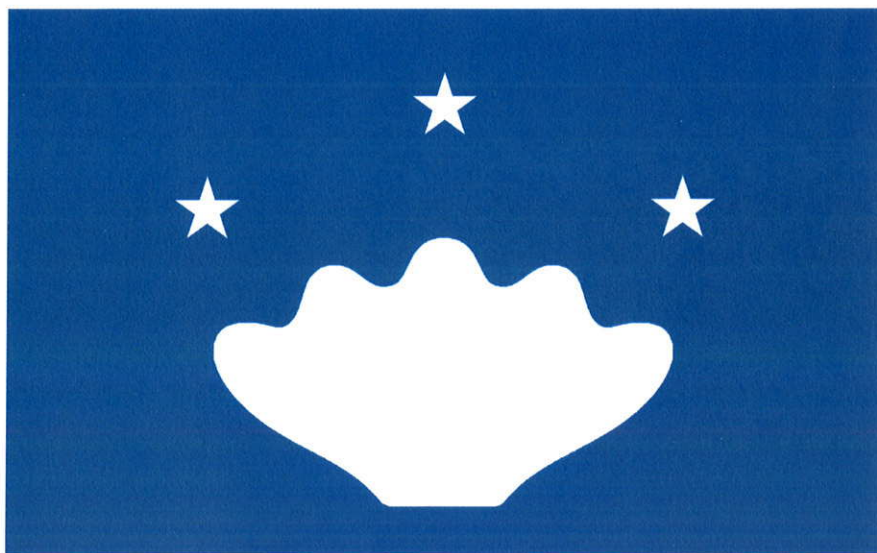




OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON



HATOHOBEL STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2008 THROUGH SEPTEMBER 30, 2013

Performed by the Office of the Public Auditor

TOBI08-13-P05*opa00

REPUBLIC OF PALAU



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Office of the Public Auditor

March 23, 2016
Serial#: opa16-072au

Honorable Huana K. Nestor
Governor
Hatohobei State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Performance Audit of Hatohobei State Government for the period October 1, 2008 through September 30, 2013.

Dear Governor Nestor:

This report presents the result of our performance audit of Hatohobei State Government for the period from October 1, 2008 through September 30, 2013.

The Office of the Public Auditor (OPA) received your response to the Draft Audit Report. Based on the additional supporting documents provided, the OPA has made, where appropriate, revisions to the Draft Audit Report. The response (without the attachments) is published in 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 response 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 Presiding 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,

Satrunjino Tewid
Public Auditor
Republic of Palau

HATOHOBEL STATE GOVERNMENT
October 1, 2008 through September 30, 2013

TABLE OF CONTENTS

	<u>Page No.</u>
Executive Summary	1-3
Background	4
Objective, Scope and Methodology	4-5
Prior Audit Coverage	5
Findings and Recommendations:	
1. Outstanding Prior Year Audit Findings and Recommendations	6
2. Disbursement	7
3. Competitive Bidding	8-9
4. Fixed Assets	10-11
5. Personnel System/Payroll	11-12
6. USDA – Community Facility Grant	12-14



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Executive Summary

Office of the Public Auditor

March 23, 2016

Honorable Huana K. Nestor
Governor
Hatohobei State Government
Koror, Republic of Palau

Dear Governor Nestor:

This audit report presents the result of our audit of Hatohobei State Government covering fiscal years 2009 – 2013, October 1, 2008 through September 30, 2013.

The objective of the audit was to determine whether (1) expenditures were incurred in accordance with national and State laws and regulations and grant rules and regulations (2) revenues/cash receipts were properly deposited into the State Treasury, (3) expenditures and cash receipts were supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were earmarked, and (5) the state has established proper internal controls to ensure that its properties are properly safeguarded and its transactions properly recorded.

As a result of the audit, the Office of the Public Auditor (OPA) found a number of weaknesses/deficiencies noted below relating to the administration of Hatohobei State funds, which we believe should be brought to the attention of management for appropriate corrective action. We also propose recommendation, which we believe, if implemented, will correct these weaknesses/deficiencies.

