



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON



NGCHESAR STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2004 THROUGH SEPTEMBER 30, 2010

Performed by the Office of the Public Auditor

NGR04-10-P04*opa20



REPUBLIC of PALAU

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Office of the Public Auditor

June 14, 2013
Serial#: opa13-088au

Honorable Zacheus Kotaro
Governor
Ngchesar State Government
Office of the Governor
Koror, Republic of Palau

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

Dear Governor Kotaro:


This report presents the results of our performance audit of Ngchesar 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,



Satrunino Tewid
Acting Public Auditor
Republic of Palau

**NGCHESAR STATE GOVERNMENT
October 1, 2004 through September 30, 2010**

TABLE OF CONTENTS

	<u>Page No.</u>
Executive Summary	1-3
Background	4
Objective, Scope and Methodology	5
Findings and Recommendations:	
1. Cash Reciepts	6
2. Petty Cash	6-7
3. Procurement with Local Vendors	7-8
4. Expenses Incurred before Passage of Supplemental Budget	8-9
5. Competitive Bidding	9-12
6. Fixed Assets	12-13
7. Professional Services	13-14
8. Questioned Costs	15
9. Accounts Receivable	16-17
Appendices	
Appendix I	18
Appendix II	18



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Executive Summary

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June 14, 2013

Honorable Zacheus Kotaro
Governor, Ngchesar State Government
Office of the Governor
Koror, Republic of Palau 96940

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

Dear Governor Kotaro:

This report presents the results of the Office of the Public Auditor's (OPA) performance audit of Ngchesar 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.

As a result of the review, the Office of the Public Auditor found a number of problems and deficiencies noted below relating to the administration of Ngchesar State funds which we believe should be brought to the attention of management for appropriate corrective action. We also propose recommendations which, we believe, if implemented, will correct these problems/deficiencies.

First, internal controls over cash receipts and their deposit were inadequate resulting in unreconciled differences between collections and deposits.

Second, the finding on Petty Cash Fund is removed as daily collections used to cash checks were misconstrued to be petty cash.

Third, the State by failing to use competitive procurement missed the opportunity of potential cost savings of \$1,505.72 in the purchase of team uniforms for the Belau Games.

Fourth, the State expended public funds prior to the passage of a supplemental budget in violation of the State Constitution.

Fifth, the State did not comply with competitive bidding requirements in the procurement of various equipments costing over \$5,000.

Sixth, the State has not established a record keeping system to account for the acquisition and disposal of fixed assets.

Seventh, the State did not follow competitive bidding requirements when procuring professional services.

Eighth, the State purchased uniforms from an off-island vendor; however, it used a middleman to negotiate the purchase who failed to obtain the proper invoices/receipts resulting in questioned costs of \$2,247.

Ninth, the State's accounts receivable showed that outstanding invoices totaling \$7,442.19 have remained uncollectible since 1998-2001.

Recommendation

First, we recommend the State establish internal controls over cash receipts to ensure that cash receipts are properly reconciled to deposits, that deposits are made in a timely manner, and any un-reconciled differences are brought to attention of management for appropriate disposition.

Second, we offer no recommendation as finding on petty cash is withdrawn

Third, we recommend the State administers its procurements competitively to ensure that cost savings are taken advantage of.

Fourth, we recommend the Governor not spend public funds until a budget authorizing and appropriating funds for a designated purpose has been approved in accordance with the State Constitution.

Fifth, we recommend the Governor administer State procurement activities in accordance with the Republic of Palau's Procurement Law and Regulations.

Sixth, we recommend the Governor direct the State Treasurer to establish a record keeping system to account for the acquisition and disposal of State fixed assets.


Seventh, we recommend the Governor adhere to Republic of Palau's Procurement Law and Regulations when procuring professional services.

Eighth, we recommend the Governor direct the State Treasurer to enforce the policies on disbursements of State funds to ensure that all disbursements contain adequate supporting documents.

