



Office of the Public Auditor

REPUBLIC OF PALAU

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**Uniform Rules and Regulations of
Financial Accountability
and
Financial Audit
for
State Governments
of the Republic of Palau**



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PART 1. AUTHORITY

The Public Auditing Act of 1985, Title 40, Chapter 2 of the Palau National Code, created the Office of the Public Auditor (OPA) to conduct audits of all agencies and governmental activities in the Republic of Palau. In RPPL No. 9-9, the Olbiil Era Kelulau amended the Public Auditing Act to mandate annual financial audits of the Republic's State Governments.

The Olbiil Era Kelulau stated that, because the public has a right to know how their tax funds are expended at the state level, States should be held accountable for their use of tax revenues and public funds. The Public Auditing Act, however, did not require regular audits of States or mandate single standard of accountability for States in the Republic. Accordingly, RPPL No. 9-9 modified the duties of the Public Auditor to include an annual audit of each State. RPPL No. 9-9 further required that the Public Auditor establish clear and concise rules to guide the states in establishing measures of accountability.

These regulations have been adopted to effectuate the purposes of Article XII, Section 2, of the Palau Constitution, 40 PNCA § 201 *et. seq.*, 40 PNC § 601 *et. seq.*, and RPPL No. 9-9.

PART 2. DEFINITIONS

Competitive Bidding – Section 625(b) of the Procurement Law require that state governments shall apply competitive bidding for any item equal to or greater than \$10,000 . Contracts shall be awarded by competitive sealed bids except as otherwise provided by law. In using this method of procurement the following condition shall be met. Invitations for bids shall contain a clear, complete and accurate description of the goods or services to be procured. This description shall not contain unnecessary restrictive requirements which may unduly limit the number of bidders.

Contingency Funds - Funds advanced to a traveler for official travel to fund anticipated activities which actual costs could not be determined at time of travel but could be reasonably estimated.

Personnel Action Form (PAF) - A Personnel Action Form is used to report appointments, terminations, changes in status, compensation of an individual employee, etc. The PAF should be used each time there is an action that should be recorded in the individual's personnel file or that requires payroll action.

Petty Cash - A relatively small amount of cash on hand or on deposit, available for minor disbursements.



Procurement - The acquisition by any means, including purchase, lease or rental, of any goods or services. It also includes all functions that pertain to the obtaining of construction, goods or services, including description of requirements, selection and solicitation of sources, preparation and award of contracts and all phases of contract administration. It does not include personal service contracts with individuals who are employed by the Republic.

Procurement Officer - Any person authorized by a state governor as the official responsible for procurement activities including entering into and administering contracts.

Purchase Order (PO) – A document issued by the purchasing department to authorize purchase as requested by purchase requisition. A commercial document and first official offer issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services. It is used to control the purchasing of products and services from external suppliers.

Purchase Requisition (RQ) - A document generated by a user department to notify the purchasing department of items it needs to order, their quantity, and the timeframe. It may also contain the authorization to proceed with the purchase. Also called purchase request or requisition.

Questioned Cost - Expenditures without proper supporting documents (such as invoices, receipts, timesheets, contract, etc.), without proper certification of funds, or did not comply with competitive bidding requirements.

Representation Fund - Funds advanced to a government official for official purpose that is considered essential to accomplish the Departments' authorized programs, activities, or objectives.

ROP or National Government – The national government of the Republic of Palau.

Schedule of Revenues, Expenditures and Changes in Fund balance - The schedule of Revenues, Expenditures and Changes in Fund Balance, Budget to Actual, is a comparative schedule of final budget verses actual expenditures for the fiscal year.

State Government or State – Each one of the sixteen (16) state governments as established by the Constitution of the Republic and each constitution of the respective state government. State government includes all state agencies or component units established by state law.



Travel Authorization - A Travel Authorization is a form used to request official travel abroad containing per diem rates, estimated travel costs and which requires prior approval by the appropriate management official.

Trial Balance - A trial balance is a book-keeping or accounting report that lists the balances in each of the State's general ledger accounts. The debit balance amounts are listed in a column with the heading "Debit balances" and the credit balance amounts are listed in another column with the heading "Credit balances." The total of each of these two columns should be identical.

