



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON



NGARDMAU STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2010

Performed by the Office of the Public Auditor

NGMAU05-10-P03*opa20



REPUBLIC of PALAU

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Office of the Public Auditor

June 26, 2012
Serial#: opa12-101au

Honorable Akiko C. Sugiyama
Governor
Ngardmau State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Performance Audit of Ngardmau State Government for the period from October 1, 2004 through September 30, 2010.

Dear Governor Sugiyama:

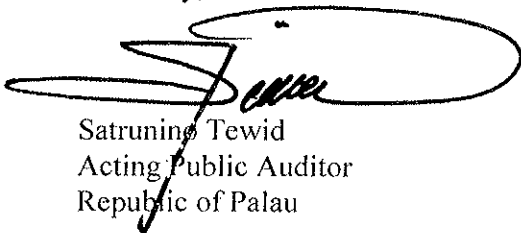
This report presents the results of our performance audit of Ngardmau State Government for the period from October 1, 2004 through September 30, 2010.

The Office of the Public Auditor (OPA) received your response to the draft audit report. The response (without the attachments) is published verbatim in the final report.

The OPA has established an audit recommendation tracking system to keep track of the status of recommendations issued in this report. Accordingly, the OPA will conduct follow up inspections on your responses and corrective action measures to assess their implementation and operation. On a semi-annual basis, June 30 and December 31 each year, the OPA will report the status of the recommendations to the Office of the President and Preciding Officers of the Olbiil Era Kelulau for their information and disposition.

If you have any questions regarding matters of audit findings and recommendations, the OPA will be available to discuss such matters at your request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Satruming Tewid', is written over a large, stylized oval shape. The signature is fluid and cursive.

Satruming Tewid
Acting Public Auditor
Republic of Palau

Ngardmau State Government Republic of Palau

October 1, 2004 through September 30, 2010

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June 26, 2012

Honorable Akiko C. Sugiyama
Governor
Ngardmau State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on Performance Audit of Ngardmau State Government for the period from October 1, 2004 through September 30, 2010.

Dear Governor Sugiyama:

This audit report presents the results of the Office of the Public Auditor's (OPA) performance audit of Ngardmau State Government for the period from October 1, 2004 through September 30, 2010.

The objective of the audit is to determine whether (1) expenditures were incurred in accordance with national and state government laws and regulations, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts are supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were authorized and appropriated, and (5) the state has established proper internal controls to ensure the proper safeguarding of its properties and transactions are properly recorded.

Discussed below is a synopsis of the deficiencies and issues the OPA found and the recommendations, which the OPA believes, if implemented, will correct these deficiencies:

Finding 1: The State did not deposit cash receipts in a timely manner and retained cash and checks over a prolonged period.

Recommendation: We recommend that all cash receipts be deposited in a timely manner and not unnecessarily retained over a prolonged period.

Finding 2: The State's cash collections from local revenues lacked proper supporting documents to evidence deposit into the State's bank account.

Recommendation: We recommend Governor direct the State Treasurer to establish and enforce controls to safeguard the State's local revenues to ensure that collections are properly deposited and contain proper supporting documents.

Finding 3: The State did not follow competitive bidding procedures when procuring goods and services costing \$5,000 or more.

Recommendation: We recommend the Governor adhere to the provisions of RPPL 3-54 when procuring goods or services costing \$5,000 or more.

Finding 4: \$7,600 of the State funds were used for travel and travelers failed to file travel vouchers after completion of travel.

Recommendation: We recommend the Governor either adopt the National Government's Executive Branch Travel Policies and Procedures or promulgate the State's travel Policies and Procedures.

Finding 5: The State lacked personnel files showing name and title of each Klobak member, effective date of membership, authorized monthly allowance, etc.

Recommendation: We recommend the Governor establish personnel files for the members of the Klobak to justify their compensation.

Finding 6: Although the State performed bank reconciliation, the reconciliations were not properly done to adjust State books to reflect reconciling items such as bank services charges.

Recommendation: We recommend the Governor direct the State Treasurer to perform monthly bank reconciliation. The Treasurer should reconcile the balance of cash per the State's records (checking account) to the balance per bank.

Finding 7: The State purchased a vehicle for Kelulul Ngardmau without appropriation in violation of the State Constitution.

Recommendation: We recommend the Governor administer Ngardmau State funds in accordance with the State Constitution.

Finding 8: Some of the State's expenditures were processed without Governor's authorization on the Accounts Payable Vouchers (APV).

Recommendation: We recommend the Governor direct the State Treasurer to enforce and adhere to the use of the APV for initiating cash disbursements.

Finding 9: Although the State used a "Fuel Requisition" form, some \$3,604.85 worth of fuel purchases lacked adequate supporting documents (invoices/receipts) to justify the official nature of fuel usage during the period from fiscal years 2006 and 2008.

Recommendation: We recommend the Governor direct the State Treasurer to implement and enforce controls over the use of the "Fuel Requisition" form.

Finding 10: The State expended \$30,109.68 without proper supporting documents (invoices, contracts, travel documents, competitive bidding, etc.) to justify the propriety of the expenditures.

Recommendation: We recommend the Governor establish and strictly enforce controls requiring that expenditure of State funds be supported by adequate supporting documents (invoices, receipts, contracts, competitive bidding, etc.).

Finding 11: The members of the Board of Trustees of Ngardmau State Public Land Authority (NSPLA) received compensation in excess of the annual ceiling set by law.