Ninth, we recommend that the Governor implement a system for recognizing uncollectible accounts and the procedures to write them off in order to report accounts receivable at their net realizable value.

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

Sincerely,



Satrunino Tewid
Public Auditor
Republic of Palau

Background

Ngchesar State is one of the sixteen States of the Republic of Palau organized and structured under Article II, Section 1 of the Republic of Palau (ROP) Constitution and the Constitution of Ngchesar State. The State's Constitution, ratified on January 12, 1982, created the constitutional government of the State of Ngchesar. The Constitution established the primary branches of the government consisting of the Head of State (Ngirakebou), the State Council and the Governor.

Ngirakebou who is the Chief of Ngchesar Hamlet is the Head of State of Ngchesar, deriving his powers and responsibilities from Article V, Section 1 of the Constitution of the Republic of Palau and the customs and traditions of Ngchesar State. All governmental responsibilities, including legislative and executive functions shall be vested in the Ngchesar State Council. There shall be seventeen (17) members in the Ngchesar State Council. The composition of the Ngchesar State council shall be as follows: Ngirakebou as Head of State, Rechesengel from the Ngara-Oldiang organization, Rechetuker from the Ngara-Tmachel organization, five (5) Hamlet chiefs, each drawn from the first clan of five hamlets of the State of Ngchesar and nine (9) elected members selected by the electors of the State of Ngchesar for a total of 17 council members.

The Ngchesar State Council shall by a majority of its members select from among its elected members a Governor of the State of Ngchesar who shall serve for a term of four years, and shall not serve more than two (2) consecutive terms. The Governor shall be responsible for all administrative matters of the Ngchesar State Government. He shall execute all laws, policies, and decisions enacted or approved by the Council.

The Legislative function is vested in the Ngchesar state council which shall have power over all matters of state legislation. The Council may enact no law except by bill. The members of the Ngchesar State Council shall establish rules of procedures to govern council's deliberations.

Compensation for employees of the State Government and Member of the State council shall be determined by law. A member of the Council may serve in the Governor's administration and he shall not lose his seat in the Council for such services. No member or employee of the Government shall receive double compensation.

Article VI Section 1 of the State Constitution states, "There shall be established a treasury for the State of Ngchesar. All revenues derived from tax and other sources shall be deposited in the State Treasury." Section 2 of the same article states: "No funds shall be withdrawn from the State Treasury except by law."

Objective, Scope, and Methodology

The Objective of the Audit was to determine whether (1) Expenditures were incurred in accordance with the 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 purpose for which they were authorized and appropriated, and (5) 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 components or accounts 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 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 objective, we reviewed accounting records maintained at the office of Ngchesar State, including budgetary laws and other relevant laws and regulations. In addition, an on-site visit was conducted to ensure the existence, condition and location of fixed assets. 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 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.

Finding No. 1: Cash Receipts

A sound system of internal control requires that cash receipts be reconciled to deposit, contain adequate supporting documents, and deposits made in a timely manner.

Upon review of cash receipts we found the following deficiencies: (1) cash receipts were not reconciled to deposit, (2) cash receipts lacked adequate supporting documents, and (3) cash receipts were not deposited in a timely; sometimes unnecessarily retained over extended period of time making them susceptible to misuse and potential fraud. The audit also revealed many instances where cash receipts, for unexplained reasons, were split upon deposit.

It appears the State has not established policies and procedures for handling cash receipts.

The lack of policies and procedures over the treatment of cash receipts leads to lack of accountability over collections. This weakness exposes collections to potential misuse and misappropriation.

Recommendation: We recommend the Governor establish policies and procedures for handling cash receipts. The policies and procedures should include provisions for reconciling cash receipts to deposit, ensuring cash receipts contain adequate supporting documents, and cash receipts are deposited in a timely manner, among other internal control functions.

Auditee's Response: *Total cash receipts and total money deposited in state checking account are always reconciled, filed with the validated deposit slips from Bank of Hawaii.*

The delay of depositing money was due to small amount of daily cash collections, lack of reliable transportation. At present, our Honto office remits cash collections once a week on Thursday and deposits of cash collected are deposited on the same day or next day. Additionally, all other transactions including purchasing, payment of bills, are carried out on timely manner and records are properly managed as required.