Specifically, our audit found that:

First, Hatohobei State did not take corrective action to implement audit recommendations and/or to resolve audit findings contained in the Office of the Public Auditor's (OPA) previous audit report covering fiscal years 2007 to 2008,

Second, disbursements were not properly reviewed to ensure that APVs are properly authorized, certified as to availability of funds, contain the proper supporting documents, and disbursements are properly recorded,

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Third, the Governor did not comply with the Republic of Palau's (ROP) Procurement law and Regulations by procuring goods and services costing \$5,000 or greater without competitive bidding,

Fourth, the State does not have a system to properly identify its fixed assets, conduct regular inventory of fixed asset, and the QuickBooks fixed asset recording module is not used regularly,

Fifth, the State's Personnel System has not been fully implemented to ensure that all control elements are operating as intended,

Sixth, the Governor was not informed about the ongoing grant agreement (Project) between the USDA-Community Facility and Hatohobei State, causing disorder in the project's continuum and related documentation.

Recommendations

To correct the above weaknesses/deficiencies, the OPA recommends that Hatohobei State implements the following recommendations:

First, the Governor should take affirmative action by implementing the recommendations contained in the OPA's previous audit report covering fiscal years 2007 to 2008,

Second, the State Treasurer should be more attentive in processing and reviewing disbursements to ensure that APVs are properly approved and certified; disbursements contain the proper supporting documents and are properly recorded,

Third, the Governor should adhere to the Republic of Palau's Procurement Law and Regulations by conducting competitive bidding for procurements costing \$5,000 or greater,

Fourth, the State should establish a system for identifying its fixed assets, conduct periodic inventory of fixed assets, and should use the QuickBooks fixed asset module for recording fixed assets,


Fifth, the Governor should implement all components of the personnel system to ensure that all control elements of the system are operating effectively, including properly authorized Personnel Actions for all employees,

Sixth, the Governor should direct the State Treasurer to be attentive in the administration of grants to ensure that records of grant activities are properly maintained and retained to support reviews and monitoring by responsible officials and to ensure compliance with the grant terms and conditions.

Office of the Public Auditor

Finally, the Office of the Public Auditor would like to thank the staff and management of Hatohobei State Government for the professional courtesy and cooperation extended to us during the audit.

Sincerely,



Satrunino Tewid
Public Auditor

Background

Hatothobei State is one of the sixteen (16) States in the Republic of Palau. The State's Constitution, ratified on November 13, 1983, created the constitutional government of the State of Hatothobei. The Constitution established the primary branches of the government consisting of the Executive (Office of the Governor), the Legislative, and the Traditional.

The Executive power of the state government is vested in the Governor and Lieutenant Governor who shall have the power to enforce the laws of the State, to spend money pursuant to appropriation laws, to collect taxes, and to propose an annual unified budget for the State Government, among other duties and responsibilities. The Governor shall be elected in a statewide election for a term of four years and shall not serve more than two consecutive terms.

The Legislative power of the state government is vested in the Hatothobei State Legislature, composed of nine (9) members, elected at large for a term of four (4) years. The legislature shall have the following powers: to enact legislation, to levy taxes, duties, and excises appropriation to the state, to borrow money on credit of the state for public projects or to settle public obligations, to impeach the Governor or Lieutenant Governor, to promote the general welfare of the people, and to exercise such other duties and functions permitted by the state constitution and the constitution and laws of the Republic of Palau.

The Traditional Leaders Council is composed of Romohparuh, Heimong, and Heimah; and no one may become a member of the Traditional leaders Council unless appointed and accepted pursuant to customs and traditions. It shall be the duty of the Council to safeguard and promote the traditional way of life of the people of Hatothobei and to advise the Governor and the Lieutenant Governor and the Hatothobei State Legislature on matters relating to and affecting customs and traditions.

Compensation for Governor, Lt. Governor, Council of Chiefs, and the Legislators shall be established by law.