PART 3. PURPOSES

These regulations aim to assist the governments of the sixteen (16) states of the Republic of Palau by establishing sound financial management practices. Transparency and accountability require a sound accounting system to promote accurate budgeting, accounting, reporting and responsible fiscal management by the states. Further, States should establish the necessary internal control systems to ensure the proper accounting of public funds and compliance with applicable national and state laws and regulations. States must also demonstrate satisfactory compliance with the OPA's audit recommendations in order to continue to receive Block Grants from the National Government and other sources. Adherence to these regulations will help assure state compliance with audit recommendations and facilitate corrective action to remedy weaknesses in financial management systems. These regulations also contain procedures for financial audits, procurement, expenditures, revenues, and financial reporting required by Palauan law, U.S. federal agencies and other grantor countries and agencies.

In setting these regulations, the requirements for a State financial audit shall follow authoritative sources of generally accepted accounting principles (GAAP) for State governments. The OPA shall have the discretion to establish these regulations in accordance with the applicable GAAP or special purpose frameworks reporting that are relevant and practical to the progress of each State's accounting system and knowledge of staff in operating the system in order to reflect accurately and appropriately State financial reporting and accountability, compliance with applicable rules and regulations, and ensure a strong internal control environment over public funds.

PART 4. DISBURSEMENT PROCEDURES FOR STATE BLOCK GRANTS

4.1 State Budget: Before the Bureau of the National Treasury will disburse block grant allotment to a state, the state must submit a copy of the current and applicable state budget act and any relevant amendments to the Director of Bureau of National Treasury or his designee to demonstrate authority to expend state funds.



4.2 Block Grant Allotment: Unearmarked funds appropriated to a state by the Olbiil Era Kelulau for general operations will be disbursed to the state by the Bureau of National Treasury in accordance with its allotment schedule.

4.3 Payroll Withholdings: For those states that utilize the Bureau of the National Treasury for *disbursement of their payroll*, the Bureau of the National Treasury will withhold and deduct the amounts needed to cover state payrolls for the *full fiscal year* from the total amount of unearmarked funds available (appropriated by the OEK) for general operations. The Bureau of the National Treasury will retain these funds in order to cover the state's payroll over the course of the year. The Bureau of National Treasury will disburse the remainder (if any) of the available funds to the state on a monthly basis as stated in Part 4.2. (Additional regulations regarding state payrolls are contained in Part 5 below)

4.4 COFA Funds: Any disbursement, obligation or expenditure by any state of funds sourced from the Compact of Free Association must be made in accordance with any applicable requirements, restrictions or procedures set forth in the Compact of Free Association.

4.5 Other Information: The Director of the Bureau of National Treasury or his designee may request further information and documentation from a state before disbursement of *any funds*. The state must provide the requested information and documentation in order for the disbursement to be made.

PART 5. ALLOCATION OF STATE BLOCK GRANT FUNDS

5.1 Salaries and Wages: A State may use its discretion to determine appropriate expenditures out of its block grants for salaries, wages, capital improvement projects and community programs, subject to future restrictions that may be imposed by the Olbiil Era Kelulau.

5.2 Capital Improvement Projects: As stated in Part 5.1, such CIP funds may be used to pay the salaries of state workers while they are performing work on the CIP projects and community programs, subject to future restrictions that may be imposed by the Olbiil Era Kelulau.

PART 6. PROCUREMENT REQUIREMENTS

6.1 Except as otherwise specified by law, the Procurement Law applies to *every expenditures of public funds* by States received from *any source*. This includes, but is not limited to, block grants from the National Government or other sources. The definitions set forth in the Procurement Law apply to these regulations.



6.2 The Procurement Law also applies to contracts between the national and States (including Force Account Agreements) or other governments, except for the following: Instances where the Procurement Officer concerned makes a written and substantiated determination that the contract involved is of such a nature that only governments may perform it.

6.3 Price Quotations: For all small purchases under the threshold set by law, the Procurement Officer concerned or his designee must obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time, and other relevant factors.