OPA's Comments: Our testing found no evidence of reconciliation between cash receipts and deposit, especially when there are instances of splitting cash receipts for deposit. In one instance, we found a variance in the amounts of receipts and deposit. In addition, we found no reasonable explanation for splitting cash receipts for deposit.

Finding No. 2: Petty Cash Fund

Auditee's Response: *Ngchesar State Office does not have a petty cash account. Your finding was based on an incident where check(s) were cashed from our cash collection and not from a replenished petty cash account. We admit this happened, however we do not*

have a petty cash as we are sure your investigations found neither evidence nor basis for this allegation.

The last petty cash replenishment was made during the time of Governor Moses Uludong. It was only then and during Moses Uludong's administration that the office maintained a petty cash account.

Additionally, we have abolished check cashing from our cash collection and therefore recurrence is not possible.

OPA's Comments: Finding 2, Petty Cash Fund, has been removed. The Finding misconstrued daily collections used for cashing checks as petty cash. Therefore, removal of the finding is justified.

Finding No. 3: Procurement with Local Vendors

Procurements should be conducted in a competitive manner to obtain the most value for the money spent and to take advantage of potential cost savings.

During the 2007 Belau Games, the State paid \$4,930.40 to a Taiwan-based vendor as payment for Oldiais Team Uniforms for the Games. Of this amount, \$3,413.40 were for high-priced items that could have been purchased from a local vendor for \$1,907.78_ a significant savings of \$1,505.72 to the State. Based on price quotations and supporting documents provided by State, there was no legitimate justification for choosing the costly overseas vendor. An inquiry with the State revealed that officials chose the Taiwan vendor at the recommendation of the Oldiais Team Head Coach.

It appears the above condition occurred because the State failed to conduct price comparisons from competing vendors and selecting the vendor that offered the lowest prices for the goods.

As a result the State forgone potential savings of \$1,505.72 and opted to purchase from an off-island vendor at much higher prices. In doing so, the State did not comply with Republic of Palau Procurement Law and Regulations.

Recommendation: We recommend the Governor administer State procurement activities in accordance with the Republic of Palau Procurement Law and Regulations. In doing so, the State should obtain price quotations from different vendors, conduct price comparisons of competing offers, and selecting a vendor that offers the lowest price at comparable quality.

Auditee's Response: *Quotations were taken from 3 local vendors. Selection of vendors is not contingent solely on the price of goods but also on other factors allowed by relevant procurement policies and regulations. These factors include quality, delivery time and*

availability of products and service. Accordingly, we considered the quality, availability and the delivery schedule of goods we purchased. Also, the prices per the subject quotations are not as high as you mentioned here when you need to consider especially the quality of the goods. See attached (Finding No. 3)

OPA’s comments: The quotations when juxtapose clearly shows that a local vendor could have supplied the merchandise at much lower prices. In addition, the other procurement factors, as you point out, i.e. quality, delivery time, availability, etc., were not clearly spelled out in the procurement offering. If these factors were clearly defined, it would have made quotation evaluation and selection process more objective and transparent.

Finding No. 4: Expenses Incurred before Passage of Supplemental Budget

Ngchesar State Constitution Article VI, Section 2, states “No funds shall be withdrawn from the State Treasury except by law.”

