

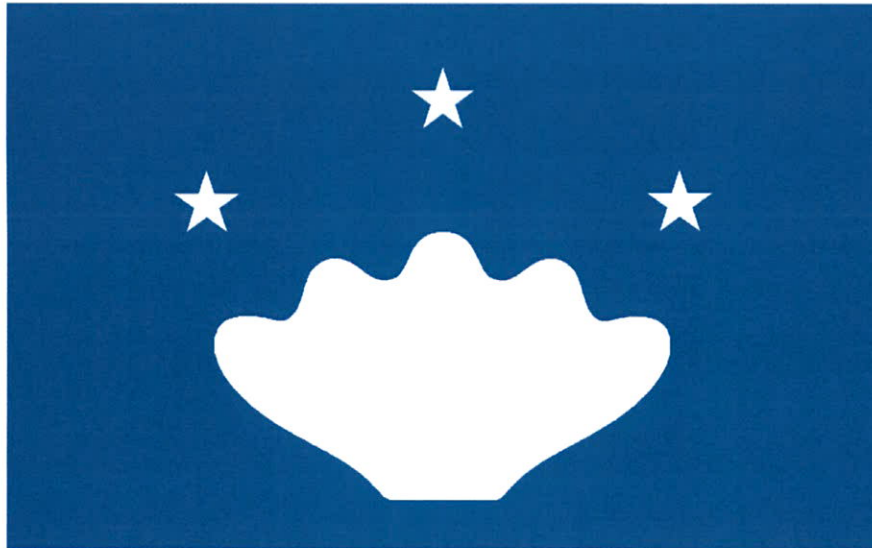


OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

AUDIT REPORT

**THE STATEMENT OF CASH RECEIPTS
AND EXPENDITURES**

OF



HATOHOBEL STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

Performed by the Office of the Public Auditor

TOBI-15-FA04*opa00

REPUBLIC OF PALAU



P. O. Box 850
Koror, Republic of Palau 96940
TEL (680) 488-2889/5687
FAX (680) 488-2194
EMAIL: admin@palauopa.org
Website: www.palauopa.org

Office of the Public Auditor

April 18, 2018
Serial#: opa18-078au

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

Subject: Final Report on the Financial Audit of Hatohobei State Government's Statements of Cash Receipts and Expenditures for the Years Ended September 30, 2015 and 2014

Dear Governor Nestor:

This report presents the result of our audit of Hatohobei State Government for the fiscal years ended September 30, 2015 and 2014.

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,

Satruniro Tewid
Public Auditor
Office of the Public Auditor
Republic of Palau

Genesis U. Roberto, CPA
Audit Manager
Office of the Public Auditor
Republic of Palau

HATOHOBEL STATE GOVERNMENT

STATEMENTS OF CASH RECEIPTS AND EXPENDITURES,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT

FISCAL YEARS ENDED SEPTEMBER 30, 2015 and 2014

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Koror, Republic of Palau 96940
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Office of the Public Auditor

Independent Auditor's Report

Honorable Huana Nestor
Governor
Hatothobei State Government

Report on the Financial Statements

We have audited the accompanying statements of cash receipts and expenditures of Hatothobei State Government (State) for the years ended September 30, 2015 and 2014, and the related notes to the statements of cash receipts and expenditures.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the statements of cash receipts and expenditures in accordance with the cash basis of accounting described in Note 2. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statements of cash receipts and expenditures that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statements of cash receipts and expenditures based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of cash receipts and expenditures are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statements of cash receipts and expenditures. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the statements of cash receipts and expenditures in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statements of cash receipts and expenditures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statements of cash receipts and expenditures referred to above present fairly, in all material respects, the cash receipts and expenditures of the Hatohobei State Government for the years ended September 30, 2015 and 2014, in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the notes to the statements of cash receipts and expenditures, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Our opinion is not modified with respect to this matter.

Other Matter

Other Information

Our audit was conducted for the purpose of forming an opinion on the statements of cash receipts and expenditures of the State. The Statements of Budget, Receipts and Expenditures (pages 9–14), are presented for purposes of additional analysis and are not a required part of the statements of cash receipts and expenditures.

The Statements of Budget, Receipts and Expenditures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statements of cash receipts and expenditures. Such information has been subjected to the auditing procedure applied in the audit of statements of cash receipts and expenditures and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statements of cash receipts and expenditures or to the statements of cash receipts and expenditures themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statements of Budget, Receipts and Expenditures is fairly stated, in all material respects, in relation to the statements of cash receipts and expenditures as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2018 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State's internal control over financial reporting.