Recommendation: We recommend the Governor compensate the members of NSPLA in accordance with NSL No. 4-38.

Finding 12: NSPLA failed to demand lease payments from leaseholders when their rental payments became delinquent.

Recommendation: We recommend the NSPLA seeks the feasibility of hiring a staff (full or part-time, depending on the workload) to oversee the Administrative functions of the NSPLA, including recordkeeping on leases and collection on delinquent lease payments.

Finding 13: The State has not established a system to account for the acquisition, disposal, and conduct of annual inventory of its fixed assets.

Recommendation: We recommend the Governor direct the State Treasurer to establish a fixed asset accounting system to record the acquisition, disposal, and conduct periodic inventory of the State's fixed assets.

Finding 14: The State entered into a lease agreement to lease a building to be used as State office; however, the State allowed the lease agreement to expire without renewing the lease and continue to occupy the building based on an oral agreement with the landlord.

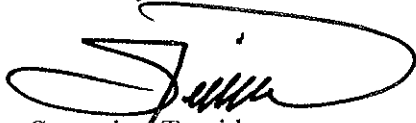
Recommendation: We recommend the Governor renew the lease agreement with the landlord if the intention of the State is to continue to lease the building as office space.

Finding 15: The State lacked proper records to demonstrate proper monitoring and management of its Time Certificate of Deposit (TCD). The TCD lacked the proper records showing closing date of the account and the transfer of funds to other State accounts.

Recommendation: We recommend the Governor to direct the Treasurer to maintain and file documents supporting the State's TCD's and other cash accounts.

Finally, the OPA would like to thank the staff and management of Ngardmau State Government for the professional courtesy and cooperation extended to us during the audit.

Sincerely,



Satruning Tewid
Acting Public Auditor

BACKGROUND

Ngardmau State is one of the sixteen (16) states in the Republic of Palau. The State has a Constitutional government established in accordance with the State Constitution, which was ratified in April 14, 1984. The Government of the State of Ngardmau is responsible for, among other things, conservation of a beautiful, healthful and resourceful natural environment, promotion of the State economy, protection of the safety and security of the persons and property, promotion of the health and social welfare of the people of the State of Ngardmau.

To fulfill these mandates, the State Constitution calls for the establishment of the Office of the Governor and the Legislature (Kelulul Ngardmau). The Governor is elected to a four (4) year term. The Governor shall be responsible for among other duties, to enforce and execute laws of the State of Ngardmau, to spend public funds and to collect taxes pursuant to laws, to introduce measures in the Kelulul Ngardmau, and to prepare an annual budget for consideration and enactment by the Kelulul Ngardmau.

The members of the Kelulul Ngardmau are elected for a four-year term. The powers and responsibilities of the Kelulul Ngardmau are prescribed in the state Constitution.

Article X of the State Constitution states in part: "There shall be one (1) treasury of the State of Ngardmau. All revenues derived from taxes or other sources shall be deposited in this treasury. No funds shall be withdrawn from the treasury except by law. The Kelulul Ngardmau shall enact laws governing procedures for the deposit and withdrawal of public funds, and provide for a state borrowing Act."

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit is to determine whether (1) expenditures were incurred in accordance with national and state government laws and regulations, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts are supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were authorized and appropriated, and (5) the state has established proper internal controls to ensure the proper safeguarding of its properties and transactions are properly recorded.

The audit covered the period from October 1, 2004 through September 30, 2010. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the State or any component or account within those financial statements and therefore express no opinion on the financial statements.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

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based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish the audit objectives, we reviewed accounting records maintained at the office of Ngardmau State, including budgetary laws and other relevant laws and regulations. We also reviewed records maintained at the Bureau of National Treasury. In addition, we examined relevant sections of the Republic of Palau's Unified Budget Acts and other applicable laws and regulations. Finally, we met and discussed these issues with state officials as appropriate under the circumstances.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor (OPA) to specifically act to prevent fraud, waste and abuse in the collection and expenditures of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste and abuse of public funds.

PRIOR AUDIT COVERAGE

The OPA has been conducting audits of Ngardmau State Government in previous years. The most recent audit report "Special Report on Agreed-Upon Procedures Audit" was completed for fiscal year 2004 ending June 30, 2004. Since then, there have not been any audits conducted by the OPA or a private accounting firm over the operation of the state.

Finding 1: Untimely Deposits

A sound system of internal control requires that cash receipts be deposited in a timely manner. In addition, cash receipts needlessly retained over a prolonged period become susceptible to theft.

Although the State maintained adequate accounting records to support its cash receipts, we found that some of the receipts were not deposited into the State's bank account in a timely manner. For example, in fiscal year 2009, the State received two (2) fishing rights fees checks, in identical amounts, check # 277584 for \$9,219.16 and check # 280715 for \$9,219.16, which were receipted on July 13, 2009 and August 5, 2009 respectively. The State did not deposit these two (2) checks until October 15, 2009, more than two months after receipt.

We were unable to determine why the State is not depositing cash receipts in a timely manner and needlessly retaining cash and checks over a prolonged period. It lacks justification and conveys the impression that the State does not need the money.

Due to unnecessary retention of cash, in March 2006 thieves broke into the State Office and stole \$1,535 of local revenue collections. In addition, had there been checks with the cash, they would have been stolen as well.