Article XI, Section 1 of the State's Constitution states in part: "There shall be a Hatothobei State Treasury into which shall be deposited revenues derived from taxes and other sources appropriated to the State. No funds shall be withdrawn from the treasury except by law."

Objective, Scope, and Methodology

The objective of the audit was to determine whether (1) expenditures were incurred in accordance with national and State laws and regulations and grant rules and regulations (2) revenues/cash receipts were properly deposited into the State Treasury, (3) expenditures and cash receipts were supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were earmarked, and (5) the state has established proper internal controls to ensure that its properties are properly safeguarded and its transactions properly recorded.

Office of the Public Auditor

The audit covered the period fiscal years 2009 – 2013, October 1, 2008 to September 30, 2013. 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 accounts within those financial statements and therefore express no opinion on the financial statements.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor to specifically act to prevent fraud, waste, and abuse in 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.

To accomplish our audit objective, we reviewed records pertaining to bank reconciliations, account receivable and account payable, fixed assets, cash receipts (revenues), non-payroll and payroll expenditures, and earmarked CIP and other grants received by the State. We also reviewed State and National laws and regulations applicable to Hatohobei State operations. In performing the audit, we conducted tests 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, on-site inspection of the State's fixed assets, interviewing appropriate State officials, and reviewing relevant accounting records maintained at the Bureau of National Treasury.

Prior Audit Coverage

The most recent audit of the Hatohobei State Government was a performance audit conducted by the Office of the Public Auditor covering fiscal years 2007 to 2008. Since then, there has been no other audit, attestation, or studies conducted on the State Government.

Findings and Recommendations

Finding No. 1: Outstanding Prior Year Audit Findings and Recommendations

Hatohobei State should comply with 5 PNCA §401 by implementing audit recommendations contained in the Office of the Public Auditor's (OPA) prior years' audit reports.

Hatohobei State has not taken corrective action to implement audit recommendations and/or to resolve audit findings contained in the Office of the Public Auditor's (OPA) previous audit report covering fiscal years 2007 to 2008 as follows:

- Competitive Bidding Regulations not properly followed
- Personnel System not properly maintained
- Fixed Assets accounting system not fully implemented

The Governor responded to the prior years' audit report by providing corrective action plans; however, the plans have yet to be fully implemented. Hatohobei State's failure to take corrective action to comply with the OPA's prior years' audit recommendations constitutes non-compliance with 5 PNCA §401, which may result in the suspension of State's block grants.

Recommendation: We recommend the Governor takes corrective action by implementing the recommendations contained in the OPA's previous audit report covering fiscal years 2007 to 2008. Doing so will strengthen internal controls over State's financial operations and prevent possible suspension of State's block grants.

HSG's Response: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented.*

The State did its best to comply all recommendations from the previous audit but on competitive bidding regulations the state failed to conform. Most purchases relating to this finding were associated to the grant. Competitive biddings were not strictly observed due to the limited grant period. As this grant has long been delayed a fifteen days notice and 30 days solicitation period will delay more the completion of the project and deadline will not be able to meet. The State has been maintaining employee's general and individual files and we are doing our best to improve the system. We are also upgrading our recording system by maintaining electronic files. Moreover, the State participated in the QuickBooks training initiated by the Public Auditor's Office and our fixed assets accounting system will be hopefully implemented effectively.

OPA's comments: We commend the Governor for taking corrective action to implement the OPA's recommendations. The OPA will conduct follow up inspections to ensure that corrective measures are in place and operating. When the RPPL NO. 9-9 commences, annual financial audit of State Governments, the accounting system and related support structure will be critical in determining the auditability of the State.

Finding No. 2: Disbursement

Hatohobei State's system of disbursement control requires the use of an Accounts Payable Voucher (APV) to evidence preauthorization of disbursements and certification of funds availability. In addition, disbursements should be properly reviewed to ensure they contain proper supporting documents and are properly recorded.