Satrunjho Tewid
Public Auditor, Office of the Public Auditor
Republic of Palau
April 18, 2018



Genesis U. Roberto, CPA
Audit Manager, Office of Public Auditor
Republic of Palau
April 18, 2018

HATOHOBEL STATE GOVERNMENT
Statement of Cash Receipts and Expenditures
Year Ended September 30, 2015

	General Fund	Special Revenue Fund (PAN)
Receipts:		
ROP National Block grant	\$ 248,733	\$ -
ROP Fishing Right Fees appropriation	92,558	-
ROP SW Field Trip appropriation	48,000	-
ROP PAN Fees appropriation	133,585	-
Grants from foreign donors	-	66,700
Grants from OneReef	-	53,575
Local State Revenues	11,192	491
Cash transfer out of State General operation fund	(133,585)	-
Cash transfer in to Helen Reef PAN Fund (PAN fees)	-	133,585
TOTAL CASH RECEIPTS	400,483	254,351
Expenditures:		
<i>Executive Branch</i>		
Office of the Governor	34,622	-
Activities and Others	72,293	-
Finance	16,904	-
Education	200	-
Public Works	19,228	-
Other Programs	3,449	-
Total Executive Branch	146,696	-
<i>Legislative Branch</i>		
Compensation benefits	44,012	-
Other legislative expenses	4,684	-
Total Legislative Branch	48,696	-
<i>Projects and Programs</i>		
Transportation	80,650	-
Road & Other Maintenance	6,984	-
Capital projects and programs	52,554	-
Total Projects and Programs	140,188	-
<i>PAN Fund</i>		
Personnel and benefits	-	90,040
Asset purchases/ maintenance	-	15,430
Utilities and office supplies	-	9,488
Communication	-	7,767
Activities	-	48,718
Program and other	-	69,560
Total PAN Fund Expenditures	-	241,003
<i>Other Expenditures</i>		
Southwest Island Field Trip	63,000	-
Other Expenses	68	-
Total Other Expenditures	63,068	-
TOTAL CASH EXPENDITURES	398,648	241,003
RECEIPTS IN EXCESS OVER EXPENDITURES	\$ 1,835	\$ 13,348

HATOHOBEL STATE GOVERNMENT
Statement of Cash Receipts and Expenditures
Year Ended September 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund (PAN)</u>
Receipts:		
ROP National Block grant	\$ 224,021	\$ -
ROP Fishing Right Fees appropriation	46,068	-
ROP SW Field Trip appropriation	38,100	-
ROP PAN Fees appropriation	143,315	-
Grants from foreign donors	17,014	-
Grants from OneReef	-	40,000
Local State Revenues	11,817	4,756
Cash transfer out of State General operation fund	(143,315)	-
Cash transfer in to PAN Fund (PAN fees)	-	143,315
TOTAL CASH RECEIPTS	<u>337,020</u>	<u>188,071</u>
Expenditures:		
<i>Executive Branch</i>		
Office of the Governor	38,981	-
Activities and Others	55,980	-
Finance	13,860	-
Education	-	-
Public Works	24,492	-
Other Programs	991	-
Total Executive Branch	<u>134,304</u>	<u>-</u>
<i>Legislative Branch</i>		
Compensation benefits	38,922	-
Other legislative expenses	6,291	-
Total Legislative Branch	<u>45,213</u>	<u>-</u>
<i>Projects and Programs</i>		
Transportation	52,036	-
Road & Other Maintenance	6,003	-
Capital projects and programs	12,049	-
Total Projects and Programs	<u>70,088</u>	<u>-</u>
<i>PAN Fund</i>		
Personnel and benefits	-	78,637
Asset purchases/ maintenance	-	15,521
Utilities and office supplies	-	8,229
Communications	-	3,053
Activities	-	65,797
Program and other	-	30,405
Total PAN Fund Expenditures	<u>-</u>	<u>201,642</u>
<i>Other Expenditures</i>		
Southwest Island Field Trip	28,000	-
Other Expenses	138	-
Total Other Expenditures	<u>28,138</u>	<u>-</u>
TOTAL CASH EXPENDITURES	<u>277,743</u>	<u>201,642</u>
RECEIPTS IN EXCESS (SHORTAGE) OVER EXPENDITURES	<u>\$ 59,277</u>	<u>\$ (13,571)</u>

HATOHOBEL STATE GOVERNMENT
Notes to Statements of Cash Receipts and Expenditures
Years Ended September 30, 2015 and 2014

1. Organization

The Hatothobei State Government (State) operates within the Republic of Palau and under its own Constitution. The State's constitution, ratified on November 13, 1983, created the constitutional government of the State and established the primary branches of the State government consisting of the Executive (Office of the Governor), the Legislative, and the Traditional.

2. Basis of Accounting

The accompanying statements of cash receipts and expenditures have been prepared on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recognized when received in cash and expenditures are recognized when disbursed.

3. Reporting of major funds

The State reports the following major funds:

- State general fund- This fund is the primary operating fund of the State. It is used to account for all cash receipts and expenditures transactions of the State.
- Special revenue fund- This fund is to account for the cash receipts and expenditures of Protected Areas Network (PAN) fees which are legally mandated to be disbursed solely towards PAN operations and administration, in accordance with Title 24 PNC Chapter 34. In the year 2000, the Hatothobei people and their partners initiated the Helen Reef Resource Management Program (HRRMP). In November 2001, the Hatothobei State Legislature passed the Helen Reef Management Act declaring Helen Reef a State Marine Protected Area. In 2010, the Helen Reef Conservation Area in the State became a recognized PAN conservation area.