Recommendation

We recommend that all cash receipts be deposited in a timely manner and not needlessly retained over a prolonged period. In addition, we recommend the Office of the Attorney General or the Office of the Special Prosecutor further investigate the above delay of deposit and to take appropriate action towards any conduct determined to involve misuse, abuse, and misappropriation of the state's revenues.

NSG's Response: Before I took office those break-ins occurred; therefore, when I took office I create a system of depository of fund which we coherently applied until I took a leave of absence for family emergency reasons. It was during my absence that my previous treasurer slacked off from that control system resulting in several adverse results including overdrafts.

Upon my return, her punctuality became unbearable. It was when I asked her for deposits records that she walked out and never return. Authorities were contacted and she brought in to our office and surrendered the checks.

Finding 2: Local Revenues Unaccounted For

A sound system of internal control dictates that all revenues derived from local collections should be deposited into the state's bank accounts and should contain the proper supporting documents (bank deposit slips) to evidence the deposit.

During the audit we found that in fiscal years 2007 and 2009, cash collections from local revenues lacked proper supporting documents to evidence their deposit into the State’s bank account. Table I below shows the dates, amounts, and cash receipts numbers of local revenues collections lacking supporting documentation to evidence their deposit:

Date	Receipt#	Amount	Comments
10/15/06-10/23/06	16371-16400	\$ 850.00	No bank deposit slip
10/20/2006	12529	\$ 620.00	No bank deposit slip
11/1/06-11/17/16	16431-16472	\$ 1,455.00	No bank deposit slip
7/22/07-7/31/07	17615-17652	\$ 855.00	No bank deposit slip
3/23/09-3/29/09	19857-19879	\$ 390.00	No bank deposit slip
7/20/09-7/26/09	20195-20212	\$ 435.00	No bank deposit slip
8/17/09-8/23/09	20272-20300	\$ 585.00	No bank deposit slip
8/31/09-9/06/09	20321-20351	\$ 635.00	No bank deposit slip
Total Revenues:		\$ 5,825.00	

The State failed to oversee the controls essential to safeguarding the State’s local revenues to ensure that cash collected are properly deposited to the State’s bank accounts and contain the proper supporting documents.

As a result, \$5,825.00 of Ngardmau State local revenues were collected but lacked proper supporting documents (bank deposit slips) to show that the revenues collected were deposited into the State’s bank accounts.

Recommendation

We recommend the Governor direct the State Treasurer to establish and enforce controls to ensure that local revenue collections are properly deposited and contain the proper supporting documents (validated bank deposit slip) to support their deposit. Furthermore, we recommend the Office of the Attorney General or Office of the Special Prosecutor further investigate the above transactions and take appropriate action for any conduct determined to involve misuse or misappropriation of State funds.

NSG’s Response: Receipt number 16371-16400 totaling \$850.00 disappeared while en-route to Liaison Office to be deposited. The person handling them at the time of it disappearance is a state employee. Concurrent with the missing funds, she stopped coming to work. I wrote a letter to her to come in to the office so we can clarify the incident but she refused to show up.

OPA Comments: The State needs to take criminal actions against its employees in order to protect its resources and recover the same from them.

NSG’s Response: Receipt number 16431 to 16456 and 12529 totaling \$1450.00 was used to open our Bank of Hawaii Checking account.

OPA Comments: *The supporting documents were inadequate.*

NSG’s Response: *Receipt number 16457 to 16472 dated 11/12-17/2006 was indeed deposited to Bank of Hawaii as indicated on a deposit slip stamped and initialed by a bank teller.*

OPA Comments: *The supporting documents were inadequate.*

NSG’s Response: *Receipt number 17615 to 17652 was stolen during a break in at our main office in Ngardmau. Local revenue amassed from the main office and the waterfall park is submitted to Koror every Monday to be deposited. Depositing it every day is not cost effective given our limited resources. Since the looting, we have restructured our cash handling method to eradicate the same problem from occurring again.*

As for the rest of the receipts listed in the draft report, it is evident in the Bank statements that they were indeed deposited; however, it lack official bank receipts that supports the paper works. I believe they do exist but perhaps misfiled or mishandled. For that reason I have hired an assistant whose responsibility is to reorganize our filing system in hopes that all missing supporting documents will come to light.

Finding 3: Competitive Bidding

Republic of Palau Public Law (RPPL) No. 3-54, Procurement Law and Regulations, Section 25, requires that any procurement by the State Governments of \$5,000 or more shall be competitively bid.

Based on our testing, during fiscal year 2010, Ngardmau State Government purchased two (2) vehicles on an installment payment plan for the Office of the Governor and Legislature the cost of which totaled \$13,500.00 without competitive bidding. See table below for details:

Check Date	Check #	Name/Vendor	Memo	Amount	Comments
12/16/2009	2646	Yo-Jiro Automotive	1 Honda CRV Vin#RD1-5216995	7,000.00	No bidding documents
01/18/2010	2706	H.E Automotive Sales	Down Pmt. for Olbiil Veh.	1,000.00	
03/16/2010	2822	H.E Automotive Sales	Olbiil Vehicle pymnt for Feb/March 2010	2,300.00	
04/20/2010	2901	H.E Automotive Sales	Olbiil Vehicle pymnt for April 2010	1,000.00	
05/20/2010	2961	H.E Automotive Sales	Olbiil Veh. PMNT. May 2010	1,000.00	

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06/29/2010	3015	H.E Automotive Sales	Final Pmnt for Olbiil Veh. as per contract	1,200.00	
		Total H.E. Automotive Sales		6,500.00	No bidding documents
Total Expense				\$ 13,500.00	

We were unable to determine why the State did not comply with competitive bidding requirements in the purchase of the above vehicles.