In our testing of selected disbursements covering fiscal years 2009-2013, we found the following deficiencies:

1. *Accounts Payable Vouchers (APV) were not Approved by the Governor on four(4) check disbursements. (Check #:17593,17511,17553,&17888)*
2. *The APV was not approved by the Governor and certified by the State Treasurer on three(3) check disbursements. (Check #: 17535,18657, &18718)*
3. *Three (3) check disbursements were not recorded properly; the Check date recorded on QuickBooks is different from the actual Check date. (Check #:17553,17963, & 19757)*
4. *On three (3) check disbursements, the APV form is signed by Governor but not dated. (Check #: 18662, 18718, & 18719)*

It appears that disbursements are not properly reviewed to ensure that APVs are properly authorized, certified as to availability of funds, contain the proper supporting documents, and disbursements are properly recorded.

As a result, the State's system of internal controls over disbursements is not operating as intended by management.

Recommendation: We recommend that the Governor direct the State Treasurer to be more attentive in processing and reviewing disbursements to ensure that APVs are properly approved and certified; disbursements contain the proper supporting documents and are properly recorded.

HSG's Response: *We concur to the auditor's findings, and ensure that corrective action will be taken and recommendation will be strictly implemented. We will be more attentive in processing and reviewing disbursement to ensure that Accounts Payable Voucher (APV) are properly approved and certified. Currently, we are upgrading our office equipment from using typewriter for typing checks to a check printer compatible with our accounting software.*

OPA's Comments: We commend the Governor for taking corrective action to implement the OPA's recommendations. The OPA will conduct follow up inspections to ensure that corrective measures are in place and operating. When the RPPL NO. 9-9 commences, annual financial audit of State Governments, the accounting system and related support structure will be critical in determining the auditability of the State.

Finding No. 3: Competitive Bidding

40 PNCA § 625 (b) requires that any purchases by the State Government greater or equal to \$5000 shall be subject to competitive bidding.

Our testing of expenditures greater or equal to \$5,000 for the fiscal years 2009-2013 revealed the following weaknesses:

1. *Bids were awarded to companies who did not submit a bid proposal during the bid period, even though other bids were received and met the RFP requirements.*
2. *Request for Proposals (RFP) were vague and did not contain detailed specifications.*
3. *The same Request for Proposal was used on multiple projects, with misleading specifications.*
4. *Bidding procedures did not comply with the ROP Procurement Law and Regulations.*
5. *There was no evidence of bid evaluations and contract award.*
6. *In one RFP for the purchase of boat engines, the bidder was allowed to revise his bid, after a deposit was made, to twice the original amount, and the State allowed the change and paid the vendor.*
7. *Bids were accepted and contracts awarded even though the bids were received after the bid closing date.*

It appears that the Governor was attempting to expedite the procurements by circumventing the procurement procedures to achieve that end.

As a result, we questioned a total of \$218,801.43 due to non-compliance with the Republic of Palau Procurement Law and Regulations and apparent disregard to follow the law in the interest of expediency as set forth below:

Check #	Date	Vendor	Amount
18676	5/4/2011	David R. Mendoza	\$ 10,000.00
18734	6/26/2011	Sabino Sbal	4,500.00
18752	6/21/2011	Sabino Sbal	4,200.00
18745	6/14/2011	Siegried Nakamura	8,500.00
18780	8/8/2011	Siegried Nakamura	8,500.00
18803	9/9/2011	Neco Yamaha Corp.	63,108.00
19061	5/10/2012	Neco Yamaha Corp.	41,190.00
18806	9/16/2011	Ikuko Furukawa	10,000.00
19118	6/22/2012	Ikuko Furukawa	15,000.00
19291	10/3/2012	Neco Yamaha Corp.	11,765.50
19360	13/13/2012	Neco Yamaha Corp.	11,765.50
19406	1/23/2013	Neco Yamaha Corp.	5,000.00
19524	3/27/2013	Neco Yamaha Corp.	8,230.16
19435	2/4/2013	Neco Yamaha Corp.	7,308.00
19549	4/18/2013	Neco Yamaha Corp.	9,734.27
Total Amount			\$ 218,801.43