4. Cash and cash equivalents held

Cash is defined as cash on hand and cash held in demand accounts. These cash are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance and are FDIC insured. The following table shows cash balances held by the State at the respective year end:

	Cash balance at September 30,	
	2015	2014
State general fund	\$ 144,459	\$ 139,169
Special revenue fund (PAN)	24,155	8,070
	\$ 168,614	\$ 147,239

ADDITIONAL INFORMATION

HATOHOBEL STATE GOVERNMENT
Statement of Budget, Receipts and Expenditures
Year Ended September 30, 2015

	Original	Final	Supplemental	Actual	Variance
Receipts:	Budget	Budget	Budget	Actual	Variance
State Block Grants	252,000	252,000	-	248,733	(3,267)
Fishing Right Fees	46,067	46,067	95,007	92,558	(2,449)
SW Field Trips	-	-	-	48,000	48,000
PAN Fees	-	-	-	133,585	133,585
Other Grants	-	-	-	-	-
Fund Balance Surplus/ (Deficit)	44,394	44,394	-	-	(44,394)
Local Revenues	-	-	-	11,192	11,192
Total Receipts:	342,461	342,461	95,007	534,068	142,667
Expenditures:					
Executive Branch:					
Office of the Governor:					
Salaries	32,500	32,500	-	29,942	(2,558)
Personnel Benefits	4,713	4,713	-	4,342	(371)
Legal Counsel	700	700	-	338	(362)
Total Office of the Governor	37,913	37,913	-	34,622	(3,291)
Activities and Others:					
Bank Charges	50	50	-	54	4
Communication	3,400	3,400	-	3,295	(105)
Contractual Services	39,472	39,472	-	37,170	(2,302)
Donation/ Contribution	2,500	2,500	-	1,299	(1,201)
Furniture/ Fixture	1,300	1,300	-	-	(1,300)
Miscellaneous	5,000	5,000	-	1,412	(3,588)
Office Equipment	5,000	5,000	-	4,370	(630)
Office Space Rental	9,000	9,000	-	9,000	-
Petroleum, Oil, & Lubricants	2,500	2,500	-	1,223	(1,277)
Printing & Reproduction	500	500	-	500	-
Prior Years Obligation	8,000	8,000	-	5,242	(2,758)
Rental & Others	200	200	-	85	(115)
Repair & Maintenance	1,000	1,000	-	660	(340)
Representation Fund	800	800	-	1,184	384
Subscription and Mem Dues	500	500	-	30	(470)
Supplies & Others	1,613	1,613	-	1,561	(52)
Travel & Per Diem	3,000	3,000	-	1,129	(1,871)
Utilities	5,500	5,500	-	4,079	(1,421)
Total Activities & Others	89,335	89,335	-	72,293	(17,042)

HATOHOBEL STATE GOVERNMENT
Statement of Budget, Receipts and Expenditures (Continued)
Year Ended September 30, 2015

Expenditures, continued:	Original	Final	Supplemental		
Executive Branch, continued:	Budget	Budget	Budget	Actual	Variance
Finance:					
Salaries	15,600	15,600	-	15,580	(20)
Personnel Benefits	<u>1,326</u>	<u>1,326</u>	-	<u>1,324</u>	<u>(2)</u>
Total Finance	<u>16,926</u>	<u>16,926</u>	-	<u>16,904</u>	<u>(22)</u>
Education:					
Salaries	3,360	3,360	-	200	(3,160)
Personnel Benefits	<u>286</u>	<u>286</u>	-	-	<u>(286)</u>
Total Education	<u>3,646</u>	<u>3,646</u>	-	<u>200</u>	<u>(3,446)</u>
Health:					
Salaries	6,240	6,240	-	-	(6,240)
Personnel Benefits	<u>531</u>	<u>531</u>	-	-	<u>(531)</u>
Total Health:	<u>6,771</u>	<u>6,771</u>	-	-	<u>(6,771)</u>
Public Works					
Salaries	18,720	18,720	-	16,836	(1,884)
Personnel Benefits	<u>2,715</u>	<u>2,715</u>	-	<u>2,392</u>	<u>(323)</u>
Total Public Works	<u>21,435</u>	<u>21,435</u>	-	<u>19,228</u>	<u>(2,207)</u>
Traditional Leadership Council:					
Allowance	900	900	-	-	(900)
Personnel Benefits	<u>77</u>	<u>77</u>	-	-	<u>(77)</u>
Total Traditional Leadership Council	<u>977</u>	<u>977</u>	-	-	<u>(977)</u>
Other Programs:					
State Youth Organization	3,500	3,500	-	2,453	(1,047)
State Constitutional Day	<u>1,000</u>	<u>1,000</u>	-	<u>996</u>	<u>(4)</u>
Total Other Programs	<u>4,500</u>	<u>4,500</u>	-	<u>3,449</u>	<u>(1,051)</u>
Total Executive Branch:	<u>181,503</u>	<u>181,503</u>	-	<u>146,696</u>	<u>(34,807)</u>
Legislative Branch:					
Compensation	24,426	24,426	-	21,312	(3,114)
Staff Salaries	11,700	11,700	-	11,499	(201)
Office Assistant	6,240	6,240	-	6,220	(20)
Personnel Benefits	6,090	6,090	-	4,981	(1,109)
Legal Counsel	2,000	2,000	-	455	(1,545)
Supplies and Others	1,261	1,261	-	1,151	(110)
Furniture & Fixtures	1,000	1,000	-	190	(810)
Office Equipment	1,000	1,000	-	-	(1,000)
Repair & Maintenance	1,000	1,000	-	249	(751)
Communication	2,450	2,450	-	2,415	(35)
Meeting Expense	<u>400</u>	<u>400</u>	-	<u>224</u>	<u>(176)</u>
Total Legislative Branch:	<u>57,567</u>	<u>57,567</u>	-	<u>48,696</u>	<u>(8,871)</u>