As a result, the State may have violated RPPL No. 3-54, Section 25, in the purchase of vehicles costing over \$5,000. Hence, questioned costs of \$13,500.00 exist.

Recommendation

We recommend the Governor adhere to the provisions of RPPL 3-54 when procuring goods or services costing \$5,000 or more.

NSG's Response: I purchase State vehicle base on our needs for a vehicle, price and most importantly mileage. Pursuant to RPPL No. 3-54, I require my staffs to acquire three quotations before any decision is made. I had an assumption that my staffs know to attach all three quotations to the APV, but evidently not. After, the draft report, I went over the provisions of RPPL No. 3-54 with my current treasurer and a month ago, we purchased another vehicle and he followed the said RPPL. Again, this is one of the reasons we requested for an audit; therefore, we can improve or straighten up our weaknesses.

Finding 4: Travel Vouchers

Travel Policies and Procedures provide important guidelines on how State funds are used to fund official travel of the State including per diem rates of travel destination, authorized travel expenses, submission of travel vouchers after completion of travel, trip reports, etc.

The audit revealed that the State does not have a travel policy in place. During fiscal year 2008, the State expended \$7,600 of State funds for travel, however; travelers failed to file travel vouchers after completion of travel because of the lack of travel policy. The filing of a travel voucher (with related supporting documents such as invoices/receipts) is essential as it documents expenses incurred during travel, official purpose of expenses incurred, and other necessary information to justify the use of public funds.

Due to lack of travel policy, we were unable to determine the propriety of travel expenditures and whether the purpose of travel was accomplished.

Recommendation

We recommend the Governor either adopt the National Government's Executive Branch Travel Policies and Procedures or promulgate the State's Travel Policies and Procedures. Whichever policies and procedures the State elects to use, it is incumbent upon the Governor to ensure that the policies and procedures are enforced. When State funds are used to fund official travel, travelers are required to file travel vouchers (with required supporting documents) to justify travel expenses incurred and the official nature of travel expenses. A travel voucher (consisting of a Travel Authorization, invoices/receipts, ticket stubs, boarding passes, trip report, etc.) should be filed within thirty (30) days after completion of travel. A traveler who fails to file a travel voucher within the required filing period should have the cost of travel garnished from his/her pay on a bi-weekly basis. In addition, an official who fails to file a travel voucher should be prohibited from further travel until he/she fulfills the filing requirements.

NSG's Response: Ngardmau State Government does not have any travel policies in place so our traveling expenses are controlled with the use of Accounts Payable Vouchers. As recommended by your office, we will look into replicating National Government travel policies or publish one for Ngardmau State. As for the Micronesian fair expenses mentioned under the "Question Cost" in the draft report, I have attached receipts confirming the trip (refer to Exhibit 1).

Finding 5: State Klobak Personnel System

The State should establish a system to maintain personnel files for each member of the Klobak which contain, at a minimum, a members name and title, date of membership, authorized monthly allowance, allotment forms, etc.

During our audit, the State was unable to provide basic information pertaining to each individual member of the Klobak. The members of the Klobak lacked personnel files showing name and title of each member, effective date of membership, authorized monthly allowance, etc. In addition, we noted that allotments were being deducted from certain members' monthly allowance, however, there were no allotment forms authorizing the deductions.

The State has not established personnel files for each member of the Klobak receiving compensation from the State.

Without personnel files for each member of the Klobak, it is difficult for the State to justify compensation to the members of the Klobak. Information such as name and title of each member, authorized monthly stipend, and effective date of membership are not documented in the State records. In addition, allotment deductions require allotment forms approved by the requesting member in order to protect the State from any future disputes.

Recommendation

We recommend the Governor establish personnel files for the members of the Klobak to justify their compensation. Each member should have a personnel file which contains, at a minimum, name and title of the member, authorized monthly stipend, effective date of membership, etc. In addition, members of the Klobak who participate in the State allotment program should be required to complete and sign an allotment form authorizing monthly deductions from their stipend.

NSG's Response: As recommended, we now have a personnel System in place for all the Ngardmau's Council of Chiefs.

Finding 6: Bank Reconciliations

Performing bank reconciliation is an important function of the State's internal control system to ensure that bank service charges, errors, and other reconciling items are identified and recorded to agree the cash balance per book to bank balance.

Our audit revealed that the State performed bank reconciliation up until September 30, 2009. Even so, the reconciliations were not properly done to adjust State books to reflect reconciling items such as bank service charges. Consequently, the cash balance per the State records was out of balance with the balance per bank, which contributed to bank overdraft charges totaling \$770, as shown below:

Date	Amount
4/13/2009	\$ 60.00
7/2/2009	\$ 120.00
9/9/2009	\$ 90.00
9/10/2009	\$ 60.00
9/14/2009	\$ 70.00
9/15/2009	\$ 30.00
9/17/2009	\$ 90.00
9/18/2009	\$ 30.00
9/21/2009	\$ 10.00
9/25/2009	\$ 90.00
9/28/2009	\$ 30.00
10/28/2009	\$ 30.00
10/29/2009	\$ 30.00
10/30/2009	\$ 30.00
Total Overdraft Fees	\$ 770.00

In addition, Ngardmau State Government did not provide bank reconciliation reports for fiscal year 2010.