Office of the Public Auditor

Recommendation: We recommend that the Governor adhere to the policies and procedures of the Republic of Palau's Procurement Law and Regulations when conducting procurements requiring competitive bidding. Specifically, Requests for Proposals should contain detailed specifications of the goods or services to be procured. In addition, only bids received within the bid time period should be accepted and considered for contract award. Moreover, bidders should not be allowed to revise their bids after contract award. Finally, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the above procurements and take appropriate action for any improprieties.

HSG's Response: *We concur to the auditor's findings, and ensure that corrective action will be taken and recommendation will be strictly implemented. We will ensure that for future procurements, we will adhere to the policies and procedures of the Republic of Palau's Procurement Law and Regulations.*

A boat extension work was awarded to individual who did not submit bid because nobody submitted during the bidding period. The State searched around and approached respected companies deemed professionals on the services required. One company refused due to the urgent time requirement and the other does not have expert workmen to guarantee the job will be done. A boat was also purchased from individual not submitting bid because nobody submitted. The State searched around and purchased the certain boat in reasonably lower price. A saw mill was also purchased from individual not submitting bid because nobody submitted. Again, the State searched around and found one for sale believed to be reasonable.

The same Request for Proposal was used for multiple projects with misleading specifications because it was believed to be just related projects. With this finding, the State realized that for future procurements, we will identify specifically our need and seek professional opinions if necessary to come up a precise and detailed specification.

The State allowed the bidder to revise bid after a deposit was made in the purchase of inboard engines. Initially, the State required an engine of the same brand and model as the previous engines to be replaced but with higher power. The bidder who is also the sole authorized dealer of the required brand placed an order from overseas supplier. The supplier reviewed the said order, took details of the boat, analyzed its use and found our order to be unfit. The engine we initially ordered is not heavy duty and inappropriate for long distance voyages. Thus, another model was recommended with higher power to meet our voyage condition.

A certain purchase has been also made from a company not submitting bid even though bid proposals meet the RFP requirement because the proposed amount is beyond the State's budget. The grant was actually completed piece due to the very limited resources.

OPA's Comments: It is critical that the State comply with the Republic of Palau Procurement Law and Regulations. When financial audits of State Governments commences, questioned costs arising from non-compliance with the Procurement Law and Regulations will be withheld from the State's block grants.

Finding No. 4. Fixed Assets

A fixed asset accounting system is essential to properly account for, safeguard, and identify State properties.

The audit showed that although the state has established a system to account for its fixed assets, we noted the following deficiencies:

1. The State does not have a system to properly identify (tag) properties.
2. Regular inventory of State fixed asset is not performed to identify location and condition
3. The State mainly uses the fixed asset ledger to record State properties while the QuickBooks fixed asset recording module is not used or updated regularly.

It appears the State was content with simply using the fixed asset ledger to keep track of fixed assets; however, the other components, i.e., inventory, are essential to ensure that the whole system is operating to safeguard the State's fixed assets. In addition, the QuickBooks fixed asset module should be used to automate the fixed asset system.

As a result, the State has a system to record fixed assets; however, ownership (tagging), physical condition, and location are essential to complement the system.

Recommendation: We recommend the State identify (tag) its fixed assets so that State properties are properly identified to safeguard against loss or unauthorized use. In addition, we recommend the State perform periodic inventory of fixed assets to identify their location and condition. Finally, the State should implement the use of the QuickBooks fixed asset module to record and keep track of its fixed assets.

