



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON



PELELIU STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2012

Performed by the Office of the Public Auditor

PEL08-12-P02*opa20

REPUBLIC OF PALAU



Office of the Public Auditor

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September 30, 2014
Serial#: opa14-187au

Honorable Temmy Shmull
Governor
Peleliu State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Performance Audit of Peleliu State Government for the period from October 1, 2007 through September 30, 2012.

Dear Governor Shmull:

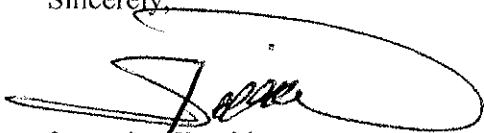
This report presents the results of our performance audit of Peleliu State Government for the period from October 1, 2007 through September 30, 2012.

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 Preceding 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,



Satruning Tewid
Public Auditor
Republic of Palau

PELELIU STATE GOVERNMENT
October 1, 2007 through September 30, 2012

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Executive Summary

September 30, 2014

Honorable Temmy Shmull
Governor, Peleliu State Government
Office of the Governor
Koror, Republic of Palau 96940

Subject: Draft Report on Performance Audit of Peleliu State Government for the period from October 1, 2007 through September 30, 2012.

Dear Governor Shmull:

This report presents the results of the Office of the Public Auditor's (OPA) performance audit of the Peleliu State Government for the period from October 1, 2007 through September 30, 2012.

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 were supported by adequate documentation, (4) earmarked CIP grants were expended for purposes for which they were designated, and (5) the state has established proper internal controls to ensure that its properties are safeguarded and its transactions properly recorded.

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

First, the State did not perform monthly bank reconciliations and thereby needlessly incurred non-sufficient fund fees of \$3,845 and \$229 in related bank charges during the period October 1, 2007 through September 30, 2012.

Second, the State does not have a system in place to account for and monitor its fixed assets.

Third, the then-Governor engaged as a vendor in procurement transactions that involved State funds. These actions may have violated the conflict of interest provisions of the Republic of Palau Procurement Law and its Regulations and the Code of Ethics Act.

Fourth, the State paid \$7,900 to two (2) attorneys for legal services without any contracts or detailed billings disclosing such pertinent information as the matter(s) the attorneys were hired to address, the nature of services rendered, billing rates and time charges billed to justify the payments.

Fifth, in fiscal year 2009 the State expended \$8,388.55 on Youth Programs without supporting documents to show such relevant information as the type of goods and services purchased, their costs and quantities. Moreover, the State Legislature appropriated only \$2,000 for Youth Programs for that year. Thus the State may have over-expended the budget for Youth Programs by \$6,388.55 during fiscal year 2009.

Sixth, \$2,623 was used to fund official travel but there were no travel documents on file disclosing the nature of official business conducted to justify these expenditures or to account for the funds expended.

Seventh, the State does not have a system in place to account for and keep track of accounts payable and related obligations.

Eighth, the State lacks policies and procedures for following up and enforcing collections on outstanding accounts receivable.

Ninth, the State does not consistently issue cash receipts to evidence revenue collections and cash receipts are not timely reconciled and deposited.

Tenth, \$60,254 was expended in fiscal years 2008 through 2012 without proper supporting documents disclosing the nature of goods and services purchased, their costs, quantities, etc.

Eleventh, the State's tax laws and fees rate structure may be outdated and its Water Rates Act has yet to be implemented.

Recommendations

First, we recommend that the Governor direct the State Treasury to perform monthly bank reconciliations.

Second, we recommend that the Governor direct the State Treasury to establish and maintain a fixed asset accounting system to monitor and account for the acquisition and disposition of the State's fixed assets.

Third, we recommend that State officials and employees receive appropriate training in the Republic of Palau Procurement Law and its Regulations as well as the Code of Ethics Act in order to familiarize themselves with the relevant legal requirements and prohibitions regarding procurement, particularly those concerning conflicts of interest.

Fourth, we recommend that when retaining legal or other professional services the Governor execute contracts specifying the matters for which the State is engaging the services, the nature

of services to be rendered, billing rates, methods of billing and payments and related terms and conditions.

Fifth, we recommend that the State Treasury maintain accurate records of Budget versus Actual expenditures and provide periodic status reports to the Governor to avoid over-expenditure of the State's budget.