HATOHOBEI STATE GOVERNMENT
Statement of Budget, Receipts and Expenditures (Continued)
Year Ended September 30, 2015

Expenditures, continued:	Original Budget	Final Budget	Supplemental Budget	Actual	Variance
Projects and Programs:					
Transportation	47,597	47,597	91,345	80,650	(10,695)
Road & Other Public Properties Maintenance	7,000	7,000	9,000	6,984	(2,016)
Helen Reef Project	1,000	1,000	1,000	224	(776)
State Boat Repair & Maintenance	5,000	5,000	5,000	1,447	(3,553)
Matching Share for Lang. Pres. Grant	5,500	5,500	5,000	5,000	-
Light Truck Purchase	5,000	5,000	5,000	-	(5,000)
Bai	31,308	31,308	35,000	31,878	(3,122)
School Renovation	5,000	5,000	5,000	2,473	(2,527)
Dispensary Renovation	10,000	10,000	10,000	8,542	(1,458)
Decompose Toilet Repair & Maintenance	3,000	3,000	3,000	2,990	(10)
Total Projects and Programs:	<u>120,405</u>	<u>120,405</u>	<u>169,345</u>	<u>140,188</u>	<u>(29,157)</u>
Other Expense:					
Transfer to PAN Fund				133,585	
Southwest Island Field Trip	-	-	-	63,000	63,000
Other Expenses	-	-	-	68	68
Total Other Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,653</u>	<u>63,068</u>
Total Expenditures	<u>359,475</u>	<u>359,475</u>	<u>169,345</u>	<u>532,233</u>	<u>(9,767)</u>
RECEIPTS IN EXCESS OVER EXPENDITURES	(17,014)	(17,014)	(74,338)	1,835	152,434

HATOHOBEL STATE GOVERNMENT
Statement of Budget, Receipts and Expenditures
Year Ended September 30, 2014

	Original	Final		
Receipts:	Budget	Budget	Actual	Variance
State Block Grants	222,000	222,000	224,021	2,021
Fishing Right Fees	46,266	46,266	46,068	(198)
SW Field Trips	-	-	38,100	38,100
PAN Fees	-	-	143,315	143,315
Fund Balance Surplus/ (Deficit)	27,109	27,109	-	(27,109)
Local Revenues	-	-	11,817	11,817
Other Grants	-	-	17,014	17,014
Total Receipts:	<u>295,375</u>	<u>295,375</u>	<u>480,335</u>	<u>184,960</u>
Expenditures:				
Executive Branch:				
Office of the Governor:				
Salaries	32,500	31,154	33,750	2,596
Personnel Benefits	4,713	4,518	4,894	376
Legal Counsel	500	500	337	(163)
Total Office of the Governor	<u>37,713</u>	<u>36,172</u>	<u>38,981</u>	<u>2,809</u>
Activities and Others:				
Bank Charges	50	50	30	(20)
Communication	3,390	3,390	2,654	(736)
Contractual Services	32,404	32,404	19,041	(13,363)
Donation/ Contribution	1,000	1,000	1,893	893
Furniture/ Fixture	1,500	1,500	750	(750)
Miscellaneous	1,000	1,000	797	(203)
Office Equipment	2,000	2,000	2,025	25
Office Space Rental	9,000	9,000	9,000	-
Petroleum, Oil, & Lubricants	2,100	2,100	2,128	28
Printing & Reproduction	500	500	20	(480)
Prior Years Obligation	2,000	2,000	4,000	2,000
Rental & Others	200	200	70	(130)
Repair & Maintenance	1,000	1,000	523	(477)
Representation Fund	800	800	972	172
Subscription and Mem Dues	500	500	331	(169)
Supplies & Others	1,747	1,747	1,645	(102)
Travel & Per Diem	2,500	2,500	4,476	1,976
Utilities	5,500	5,500	5,625	125
Total Activities & Others	<u>67,191</u>	<u>67,191</u>	<u>55,980</u>	<u>(11,211)</u>

HATOHOBEI STATE GOVERNMENT
Statement of Budget, Receipts and Expenditures (Continued)
Year Ended September 30, 2014