HSG's Response: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. The following action will be taken to ensure the whole system is operating effectively. We will assign a staff to conduct quarterly inventory both in Hatohobei Island and in the State liaison Office in Malakal. We will also require each department to conduct quarterly inventory to ensure consistency. We will ensure all fixed assets be labeled right upon purchase and before releasing to each department. Currently, we are upgrading our tagging system using electric engraver to ensure ownership is strongly identified. We will create an official request form for asset maintenance, change of location and disposal to be submitted to the State Treasury to ensure updated recording. The QuickBooks fixed asset recording module was previously used but discontinued due to its inconsistent effect to the sales item. Currently, we resume the application after acquiring knowledge from the QuickBooks Training. Inconsistency has been corrected and fixed assets has been updated and recorded properly.*

OPA's Comment: We commend the Governor for taking corrective action to implement the fixed asset accounting system. The OPA will conduct follow up inspections to ensure that the system is in place and operating. When the RPPL NO. 9-9 commences, annual financial audit of State Governments, the fixed asset accounting system will be critical in preparing the financial statements to be audited.

Finding No. 5. Personnel System/ Payroll

A sound system of internal control dictates that the State maintains personnel files for employees which contain, at a minimum, employment application, a personnel action form, employment contract, allotment forms, employee evaluations, etc.

During the audit we found that although the State had made improvements in its personnel system, we found the following weaknesses needing corrective action:

2. Ten (12) employees had their PAF signed and approved after the effective date.
4. Legislators were over-compensated during the fiscal year 2009 and 2010; however, this was discovered and they repaid the overpayment in installments.

Although a personnel system is in place, the system has not been fully implemented to ensure that all controls are operating as intended.

As a result, the personnel system is not operating in all its control elements and, consequently, weak controls expose the system to errors and other irregularities.

Recommendation: We recommend that the Governor implement all components of the personnel system to ensure that all control elements of the system are operating effectively, including properly authorized Personnel Actions for all employees. In addition, we recommend that the State Treasurer create separate personnel files for each employee to include a PAF, contract, allotment authorization, and other personnel action documents.

HSG's Response: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented.*

Employees in the past do not have Personnel Action Form located on file. The State created their action form executed by the current officials in compliance with the Civil Service Pension Plan retirement requirements. Currently, we are strictly implementing proper documentation to newly hire employees before they begin to work.

Legislators were over-compensated when the manner of payment was changed from per session to monthly payment as requested by Hatohobei State Legislature (HSL). The Office of the Lieutenant Governor noticed the computation error but HSL did not acknowledge it until a legal

Office of the Public Auditor

finding has been presented. To prevent the recurrence of this situation, we will always seek legal advice on doubtful matters before proceeding.

The State does have Personnel Action and Allotment Forms on file. Records have been submitted to the Auditor's Office for examination to remove this finding.

OPA's Comments: Based on the additional supporting documents provided, the OPA has cleared and removed deficiency 1 and 3, and other changes as appropriate under Finding No.5.

Finding No. 6. USDA-Community Facility Grant

Records should be maintained and retained to support grant activities and to comply with the terms and conditions of grant agreements that the State enters into. In addition, the Project procurement activities should comply with the Republic of Palau Procurement Law and Regulations to encourage maximum competition and the quality of goods and services. In addition, at time of turnover of administration, the outgoing governor should brief and turn over all records of grants to the incoming governor to ensure that the project continues without delay, compliance with the terms and conditions of the grant, and the project is completed within the timeframe imposed by the grant.

Hatohebei State was a recipient of a grant from the United States Department of Agriculture (USDA) Rural Housing Service in a project for the acquisition of boats and related equipment in the sum of \$99,996 for the purpose of enhancing safety, security, and management of the natural resources. The grant conditions required a matching share from the State in amount of \$44,861.

