

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

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**Independent Auditors' Report on**  
**Internal Control and on Compliance**

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**Year Ended September 30, 2017**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENT OF RECEIPTS AND DISBURSEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Francesca R. Otong  
Governor  
Ngatpang 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 Ngatpang State Government (the State) 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 April 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.

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. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 State's statement of receipts and disbursements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2017-02, 2017-03, 2017-04 and 2017-05 to be material weaknesses.

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. We consider the deficiencies described in the accompany Schedule of Findings and Responses as Findings 2017-01 to be a significant deficiency.

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## **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 Findings 2017-01, 2017-02, and 2017-03.

## **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.



April 15, 2020

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

Schedule of Findings and Responses  
Year Ended September 30, 2017

**Finding: 2017-01**  
**Area: Procurement**

Criteria:

Pursuant to 40 PNCA § 629 for professional services requires (a) the services of accountants, dentists, physicians, lawyers, or other professional services subject to negotiation based upon proposals submitted and/or qualifications shall be procured as provided in this section, except when authorized as a small purchase, emergency procurement, or sole-source procurement. This section and chapter shall not apply to personnel contracts providing for the employment of professionals in normal government positions; (b) it is the policy of the Republic to publicly announce all requirements for professional services and negotiate contracts on the basis of demonstrated competence and qualifications at the fair and reasonable price. The Procurement Officers shall maintain files of current statements of qualifications of professional firms. Persons engaged in providing professional services may submit statements of qualifications and expressions of interests in providing such types of services. These statements will be retained by the Procurement Officers for a period of one (1) year, after which time the person should file a new statement; and (c) Adequate notice of the need for such services, a minimum of fifteen (15) days, shall be given by the Procurement Officer concerned or his designee through a request for proposals. The request for proposals shall describe the services required, list the type of information and data required of each offeror, and state the relative importance of particular qualifications. The notice shall be given in the same manner as competitive sealed bids.

Condition:

The State disbursed check #3449 dated 1/13/17 in the amount of \$3,034.50 for legal services and was not able provide the supporting RFP and related bid documentation for the procurement of such services to substantiate that competitive bidding occurred.

The State was not able to provide supporting documentation for the following:

<u>Check Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Purpose</u>
01/26/2017	1040	\$ 1,319.25	Labor cost for PAN Office renovation and extension
08/30/2017	7817	40.00	NSG2017-03-Vehicle bidding announcement
		<u>\$ 1,359.25</u>	

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

**Finding: 2017-01, continued**  
**Area: Procurement**

Condition, continued:

The Stated did not issue purchase orders for the following:

<u>Item #</u>	<u>Check Date</u>	<u>Check #</u>	<u>Amount</u>
1	12/19/2016	3564	\$ 7.96
2	01/23/2017	1030	2,474.00
3	01/26/2017	1040	1,319.25
4	01/26/2017	1040	122.25
5	04/21/2017	3587	25.00
6	07/14/2017	3690	<u>3,350.00</u>
			<u>\$ 7,298.46</u>

Although competitive bidding occurred, the State also did not issue an authorized purchase order for the acquisition of a 2005 Silver Mazda Tribute vehicle paid for with check #1038 dated 2/2/17 for the amount of \$7,000.

Cause:

There is a lack of internal control procedures over the procurement process to ensure that the State's procurement practices adhere to the Republic of Palau's procurement regulations.

Effect:

The State is noncompliance with established procurement regulations.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2016.

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

**Finding: 2017-01, continued**  
**Area: Procurement**

Recommendation:

The Governor should adhere to the policies and procedures of Republic of Palau's Procurement Law and Regulations when conducting procurements requiring competitive bidding. Purchase Orders should be prepared and issued for non-payroll disbursements. Internal control monitoring procedures should be established to ensure that procurement regulations are followed consistently.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** We agree with the finding. Please refer to our comments as follows:

1. For check #3449, the Vacancy Announcement #2015-02 was attached together with resolution and filed it at Administration Office filing section.
  
2. We moved the Accounting Office to the Administration Office and some of the accounting records were either mixed up all together or put in other boxes. Due to the limited time, we could not find some of the supporting documentation and the sometimes the entire disbursement file. We found check #1040 because we have quarterly reporting to PAN Office and we scanned copies all disbursement. Since we are all equipped with work force, the Accounting Department will make sure that all accounting transactions and related documentation are complete and properly filed under our new accounting filing system.