Expenditures, continued:	Original	Final		
Executive Branch, Continued:	Budget	Budget	Actual	Variance
Finance:				
Salaries	11,440	11,440	12,774	1,334
Personnel Benefits	973	973	1,086	113
Total Finance	<u>12,413</u>	<u>12,413</u>	<u>13,860</u>	<u>1,447</u>
Public Works				-
Salaries	22,880	22,880	21,390	(1,490)
Personnel Benefits	3,318	3,318	3,102	(216)
Total Public Works	<u>26,198</u>	<u>26,198</u>	<u>24,492</u>	<u>(1,706)</u>
Traditional Leadership Council:				
Allowance	900	900	-	(900)
Personnel Benefits	77	77	-	(77)
Total Traditional Leadership Council	<u>977</u>	<u>977</u>	<u>-</u>	<u>(977)</u>
Other Programs:				-
State Youth Organization	1,425	1,425	-	(1,425)
State Constitutional Day	1,000	1,000	991	(9)
Total Other Programs	<u>2,425</u>	<u>2,425</u>	<u>991</u>	<u>(1,434)</u>
Total Executive Branch:	<u>146,917</u>	<u>145,376</u>	<u>134,304</u>	<u>(11,072)</u>
Legislative Branch:				
Compensation	24,426	24,426	21,762	(2,664)
Staff Salaries	6,480	6,480	6,729	249
Office Assistant	5,720	5,720	5,880	160
Personnel Benefits	4,926	4,926	4,551	(375)
Legal Counsel	6,000	3,500	875	(2,625)
Supplies and Others	1,000	1,000	818	(182)
Furniture & Fixtures	1,000	1,000	710	(290)
Office Equipment	2,000	2,000	1,153	(847)
Repair & Maintenance	1,000	1,000	470	(530)
Communication	2,434	2,434	1,932	(502)
Meeting Expense	400	400	333	(67)
Travel & Per Diem	6,000	-	-	-
Miscellaneous	1,600	-	-	-
Total Legislative Branch:	<u>62,986</u>	<u>52,886</u>	<u>45,213</u>	<u>(7,673)</u>

HATOHOBEL STATE GOVERNMENT
Statement of Budget, Receipts and Expenditures (Continued)
Year Ended September 30, 2014

Expenditures, continued:	Original	Final		
Projects and Programs:	Budget	Budget	Actual	Variance
Transportation	51,972	51,972	52,036	64
Road & Other Public Properties Maintenance	6,200	6,200	6,003	(197)
Helen Reef Project	800	800	616	(184)
State Boat Repair & Maintenance	6,000	6,000	3,739	(2,261)
Public Shelter	5,000	5,000	3,754	(1,246)
Office Extension- Tobi State Proper	5,000	5,000	3,940	(1,060)
Language Preservation Committee	5,500	5,500	-	(5,500)
Light Truck Purchase	5,000	5,000	-	(5,000)
Total Projects and Programs:	<u>85,472</u>	<u>85,472</u>	<u>70,088</u>	<u>(15,384)</u>
Other Expense				
Transfer to PAN Fund	-	-	143,315	143,315
Southwest Island Field Trip	-	-	28,000	28,000
Other expenses	-	-	138	138
Total Other Expense	<u>-</u>	<u>-</u>	<u>171,453</u>	<u>171,453</u>
 Total Expenditures	 <u>295,375</u>	 <u>283,734</u>	 <u>421,058</u>	 <u>128,922</u>
 RECEIPTS IN EXCESS OVER EXPENDITURES	 -	 11,641	 59,277	 94,793

HATOHOBEL STATE GOVERNMENT
Budgetary Basis
Years Ended September 30, 2015 and 2014

1. Budgetary Information

The State Constitution requires that the State Governor submit to the Hatohobei State Legislature an annual budget for State operations. Upon passage by the State Legislature, the budget becomes the State's financial plan for the applicable fiscal year.

Encumbrance accounting for budgetary control purposes is not followed by the State. However, management has determined that no material encumbrances exist at year end.

2. Non- Lapsing Capital Improvement Projects

The State did not have any non-lapsing capital improvement projects for the fiscal years ended September 30, 2015 and 2014.

HATOHOBEL STATE GOVERNMENT

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

FISCAL YEARS ENDED SEPTEMBER 30, 2015 and 2014



Office of the Public Auditor

P. O. Box 850
Koror, Republic of Palau 96940
TEL (680) 488-2889/5687
FAX (680) 488-2194
EMAIL: admin@palauopa.org
Website: www.palauopa.org

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Statements of Cash Receipts and Expenditures Performed in Accordance With *Government Auditing Standards*

To: Governor Huana Nestor
Hatohobei State Government

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of cash receipts and expenditures of the Hatohobei State (State), a State Government of the Republic of Palau, for the years ended September 30, 2015 and 2014, and the related notes to the statement of cash receipts and expenditures, and have issued our report thereon dated April 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the statement of cash receipts and expenditures, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the statement of cash receipts and expenditures, but not for the purpose of expressing an opinion on the effectiveness of State's internal control.

Accordingly, we do not express an opinion on the effectiveness of State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's statement of cash receipts and expenditures will not be prevented, or detected and corrected on a timely

basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* and consider Findings 002, 003 and 005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Findings 001 and 004 described in the *Schedule of Findings and Responses* to be significant deficiencies.

