded in the financial statements (check nos. 0943, 7987, 7993, 8264, 8421 and 8635).

Cause: The cause of the above condition is a lack of controls over disbursements and compliance with procurement regulations.

Effect: The effect of the above condition is potential malfeasance with disbursements and noncompliance with procurement regulations.

Recommendation: We recommend the State comply with procurement regulations. Additionally, we recommend management:

- Strengthen procedures for obtaining and filing supporting approved purchase requisition forms, travel reports, invoices or equivalent for disbursements;
- Establish policies and procedures requiring attendance records and minutes of meetings to support official meeting expenses; and
- Disburse funds within the authorized budget.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No. 2017-003, Continued

Recommendation, Continued:

In addition, we recommend the State establish control procedures requiring evidence of receipt of goods procured such as signature of the receiver on the invoice, receiving form or equivalent.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Brownny Simer, Governor and Jeralda Koshiba, Administrative Officer

Corrective Action: This finding is also addressed in the 2016 finding. We will develop controls to ensure proper recording of expenditures and that expenditure paperwork are filed properly with all required documentation.

Proposed Completion Date: May 2020

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Unresolved Prior Year Comments
Year Ended September 30, 2017

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