6.4 States must maintain written documentation for the three quotes, the vendors submitting the quotes and the basis for selection in their purchase order files. Basis for selection shall be properly documented such that a reasonable person can conclude it was performed in a fair and consistent manner.

6.5 Purchases under \$5,000 may be limited to vendors in the Republic of Palau. Three price quotations are not required if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

6.6 States shall refer to the Procurement Law and related amendments regarding the specific requirements for obtaining quotations, including number of quotations required and the specific amounts that set the quotation requirements.

6.7 State Procurement Officer should become familiar with the Procurement Law and Regulations, including related amendments, to foster compliance with the law, the procurement of goods and services in particular.

6.8 Purchase orders may be utilized for purchases under \$5,000 when there is no requirement to use a contract.

PART 7. RECORDS AND REPORTING REQUIREMENTS

7.1 (a) Pursuant to the Public Auditing Act, all agencies shall enter into their public record sufficient information for a proper audit, and shall make the same available to the Public Auditor at his request.

(b) Any person who willfully fails or refuses to furnish or produce any book, record, paper, document, data, or sufficient information necessary to make a proper audit which the Public Auditor is authorized by law to perform shall be guilty of an offense, punishable by not more than three months imprisonment or a fine of \$1,000.00, or both.



(c) A willful failure or refusal by any person to furnish or provide upon request any book, record, paper, document, data, or sufficient information necessary to a proper audit which the Public Auditor is authorized by law to perform shall be cause for removal of the official or employee from their office as provided by law.

7.2 At the end of each fiscal year, the Bureau of the National Treasury shall submit a financial report to the Olbiil Era Kelulau and the Office of the Public Auditor detailing the amount of funding disbursed under block grants to States.

7.3 Each State receiving fund in the form of block grants for CIP projects or other special projects must submit a financial report to the Olbiil Era Kelulau, the Office of the Public Auditor and the Bureau of the National Treasury within 30 days of the date on which each funded project is completed.

7.4 Each State receiving funds in the form of block grants for CIP projects or other special projects must submit to the Olbiil Era Kelulau, the Office of the Public Auditor and the Bureau of the National Treasury within 90 days after the end of the fiscal year a financial report detailing how these funds were spent.

7.5 State is required to allow the Public Auditor or his designee(s) access to all data and material maintained by or available to a State which relates to the activities to which the Public Auditor has oversight responsibilities. This includes, but is not limited to, records, reports, audits, reviews, papers, books, documents, recommendations and correspondence, both written and electronic.

7.6 When any person in charge of such information receives a request from the Public Auditor, he or she must furnish to the Public Auditor or his designee the information, cooperation, or assistance requested. The requested materials must be tendered to the Office of the Public Auditor within the time frame specified, if any, or within a reasonable period of time. If the person in charge determines that he or she will not be able to produce the materials in a timely manner, he or she must immediately inform the Public Auditor.

7.7 Failure by the State to provide records or information upon request by the Public Auditor can result in the Public Auditor giving notice to the Minister of Finance to suspend further disbursement of state block grants.

7.8 The State shall designate a chief accountant and/or financial manager who should possess a basic understanding of accounting and government financial reporting.



7.9 The State's management shall be responsible for the preparation and fair presentation of its financial statements and the design, implementation and maintenance of internal controls relevant to the preparation of the financial statements and accountability of public funds for the respective fiscal year end under audit.

PART 8. EXPENDITURES

8.1 Each expenditure must contain adequate supporting documents (invoice/receipt, contract, timesheet, travel documents, etc.) to substantiate the official purpose of the expenditure. Any expenditure without proper supporting documents will be reported as Questioned Cost.

8.2 Expenditures must be properly approved by an authorized official and certified for funds availability. Any expenditure without proper certification of funds will be considered unallowable cost and reported as Questioned Cost.

8.3 Each "Open" credit account (for POL or otherwise) must disclose the amount of credit and which amount is supported by a Purchase Order or Requisition properly authorized and certified for funds availability. Any expenditure incurred on an open credit account without the proper approval and certification of funds will be considered unallowable cost and reported as Questioned Cost.