During the audit, it was discovered that in fiscal year 2007 Ngchesar State passed a supplemental budget in NSPL No. 166 on July 3rd 2007 for \$5,000 to cover the cost of the States participation in the 2007 Belau Games (June 15-24, 2007). The supplemental Budget, however, was passed after the State had incurred expenditures totaling \$3,619.40 in violation of the State constitution. The table below shows total funding and total expenditures for the 2007 Belau Games:

Passing Date	Budget Appropriation for Belau Games 2007	Amount
9/2/2006	Beginning Budget Balance per NSPL No. 162:	\$ 500.00
1/9/2007	Supplemental Budget per NSPL NO. 163:	\$ 500.00
5/1/2007	Reprogram #3 - NSPL NO. 162/163 from Account A-2 & A-3	\$ 407.34
5/14/2007	Fundraising Contributions for Belau Games 2007 Ngchesar Team:	\$ 4,341.56
	<i>Subtotal Funding Prior to NSPL No. 166*</i>	\$ 5,748.90
7/3/2007	Supplemental Budget Per NSPL NO. 166 certified by Governor:	\$ 5,000.00
7/13 to 8/9/07	Other Revenues for Belau Games	\$ 377.00
	Total Funding	\$ 11,125.90
	<i>Total Expenditures for Belau Games Prior to Supplemental Budget NSPL No. 166:*</i>	\$ 9,368.30
	Total Expenditures Incurred Over Budget Prior to Supplemental Budget Per NSPL No. 166	\$ 3,619.40*

It appears that planning for the State's participation in the 2007 Belau Games was inadequate, which is essential to ensure that adequate funding provisions are in place before expenditures can be incurred.

As a result, the State may have violated Article VI, Section 2 of the State Constitution by expending State funds without budget authorization and appropriation.

Recommendation: We recommend Ngchesar State government expend State funds in accordance with the State Constitution. In doing so, the Governor should ensure that no State funds are expended until funding provisions are enacted by law authorizing and appropriating funds for expenditure.

Auditee's Response: *As per our record (see attached: Finding No. 4), non compliance is \$2,919.82. The reasons were: Poor projection of expenditures and lack of quorum by Ngchesar State Council during the introduction of supplemental budget of \$5,000.00 to supplement the expenditures of Belau Games 2007. The Belau Games was on-going then and we did not have choice but to issue these two checks to meet our obligations to vendors and our players.*

This failure has been corrected and we now rely on our Performance Based Budget for guidance and have been efficient in negotiating and approving our Fiscal budgets. After this incident, there has been no repetition and we are confident recurrence is not foreseeable.

OPA's Comments: The OPA identified other expenditures in addition to the \$2,919.82 to arrive at a total of \$3,619.40.

Finding No. 5: Competitive Bidding

The Republic of Palau Public Law No. 3-54, Procurement Law and Regulations, Section 25 requires that any procurement by the state government costing of \$5,000 or more shall be subject to competitive bidding.

During the audit, it was discovered the State procured goods valued over \$5,000 without competitive bidding. **See Appendix I.**

The cause of the above condition appears to be that the Governor and the State procurement officer failed to adhere to existing Procurement regulations governing procurement of goods and services.

As a result, we were unable to determine if the State obtained the best price possible for the goods it procured.

Recommendation: We recommend the State follow the Republic's Procurement Law and regulations in the procurement of goods and services as mandated by law. Specifically, any procurement of goods and services by the State costing \$5,000 or more should be subject to competitive bidding.

Auditee's Response:

a. *Crance Seibei Japan – 4ton Dump Truck \$12,000.00*

Please find attached quotations and memo for the record. Quotations were sent to Surangel and Sons, Koror Wholesalers and HE Palau Automotive Enterprises. At the time, these suppliers did not have a dump truck that met our specifications; and, we opted to purchase from this company for a reasonable amount in 3 equal payments; May, August and September 2005. This schedule of payment was another reason in choosing to purchase from this company; considering the state block grant allotment disbursement was always delayed and the availability of cash became a factor in this case. See attached: Finding No. 5 (a).

b. *Jeffrey J. Pantelo \$7,920.00 Archeological Services for Ngchesar Causeway Construction Project.*

Archeological Studies was required to secure permits before the construction phase of this project, and the project has been delayed due to lack of permit. A letter from Governor Adelbai was sent to various vendors requesting for proposals but there were no responses from them. Governor consulted with Ms. Rita Olsudong of the Historical Preservation Office regarding this project and was advised Mr. Pantelo was qualified to perform the services and for a reasonable price. Thus the selection was based on the circumstances at the time and in compliance with relevant policies.