As a result, errors and irregularities may occur without timely detection by the State. And because the State's checking account was not regularly reconciled and monitored, the State continued to disburse checks from an account with insufficient funds incurring bank overdraft charges therewith.

The State did not perform bank reconciliations on a regular basis and continued to issue checks from an account with insufficient funds.

Recommendation

We recommend the Governor direct the State Treasurer to perform monthly bank reconciliation. On a monthly basis, the Treasurer should reconcile the balance of cash per the State's records (Checking Account) to the balance per bank. In addition, any reconciling items identified should be adjusted in the State books to agree the balances of the two systems. The State treasurer should monitor the State cash balance (checking account) and advise the Governor when the account is not sufficient to accommodate requested disbursements in order to avoid bank overdraft charges.

NSG's Response: *I inquired assistant from Mr. Haruo Wilter of the National Government to assist our treasury office regarding the issue of reconciliation. Our bank statements are now reconciled up to the most recent which is April 2012 (Please see Exhibit 2).*

Finding 7: Withdrawal of Funds From State Treasury

Article X of Ngardmau State Constitution states: "There shall be one treasury of the State of Ngardmau... No funds shall be withdrawn from the treasury except by law."

In our review of state expenditures and budget laws for fiscal year 2010, we found that on March 16, 2010, the State in NSL No. 7-13 amended NSL No. 7-10, Ngardmau State Unified Budget for FY 2010, "to appropriate additional sums to pay for a vehicle for Kelulul Ngardmau and for other related purposes." The supplemental budget provided an additional \$6,500 for purchase of a vehicle for Kelulul Ngardmau. We found, however, that supplemental funding was approved on March 16, 2010 but the Speaker, on behalf of Kelulul Ngardmau, signed a Promissory Note dated January 18, 2010, obligating the State for \$6,500, the purchase price of the vehicle, incurring expenditures of \$6,500 without appropriation in violation of the State Constitution.

We were unable to determine why the State allowed obligation of funds without the requisite appropriation.

As a result, the state may have violated its constitution by withdrawing funds from state treasury without appropriation.

Recommendation

We recommend the Governor administer Ngardmau State funds in accordance with the State Constitution. Any installment payment predicated on the promissory note prior to the passage of NSL No. 7-13 was illegal and null and void due to lack of budget authority. Based on these grounds, funds should not have been certified and disbursement of state funds should not have occurred.

NSG's Response: *It is not my intention to refute your findings but rather I want it clarified that before we finalized our decision to obligate State funds for the said vehicle, both speaker and I consulted our legal counsel and he advised us that there were not legal constraints to obtaining the vehicle in that particular manner.*

Finding 8: Accounts Payable Vouchers

A sound internal control system involves the use of disbursement control forms (i.e., APV) to evidence prior approval of disbursements, certification of funds availability, identification of account to be charged, etc.

During the audit we found that some expenditure was processed without Governor's authorization on the Accounts Payable Vouchers (APV). The APV is used by the State to evidence prior authorization for disbursements, certification of funds availability, identify account to be charged, etc. before funds are disbursed.

The State is not consistently enforcing and adhering to its cash disbursement procedures. As a result, the controls intended in the use of APVs are sometimes bypassed. The controls such as prior authorization, certification of availability of funds, and account to be charged were bypassed weakening the purpose of the controls therewith.

Recommendation

We recommend the Governor direct the State Treasurer to enforce and adhere to the use of the APV for initiating cash disbursements. The APV has inherent controls the purpose of which is to show documented evidence of prior authorization of disbursement, certification of availability of funds, account to be charged, etc., which is critical for the administration of public funds.

NSG's Response: *I do enforce the use of APV in my administration. I believe the importance of leaving concise trail of where and how public funds are disbursed. Those few discrepancies coincide with the time my previous treasurer became irresponsible and careless.*

Finding 9: Open Fuel Charge Account

The use of an “open” fuel charge account should contain proper controls to ensure that fuel requisitions are properly authorized, for official business, justified, the person and equipment receiving the fuel are properly identified, and invoices are signed by the person receiving fuel.

During the audit we found that Ngardmau State Government (NSG) operated an “open” fuel charge account to purchase fuel for the State. Although the State used a “Fuel Requisition” form, some \$3,604.85 worth of fuel purchases lacked proper supporting documents (invoices/receipts) to justify the official nature of fuel usage during the period from fiscal years 2006 and 2008 as shown in the table below:

Check Date	Check #	Questioned Costs	Comments
07/20/2006	2966	236.40	Gas for personal vehicle to collect trash in the village and transport workers.
08/10/2006	11	40.60	regular gas fill up for just one day trip to koror
09/12/2006	3033	63.55	Gas for personal vehicle to collect trash in the village and transport workers.
09/29/2006	3131	270.22	\$20 purchase of gas was not approved;\$250.22 didn't show plate #'s meaning individual can get his personal gas using state gov't account
12/13/2007	1528	1,124.08	POL forms not attached
03/13/2008	1713	1,870.00	Fuel request forms not provided; no invoice and only receipt
Total Fuel Charges		\$ 3,604.85	

It appears the cause of the above condition is the State failed to monitor and enforce controls over the use of Open fuel charge account. In addition, the person responsible for making payments on the open charge account did not properly review invoices to ascertain their official purpose before making payments.