**Proposed Completion Date:** April 15, 2020

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

**Finding: 2017-02**  
**Area: Procurement**

Criteria:

In accordance with 40 PNCA § 616 public notice of the invitation for bids shall be made a reasonable time at least fifteen (15) days before the date of the initial day of the bidding time. The notice shall be furnished to all persons and state governments who have requested to be included in bidders mailing lists within the previous twelve (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; and shall be publicly posted for at least fifteen (15) days at the Ministry of Finance’s centralized bid website, at least two (2) other Palau governmental or agency websites including the procuring agency’s website, and announced on two (2) radio and one (1) of the television stations within the Republic.

Condition:

For nine (9) of the 11 or 82% of the disbursements tested for procurement, the State failed to document or retain such information evidence of RFP being posted at available public places for the following:

<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>RFP Reference</u>
10/10/2016	3303	\$ 18,787.08	NSG2016-04
12/15/2016	3405	18,787.08	NSG2016-04
10/10/2016	3303	9,251.33	NSG2016-04
12/15/2016	3405	9,251.33	NSG2016-04
11/3/2016	3349	4,940.50	3349/0003
11/3/2016	3349	4,083.70	3349/0003
11/23/2016	3371	4,684.50	3371/0003-3
11/23/2016	3371	4,083.70	3371/0003-3
10/7/2016	1037	<u>3,580.00</u>	NSG2014-05
		<u>\$ 77,449.22</u>	

Cause:

Internal control policies and procedures have not been established and implemented over the procurement process, or properly monitored by the State to ensure that its procurement practices adhere with the Republic of Palau procurement regulations.

Effect:

The State is noncompliance with established procurement regulations.

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Schedule of Findings and Responses  
Year Ended September 30, 2017

**Finding: 2017-02, continued**  
**Area: Procurement**

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:

The Governor should adhere to the policies and procedures of Republic of Palau's Procurement Law and Regulations when conducting procurements to obtain vendor quotations and document the lowest competitive quotation prior to disbursement of funds. Internal control monitoring procedures should be established to ensure that procurement regulations are followed consistently. Procurement officers and other personnel involved in the procurement process should develop and use a checklist to ensure that all procurement regulations are followed consistently and properly documented.

The State should consider developing a checklist to describe the systematic manner of obtaining and filing of the retention of all required procurement documentation and institute a sign-off signature on the control form signifying the completeness of the procurement file.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** We agree with the finding. All of our disbursements will have the purchase order and our disbursement process will include: obtain quotations; prepare the requisition; local purchase order with the invoice date prior to check disbursement; and obtain the vendor invoice; and then the check is disbursed. After the audit, we will make sure that our dates and filling will be conservatively checked.

**Proposed Completion Date:** April 15, 2020



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Schedule of Findings and Responses  
Year Ended September 30, 2017

**Finding No.: 2017-03**

**Area: Procurement**

Criteria:

The State should maintain a procurement policy and procedures manual to govern its procurement activities to provide a framework outlining the procurement laws, policies, practices, procedures and the sourcing, evaluation, award approval and contract management. The procurement policy and procedures manual should also set forth the State's control objectives and activities.

In accordance with 40 PNCA § 625, small purchases under five thousand dollars (\$5,000) but over two thousand five hundred dollars (\$2,500) may be made after obtaining two (2) written price quotations, with the exception that for event hosting services, only one (1) price quotation may be required, provided that reasonable justification exists. A written documentation of the quote(s), the vendor(s) submitting the quote(s), and the basis for selection shall be maintained in the purchase order file. Small purchases under two thousand five hundred dollars (\$2,500) may be made after receiving one (1) written price quotation. A record of the accepted price quotation shall be maintained in the purchase order file.

Condition:

For six (6) of 100 or 6% of cash disbursement tested, we noted that two written quotations were not obtained and we not able to determine if the lowest bidder was selected for the following:

<u>Item #</u>	<u>Check Date</u>	<u>Check #</u>	<u>Amount</u>
1	01/26/2017	1040	\$ 122.25
2	01/23/2017	1030	2,474.00
3	01/26/2017	1040	1,319.25
4	07/14/2017	3690	3,350.00
5	09/14/2017	1068	799.00
6	09/14/2017	1068	<u>1,200.00</u>
			<u>\$ 9,264.50</u>

Cause:

Internal control policies and procedures have not been established and implemented over the procurement process, or properly monitored by the State to ensure that its procurement practices adhere with the Republic of Palau procurement regulations.

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Schedule of Findings and Responses  
Year Ended September 30, 2017

**Finding No.: 2017-03, continued**  
**Area: Procurement**

Effect:

The State is noncompliance with established procurement regulations.