8.4 Any procurement by a State greater or equal to \$10,000 shall be subject to Competitive Bidding in accordance with the Procurement Law and Regulations, and any amendment thereto. Failure to comply with the competitive bidding requirements will result in the procurement being questioned and associated expenditures reported as Questioned Cost.

8.5 Payroll Cost must contain adequate supporting documents, e.g., Personnel Action Form, timesheets, contract, etc., properly approved by an authorized official and certified for funds availability. Any payroll cost lacking proper approval and certification of funds will be questioned and reported as Questioned Cost.

8.6 Any off-island travel must contain sufficient supporting documents (Travel Authorization, invoices/receipts for authorized travel advances such as car rental, conference fees, etc., invoices/receipts for representation or contingency funds, airline ticket stubs, trip reports, etc.) to justify use of public funds. Any travel expenditures without the proper supporting documents will be questioned and reported as Questioned Cost.

8.7 Payments for professional services (e.g., lawyers) must contain a contract and detail billings to justify amount of payment. The billings must specify the nature of services



rendered, time spent, billing rate, and such other information. Payments that lack proper supporting documents will be questioned and reported as Questioned Cost.

8.8 Petty Cash must contain proper supporting documents (invoices/receipts) to support petty cash disbursements. Any disbursement without supporting documents will be questioned and reported as Questioned Cost.

8.9 Reimbursements, representation and contingency funds must contain proper supporting documents (invoices/receipts) to support the official nature of the transactions. Reimbursements, representation and contingency fund expenditures without supporting documents will be questioned and reported as Questioned Cost.

PART 9. FINANCIAL AUDIT

9.1 Each State is required to undergo a financial audit by the Office of the Public Auditor (OPA) or a private company designated by the OPA pursuant to RPPL 9-9.

9.2 Each State shall provide auditable financial statements in accordance with acceptable financial reporting frameworks at the approval and oversight of the OPA.

9.3 Prior to the start of the audit, each State should locate and organize, in chronological order, records and documents for each fiscal year to be audited to facilitate timely completion of the audit by June 30 of next fiscal year in accordance with RPPL 9-9.

9.4 Each State shall provide a Trial Balance to the OPA for the fiscal year under audit prior to the commencement of the audit, such Trial Balance shall reconcile to underlying accounting records.

9.5 Each State shall provide a listing of all cash and deposit accounts and supporting schedule of bank reconciliation for the fiscal year end under audit.

9.6 Each State shall provide a schedule of accounts and lease receivables and allowance for doubtful accounts for the fiscal year under audit.

9.7 Each State shall provide a schedule of prepaid expenses and all other assets held by State that have not been previously identified as referenced in Part 9.5 and 9.6.

9.8 Each State shall provide a schedule of fixed assets for the fiscal year under audit, which shall be reconciled to actual inventory of fixed assets and properly tagged or identified as State property. Fixed Assets shall include machinery and equipment, roads



and accessories, Buildings and related structures, land, furniture and fixtures, appliances, and other fixed assets

9.9 Each State shall provide a schedule of accounts payable and related obligations for the fiscal year under audit.

9.10 Each State shall provide a schedule of accrued payroll for the fiscal year under audit.

9.11 Each State shall provide a schedule of all other commitments, liabilities and obligations owed by the State that have not been previously identified as referenced in Part 9.9 and 9.10.

9.12 Each State shall provide a schedule of all State land leases for the fiscal year under audit, which shall properly reflect current and accurate leasing rates, and shall be supported by properly authorized leasing agreements and applicable leasing laws and regulations.

9.13 Each State shall provide a schedule of cash receipts for the fiscal year under audit, which shall be summarized by major sources of cash receipts.

9.14 Each State shall provide a report of expenditures for the fiscal year under audit, which shall be summarized in accordance with approved State Budget expenditure classifications, and shall follow expenditure regulations as set forth in Part 9.

9.15 As part of the basic financial statements, each State shall also provide, as required supplementary information, a Schedule of Revenues, Expenditures and Changes in Fund balance, original and final budget verses actual expenditures for the fiscal year under audit.