Sixth, we recommend that the State either adopt the National Government Executive Branch Travel Policies and Procedures or establish its own to regulate the use of public funds on travel. These should include policies requiring the filing of travel vouchers with related supporting documents in order to justify and properly account for travel expenditures.

Seventh, we recommend that the Governor direct the State Treasury to establish a system to account for, monitor and reconcile the State's accounts payable and other obligations.

Eighth, we recommend that the Governor establish policies and procedures for following up and enforcing collections on outstanding accounts receivable.

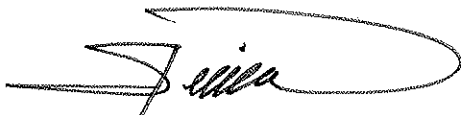
Ninth, we recommend that the Governor establish policies and procedures governing the administration of revenue collections, which should include issuance of cash receipts, reconciliation of cash receipts and deposits, and timely deposits.

Tenth, we recommend that the State Treasurer be more stringent in overseeing disbursements of funds to ensure they are supported by adequate documentation.

Eleventh, we recommend that the Governor coordinate and collaborate with the State Legislature to update the State's taxes and fees rates structure. The Governor should also work with the State Legislature to formulate a plan for the implementation of the Water Rates Act.

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

Sincerely,



Satrunino Tewid
Public Auditor
Republic of Palau

Background

Peleliu State is one of sixteen states in the Republic of Palau. In January 1983, the Peleliu State Constitution became effective and established the State of Peleliu. Pursuant to the Constitution, the Governor is the chief executive of the State, elected in a state-wide election for a term of three (3) years. The State Constitution grants the Governor the inherent powers and duties of a state executive, including, but not limited to, the power:

- a. To enforce the laws of the State;
- b. To spend money pursuant to appropriation laws and collect taxes;
- c. To propose an annual budget for the State Government for the State Legislature's consideration and approval; and
- d. To exercise such other powers and duties pursuant to the State Constitution.

The State Constitution vests the State Legislature with legislative powers and responsibilities including the power to levy taxes, duties and excises in accordance with established law and to exercise such other powers and duties as provided by the State Constitution. In addition, subject to the approval of the Olbiil Era Kelulau, the State legislature has the power to borrow money to finance public programs or to settle public debts. Lastly, the compensation of the Governor and the members of the State Legislature are to be established by law; however, the State Constitution prohibits the Legislature from increasing the compensation of its members during their term of office. Bills become law when passed by the majority of the members of the State Legislature and approved by the Governor.

The State Legislature consists of one house composed of fifteen members: five members are the hamlet chiefs and five are popularly elected at large for three-year terms. In addition, each of the five hamlets elects one member to represent it in the Legislature for three-year terms.

The Constitutions of the Republic of Palau and Peleliu State expressly require the State to establish a state treasury into which all public funds from taxes or any other source must be deposited. Similarly, no State funds may be withdrawn from the State Treasury except by law. The State Constitution bars anyone from obligating or expending funds subject to appropriation for any purpose without prior appropriation by the State Legislature. The State Constitution also prohibits anyone from obligating or expending funds in excess of the amount appropriated for that purpose. Moreover, the Governor must submit an annual unified state budget to the State Legislature for its consideration and approval.

Objective, Scope and Methodology

The objective of the audit was 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 were supported by adequate documentation, (4) earmarked Capital Improvement Project (CIP) grants were expended for purpose(s) for which they were designated, and (5) the State has established internal controls to ensure that its properties are safeguarded and its transactions properly recorded.

The audit covered the period from October 1, 2007 to September 30, 2012. 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 and 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 audit findings and conclusions based on our audit objectives.

The Public Auditing Act of 1985 expressly empowers the Office of the Public Auditor to act to prevent fraud, waste and abuse in the collection and expenditure of public funds. The Public Auditor may make recommendations on the prevention and detection of fraud, waste and abuse of public funds. The Public Auditor may also refer findings of possible violations of state or national law to the Attorney General or the Special Prosecutor for appropriate legal action.

To accomplish our audit objectives, we reviewed accounting records including cash receipts, expenditures, accounts receivable, accounts payable, fixed assets, and non-payroll and payroll expenditures. In performing the review, we conducted specific tests of transactions of the aforementioned components of the State's accounting system and procedures to assess the adequacy of the State's system of internal controls. The audit involved reviewing accounting records maintained by the State as well as records maintained at the Bureau of National Treasury. We also interviewed appropriate State officials as necessary.