In view of the above, since this was managed by the CIP Office, funded by Economic Stimulus Package and with the concurrence of the Historical Sites office who closely worked with Mr. Pantelo and for which no one could do this kind of services, we agreed to the referral of Ms. Olsudong as she knows the scope of work and she advised us the amount was reasonable enough to do the project. See attached: Finding No. 5 (b).

c. *Yo-Jiro Automotive \$14,000.00 Hydraulic pump for excavator*

Three local vendors had submitted their quotations namely: F.F. Automotive, Daryl Lund (Morrico Equipment) and Yo-Jiro Automotive. See attached.

These are the same documents we submitted to the Ministry of Finance before they released the whole amount to Ngchesar State Government following the State Block Grant Rules and Regulations in disbursing of fund from state block grant on CIP over \$5,000.00 requires quotations, selection of vendors and invoices. See attached: Finding No. 5 (c).

D. FY 2008 various checks from various vendors \$7,024.16 - construction materials only

First, this project is not for Tabrengesang Summer house as indicated in your audit draft report (Appendix II), this is for Ngchesar Summer house project from April 2008 to November 2008 (Fiscal Year 2008 and 2009).

The labor for this project has been done by the state public works. Materials were purchased by the state from different vendors. The funds expended for materials from our operation block grant (CIP) and the project was phased covering to fiscal years (FY 08 and FY 09). The selection process was omitted here and we have taken steps to correct the problem.

Selection process is now supervised directly by the Treasurer, processes and cost comparison forms are now in place to ensure proper documentation and compliance. Sample forms attached.

E. Mason's Hardware \$9,972.75 154 pcs 3x20 PVC pipes for waterline project

Getting quotations for this purchase commenced in 2007. There were only two vendors who could supply this type of pipe, Mason Hardware and WCTC Ace Hardware. However, at the time of purchase, there were no stocks available and therefore had to be special ordered.

Please, note this project was funded by Canada Fund and fund was released to the state in 2009. Updated quotations were secured from the same vendors before a selection was made. Please, reference the attached quotations. (See attached: Finding No. 5 (D)).

F. Nichibo Japan Trading Co. \$13,475.00 4 Ton Dump Truck

As per our record, competitive bidding has been done. We had 3 qualified vendors (2 local and 1 foreign). Our selection was based on the size of truck, load capacity, a reasonable price, and delivery time. See attached: Finding No. 5 (E).

OPA's Comments: The OPA has reviewed your response together with the additional supporting documents provided. Based on our review, we consider the payment to Jeffrey Pantaleo resolved. However, the remaining expenditures maintain their unresolved status for the following reasons:

The Republic of Palau Procurement Laws and Regulations prescribe the process for competitive procurement either via Competitive Sealed Bidding or by Competitive Negotiation (Request for Proposal). All the above-noted procurements seem to have been conducted using the Small Purchases format (minimum 3 price quotations). However, the Procurement Law and Regulations require State Governments to use competitive bidding procedures for any procurement costing \$5,000 or more.

Competitive Sealed Bidding requires issuance of a Public Notice that bids are being accepted. The Invitation for bid must contain an adequate description of the goods or services being procured. It must identify the time, place and method of delivery or performance requirements. The invitation for bids must specify the closing date of bids, in addition to other requirements. These elements and requirements were not followed when the State procured the above goods and services.

Finding No. 6: Fixed Assets

A sound system of internal control requires that the State establish a record keeping system to account for the acquisition and disposal of fixed assets. Furthermore, policies and procedures are essential to identify State properties, conduct physical inventory, and to safeguard the same against unauthorized use or disposal.

It was discovered that two (2) properties have been in State's custody and use for more than ten years but the items are not listed in the State's Fixed Asset List. Additionally, a vehicle (a Ford Van) donated by the Minister of Justice to the State in December 2007 for transporting students also was not listed in the Fixed Asset Schedule.