The effect of the above condition is that some fuel may have been improperly charged to the State’s open fuel charge account for unofficial purposes. In addition, without the necessary monitoring and other controls in place, abuse over the use of the charge account may continue undeterred.

Recommendation

We recommend the Governor direct the State Treasurer to implement and enforce controls over the use of the “Fuel Requisition” form. Each and every fuel requisition should be accompanied by a Fuel Requisition form approved by an authorized official (e.g. Governor), justified as to official purpose, identify the equipment (plate #) and person receiving fuel, and the person receiving fuel should sign the invoice. In addition, the Governor should direct the State Treasurer to be more attentive in reviewing the charge account billings to ensure that only those charges properly authorized, justified, and documented are processed and paid. Finally, we recommend

the Office of the Attorney General or the Special Prosecutor further investigate the suspect fuel purchases for non-State Vehicles and other irregular fuel purchases and take appropriate action for conduct involving misuse and abuse of State properties.

NSG's Response: Ngardmau State Government does have a POL control system. A fuel requestor must fill a "Requisition Form" before getting fuel. The requisition forms require detailed information such as name and signature of the requestor, license plate number, type and amount of gas, purpose for the gas and so forth. Upon receiving the statement from the fuel vendor, my staff separates them to their respective department. Before the check is prepared, I go over the list and weed out any unofficial use of POL.

The use of personal vehicle in my administration is not uncommon. In times when our only truck breaks down, we hire a private vehicle to carry the duties of the downed vehicle. Such duties include filling up waterfall park's water tanks and collect trash from every household in the village. Such duties are essential to the health and welfare of our residents and an uninterrupted service to our main source of income, the waterfall parks. In many cases, state vehicles are out of service for a long period of time due to parts unavailability; therefore, using private vehicles for a prolonged period to time is necessary.

The problem, I believe, lies with the filling of the "POL Form" and filing supporting documents. As recommended, I will direct the state treasurer to enforce controls over the use of the "Fuel Requisition Form".

Finding 10: Questioned Costs

A sound system of internal control requires that all expenditures be supported by adequate documentation (invoices, contracts, travel documents, competitive bidding, etc.) to justify the propriety of the expenditures.

In our review, we found that expenditures totaling \$30,109.68 lacked adequate supporting documents for each fiscal year shown below:

FY 2006	\$ 4,846.31
FY 2007	\$ 2,071.85
FY 2008	\$ 2,778.97
FY 2009	\$ 4,729.30
FY 2010	\$ 15,683.25
Total Questioned Costs	\$ 30,109.68

Refer to Appendix I for details of Questioned Costs.

The cause of the above condition is the Governor failed to strictly enforce the proper controls to ensure that adequate supporting documentation were obtained to justify the official purpose of expenditures and compliance with applicable laws and regulations.

As a result, questioned cost of \$30,109.68 exists. In addition, due to lack of supporting documentation, we were unable to determine the accuracy of the recording and classification of the expenditures for each affected fiscal year noted above.

Recommendation

We recommend the Governor establish and strictly enforce controls requiring that expenditure of State funds be supported by adequate supporting documentation (invoices, receipts, contracts, etc.) to account for and justify official nature of expenditures. In addition, supporting documents are essential evidence to support the recording and classification of expenditures in the State’s accounting system pursuant to the State’s appropriation laws. Moreover, controls are essential towards ensuring compliance with applicable laws and regulations (e.g., procurement law and regulations).

NSG’s Response: I have responded to several items in Appendix I in other findings in this draft report. Others will come to light as we continue our filing reorganization. As an illustration, attached herewith are supporting documents for the laptop purchased overseas through wire transfer (see Exhibit 3).

Finding 11: Unauthorized Compensation

Ngardmau State Law (NSL) No. 4-38, Section 2 states: “Each member of the Board of Trustees of Ngardmau State Public Lands Authority shall be compensated at the rate of fifteen dollars (\$15.00) for each meeting that he/she personally attends, but no member shall receive a total compensation of over one hundred eighty dollars (\$180.00) in a year.”

During our audit, we found that members of the Board of Trustees of Ngardmau State Public Land Authority (NSPLA) received compensation at fifteen dollars (\$15) per meeting. Upon further review, however; we found that some board members received compensation in excess of the annual ceiling (\$180/yr.) set by law. The schedule below shows the excess compensation to each board member from fiscal year 2007 through 2009:

NSPLA Board of Trustees	Compensation in Fiscal Year	Total Compensation received	Total in Excess of \$180/yr
Member 1	FY 2007 to FY2008	\$ 885.00	\$ 525.00
Member 2	FY2007 to FY2009	1,470.00	\$ 930.00
Member 3	FY2007 to FY2009	1,425.00	\$ 885.00
Member 4	FY2007 to FY2009	1,455.00	\$ 915.00
Member 5	FY2007 to FY2009	1,425.00	\$ 885.00
Member 6	FY2009	225.00	\$ 45.00
Member 7	FY2009	285.00	\$ 105.00
Total Compensation:		\$ 7,170.00	\$4,290.00

It appears the cause of the above conditions is lack of monitoring and unfamiliarity with the requirements of NSL No. 4-38 regarding the limitations on compensation for members of the Board of Trustees of Ngardmau State Public Lands authority.

As a result, Ngardmau State Government (NSG) and NSPLA did not comply with NSL No. 4-38, Section 2.