Compliance and Other Matters

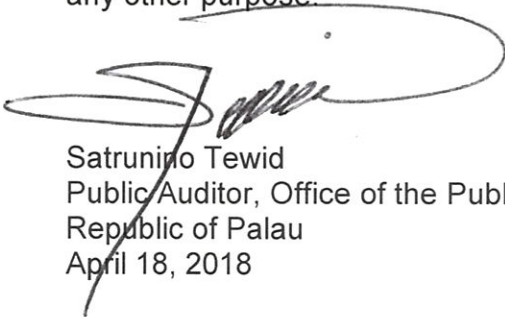
As part of obtaining reasonable assurance about whether State's statement of cash receipts and expenditures are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the statement of cash receipts and expenditures amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State's Response to Findings


The State's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The State's response was not subjected to the auditing procedures applied in the audit of the statements of cash receipts and expenditures and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Satrunino Tewid
Public Auditor, Office of the Public Auditor
Republic of Palau
April 18, 2018



Genesis U. Roberto, CPA
Audit Manager, Office of Public Auditor
Republic of Palau
April 18, 2018

SECTION I- SUMMARY OF AUDITOR'S RESULTS

Statement of Cash Receipts and Expenditures

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es)? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes
- Noncompliance material to statements of cash receipts and expenditures? No
- Questioned Costs: \$ -0-

Hatohebei State Government
Schedule of Findings and Responses
Years Ended September 30, 2015 and 2014

Finding Number: 001

Area: Journal Entries

Criteria: A significant component of an effective internal control system is ensuring a financially competent and knowledgeable personnel reviews and approves general journal entries before they are posted to the State's accounting system. This is especially true in small, non-complex governmental entities where key accounting duties and responsibilities are placed with one person (inadequate segregation of duties) and there is higher likelihood of management override of controls.

The general journal is perhaps best understood as an accounting catchall for transactions (general journal entries) that are not recorded in a specific journal (for example, a payroll journal or cash disbursements journal). General journal entries are intended to be used for one-off transactions that can't be processed through normal accounting journals or to correct errors.

Condition: Our review of the general journal entries revealed the following instances:

1. All general journal entries posted to the State's accounting system for both fiscal years ending September 30, 2015 and 2014 (October 1, 2013- September 30, 2015) were prepared and posted by the same individual who also had full access to State check books, bank accounts and accounting system.
2. One significant general journal entry (FY 2014 JE #726A) was recorded to the accounting system with no secondary approval or review, with a journal entry amount substantial enough to impact the State drastically, in the event that such entry was incorrect, whether due to error or fraud.

Cause: The cause of the above condition is due the following:

1. Limited knowledgeable personnel at the State level that can provide secondary reviews and approval to the accounting system.
2. Infrequent review of the financial statements of the State

Effect: The effect of the above condition is the potential misstatement of financial reports relied upon by management and legislative bodies. Additionally, because of inadequate segregation of duties, the State's monies are not safeguarded, and therefore, theft, misuse and/or misappropriate could occur and not be detected.

Recommendation: The OPA understands that State has limited funding ability to hire the responsible individuals to properly segregate accounting duties. However, the following recommendations are made:

Hatohobei State Government
Schedule of Findings and Responses
Years Ended September 30, 2015 and 2014

Finding Number: 001 (Continued)

1. We recommend the adoption of a policy whereby all journal entries will be approved by the Governor or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. We also noted that the explanations accompanying the entries were inadequate in many instances. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

Auditee Response and Corrective Action Plan: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. Currently, the State is taking steps on authorizing signatories for the State's bank accounts. State is also looking into acquiring professional services next fiscal year to review our accounting system periodically on a regular basis. Meantime, the Governor is approving journal entries. Moreover, supporting documents are attached as much as possible.*

Finding Number: 002

Area: Non- Payroll Disbursements

Criteria: The State's system of disbursement control requires the use of an Account Payable Voucher (APV) form to serve as an evidence of 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.

Condition: In our testing of selected non-payroll disbursements covering fiscal years 2014 and 2015, we noted the following instances:

For the State's General Fund, of 60 non-payroll expenditures for each of the fiscal years under audit, respectively, the following were noted:

1. One check disbursement (Check #19946) was disbursed with no evidence of three quotes obtained.
2. Two check disbursements (Checks # 20539 & 20544) were disbursed without obtaining quotes, invoice or supporting documents.
3. Three disbursements (Checks # 20539, 20544 & VC 025) were incorrectly coded to an expense account other than account coding it was approved to be charged to.

Hatohebei State Government
 Schedule of Findings and Responses
 Years Ended September 30, 2015 and 2014

Finding Number: 002 (Continued)

For the State’s Special Revenue Fund (PAN Fund), of twenty-five expenditure tested for each of the fiscal years under audit, respectively, the following were noted:

Type of Finding:	Missing evidence of at least 3 quotes or proper justification for selection	Proper Authorization for processing payments was missing and incomplete	Supporting document to validate disbursement was missing
FY 2014	22 out of 25 tested	9 out of 25 tested	1 out of 25 tested
FY 2015	23 out of 25 tested	10 out of 25 tested	1 out of 25 tested

Cause: The cause of the above conditions is oversight and lack of proper training by individuals responsible for the procurement process of the State. In addition, OPA noted that there are no established policies and procedures for monitoring and oversight of the Helen Reef PAN fund by the Executive Branch of the State who is ultimately responsible for all monies expended from the State Treasury.

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

Recommendation: OPA recommends that the Governor direct the State Treasurer or designee 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.

We also recommend the management of State’s Special Revenue Fund (PAN Fund) to implement procedures requiring compliance with procurement regulations and further, to establish policies that support periodic monitoring and oversight by the Executive Branch of the State over the Helen Reef Reserve Management Program (PAN).