Finding No. 1: Bank Reconciliation

Monthly bank reconciliation is an essential internal control of a state’s cash management system. It enables the state to detect errors or irregularities in cash receipts (deposits) and disbursements. Such errors or irregularities, if not timely detected, can cause cash balance per book to go out of balance with the bank and, to some degree, cause the State to incur unnecessary charges such as non-sufficient funds (NSF) and other service fees.

During the audit we found that monthly bank reconciliation was not performed, which resulted in unnecessary bank fees and service charges as follows:

FY	NSF	Service Charges
2008	\$ 1,500.00	\$ 76.54
2009	855.00	41.58
2010	165.00	36.00
2011	875.00	37.96
2012	450.00	37.31
Total	\$ 3,845.00	\$ 229.39

It appears the Governor did not pursue or monitor the State Treasury to ensure that monthly bank reconciliations were performed so that the cash balance per book agreed with the bank balances.

As a result, insufficient fund fees and related service charges were unnecessarily incurred.

Recommendation: We recommend that the Governor direct the State’s finance personnel to perform monthly bank reconciliations and assign other skilled staff to review these critical functions to ensure their performance, accuracy and reliability.

Auditee’s Response: Peleliu State Government, since January, 2013 has performed and continue to perform monthly bank reconciliation. The State Government since January, 2013 has zero (0) number of bounced checks and no payments of bank charges because of non-sufficient funds in the State’s bank accounts.

OPA’s Comments: The OPA commends Peleliu State for taking corrective action to implement monthly bank reconciliation and will verify such corrective action on its follow-up audit.

Finding No. 2: Fixed Assets

A fixed asset accounting system is essential to properly account for the acquisition, monitoring, and disposal of fixed assets. Furthermore, policies and procedures are necessary to identify State properties, their condition, location, and to safeguard them against unauthorized use and disposal.

During the audit we requested the Governor to provide us a schedule of fixed assets for the period covering fiscal years 2008 through 2012, which should have included all fixed assets purchased or disposed of during the period. The State, however, did not have a system to account for its properties and was unable to provide the schedule.

This condition is caused by lack of monitoring and review to ensure that critical components of the State's internal control system for fixed assets are carried out.

Thus, the State lacks an effective and efficient system to account for, monitor, and periodically conduct physical inventory of its properties.

Recommendation: We recommend that the Governor direct the State Treasury to establish and maintain a fixed asset accounting system to account for the acquisition and disposition of the State's fixed assets. In addition, the State should periodically conduct physical inventory of its properties to determine their location and condition. The fixed assets accounting system should include the following:

1. Procedures to record fixed asset acquisition, which should include the acquisition date and cost, description, vendor, location and condition of each asset;
2. Procedures to record the disposal and removal of fixed assets; and
3. Procedures to identify, monitor, and conduct periodic physical inventory of fixed assets.

Finally, the State should, at the soonest time possible, conduct a comprehensive inventory of fixed assets purchased in prior years, which should include a description, cost or best estimate of cost, location and condition of the asset. Any asset that is no longer operational should be documented and removed from the fixed asset system.

Auditee's Response: *Peleliu State Government has already established and put in place in FY 2013 a system to monitor and account for all fixed assets owned by the State Government.*

OPA's Comments: The OPA commends Peleliu State for taking corrective action to implement the fixed asset accounting system and will verify the operation of the system on its follow-up audit.

Finding No. 3: Conflict of Interest

The Procurement Law, 40 PNCA § 654 (a), states: “It is a breach of ethical standards for any employee of a government agency to participate directly or indirectly in procurement with that government agency if:

1. The employee or any member of the employee’s immediate family or a dependent of the employee has a financial interest pertaining to the procurement; or
2. A business or organization in which the employee or any member of the employee’s immediate family or a dependent has a financial interest pertaining to the procurement; or
3. Any other person, business or organization with whom the employee or any member of the employee’s immediate family is negotiating or has an arrangement concerning prospective employment is involved in the procurement.”

