

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

Independent Auditors' Report 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 Richard Ngiratang
Governor
Ngarchelong 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 Ngarchelong State (the State), a State Government of the Republic of Palau 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 February 10, 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 preceding paragraph 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 Response as items 2017-01 through 2017-03 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 Standard* and is described in the accompanying Schedule of Findings and Responses as Finding 2017-01.

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.



February 10, 2021

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-01
Area: Procurement

Criteria:

In accordance with RPPL 3-54, procurement regulations § 625 for small purchases require

- (a) any purchase not exceeding \$10,000 may be made in accordance with the small purchase procedures established by regulation promulgated by the Minister of Finance. Procurement requirements shall not be artificially divided as to constitute a small purchase;
- (b) formal bidding is not required but is encourage for all items not exceeding \$10,000. Except that the competitive bidding procedure shall be required on any items sought by the State Governments greater or equal to \$5,000;
- (c) price quotations should be obtained for small purchases;
- (d) for small purchased over \$2,000, and for the purchase of event hosting services over \$5,000;
- (e) shall be subject to competitive bidding. In addition, 40 PNCA § 626 (a) states, in part, when the Procurement Officer determines in a substantiated writing that the use of competitive sealed bidding is either not practical or not advantageous to the government, contracts may be awarded by competitive negotiation, in other words, requests for proposal; and
- (f) Further, § 626 (h) states: Awards shall be made to the responsible offerer whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals. The contract file shall contain a detailed description of the findings and the basis on which the award is made.

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-01, continued
Area: Procurement

Condition:

Of the ninety-five (95) disbursements tested, noted that the State did not adhere to procurements for small purchases and competitive bidding, as follows:

| Item # | Check Date | Check # | Amount | Discrepancy |
|--------|------------|---------|--------------------|---|
| 1 | 03/17/2017 | 9666 | \$ 5,000.00 | RFP Bidding requirement not performed for professional services. |
| 2 | 05/16/2017 | 9822 | 4,583.45 | Three price quotations were not obtained. |
| 3 | 04/10/2017 | 9713 | 3,745.14 | Three price quotes were not obtained. Materials cost exceeded authorized budget of \$3,000 per NSGPL17-70. |
| 4 | 06/02/2017 | 9869 | 200.50 | Check amount of \$200.50 did not agree to APV amount of \$296.50, difference of \$96.00. No approved PO was provided. Some vendor invoices did not indicate the vehicle license plate number. |
| 5 | 11/18/2016 | 9369 | 189.05 | PO was not prepared or provided nor evidence of receipt of merchandise. |
| 6 | 05/29/2017 | 9858 | 14.85 | PO was not prepared for open vendor account. |
| 7 | 05/03/2017 | 9775 | 139.00 | No vendor invoice was provided. |
| 8 | 02/02/2017 | 9544 | 11.00 | PO was not issued or provided. |
| 9 | 01/26/2017 | 9537 | 110.00 | No evidence of receipt of merchandise. |
| 10 | 03/24/2017 | 9674 | 177.29 | No evidence of receipt of merchandise. |
| 11 | 06/09/2017 | 9903 | 62.85 | Vehicle license plate number not indicated on PO #2074. |
| | | | <u>\$14,233.13</u> | |

For two disbursements for travel claim vouchers tested, we noted the following:

- TA #17D002 for trip to Guam to for Independence Day for 3 days which included ground transportation of \$400 (check #9275 dated 10/07/16). The travel claim voucher was not dated.
- TA #17D0124 for trip to Manila to purchase equipment for the State Assembly, which included per diem for 7 days totaling \$1,400 (check #9394 dated 11/28/16). The trip report was not signed.

Cause:

There is a lack of internal control over the disbursements and compliance with procurement regulations and travel claim policies and procedures.

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-01, continued
Area: Procurement

Effect:

The State is not in compliance with procurement regulations and its travel claim policies and procedures. The potential exits for fraud, theft and misappropriation to occur and not be detected in 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 2016.

Recommendation:

We recommend that the State comply with existing procurement regulations and travel claim policies and procedures and consider creating a checklist to be used as a guide to ensure compliance requirements are met and properly documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Skaruno April or Bheng Mendoza

Correction Action Taken: We understand that we fell short of full compliance with the procurement regulations and travel policy and we should comply. Since our previous audits we have tried to be careful and to strictly adhere to the requirements of the procurement regulations. We believe this is apparent in the recent year's audit.

Our State travel policy is not comprehensive but since the inception of the policy we have tried our best to comply with the National Government travel policy where the State law is deficient. The Treasurer will work with the State Legislature to develop a comprehensive travel policy and adhere to it.

Proposed Completion Date: February 2, 2021

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-02

Area: Payroll

Criteria:

A sound system of internal control over the payroll process should include various functions such as inputting data in the system, accessing the general ledger, handling physical files, authorization of reporting time, and distributing payment checks. To the extent possible, different individuals should perform these duties, which will help to reduce the risk of too much control in one hand. In small entities where there are fewer employees, at least one separate person should be appointed to review and authorize the payroll.

Condition:

Of the twenty-six payroll disbursements tested, timesheets were prepared and approved by the supervisor were not attached to the final timesheet summary and lacked evidence to indicate that the employee signed for and received their payroll check.