Auditee Response and Corrective Action Plan: *We concur to the auditor’s finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. However, on State’s General Fund #2, disbursements were made for stevedore stipends during field trips to the Southwest Islands. It is an occasional service needs for a very short period of time whereby workers are sought from available individual in the local community. Thus, quotation is seen to be unnecessary. Currently, documents are attached to support disbursement such as services’ contract, voyage schedule, passengers’ list, waiver, and acknowledgement receipts.*

On the State’s Special Revenue Fund (PAN Fund), we concur to the auditor’s finding, and ensure that corrective action will be taken and recommendation will be strictly

Hatohebei State Government
Schedule of Findings and Responses
Years Ended September 30, 2015 and 2014

Finding Number: 002 (Continued)

implemented. Training workshops will be organized by the State in coordination with the appropriate agencies from the national government.

The Helen Reef Management Act will be amended to include policies supporting periodic monitoring and oversight by the Executive Branch of the State in coordination with the State's Legislative Branch and Helen Reef Board. The Executive Branch's participation in approving disbursements is given into consideration.

Finding Number: 003

Area: Payroll Disbursements

Criteria: 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.

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

For the State's General Fund, of 16 payroll disbursements for each of the fiscal years (FY 14 and 15) under audit, respectively:

1. In one instance, an employee was paid in FY 2015; however, this employee didn't have any form of Personnel Action File documentation to support her employment.

For the State's Special Revenue Fund (PAN Fund), of 12 payroll disbursements for each of the fiscal years (FY 14 and 15) under audit, respectively:

1. In a total of six instance (three in FY 2014 and three FY 2015); OPA noted employee timesheets was not attached to APVs.
2. In FY 2014, six instances noted where employees didn't have any evidence of Personnel Action Form (PAF) documentation on file. In FY 2015, five instances of the same finding were noted.
3. Three instances was noted where the APVs for payroll disbursement wasn't approved by the Program Manager or Board Chairman.

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

Hatohebei State Government
Schedule of Findings and Responses
Years Ended September 30, 2015 and 2014

Finding Number: 003 (Continued)

Effect: 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:

OPA recommends that the Governor implement all components of the personnel system to ensure that all control elements of the system are operating effectively, including properly documented Personnel Actions for all employees. In addition, OPA also recommends that the State Treasurer makes sure all necessary supporting documents such as timesheets must be provided prior to disbursing payroll checks.

Auditee Response and Corrective Action Plan: *For the State's General Fund, an employee was paid in FY 2015 without Personnel Action because this individual is contracted for a professional service and not for employment for that specific period in questioned.*

For the State's Special Revenue Fund (PAN Fund), we concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. The Helen Reef Resources Management Act will be amended to include the delegation of responsibility on recruitment and hiring documentation. Moreover, the Helen Reef Management will be required to submit annual list of employees and copy of their files to the Executive Branch of the State. Training workshops on this matter will be also arranged in coordination with appropriate agencies of the national government.

OPA Response: In regards to the State's General Fund employee missing a Personnel Action Form, this individual was treated as a state employee, with bi-weekly timesheets and rates set by the Executive office, similar to other State employees. There was no other documentation that adequately evidences this individual as contracted professional, as such, the finding remains.

Hatohobei State Government
Schedule of Findings and Responses
Years Ended September 30, 2015 and 2014

Finding Number: 004

Area: Procurement

Criteria: 40 PNCA § 625 (b) requires that any purchase by the State Government greater or equal to \$5,000 shall be subject to competitive bidding.

40 PNCA § 626 (a) states, in part, when the Procurement Officer determines in a substantiated writing that the use of competitive sealed bidding is either not practical or not advantageous to the government, contracts may be awarded by competitive negotiation, in other words, requests for proposal. Further, § 626 (h) states: Awards shall be made to the responsible offeror whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals..... The contract file shall contain a detailed description of the findings and the basis on which the award is made.

Condition: Of four disbursements greater than or equal to \$5,000 tested, the following weaknesses were noted:

1. All four disbursements did not have any evidence of substantiated writing on why the use of competitive bidding could not be used, as the State automatically elected to procure through the Request for Proposal process.
2. In all four disbursement tested, we could not find in the State's file and records a documented basis of selection upon which the award was made.

Cause: The cause for the above condition was a result of unclear understanding and application of the ROP's procurement regulation.

Effect: The effect of the above conditions is noncompliance with established procurement regulations.

Recommendation:

OPA recommends that the Governor adhere to the policies and procedures of Republic of Palau's Procurement Law and Regulations when conducting procurements requiring competitive bidding. A recurring training of procurement officers and finance personnel involved in any capacity of the procurement process should be required to ensure that application of the regulations are followed consistently.

