

NGARAARD 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 Benjamin Iskawa
Governor
Ngaraard 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 Ngaraard 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 January 24, 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 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 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 through 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 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

January 24, 2020

NGARAARD 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 receipts and disbursements of the State.

Condition: Receipts and disbursements were understated by \$262,041 and \$379,544, respectively, as restricted amounts were recorded directly to fund balance. Audit adjustments were proposed to correct the understatements.

Cause: The cause of the above condition is receipts and disbursements for restricted activities were not recorded as receipts/disbursements.

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

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

Prior Year Status: Improper recording of receipts and disbursements 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: Latoya Besebes - State Treasurer

Corrective Action: Classification of restricted amounts will be recorded as receipts and disbursements accordingly in current fiscal year 2020. Corrective adjustments will also be made for previous years 2018 and 2019 with the guidance from the Office of the Public Auditor.

Proposed Completion Date: February 28, 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, should be reviewed and approved by management prior to timely deposit, and should be issued upon actual receipt of payment. Additionally, Ngaraard State Public Law (NSPL) no. 7-17 requires that vehicle taxes be paid annually on the date when the owner registers the vehicle with the National Bureau of Public Safety.

Condition: Tests of the sequential integrity of cash receipts noted gaps in the cash receipt range as follows:

<u>Cash Receipt Nos.</u>	<u>Cash Receipt Nos.</u>	<u>Cash Receipt Nos.</u>
3043 - 7390	7823	7892 - 7893
7392 - 7592	7827	7896
7594 - 7602	7830	7898
7604 - 7619	7836	7904 - 7905
7664	7842	7908
7667	7850	7922 - 7932
7669	7852	7934 - 7935
7688	7854	7938
7696	7856	7947 - 8000
7705	7859	8027
7710	7861	8051
7715 - 7716	7863 - 7864	8053
7731 - 7733	7866	8057
7758	7879	8063
7793	7884	8074 - 8075
7803	7887	8079 - 8080
7810	7890	8094
7812		

In addition, tests of cash collections deposited on 02/17/17 noted the following:

1. Cash receipt no. 7797 was missing and there was no written rationale in file;
2. There was no evidence of independent review prior to deposit;
3. Collections were not timely deposited; cash receipts were dated between 01/27/17 and 02/16/17; and
4. Total cash deposited (\$16,866) was \$290 less than total cash receipts (\$17,156); the variance represents cash receipts issued for which no actual payments were received.

The State is not consistently collecting vehicle taxes at the time of vehicle registration as determined by collections deposited on 02/17/17.

For \$540 of collections deposited on 10/26/16, there was no evidence of management approval.

Cause: The State did not issue and record cash receipts sequentially, did not require management review of cash receipts, did not timely deposit cash receipts, and certain cash receipts were prepared to expedite the vehicle registration process without payment.

NGARAARD STATE GOVERNMENT

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

Finding No.: 2017-002, Continued

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 the completeness of cash receipts, issue cash receipts sequentially, timely deposit of cash receipts and the issuance of cash receipts only upon payment.

Prior Year Status: Lack of controls over cash 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 Person: Latoya Besebes - State Treasurer

Corrective Action: Drafting of cash collection policies will be done which will include guidelines for issuing receipts in sequence and only upon receiving cash. It is inefficient for the State to deposit daily due to the travel time and cost from Ngaraard to Koror. Thus, we will be proposing that the Treasurer make deposits weekly. We will be seeking guidance from the Office of the Public Auditor as we draft the policies.

Proposed Completion Date: February 28, 2020

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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; and
- written determination required by the procurement regulations shall be retained in the appropriate official contract file of the Procurement Officer.

In addition, price quotations should be obtained for small purchases.

Disbursements should be adequately and properly supported.

Condition: There is no centralized filing system for written determinations of official contracts and documentation evidencing compliance with procurement requirements. Tests of twenty-five disbursements noted lack of evidence of compliance with procurement requirements for the following:

- Four disbursements totaling \$87,415 for the Ngerdebsiu Water Dam (check nos. 5762, 5953, 5988 and 6272);
- One \$7,500 disbursement for the Choll Cemetery concrete road (check no. 5624);
- There was no evidence that a public notice was advertised for acquisition of a \$11,000 truck (check no. 6001); and
- There was no evidence of compliance with procurement regulations for small purchases such as price quotations from airlines for one \$2,381 round trip ticket to Mexico. In addition, there was no trip report available to evidence that the trip occurred (check no. 5600).

Additionally, we noted the following:

- One \$250 disbursement in cash prizes lacked signatures of the prize winners to evidence that the intended recipients received the prizes (check no. 5800);
- One \$1,350 disbursement was for boat rental to Peleliu State for the 3rd Japan Emperor Anniversary; however, there was no indication of the number of passengers or equivalent to evidence that the trip occurred (check no. 6040);

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

Finding No.: 2017-003, Continued

Condition, Continued:

- One \$1,200 disbursement for per diem and representation funds lacked supporting invoices (check no. 6311);
- Three disbursements totaling \$629 for meals of official meetings lacked attendance sheets or minutes of meetings to substantiate the occurrence of the meeting (check nos. 5749, 6089 and 6188); and
- One \$4,563 disbursement (check no. 5713) for per diem to attend a convention in Cancun was charged against the Kerradel Conservation Network (KCN); however, the trip was not identified in the KCN budget management plan. In addition, \$1,314 or 29% of the \$4,563 per diem appeared to have been spent on expenses unrelated to the convention.

In addition, there is no process in place requiring evidence of the receipt of items procured.

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 disbursement malfeasance and noncompliance with procurement regulations.

Recommendation: We recommend that the State comply with procurement regulations and that management establish control procedures requiring compliance with procurement regulations such as checklists to verify that procurement requirements are met. Evidence of public notice advertisement such as invoice or newspaper ads should be retained in the appropriate official procurement file. We recommend that management establish policies requiring adequate supporting invoices for disbursements. Disbursements for payment of meals for official meetings should be accompanied by attendance sheets and meeting minutes. Disbursements should be made in accordance with the State budget. In addition, we recommend that the State establish control procedures requiring evidence of the receipt of goods procured such as a signature of the receiver on the invoice, receiving form or equivalent.

Prior Year Status: Lack of controls over disbursements 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: Latoya Besebes - State Treasurer

Corrective Action: A thorough review of procurement policies will be done. Copies of the policies will be distributed to key officers for guidance. Additional policies on how to liquidate per diem and representation funds will be drafted. We will seek guidance from the Office of the Public Auditor on resolving this matter.

A copy of the trip report was forwarded to the auditor for the Mexico trip disbursement. The Treasurer and the Accountant attended a PAN meeting and training on January 15, 2020 and are now fully aware that any transaction not included in the workplan shall require prior approval before disbursement is made.

Proposed Completion Date: February 28, 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.