Recommendation

We recommend the Governor compensate the members of Ngardmau State Public Lands Authority in accordance with NSL No. 4-38. In addition, we recommend the Governor inform the members of the over-compensation and make arrangements with each affected member for the repayment of overpayments to the State. Finally, we recommend the Office of the Attorney General or the Special Prosecutor follow-up on the repayments to ensure that reasonable arrangements are made and the repayments occur. If the repayment process does not materialize, then we recommend that the Attorney General or the Special Prosecutor initiate appropriate action to recover the funds from each board member.

NSG's Response: NSL No. 4-38 which set the ceiling for board members compensation was repealed by NSL No. 5-18 and later amended by Amendment No.6-04 (see Exhibit 4). The aforementioned all occurred before I took office in 2006.

Finding 12: Outstanding Residential and Commercial Lease Rental Fees

Pursuant to NSPLA Residential Lease Agreement, Article II (D) states: "...Past due rent shall bear interest of twelve percent (12%) per annum from the date it becomes due until paid, but this provision does not relieve Lessee from any default in paying rent at the time and in the manner herein specified. In addition, for any rent not entirely paid by 15 days after the due date, Lessee shall pay to the Lessor a late fee of five percent (5%) of the rent. Payments shall be applied first to interest, second to late fees, and third to rent."

Secondly, Pursuant to NSPLA Commercial Lease Agreement, Article III states: "...Rent, interest, or damages not paid when due shall bear interest at the rate of two percent (2%) per month from the date it becomes due until paid..."

During our audit we found that most residential leaseholders are not up to date with their lease rental payments. In addition, the NSPLA awarded two (2) commercial leases to two local companies; however, upon making the initial lease rental payments, the lessees' subsequent payments are also not up to date. Furthermore, the NSPLA is not sending reminder and demand notices to leaseholders when they become delinquent in their rental payments. Moreover, NSPLA is not maintaining individual lease ledgers for residential and commercial leases to record monthly billings, interest and late charges. Hence, we were unable to obtain current information on total lease rentals outstanding during the period of the audit. The Table below illustrates lease rental activities for both residential and commercial leases:

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Table I

Name	Lease No.	Date of Agreement	Annual Rent	Dates Paid	Late Fees 5%	12% Per annum	Years not paid	Amount owe
Residential Lease 1	B 2-14	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 2	B 2-1	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 3	B 2-13	9/12/2007	50.00	11/21/2007	52.50	56.00	2	164.50
Residential Lease 4	B 3-7	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 5	B 3-5	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 6	B 2-5	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 7	B 3-2	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 8	B 3-4	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 9	B 2-9	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 10	B 2-10	9/12/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 11	B 2-15	9/13/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 12	B 2-6	9/13/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 13	B 4-1	9/13/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 14	B 3-6	9/13/2007	50.00	9/20/2007	52.50	56.00	2	164.50
Residential Lease 15	B 3-10	9/13/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 16	B 2-8	9/17/2007	50.00	no payment	52.50	56.00	3	220.50
Residential Lease 17	B 3-8	10/18/2007	50.00	no payment	52.50	56.00	3	220.50
							Total:	\$ 3,636.50

Table II

Name	Date of Agreement	Term of lease(years)	Annual Rent	Due dates	Accum. Interest 2%	Amount owe
Commercial Lease I	10/26/2007	50	\$ 8,400.00	7/8/2008	0	0
			8,400.00	7/8/2009	2,016.00	10,416.00
			8,400.00	7/8/2010	2,016.00	20,832.00
					Total:	\$ 20,832.00

Commercial Lease 2	11/13/2008	10	\$ 3,600.00	11/14/2008	0	0
			\$ 3,600.00	7/1/2010	864.00	\$ 4,464.00
					Total:	\$ 4,464.00
					Overall Total:	\$ 25,296.00

It appears the cause of the above condition is that the NSPLA does not have a designated staff responsible for the day-to-day operations of the NSPLA, including basic bookkeeping functions.

As a result, recordkeeping on residential and commercial leases are not up to date and, evidently, there are no efforts to pursue collections of delinquent lease rentals.

Recommendation

We recommend the NSPLA seeks the feasibility of hiring a staff (full or part-time, depending on the workload) to oversee the Administrative functions of the NSPLA, including recordkeeping on leases and collection on delinquent lease payments.

NSG’s Response: We have hired a full time staff to oversee all NSPLA business including those concerns mentioned in the draft report.

Finding 13: Fixed Assets

A fixed asset accounting system is essential to properly account for the acquisition and disposal of fixed assets. In addition, policies and procedures are essential to identify State properties and to safeguard the same against unauthorized use. Furthermore, fixed assets should be identified by a control number or equivalent (e.g. model and serial #, tag #, etc.) in the fixed asset register and/or attached to the property itself.

The State’s fixed asset accounting system was inadequate. Although the State provided a listing of fixed assets, the listing did not provide vital information such as date of acquisition, check number, name of vendor, location of asset, etc. In addition, a list of fixed assets disposed or retired in the past years was not provided. Furthermore, there is no system for identifying (i.e., tag, or seal, etc.) fixed assets as property of the State.

The cause of the above condition is lack of policies and procedures governing accounting for fixed assets.

As a result, the State is unable to effectively account for, monitor, and safeguard its fixed assets. Furthermore, fixed assets may be overstated or understated within the State’s financial records due to inadequate record keeping.