In addition, Section 6(d) of the Code of Ethics Act, 33 PNCA § 604(d), states in part: “No employee may use or attempt to use the employee’s official position to secure or grant privileges, exemptions, advantages, or treatment, for himself or others” Both the Procurement Law and the Code of Ethics apply to state officials.

We found that check no. 3305, dated July 29, 2010, in the amount of \$9,600, was issued to the former Governor purportedly for food catering for summer camp activities and was not supported with invoices. In addition, check no. 3390, dated December 1, 2010, in the amount of \$1,199.75, was also issued to the former Governor for preparing lunch for the Hane Collection Hand-Over Ceremony.

It appears that the former Governor and State employees were not familiar with the prohibitions of the Procurement Law and the Code of Ethics Act.

As a result, the former Governor may have violated the Procurement Law and the Code of Ethics Act.

Recommendation: We recommend that State officials and employees receive appropriate training in the Procurement Law and its Regulations and the Code of Ethics Act in order to avoid conflicts of interest and other transactions that may violate Palauan law. Furthermore, we recommend the Office of the Special Prosecutor or the Office of the Attorney General further investigate the transactions described above and take appropriate action as warranted.

Auditee’s Response: *I have no personal knowledge of this particular transaction by the former Governor. However, I do believe that if decisions were made and actions taken leading to*

violations of existing state and national laws, it would seem to me as responsible public servants to refer such matters to the attention of the appropriate authorities for further actions.

Finding No. 4: Legal Service Fees

A sound system of internal controls requires that when obtaining legal and other professional services the State should enter into formal contractual agreements with the providers. These contracts should specify the matters for which the services are being engaged, the nature of the services to be rendered, the billing rates, methods of billing and payment and such other terms and conditions that promote the needs of the State and protect its interests.

The audit revealed that the State paid for legal services to two (2) attorneys. In neither instance did the State execute a contract that disclosed why these attorneys were hired or included any details necessary to justify and support the payments. As such, we were unable to determine what matters the attorneys were hired to address, the nature of services rendered, the billing rates and methods of billing and payment. Provided below is a schedule of payments for legal services:

Check Date	Check No.	Amount
1/16/08	2019	\$ 1,500.00
5/6/10	3251	1,000.00
9/30/10	3347	1,900.00
5/24/11	3539	1,500.00
5/14/12	3762	1,000.00
8/9/12	3844	1,000.00
	Total	\$7,900.00

These payments came about because the Governor did not ensure that procurement of these legal services was memorialized in contractual agreements. In addition, the Governor did not require the attorneys to provide detailed billings to justify the payments for legal services.

Without contracts or detailed billings to justify the payments, we were unable to determine the nature of the legal services rendered or whether the State received proper value for the legal services it paid for.

Recommendation: We recommend that the State enter into contractual agreements for legal or other professional services that it obtains. The contracts should specify the purpose(s) for which the services are being engaged, the nature of services to be rendered, billing rates, methods of billing and payment, and such other terms and conditions that promote the needs of the State and

protect its interests. In addition, when making payments for services rendered, the State should require attorneys and other service providers to submit detailed billings to justify the payments.

***Auditee's Response:** Peleliu State Government continues to use the legal services of attorneys. All attorneys who provide legal advice and services are required to execute contracts with the State before they commence services and the State Government paying for their services based on the contract for attorneys fees including "detailed billings setting forth the nature of services rendered, billing rate, time charges, etc to justify the payment."*

OPA's Comments: The OPA commends Peleliu State for taking corrective action to implement the use of contractual agreements for professional services and will verify such corrective action on its follow-up audit.

Finding No. 5: Youth Programs

Article X, Section 1 of the Peleliu State Constitution requires "a State Treasury for the state into which all revenues derived from taxes or other sources shall be deposited. No funds shall be withdrawn from the State Treasury except by law."

In addition, Article X, Section 4 elaborates on the latter requirement by stating: "No person shall obligate or expend funds subject to appropriation for any purpose in advance of an appropriation or in excess of the amount appropriated for that purpose."

Our audit revealed that the State appropriated \$2,000 in fiscal year 2009 to fund Youth Programs but expended funds in excess of appropriation. The State spent \$3,889.00 to purchase Peleliu Youth uniforms; this purchase lacked detailed invoice(s) showing the type of uniforms, costs, quantity, etc. In addition, check no. 3026 in the amount of \$4,499.55 was issued to a Youth Organizing Committee without any supporting documents to justify the expenditure of the funds. In total, the State expended \$8,388.55 for Youth Programs in fiscal year 2009.