Furthermore, it was discovered that majority of fixed assets, especially Public Work equipments and tools, have no identification tags to identify them as State properties.

The cause of the above condition is lack of policies and procedures requiring the recording, physical inventory, and identification of State property.

As a result, the State lacks a system to account for, monitor, and safeguard its fixed assets.

Recommendation: We recommend the Governor instruct the State Treasurer to establish a fixed asset accounting system to record the acquisition and disposal of State properties. The fixed asset accounting systems should include the following:

- 1) Procedures to account for all fixed assets in the State's custody, including donations to the State and all other assets from prior years.
- 2) Procedures to periodically conduct physical inventory, determine location and condition of each asset.
- 3) Procedures for identifying (tagging) State properties.

Auditee's Response: *The two (2) items that were not in the state fixed asset record are the following:*

1. *A safe box from the time of Governor Moses Uludong, that was in year 1986, was found out that this item was not for Ngchesar State and was learned later on that this was for the personal business of Moses Ramarui, State Development Project Director. Actually, no one in the office knows the combination of the safe box to open. But when the public*

auditor, came and did the physical inventory, they found out that this item was not in the list.

2. A Ford Van was requested by the Governor Florencio Adelbai from the Ministry of Justice under Minister Camsek Chin to transport students from inside Ngchesar to the school bus waiting area along the compact road. The State provides fuel and maintenance for the bus as in-kind contribution for the operation, but, the bus is owned by Ministry of Justice and is registered accordingly. The registration card was and still under the name of Ministry of Justice. See attached: Finding No. 6.

As per the recommendation of the auditors who came to Ngchesar to do the actual inventory in June 2011, these two items were now included in our fixed asset record.

Annual inventory of our fixed assets are being conducted every end of each fiscal year as you can see in our file – Fixed Assets Control Account and Annual Physical Inventory.

Tagging of public works heavy equipment and dump trucks has been done as recommended. Please, see in the attached pictures.

OPA's Comments: The Office of the Public Auditor will conduct follow up inspections to ensure that the fixed asset system has been established and is operating.

Finding No. 7: Professional Services

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 a fair and reasonable price. Such procurements require the State to obtain price quotations from at least three (3) vendors and base the selection on competitive price, quality, delivery time and other relevant factors.

It was discovered that the State failed to follow the Republic's procurement law when procuring services of a consultant to conduct three (3) separate environmental assessments and a contractor for the repair of Ngersuul Causeway project. There were no public announcements for the services or attempt by the State to obtain the required price quotations. **See Appendix II.**

The cause of the above condition is failure by the State to adhere to the Republic's Procurement Law and regulations.

As a result, we were unable to determine if the State obtain the lowest price possible for the services it received.

Recommendation: We recommend Ngchesar State follow the Republic of Palau's Procurement Law and Regulations when procuring professional services. When the use of professional services is estimated to cost \$5,000 or more, the State is required to use competitive bidding to procure the services, either by competitive sealed bid or competitive negotiation. The State Procurement Officer should familiarize himself/herself with the competitive bidding requirements (competitive sealed bid or competitive negotiation) in order to facilitate compliance with the requirements in the administration of statement procurement needs.

Auditee's Response:

A. Sudo Moses \$4,900.00 Force Account Agreement (Ngersuul Causeway Project)

This was a project by the state through a Force Account Agreement. All the workers are residents of Ngersuul Hamlet. They have the requisite skills and knowledge to successfully implement the project by restoring the jetty to its original form and integrity. Also, the project was beneficial for the local economy, the supervisor and the workers are all residents of Ngersuul Hamlet familiar with the structure and were selected as an agency for the state government as required in a Force Account Agreement.

OPA's Comments: In a Force Account Agreement all employees working on a project should be employees of the State, which was not in this case. This agreement was, in essence, a contract with a private party (providing the labor) for the repair of Ngersuul Causeway, which required a minimum of three price quotations.