PART 10 WITHHOLDING AND RELEASE OF STATE BLOCK GRANTS

10.1 At the conclusion of the audit of a state or any of its subdivisions, the OPA will present to the state proposed findings which the OPA is considering including in its Audit Report. Within 30 days of receiving the Draft Audit Report, the state must submit to the OPA a written response to all adverse or critical audit findings and Questioned Costs. This response may include explanations or rebuttals to each adverse finding or questioned cost and must include a plan of corrective action(s) the state will take to remedy or prevent a recurrence of the finding(s).

10.2 Within the 30-day response period, each State should work with the OPA to resolve the Questioned Costs by providing additional supporting documents or other



corrective measures. All unresolved Questioned Costs will be withheld from States block grants upon the Public Auditor serving notice to the Minister of Finance to take such action.

10.3 Each State must take affirmative action to comply with recommendations in the state's audit report and to remedy conditions that resulted in negative findings, which affirmative action should be spelled out in the plan of corrective action contained in the response as referenced at Part 10.1. The plan of corrective action should be specific as to the actual measures that will be taken to correct the finding or weakness, the date of implementation, and the official responsible for implementation. Upon receiving a written response to the "Draft" audit report, the OPA will incorporate the response into the report and finalize the audit report. The OPA will conduct follow up procedures with the State to assess the status of the findings and recommendations (whether corrective actions have been implemented or not) and report such to the leadership of the Republic. Failure to implement corrective action to remediate findings and Questioned costs shall be cause for the Public Auditor to notify the Minister of Finance to serve notice upon the State of potential suspension of further disbursement of State block grants.

10.4 The Public Auditor must notify the Minister of Finance and the Presiding Officers of the Olbiil Era Kelulau of any issued State audit report which contains recommendations or negative findings.

10.5 The Minister of Finance must then serve notice on the State referenced in Part 10.3 that the allotment of the State's block grant(s) shall be withheld. Furthermore, the Minister must take appropriate steps to ensure the prompt implementation of withholding in the event that the State fails to timely obtain the certification required by this Part.

10.6 Failure by the Minister of Finance to serve the notice set forth in Part 10.5 will *not* be grounds for postponement or cancellation of the withholding.

10.7 No State shall receive further allotments of its annual block grant appropriation from the National Government later than 45 days after the issuance of an audit report on that State by the Public Auditor, unless the Public Auditor has certified that all recommendations contained in such audit report have been complied with and all conditions leading to negative findings have been remedied.

10.8 Questioned Costs previously withheld in Part 10.2 may be reinstated upon resolution by the State.

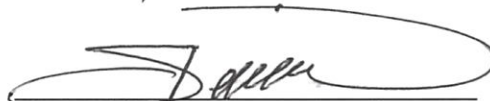


10.9 Upon certification by the Public Auditor pursuant to Part 10.7, all withheld block grant allotments to the States concerned will be released to such State as soon as the availability of funds permits.


10.10 The Public Auditor and/or the Ministry of Finance may, in their discretion, maintain ongoing oversight of State actions to ensure that the state complies with audit recommendations or remedies conditions that led to negative finding(s). The Public Auditor may revoke certification granted pursuant to Part 10.7, if the State concerned does not, in the Public Auditor's opinion, adequately continue the corrective actions that resulted in the granting of the certification.

10.11 Within 30 days of a state's loss of certification pursuant to Part 10.10, the Minister of Finance must withhold further block grant allotments from the state until certification has been reinstated.

ADOPTED this 11th day of December, 2018.


Satrunino Tewid
Public Auditor

APPROVED this 12th day of Dec., 2018.


Tommy E. Remengesau, Jr.
President
Republic of Palau

EFFECTIVE DATE: January 10, 2019

Administrative Procedure Act (PNCA 6 § 127. Effective date and filing of rules)

Every agency shall transmit a copy of each rule adopted by it to the President on the day of adoption. The President shall approve or disapprove the rule within 20 consecutive calendar days after receipt. If the President does not act within 20 days, or if the President approves the rule, it shall become effective 30 days after its adoption by the agency ...