The Table below shows expenditures incurred on the grant:

Vendor	Check No.	Date	Memo	Amount
Neco Yamaha Corp.	18803	9/9/2011	Initial payment for 315hp Yanmar engines(2 unit)	\$63,108.00
Ikuko Furukawa	18806	9/16/2011	Down payment for 38ft fiberglass boat	10,000.00
Ikuko Furukawa	19118	6/22/2012	Final payment for 38ft fiberglass boat	15,000.00
Neco Yamaha Corp.	19406	1/23/2013	Down payment for navigation & safety equipment	1,873.62
Palau Telecoms	19437	2/5/2013	50% down payment for ICOMS IC-M7 HF Marine Radio Transceiver	1,841.25
Neco Yamaha Corp.	19524	3/27/2013	Final payment for safety & navigation equipment	8,200.13
Total Expenses				\$99,996.00

The Terms & Condition of the grant agreement included the following:

1. The funds granted by the USDA must be used solely for the purpose of acquiring boats and equipment.
2. Provide Form SF-269, "Financial Status Report" and a project performance report on a quarterly basis. A final project performance report will be required with the last "Financial Status Report. The project performances reports shall include, but not limited to, the following:
 - a. A comparison of actual accomplishments to the objectives established for that period;
 - b. Reasons why established objectives were not met;
 - c. Problems, delays or adverse conditions which will affect attainment of overall project objectives, prevent meeting time schedules or objectives, or preclude the attainment of particular project work elements during established time periods. This disclosure shall be accomplished by a statement of the action taken or planned to resolve the situation; and
 - d. Objectives and timetables established for the next reporting period.
3. Proposed Project Deadline was September 2010.

It appears that the State Treasury was not diligently maintaining and safekeeping the records pertaining to the Grant. The State Treasury did not effectively monitor and maintain files of records pertaining to the expenditure of grant funds. Consequently, some of the documents were not on file and had to be requested from the Grantor. In addition, we found that the project deadline was extended multiple times for reason that the State was not able to secure its Matching Share for the Project as required by the Grant. Furthermore, actual expenditures for the Project exceeded Grant funding and therefore the State had to seek additional local funds to cover the shortfall. Moreover, the procurement process (competitive bidding) used in the procurement of boat and related equipment did not comply with the Republic of Palau Procurement Law and Regulations, which may have contributed to the increase in costs of the project.

We were told by the current Governor that she was not aware of the Grant/ Project as a "formal turnover" of administration was not conducted when she took office. According to the Governor, during the transition of administration, she was not briefed about the Grant/ project and therefore was not aware of it when she took office. We also found that the Governor had a difficult time locating the grant documents, perhaps relating to the lack of briefing and good recordkeeping, which may have contributed to the project not meeting the proposed Project Deadline.

As a result, the project did not meet the established project completion date and incurred costs overruns. In addition, the State did not comply with the Republic of Palau Procurement Law and Regulations in the procurement of boats and related equipment.

Recommendation: We recommend that the Governor direct the State Treasurer to be more attentive in the administration of grants to ensure that records of grant activities are properly maintained and retained to support reviews and monitoring by responsible officials and to ensure compliance with the grant terms and conditions. In addition, the grant records should be kept up-to-date to reflect current grant activities and be in a state of readiness for briefing and turnover in time of changeover of administration. Moreover, in the administration of grants, the Governor should become familiar with the terms and conditions of the grant to facilitate compliance with the requirements; including applicable procurement regulations. Finally, the Governor should be attentive to the project budget to ensure that project costs are maintained within the budget to prevent cost overruns.

HSG's Response: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. The following action will be taken to prevent the recurrence of this situation. We will ensure that a formal turn-over be conducted before the outgoing governor ends its term. We will ensure that the incoming governor will be briefed of existing grant and/or pending grant application to become familiar with the terms and conditions of the grant. We will request the Hatohobei State Legislature to legislate law requiring outgoing officials to formally turn-over duties and responsibilities to maintain continuity.*

Once again, thank you very much for this opportunity. May this response will give your office a sufficient justification. I formally express with this writing that the State will abide to all of the recommendations given by your office.

OPA's Comments: We commend the Governor for taking corrective action to implement the OPA's recommendations. The OPA will conduct follow up inspections to ensure that corrective measures are in place and operating. When the RPPL NO. 9-9 commences, annual financial audit of State Governments, the accounting system for recording grant expenditures will be critical in preparing financial statements to be audited.



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

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

(Closed on Legal Holidays)