It appears that the former Governor did not monitor program expenditures to ensure they were within the limits of appropriations. The Governor also failed to instruct and require fund recipients to provide supporting documents such as invoices to substantiate the proper expenditure of State funds.

As a result, the Governor may have violated State laws in the expenditure of public funds for youth programs by exceeding appropriations by \$6,388.55. In addition, the expenditures (\$8,388.55) lacked detailed records to justify the goods or services purchased for the Youth

Programs. Lastly, the State's accounts payable vouchers were not certified or approved prior to disbursements of State funds.

Recommendation: In order for the State to avoid over-expenditures, we recommend that the State Treasury maintain accurate records of Budget versus Actual expenditures and provide periodic reports to the Governor regarding the status of budget activities. The Governor should ensure that State Treasury personnel require recipients of State funds to submit complete records including invoices, receipts and similar supporting documents for expenditures of State funds.

Auditee's Response: Peleliu State government has a law in place to prohibit expenditures of State public funds without supporting documents. In addition state laws prohibit expenditures of funds over and above what has been authorized and appropriated in the budget for a given fiscal year. Any illegal expenditure and over expenditures of public funds should be promptly referred to the appropriate authorities at the national and state level to address.

Finding No. 6: Travel Policies and Procedures

Policies and procedures for official travel paid for with public funds are essential to ensure that such travel is undertaken for the benefit and in the best interest of the State and that travel expenditures are accounted for.

We found that the following checks were disbursed for official travel but were not supported with adequate travel documents such as invoices, receipts or trip reports to show that official business was conducted and to account for how the travel funds were used:

Check Date	Check No.	Amount
2/11/08	2090	\$ 500.00
5/14/08	2333	500.00
9/9/08	2573	1,022.98
3/16/12	3739	600.00
	Total	\$ 2,622.98

The underlying cause of this condition is the lack of State travel policies and procedures to regulate official travel and to account for the expenditure of funds used for that purpose.

As a result, \$2,622.98 of State funds was expended for official travel without proper documents or accounting to show that travel funds were expended for the benefit of the State.

Recommendation: We recommend that the Governor either adopt the National Government Executive Branch Travel Policies and Procedures or establish the State's own travel policies and procedures. In either event, the State should have travel policies and procedures to ensure that State travel funds are used only for official purposes. At a minimum, the travel policies and procedures should require a traveler to file, within a specified period after completion of travel, a travel voucher with supporting documents such as a Travel Authorization, invoices or receipts for authorized expenses.

***Auditee's Response:** Peleliu State Government since FY 2013 has adopted a travel policy similar to the ROP National Government travel policy. All official travel must be authorized and approved in a travel authorization (TA) showing the nature of the official trip with corresponding per diem and other anticipated expenses. Upon return of the travelers on an official State Government business, a trip report must be prepared and filed in the State Finance and Treasury office. Such report shall include the records of State business accomplished on that particular trip and the accounting and records of funds expended.*

OPA's Comments: The OPA commends Peleliu State for taking corrective action to establish and implement the State's Travel Policies and Procedures and will verify the operation of the system on its follow-up audit.

Finding No. 7: Accounts Payable

A sound system of internal controls dictates that the State establishes policies and procedures to account for and keep track of its accounts payable and other obligations.

During the audit we found that the State does not have a system to record and keep track of its accounts payables. Although the State made purchases on credit, there were no consistent practices and procedures in place to ensure that the resulting obligations were recorded, monitored and reconciled. For example, according to the Treasurer, there were no outstanding accounts payable as of September 30, 2012, yet we found payments totaling \$1,312 in fiscal year 2013 with invoices dated prior to September 30, 2012.

It appears that the State does not have a system in place to account for and keep track of its accounts payables and other obligations.

As a result the State is unable to effectively keep track of its obligations. In addition, the lack of an accounting system affects the availability, timeliness and accuracy of information for decision making purposes. Moreover, financial statements prepared on the basis of an inadequate accounting system are susceptible to misstatements.