B. Marhence Madrangchar Environmental Assessment

1. Contract dated 3/27/2008 \$4,990.00 Proposed Access road and development of new housing subdivision in Shimizu area

2. Contract dated 11/5/2007 \$4,990.00 Proposed small boat marina and channel improvement in Karmaliang area

3. Contract dated 12/10/2004 \$4,900.00 Proposed final phase 2 of the new causeway road in Karmaliang area

These projects were not publicly announced. This is a failure on our part and from here on, we see to it that your recommendation would properly complied by the state in procurement of professional services.

Finding No. 8: Questioned Costs

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

In our audit, we found that expenditures shown below lacked adequate supporting documents:

Date	Check #	Payee	Memo	Amount
2/2/2006	5533		T-shirt printing Belau Games 2006	\$2,247.00
Total Questioned Costs:				\$2,247.00

A review of supporting documents showed that State ordered the uniforms from a Philippine-based vendor without a clear description of the vendor’s identity or the person who received the payment. Therefore, we were unable to determine the propriety of the expenditures and the nature of the goods purchased.

The cause of the above condition is failure to strictly enforce the proper controls to ensure that adequate supporting documentation is obtained to account for and justify the expenditures.

As a result, questioned cost of \$2,247.00 exists.

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.). 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.

Auditee’s Response: *Questioned Costs check no. 5533 dated 2/2/2006 paid to Columbus Kinzio.*

Colombus Kinzio was the vendor under CTK Merchandise, Koror, Palau. He acknowledged receipt of the payment as evidence of his signature date 2/27/06 on the check duplicate (see attached). He purchased these items from Philippines thru her Filipina wife. All documents were attached including receipts from the Philippine vendor, receipt from Palau Custom to CTK Merchandise, Koror, Palau. See attached: Finding No. 8

OPA’s Comments: The payee on the check is different from the vendor on the invoice or order slip. In addition, there are noticeable alterations to charges on the order slip with no explanation or identity of the person making the changes.

Finding No.9: Accounts Receivable

A sound system of internal control requires that Accounts Receivable be stated at their net realizable value, or the amount expected to be fully collected. This ensures that accounts receivable and related revenue are not overstated in the financial statements.

A review of accounts receivable showed that outstanding invoices totaling \$7,422.19 have remained uncollectible since 1998-2001. The following is the list of accounts receivable that have remained in the State’s books with no attempt to adjust the accounts to their net realizable value:

Date	Customer Name	Memo	Amount
10/1/1998	Ngaraard State Government	Used generator loaned to Ngaraard State for electrification project; equipment was never returned and Ngaraard State refused to pay the invoice, asserting that is the responsibility of National government	\$7,000
5/19/2001	Division of Job Placement	Advance paycheck to a Ngchesar man temporarily employed under the Division of Job Placement; never fully paid back to the State	\$260.00
3/9/2001	Association of Governors (Ngiwal State Gov’t)	Ngchesar State Government paid for services rendered to be reimbursed by the Association of Gov; Ngiwal State failed to fully repay its share of the bill, asserting it is responsibility of prior administration	\$162.19
Total Uncollectible Outstanding A/R			\$7,422.19

An inquiry to the State accountant showed that the customers have not made any attempts to repay their outstanding bills with the State and therefore the accounts have proven to be uncollectible after more than 10 years of inactivity.

The cause of the above condition is that the State failed to establish an estimate of allowance for doubtful accounts so as to adjust the accounts to amounts expected to be collected or write-off the accounts.

As a result, the current accounts receivable ending balance at 9/30/2010 is overstated.

Recommendation: We recommend that the Governor implement a system for estimating uncollectible accounts and procedures to write-off receivables that have become uncollectible in order to report accounts receivable at their net realizable value.

Auditee’s Response: *We had made all our efforts to collect the following accounts as evidenced by our several letters of collection but none of them had made their own effort to pay. Copies of these documents were provided by the state to Ms. Genesis and the*

documents include our letters to the Governors of Ngaraard and Ngiwal States along with the invoices.