Recommendation

We recommend the Governor direct the State Treasurer to establish a fixed asset accounting system to record the acquisition, disposal, and conduct periodic inventory of the State's fixed assets. The fixed asset accounting system should include the following:

1. Procedures to record fixed asset acquisitions, which include the acquisition date, description, acquisition cost, vendor, location and condition;
2. Procedure for conducting periodic physical inventory, including surveying of condition and location of fixed assets;
3. Procedure for retirement of fixed assets and their removal from state's books
4. Procedure for identifying (i.e., tagging) state fixed assets.

NSG's Response: *As recommended, we are in the process of creating a more effective method of keeping tracks with State assets.*

Finding 14: Lease of Real Property without an Agreement

Lease agreements are essential legal instruments that protect the rights and obligations of the lessee in the use of real property, which rights and obligations are specified in the lease agreement.

During our audit we found out that the state entered into a lease agreement to lease a building to be used as State office; however, the State allowed the lease agreement to expire without renewing the lease and continues to occupy the building based on an oral agreement with the landlord.

We were unable to determine why the State did not renew the lease agreement if its intention was to continue to use the building as office space and now occupies the building based on a verbal agreement.

As a result, the State is leasing a building as office space without a written lease agreement prescribing its rights and obligations regarding the use of the structure.

Recommendation

We recommend the Governor renew the lease agreement with the landlord if the intention of the State is to continue to lease the building as office space.

NSG's Response: *We do have lease agreement with the owner of the building found in the filing system reorganization process (please see Exhibit 5).*

Finding 15: Time Certificate of Deposit (TCD) Unaccounted For

Time Certificate of Deposit should contain the proper records with which to monitor and manage the activities of the account.

During our audit, we found the state lacked proper records to demonstrate proper monitoring and management of its TCD. The TCD lacked the proper records showing closing date of the account and the transfer of funds to other State accounts. See table below for details:

TCD Account #8000019316				
Date Open/Mature	Amount Matured	Total Amount	Closing Date	Deposited to
8/7/2008		\$ 9,279.86		
3/7/2009	137.44	\$ 9,417.30		
10/7/2009	35.89	\$ 9,453.19	?	?

It appears management did not monitor the State’s TCD to ensure that documents substantiating the TCD activities are properly maintained and filed.

As a result, the state was unable to provide documentation to substantiate the activities of its TCD account.

Recommendation

The OPA recommends the Governor, in the future, direct the Treasurer to maintain and file documents supporting the State’s TCD’s and other cash accounts. These documents are important as they enable the State to monitor the activities of the accounts.

NSG’s Response: *Records indicate that the older TCD was transferred to create the new Business Bonus Savings (BBS). Unfortunately we failed to produce the bank document that certified the account to be closed yet we are hopeful that this reorganization of our filing system will produce such evidence.*

Appendix I

Check Date	Check #	Questioned Costs Amount	Comments
07/20/2006	2966	236.40	Gas for personal car. Why does the State use a private car to collect trash in the village and transport workers? What happened to state's cars?
08/04/2006	6	1,000.00	need to see invoice or receipt
08/10/2006	11	40.60	regular gas fill up for one day trip to koror
08/10/2006	12	185.00	Emily Tkel-reimburse for the \$1,000
08/15/2006	32	141.54	only letter was provided to governor to disburse this amount for kabekel expense-explanation not clear
08/18/2006	43	426.00	only quotation and no invoice attached
08/31/2006	3027	183.00	invoice dated 2/19/01 and paid in 8/31/06.why pay now??
09/12/2006	3033	63.55	Gas for personal car. Why does the State use a private car to collect trash in the village and transport workers? What happened to state's cars?
09/29/2006	3120	400.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3121	350.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3122	300.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3123	250.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3124	250.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3125	250.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3126	250.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3128	250.00	need to see documents for this allowance on 7/15/03 & 7/30/03. why pay now??
09/29/2006	3131	270.22	\$20 purchase of gas was not approved;\$250.22 didn't show plate #'s meaning individual can get his personal gas using state gov't fuel
10/30/2006	3185	17.97	only quotation no invoice or receipt
09/27/2007	1394	929.80	no documents
12/13/2007	1528	1,124.08	POL forms not attached
02/15/2008	1646	173.00	no documents

Office of the Public Auditor

03/13/2008	1713	1,870.00	Fuel request forms not provided; no invoice and only receipt
04/18/2008	1773	50.00	no documents
06/16/2008	1869	78.95	no invoice or receipt
07/31/2008	1950	200.00	apv not signed by governor; no invoice
09/30/2008	2061	407.02	no documents
10/13/2008	2062	204.67	no documents
10/15/2008	2067	1,056.32	no documents
11/24/2008	2103	1,498.39	no documents
12/11/2008	2130	105.05	no documents
03/02/2009	2263	110.03	no documents
06/15/2009	2406	35.00	no documents
07/02/2009	2435	1,500.00	no documents
08/03/2009	2474	219.84	no documents
10/26/2009	2588	1,000.00	no invoice or receipt
11/16/2009	2617	1,183.25	POL forms not attached
12/16/2009	2646	7,000.00	No competitive bidding
01/18/2010	2706	1,000.00	No competitive bidding
03/16/2010	2822	2,300.00	No competitive bidding
04/20/2010	2901	1,000.00	No competitive bidding
05/20/2010	2961	1,000.00	No competitive bidding
06/29/2010	3015	1,200.00	No competitive bidding

Total: \$ 30,109.68



**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO:**

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**MONDAY THRU FRIDAY
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