Auditee Response and Corrective Action Plan: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. The State will organize a thorough training on this regard to all employees and officials involved.*

Hatohebei State Government
 Schedule of Findings and Responses
 Years Ended September 30, 2015 and 2014

Finding Number: 005

Area: Policies over financing budget shortfalls

Criteria: The Helen Reef Reserve Management Program (HRRMP) is mainly funded by Protected Area Network (PAN) Fees, as established by RPPL 7-42, and receives funding on a quarterly-basis. At times, budget shortfalls may occur, and the Board and management of the HRRMP have had to secure funding sources from outside sources, including international grants and donations. Furthermore, a non-for-profit entity, Hatohebei Organization for People and the Environment (HOPE), was established to assist in providing gap funding to HRRMP through donations from individuals and organization.

A “Helen Reef Project Endowment Fund” agreement (“Agreement”) was established to outline the relationship between HOPE and HRRMP and purposes for which this relationship was created. Section 5 of this Agreement, states in part:

“*Section 5: Authorized Expenditures 5.2* - HRRMP shall submit written requests for distributions which will outline the reasons for the request, the amount of the request, the expected length of needed gap funding and how the distribution will be used by HRRMP and the potential that the Fund may be repaid by HRRMP. The distribution request shall be signed by the majority of the members of HRRMP's board.”

Condition: During our review of expenditures of the Special Revenue Fund (PAN), in which the HRRMP operates, the following conditions were noted:

1. In FY 2014, we noted seven (7) instances of financing arrangements without evidence of majority members of the HRRMP signing the distribution request:

	Date	Check #	Financing received From HOPE:		Financing Provided to HOPE:		Nature of Expense	Questioned Cost:
			Amount Borrowed from HOPE	# of Days the Loan is Outstanding	Amounts Loaned to HOPE	# of Days the Loan is Outstanding		
1	12/9/2013	5338	\$ 8,000.00	39, 26	N/A	N/A	Fund payroll expenditures	\$ -
2	2/17/2014	5487	\$ 5,000.00	25	N/A	N/A	Fund payroll expenditures	\$ -
3	2/20/2014	5513	\$ 2,000.00	13	N/A	N/A	Fund payroll expenditures and related taxes	\$ -
4	5/21/2014	5680	\$ 5,000.00	8	N/A	N/A	Fund payroll expenditures	\$ -
5	8/21/2014	5889	\$ 12,000.00	31, 23	N/A	N/A	Fund payroll expenditures and related obligations	\$ -
6	8/11/2014	5866	N/A	N/A	\$ 1,500.00	Still unpaid	Loan to HOPE for its payroll obligations	\$ 1,500.00
7	8/21/2014	5892	N/A	N/A	\$ 3,500.00	319	Loan to HOPE for its payroll obligations	\$ -
Total:			\$ 32,000.00		\$ 5,000.00			\$ 1,500.00

Hatohebei State Government
 Schedule of Findings and Responses
 Years Ended September 30, 2015 and 2014

Finding Number: 005 (Continued)

2. In FY 2014, Check #5866 for \$1,500 was loaned to HOPE to cover its payroll obligations, but there was no evidence of repayment back to the State and HRRMP, as such, this entire amount is questioned.
3. In FY 2015, we noted two (2) instances of financing arrangements without evidence of majority members of the HRRMP signing the distribution request:

		Financing received From HOPE:			Financing Provided to HOPE:				
	Date	Check #	Amount Borrowed from HOPE	# of Days the Loan is Outstanding	Amounts Loaned to HOPE	# of Days the Loan is Outstanding	Nature of Expense	Questioned Cost:	
1	11/13/2014	6043	\$ 5,000.00	15	N/A	N/A	Fund payroll expenditures	\$ -	
2	1/30/2015	6181	N/A	N/A	\$ 1,755.66	5	Loan to HOPE for its obligations	\$ -	
Total:			\$ 5,000.00		\$ 1,755.66			\$ -	

Cause: The cause for the above condition was a result of weak internal controls to ensure that required approval are obtained and documented before disbursement of funds.

Effect: The effect of the above conditions is noncompliance with established agreements in place.

Recommendation:

OPA recommends that the Board and management of the HRRMP, including the Governor and finance officers, establish specific policies that regulate financing arrangements that take place between HRRMP and outside entities, to protect the interests of the HRRMP, and further safeguard HRRMP funds from being disbursed without proper notice and communication. Such policies may consider maximum number of days outstanding, finance charges, tracking and monitoring procedures, among others.

We further recommend the State government, its management and the HRRMP Board to clearly spell out policies for approval of funds for financing purposes and to ensure that appropriate segregation of duties for approval of funds is achieved.

Auditee Response and Corrective Action Plan: *We concur to the auditor's finding, and ensure that corrective action will be taken and recommendation will be strictly implemented. The Office of the Governor in coordination with the Helen Reef Management and Board will establish policies and regulation on financing arrangements through a State Public Law. Moreover, we will not enter into financing arrangements as much as possible.*

Hatohebei State Government
Schedule of Findings and Responses
Years Ended September 30, 2015 and 2014

Finding Number: 005 (Continued)

On Finding 005, 2: The questioned amount of \$1,500 is already paid off by Official Receipt numbers 8555 and 8575 dated September 08, 2014 and July 0, 2015 respectively. The payment was made in an installment basis with the other loan amount of \$3,500.00.

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

OPA Response: The auditor verified evidence of repayment of the \$1,500 amount, and notes that the State provided adequate evidence of repayment, as such; entire amount of \$1,500 questioned cost is deemed resolved.



**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.**

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