Ngaraard and Ngiwal States refused to pay for obligations by previous administrations.

Division of Job Placement – These were advances to Hilton Kinzio and Vinson Eldebechel, both citizen of Ngchesar State. Hilton had paid off his advance and Vinson has a remaining unpaid balance of \$260.00. Vinson has recently been employed the Ministry of Health, Maintenance division. We have contacted him and made arrangement for him to pay his outstanding obligation. See attached: Finding No. 9.

Since Ngaraard and Ngiwal has been over for 10 years. Despite our efforts to collect these amounts and they continuously failed to pay, we are in the process of establishing guidelines to identify and recognizing uncollectible accounts and ways to dispose such.

As recommended by your office, the Governor understands and appreciates the value of systematic accounting and fiduciary accountability. In this respect, the Governor has ordered the treasurer to review our management practices, inclusive of all relevant and pertinent policies, processes, and personnel skills and qualifications and to make recommendations addressing the forgoing concern addressed in this audit report.

APPENDICES

Appendix I: Procurement of Goods Over \$5,000 without Competitive Bidding

<u>Check Date.</u>	<u>Check No.</u>	<u>Amount</u>	<u>Vendor</u>	<u>Description</u>
5/6/2005	Wire Transfer	\$12,000.00	Crane Seibei Japan	4 Ton Dump Truck
5/8/2006	5758	\$14,000.00	Yo-Jiro Automotive	Hydraulic Pump for Excavator
FY 2008	7810, 7582, 7896, 7942, 8003, 8008, etc.	\$ 7,000.90	Mason's Hardware, WCTC, PTC, Hawaiian Belau Rock, Surangel & Sons, etc...	Ngchesar Summer House Project (construction materials)
2/18/2009	8163	\$ 9,972.75	Mason's Hardware	3x20 PVC Pipes for Waterline Project
11/30/2009	Wire Transfer	\$13,475.00	Nichibo Japan Trading Co.	4 Ton Dump Truck
Total:		\$56,448.65		

Appendix II: Procurement of Professional Services Without Competitive Bidding or Price Quotations

<u>Date</u>	<u>Check #</u>	<u>Vendor Name</u>	<u>Memo</u>	<u>Amount</u>	<u>Total Cost</u>
11/13/2009	8758	Sudo Moses	inv#2010-02 dtd 11/13/09	\$2,450.00	\$4,900.00
11/06/2009	8755	Sudo Moses	inv#2010-01 dtd 11/6/09	\$2,450.00	
09/24/2008	7870	Marhence Madranchar	final pymt for EA preparation dtd 3/27/08	\$1,495.00	\$4,990.00
08/08/2008	7780	Marhence Madranchar	partial pymt for Service Agreement dtd 3/27/08	\$1,000.00	
04/21/2008	7587	Marhence Madranchar	initial pymt for Service Agreement dtd 3/27/08	\$2,495.00	
02/28/2008	7460	Marhence Madranchar	final pymt for Service Agreement dtd 11/5/2007	\$2,495.00	\$4,990.00
12/24/2007	7308	Marhence Madranchar	initial pymt for Service Agreement dtd 11/5/2007	\$2,495.00	
05/27/2005	4787	Marhence Madranchar	final payment for Environment Assessment dated 12/10/2004	\$2,500.00	\$4,900.00
03/23/2005	4580	Marhence Madranchar	partial payment for Environment Assessment dated 12/10/2004	\$2,400.00	



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

**OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU
P. O. BOX 850
KOROR, REPUBLIC OF PALAU 96940**

**Ground Floor
Orakiruu Professional Building
Madalaii, Koror, Palau**

**TELEPHONE NOS: (680) 488-2889/5687
FACSIMILE NO: (680) 488-2194
WEBSITE ADDRESS: www.palauopa.org
E-MAIL ADDRESS: admin@palauopa.org**

**MONDAY THRU FRIDAY
7:30 a.m. - 4:30 p.m.**

(Closed on Legal Holidays)