Recommendation: We recommend that the Governor direct the State Treasury to establish a system to account for, monitor and reconcile State's obligations. All credit purchases and payments on account should be properly recorded and reconciled. Such a system would enable the State to maintain timely and accurate information on State obligations for decision making purposes and for the preparation of accurate reports.

Auditee's Response: Peleliu State Government at the present time has records of and keep track of verified and legitimate payables and receivable accounts.

Finding No. 8: Accounts Receivable

A sound system of internal controls dictates that the State should establish policies and procedures to account for, monitor and enforce collection on its accounts receivable.

The State administers several revenue-generating activities which allow customers to receive services on credit and make payments thereafter. The audit revealed that as of September 30, 2012, the State had a total accounts receivable of \$12,807 in its books. The accounts receivable derives mainly from the operation of the State's two (2) passenger/cargo boats -- Odesangel-Dil and Peleliu Star. In addition, \$3,626 of the accounts receivable are for water services. A significant amount of these receivables have been outstanding since 2008.

The cause of this condition appears to be a lack of policies and procedures for following up and enforcing the collection of outstanding receivables.

As a result, the accounts receivable are several years old and the State has not written them off or provided adequate justification for keeping the receivables on the books. There appears to have been no effort to collect on these outstanding accounts. In addition, we were unable to determine the collectability of the receivables.

Recommendation: We recommend that the Governor establish policies and procedures to account for, monitor and follow up on outstanding accounts receivables. The policies and procedures should include specific action by the State such as the imposition of penalties and interest and the use of other remedies such as legal action to pursue customers with delinquent accounts.

Auditee's Response: Peleliu State Government at the present time has records of and keep track of verified and legitimate payables and receivable accounts.

Finding No. 9: Cash Receipts

A proper system of internal controls requires issuance of cash receipts to account for and support revenue collections, their deposit and classification by source in the underlying accounting system.

During the audit, we noted that diving permit fees and land tour permit fees were collected and deposited by the Executive Secretary. However, according to the Executive Secretary, the receipts got wet from the Typhoon and were not available for the auditors for review.

Cash receipts were issued for other local revenues such as water, sport fishing, business license, photography, electric usage, etc. We found, however, that collections, especially for local revenues, were not consistently deposited in a timely manner; some were held for one (1) to seven (7) months before deposit was made. Furthermore, we found that several collections amounting to \$62, collected during three different months, may not have been deposited.

Moreover, cash receipts were not issued to support revenues from the Bureau of National Treasury such as block grants, fishing rights fees and other sources.

It appears the State has not mandated the use of cash receipts to evidence revenue collections. This absence of controls stems from a lack of policies and procedures governing the administration of cash receipts.

As a result, the State does not have in place proper internal controls to account for and safeguard its cash receipts. In addition, without cash receipts it is difficult to substantiate revenue classifications in the financial statements and to reconcile revenues to deposits. Furthermore, holding collections for an inordinate period of time before deposit, and without the supporting cash receipts, creates an environment conducive to fraudulent activities.

Recommendation: We recommend that the Governor establish policies and procedures governing the administration of the State's revenue collections. At a minimum, cash receipts should be issued to evidence all revenue collections. In addition, a form should be established to support deposits being made. The form should (1) identify the sources of revenue such as block grants, fishing rights fees, and local revenues, (2) include cash receipts supporting the collections to be deposited, and (3) identify the checks and denominations of cash being deposited. In addition, within the State Treasury there should be segregation of duties and responsibilities such that one employee reconciles cash receipts to actual collections and another to review and verify before deposit. Moreover, the Governor should designate a reasonable time by which deposits should be made in order to avoid having a large amount of cash on hand. The Governor should also designate a secure receptacle such as a safe to hold cash on hand en route to deposit.

Auditee's Response: *Peleliu State Government since FY 2013 has receipt books on hand and "consistently issue cash receipts to evidence revenue collections and cash receipt are timely reconciled and deposited in the State Bank accounts ever since the second (2nd) Quarter of FY 2013.*

OPA's Comments: The OPA commends Peleliu State for taking corrective action to implement a cash receipts internal control system and will verify the operation of the system on its follow-up audit.

Finding No. 10: Expenditures without Supporting Documents

A sound system of internal control dictates that expenditures of funds should be supported by proper documents to justify the purpose of each expenditure and the nature, cost and quantities of goods and services purchased. The documents also serve as source documents for recording and classifying expenditures into the State's accounting system.

