

ANGAUR 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 Kennosuke A. Suzuki
Governor
Angaur 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 Angaur 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 March 30, 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 and 2017-002 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 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

March 30, 2020

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

General Ledger

Finding No: 2017-001

Criteria: The propriety of cash receipts and disbursements are determined through the reconciliation of cash accounts. Bank reconciliations should be timely performed and reconciling items should be timely adjusted.

Condition: The General Fund cash account reflects a balance of \$3,518 while the supporting bank reconciliation indicates a negative balance of \$(345,533). Additionally, bank reconciliations do not indicate the preparer or evidence management review and approval.

We tested one \$283 journal entry dated July 19, 2017 that related to returned checks that did not evidence management review and approval.

Cause: The cause of the above condition is the lack of monitoring cash accounts.

Effect: The effect of the above condition is the possibility of misstated cash balances.

Recommendation: We recommend that the State prepare bank reconciliations for all cash accounts and that reconciling items be timely adjusted. We also recommend periodic review of the cash accounts and that bank reconciliations indicate the preparer and evidence management review and approval.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kennosuke A. Suzuki, Governor

Corrective Action: Yes, we acknowledge our weakness. We will seek assistance from the Office of the Public Auditor to help correct the bank reconciliation negative balance. We will also learn to correct journal entry errors and will timely adjust all entries.

Proposed Completion Date: Before September 30, 2020.

ANGAUR STATE GOVERNMENT

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

Disbursements

Finding No: 2017-002

Criteria: Disbursements should be adequately and properly supported.

Condition: Tests of twenty-eight disbursements noted the following:

- Eight did not have a control number assigned to the check disbursement voucher. In addition, one disbursement voucher was not signed and approved by the Treasurer (check # 3602);
- Eleven check disbursement vouchers were not prepared (check #s 3928, 1704, 3982, 131, wire transfers dated 10/12/16 and 10/21/16, 3522, 0135, 0139, 0150 and 9416);
- A reimbursement request was submitted for travel, materials, per diem and services related to the Regina vessel project (check # 3522, \$13,121); however, the request was not reviewed, verified, and approved by management for accuracy, completeness and validity;
- Representation funds were charged, but no supporting documents were provided that show how or what the funds were used for (check no. 4014). We recommend that supporting documents be attached to payment requests;
- Two transactions authorizing the bank to debit the State checking account were requested for payments relating to the Regina IV repair; however, no supporting documents were attached such as an invoice or vendor billing to substantiate the payment. Further, the bank debit memos were not on file to document that the transaction occurred; and
- Check # 0150 from the Angaur Protected Area Network checking account was issued to the State Government checking account and was used to directly record salaries of PAN Fund employees. Further, there was no generated check register and supporting documents to reflect how salaries paid were computed.

Cause: The cause of the above condition is the lack of policies and procedures to adequately and properly support disbursements.

Effect: The effect of the above condition is disbursements could be misstated and misuse of funds could occur.

Recommendation: We recommend that:

- Control numbers be assigned to all disbursements for accountability and completeness;
- Disbursement vouchers be prepared for all disbursements; and
- All reimbursement requests be reviewed to evidence that documents submitted are accurate, complete and valid.

Prior Year Status: The lack of policies and procedures to adequately and properly support disbursements was reported as a finding in the audit of the State for fiscal year 2016.

ANGAUR STATE GOVERNMENT

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 Person: Kennosuke A. Suzuky, Governor

Corrective Action: Yes, we will comply and improve our check disbursement voucher process. Control numbers will be assigned accordingly. Proper supporting documents and computation tallies for all future reimbursements and representation funds will be implemented and approved accordingly.

Proposed Completion Date: Before September 30, 2020.

ANGAUR STATE GOVERNMENT

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

Local Procurement

Finding No: 2017-003

Criteria: In accordance with applicable procurement regulations, the following is stated:

- RPPL No. 7-25 Section 2 "For all small purchases over \$2,000, the Procurement Officer concerned or his designee shall obtain price quotations from at least three (3) vendors and base the selection on competitive price, quality, delivery time and other relevant factors. A written documentation of the three price quotes, the vendors submitting the quotes and basis for selection shall be maintained in the purchase order file."

In addition, the State's procurement regulations state the following:

- Any procurement not exceeding \$10,000 may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Administration. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Formal bidding is not required but is encouraged for procurement not exceeding \$10,000. Except that competitive bidding procedure shall be required on any items sought by the State governments of \$5,000 or more.

Further, an effective system of internal control includes policies and procedures to determine that transactions are adequately substantiated.

Condition: Of twenty-eight disbursements tested, totaling \$682,046, the following were noted:

1. For one, three price quotations were not obtained.

<u>General Ledger Date</u>	<u>Check Disbursement Voucher No.</u>	<u>Invoice Number</u>	<u>Amount</u>	<u>Check No.</u>	<u>Description</u>
11/11/16	Not filled in	16-027	\$ 4,452	3579	Repair of water treatment in Angaur Community Center

2. Formal bidding procedures were not utilized for one purchase.

<u>General Ledger Date</u>	<u>Check Disbursement Voucher No.</u>	<u>Invoice Number</u>	<u>Amount</u>	<u>Check No.</u>	<u>Description</u>
01/27/17	Not filled in	46167-Revised	\$ 5,985	3687	Boat repair

Cause: The cause of the above condition is the lack of adherence to procurement rules and regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations.

Recommendation: We recommend that the State strengthen procedures to comply with procurement regulations.

Prior Year Status: Lack of adherence to procurement rules and regulations was reported as a finding in the audit of the State for fiscal year 2016.

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

Finding No: 2017-003, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kennosuke A. Suzuki, Governor

Corrective Action: Yes, we will comply with procurement policies on all future RFPs. We will implement and obtain proper RFP supporting documents.

Proposed Completion Date: Before September 30, 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.