In addition, 14 or 54% of the 26 payroll disbursements tested, we noted discrepancies on the personnel action forms and hourly rates as following:

| Item # | Check Date | Check # | Hourly Rate | Total Hours | Gross Pay | Personnel Action Form (PAF) Incomplete or Not Updated |
|--------|------------|---------|-------------|-------------|-----------|---|
| 1 | 06/09/2017 | 9882 | \$ 3.00 | 40 | \$ 120.00 | PAF dated 12/15/13 states says bi-weekly pay of \$220 |
| 2 | 10/28/2016 | 9331 | \$ 3.25 | 80 | \$ 260.00 | PAF signed but not dated by Governor. |
| 3 | 10/28/2016 | 9335 | \$ 3.50 | 40 | \$ 140.00 | PAF says \$4.55/hr for 40 hrs @ \$182/BW but 40 hrs is not indicated on PAF |
| 4 | 11/11/2016 | 9351 | \$ 3.00 | 40 | \$ 120.00 | PAF dated 12/15/13 states says bi-weekly pay of \$220 |
| 5 | 11/11/2016 | 9357 | \$ 3.50 | 40 | \$ 140.00 | PAF says \$4.55/hr for 40 hrs @ \$182/BW but 40 hrs is not indicated on PAF |
| 6 | 01/06/2017 | 9477 | \$ 3.25 | 80 | \$ 260.00 | No PAF on file approving pay rate. |
| 7 | 01/06/2017 | 9478 | \$ 3.50 | 40 | \$ 140.00 | PAF says \$4.55/hr for 40 hrs @ \$182/BW but 40 hrs is not indicated on PAF |
| 8 | 01/20/2017 | 9516 | \$ 3.00 | 40 | \$ 120.00 | PAF dated 12/15/13 states says bi-weekly pay of \$220 |
| 9 | 02/17/2017 | 9588 | \$ 3.25 | 80 | \$ 260.00 | No PAF on file approving pay rate. |
| 10 | 04/14/2017 | 9728 | \$ 3.50 | 64 | \$ 224.00 | PAF says \$4.55/hr for 40 hrs @ \$182/BW but 40 hrs is not indicated on PAF |
| 11 | 05/26/2017 | 9838 | \$ 3.25 | 80 | \$ 260.00 | No PAF on file approving pay rate. |
| 12 | 05/26/2017 | 9848 | \$ 3.50 | 64 | \$ 224.00 | PAF says \$4.55/hr for 40 hrs @ \$182/BW but 40 hrs is not indicated on PAF |
| 13 | 08/04/2017 | 10043 | \$ 3.25 | 80 | \$ 260.00 | No PAF on file approving pay rate. |
| 14 | 09/01/2017 | 10110 | \$ 3.50 | 64 | \$ 224.00 | PAF says \$4.55/hr for 40 hrs @ \$182/BW but 40 hrs is not indicated on PAF |

Cause:

There is a lack of internal control over the payroll process.

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-02, continued
Area: Payroll

Effect:

The potential exists for fraud, theft and misappropriation to occur and not be detected in 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 2016.

Recommendation:

We recommend that the State adhere or establish internal control policies and procedures over the payroll process to ensure that personnel action forms are properly completed and documented, employee timesheets are independently reviewed, signed and dated by the appropriate level of management prior to payroll processing. Employees should sign and date a payroll distribution listing to evidence receipt of check.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Skaruno April or Bheng Mendoza

Correction Action Taken: We agree with this finding. The State has begun to comply since our last audit. We have clear understanding of the deficiencies and we still have no established internal control policies and procedures over payroll time sheets, etc. So, we have begun exercising to make a check receipt upon distribution and will comply to the recommendation.

Proposed Completion Date: February 2, 2021

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No.: 2017-03

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 once a week in accordance with the State policy.

Condition:

For six (6) or 15% of the 41 cash receipts selected for testing, cash receipts were not deposited in a timely manner for the following:

| Item # | DATE | Official Receipt # | Amount Received | BANK DEPOSIT DATE | DEPOSIT RECEIPT BATCH TOTAL | Revenue Source |
|--------|------------|--------------------|---------------------|-------------------|-----------------------------|------------------|
| 1 | 10/01/2016 | 2017-02 | \$ 18,000.00 | 10/17/2016 | 44,806.91 | Land Lease |
| 2 | 10/31/2016 | 11280 | 20,306.33 | 11/07/2016 | 22,050.33 | Green fees |
| 3 | 06/30/2017 | 11309 | 100.00 | 07/11/2017 | 4,069.00 | Miscellaneous |
| 4 | 07/16/2017 | 11312 | 100.00 | 07/24/2017 | 771.00 | Fees and permits |
| 5 | 11/18/2016 | 11311 | 120.00 | 11/29/2016 | 4,137.50 | Land Lease |
| 6 | 08/21/2017 | 11798 | 67.80 | 09/05/2017 | 2,170.48 | Land Lease |
| | | | <u>\$ 38,694.13</u> | | <u>\$ 78,005.22</u> | |

Cause:

There is a lack internal control policies and procedures over handling and monitoring of cash receipts to ensure that cash receipts are deposited in a timely manner.

Effect:

The potential exits for fraud, theft and misappropriation to occur and not be detected in 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 2016.

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No.: 2017-03, continued

Area: Cash Receipts - Untimely Deposits

Recommendation:

The State should establish internal control policies and procedures to ensure that cash receipts are deposited in a timely manner

Auditee Response and Corrective Action Plan:

Name of Contact Person: Skaruno April or Bheng Mendoza

Correction Action Taken: We agree with this finding. This finding has been corrected and we have started complying as recommended in the 2016 audit.

Proposed Completion Date: February 2, 2021

NGARCHELONG STATE GOVERNMENT
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Unresolved Prior Year Comments
Year Ended September 30, 2017

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