Our audit revealed that the Governor expended \$60,254 from fiscal year 2008 through 2012 without proper supporting documents to justify the expenditures. The expenditures were incurred in fiscal years shown below:

Fiscal Year	Amount
2008	\$ 14,186.00
2009	5,462.00
2010	21,451.00
2011	8,683.00
2012	10,472.00
Total	\$ 60,254.00

The underlying cause of the above condition is weak internal controls over disbursements by the State Treasury that allows the disbursement of funds without proper supporting documents.

As a result, we were unable to determine the nature of goods and services purchased, their costs and classification in the State's accounting system, and the overall propriety of the expenditures.

Recommendation: We recommend that the State Treasurer be more stringent in overseeing disbursements of funds to ensure they are justified with the proper supporting documents. The State Treasurer should also be more diligent in following up on "open" disbursements, *i.e.* those without supporting documents, to ensure that the documents are acquired and filed. To

strengthen the controls, the Governor should direct the Treasurer to perform periodic reviews of disbursements to ensure they contain the proper supporting documents.

***Auditee's Response:** Again there are a number of existing state and national laws dealing with proper and legal way to expend public funds whether state or national funds for the interests of all citizens of Palau and residents of each of the sixteen (16) states. \$60,254 is a lot of money for the State of Peleliu. It should be accounted for and that all expenditure records should show that the money was spent for the interests of the people of Peleliu. It is recommended that a more thorough assessment and investigation be taken by appropriate authorities to ensure that no laws were violated in the process of expending the \$60,254 from the Peleliu State Treasury.*

Finding No. 11: Update of State Tax Laws and Fees Rate Structure

State tax and fee rates should be updated and communicated to citizens and other stakeholders to promote awareness and compliance.

Peleliu Municipal Ordinance No. 32-80 established the 1980 Tax Structures, Collection, License Fees, and Duties. In addition, Peleliu State Public Law No. 011-83, the Peleliu State Temporary Tax Act of 1983, mandated the continuation of Ordinance No. 32-80 until a Permanent Tax Act is enacted. Also, PSPL No. 173-99, the Water Rates Act of 1999, sets water rates for the State and requires the State to purchase water meters and to maintain the public water system; none of these provisions has been implemented.

The audit revealed that various taxes and fee rates contained in Ordinance No. 32-80 are outdated and citizens may not be aware of them. Moreover, there are other forms of taxes and fees contained in Ordinance No. 32-80 that the State may not be assessing and collecting. On the other hand, the State is assessing and collecting other forms of taxes and fees that are not contained in Ordinance No. 32-80.

This condition is caused by an apparent lack of coordination and collaboration between the Governor and the State Legislature to update taxes and fee rates and to educate citizens regarding their application and the requirements for citizen compliance.

As a result, the State may not be maximizing collection on taxes, fees and water usage charges and is likely losing revenue.

Recommendation: We recommend that the Governor coordinate and collaborate with the State Legislature to update State taxes and fee rates. Upon adoption of a rate structure, citizens, businesses and other stakeholders should be educated in order to promote understanding and

compliance. Likewise, the Governor should work with the State Legislature to educate the public on the Water Rates Act and devise a plan for its implementation.

***Auditee's Response:** I agree that all state revenue generating laws need to be reviewed and if need be, amended to meet the current state of affairs and to address the current financial needs of the State Government to effectively serve the people on a day to day basis. I will initiative a discussion with the Speaker, the Traditional Leaders and members of the State Legislature on this matter.*

Finally, I strongly recommend that the Public Auditor or the proper authorities within the National Government conduct further, a more thorough investigation to all alleged "lost records" of Peleliu State Government for the period October 1, 2007 through September 30, 2012, especially the financial transaction records for diving and land tour permits as well as funds used to travel abroad with no clear indication of benefit to the State Government and the people of Peleliu State. State Government officials must be held accountable for their sworn commitment to uphold the constitution and all laws of Peleliu State as they perform their duties and responsibilities as public servants.



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

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REPUBLIC OF PALAU
P. O. BOX 850
KOROR, REPUBLIC OF PALAU 96940**

**Ground Floor
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Madalaii, Koror, Palau**

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E-MAIL ADDRESS: admin@palauopa.org**

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

(Closed on Legal Holidays)