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:

The Governor should adhere to the policies and procedures of Republic of Palau's Procurement Law and Regulations when conducting procurements to obtain vendor quotations and document the lowest competitive quotation prior to disbursement of funds. Internal control monitoring procedures should be established to ensure that procurement regulations are followed consistently. Procurement officers and other personnel involved in the procurement process should develop and use a checklist to ensure that all procurement regulations are followed consistently and properly documented.

The State should consider developing a checklist to describe the systematic manner of obtaining and filing of the retention of all required procurement documentation and institute a sign-off signature on the control form signifying the completeness of the procurement file.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** Our procurement staff failed to keep a copy the required documentation. We always put footnote on the requisition to remind them print and keep a copy of the quotation and sometimes they forget to print them out. After the audit, we will make sure that we take a picture and keep a copy of the quotations and public bulletin where we put our public announcement.

**Proposed Completion Date:** April 15, 2020

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

**Finding No.: 2017-04**

**Area: Travel Claim Vouchers and Trip Reports**

Criteria:

Pursuant to the State's travel policies and procedures manual in summary; travel authorizations should be properly authorized and approved; travel vouchers are properly supported (such are approved original travel authorization, ticket stubs, and boarding passes, all items requiring receipts, written statement explaining lost of receipts, if any, and a trip report as may be required), accurate, complete and timely submitted that is within 30 days after the completion of official travel. Furthermore, an Application and Account for Advance of Funds must be signed by the traveler before an advance is granted, thus, if required submission not complied in 30 days, collection of the amount advance will be made through payroll deduction.

Condition:

Of the four (4) travel authorizations tested, we noted the following:

<u>Item #</u>	<u>Check Date</u>	<u>Check #</u>	<u>TA #</u>	<u>Total Costs</u>	<u>Destination</u>	<u>Missing Documentation</u>
1	03/29/17	3555	TA#17-05	\$2,771.96	Manila	No supporting documentation or Trip Report.
2	06/02/17	3650	TA#17-09	\$4,208.99	Majuro	Trip Report not prepared and on file.
3	09/14/17	3808	TA#17-13	\$4,138.39	Guam	Trip Report not prepared and on file.
4	07/24/17	3716	TA#17-08	\$4,138.39	Guam	Trip Report not prepared and on file.

Cause:

There is a lack of internal control and monitoring procedures to ensure that the State's travel policies are consistently adhered.

Effect:

There is a lack of internal control and monitoring procedures to ensure that the State's travel policies are consistently adhered.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2016.

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

**Finding No.: 2017-04, continued**

**Area: Travel Claim Vouchers and Trip Reports**

Recommendation:

The State should enforce compliance with its existing policies and procedures and ensure adherence and consistent application.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** We moved the Accounting Office to the Administration Office and some the accounting records were either mixed up all together or put in other boxes. Due to the limited time, we could not find some of the supporting documentation. Since we are now fully staffed with our work force, the Accounting Department will make sure that all accounting transactions and related documentation are complete and properly filed under our new accounting filing system.

**Proposed Completion Date:** April 15, 2020

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

**Finding No.: 2017-05**

**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.

Condition:

For six (6) or 17% of the 36 cash receipts selected for testing, cash receipts totaling \$63,984.87 were not deposited in a timely as follows:

Item #	Invoice or Receipt		Amount	BANK DEPOSIT		Days Lapsed
	Date	Official Receipt #	Received	DATE	Revenue Source	
1	11/29/2016	10846	\$ 15.00	12/30/16	Local Revenues	31 days
2	12/07/2016	10858	15.00	12/30/16	Local Revenues	23 days
3	12/13/2016	10862	1,000.00	12/30/16	Fish Stock Fee	17 days
4	01/16/2017	10889	50,000.00	01/23/17	PAN Fund Acct	7 days
5	04/03/2017	10939	1,000.00	4/7/2017	Fish Stock Fee	4 days
6	04/27/2017	10964	11,954.87	05/08/17	Fishing Rights Fee	17 days
			<u>\$ 63,984.87</u>			

Cause:

There is a lack of internal control policies and procedures over 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.

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

**Finding No.: 2016-05, continued**

**Area: Cash Receipts**

Recommendation:

The State should establish internal control policies and procedures over cash/check collections to ensure that cash receipts are deposited in a timely manner and properly monitored for adherence with such policies.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** Sometimes we receive checks post-dated from Ngerdubech and the National Government. We were informed that all monies received should be deposited within 3 business days. We have started making deposits every Wednesday and Friday.

**Proposed Completion Date:** April 15, 2020

**NGATPANG STATE GOVERNMENT**  
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Unresolved Prior Year Comments  
Year Ended September 30, 2017

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