



**OFFICE OF THE PUBLIC AUDITOR  
REPUBLIC OF PALAU**

**PERFORMANCE AUDIT REPORT**

ON



**NGEREMLENGUI STATE GOVERNMENT**

REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2007 THROUGH SEPTEMBER 30, 2015

*Performed by the Office of the Public Auditor*

NGUI08-15-P05\*opa00

REPUBLIC OF PALAU



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](mailto:admin@palauopa.org)  
Website: [www.palauopa.org](http://www.palauopa.org)

May 18, 2020  
*Serial#: opa20-063au*

Honorable Mary Frances I. Remengesau  
Governor  
Ngeremlengui State Government  
Office of the Governor  
Ngeremlengui, Republic of Palau

**Subject: Final Report on the Performance Audit of Ngeremlengui State Government for the period October 1, 2007 through September 30, 2015.**

Dear Governor Remengesau:

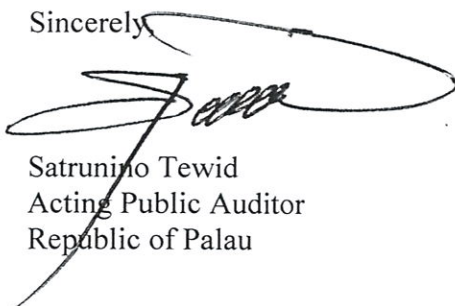
This report presents the result of our performance audit of Ngeremlengui State Government for the period from October 1, 2007 through September 30, 2015.

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 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 Preciding Officers of the Olbiil Era Kelulau for their information and disposition.

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

Sincerely,



Satrunino Tewid  
Acting Public Auditor  
Republic of Palau

# **Ngeremlengui State Government Republic of Palau**

Period from October 1, 2007 to September 30, 2015 (FY 2008-2015)

## **Table of Contents**

<i>Performance Audit Report of Ngeremlengui State Government</i>		<i>Page No.</i>
I.	Executive Summary	1-3
II.	Background	4
III.	Objective, Scope and Methodology	5
IV.	Prior Audit Coverage	5
V.	Detailed Findings:	
1.	Fund Availability Analysis (FAA)	6
2.	Failure to Enter into Public Record Sufficient Information for a Proper Audit	7-9
3.	Cash Receipts-Revenues	9-11
4.	Cash Disbursements	11-12
5.	Competitive Bidding	13
6.	Earmarked Capital Improvement Project (CIP)	13-15
7.	Accounts Receivable	15-16
8.	Accounts Payable	16-18
9.	Fixed Assets	18-20
10.	Land Lease Program	20-22
11.	Payroll System	22-24
12.	Bank Reconciliation	24-25
13.	Performance Reports Act 2001	25
14.	Transition of Administration	25-26
VI.	Conclusion	27
VII.	Appendix I - Question Costs for Missing Accounts Payable Voucher (APV)/Supporting Documents	28-31
	Appendix II - Question Costs for Lack of Competitive Bidding	32





Office of the Public Auditor

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

**EXECUTIVE SUMMARY**

May 18, 2020

Honorable Mary Frances Ilolang Remengesau  
Governor  
Ngeremlengui State Government

Dear Governor Remengesau:

This audit report presents the result of our performance audit of Ngeremlengui State Government for the eight (8)-year period ended September 30, 2015. Specifically, the audit covered the period from October 1, 2007 through September 30, 2015.

The objective of the audit was to determine whether:

- Expenditures were incurred in accordance with applicable National and State Government laws and regulations, including competitive bidding,
- Cash receipts were properly deposited into the State Treasury,
- Expenditures and cash receipts were supported by adequate supporting documentation,
- Earmarked CIP grants were expended for purposes for which they were earmarked, and
- State has established proper internal controls to ensure the proper safeguarding of its fixed assets and transactions were properly recorded.

The audit revealed a number of problems and deficiencies noted below in the administration of Ngeremlengui State funds for which records and documents were not provided for our examination. We believe these problems and deficiencies should be brought to the attention of management for appropriate corrective action. We also propose recommendations, which, we believe, if implemented, will correct these problems/deficiencies.

**First**, we found that the State's unified budget for fiscal years 2008 through 2015, with the exception of Fiscal Year 2013, did not accompany a Fund Availability Analysis (FAA) identifying the sources of revenues available for authorization and appropriation. Though fiscal year 2013 was provided a FAA, the FAA was a separate worksheet and not part of the unified budget, a budget which we identified a \$50,100 revenue deficiency not justified in the FAA.



**Second**, the Ngeremlengui State Government failed to enter into its accounting records sufficient documentation to facilitate a proper audit in following areas:

- **Cash Receipts:** \$323,449.44 of revenues were missing cash receipts report along with supporting documents such as cash receipts, deposit tickets, bank statements, etc. Moreover, \$31,930.88 of revenues collected were not timely deposited into State bank account(s),
- **Cash Disbursements:** \$218,080.08 of cash disbursements were missing proper supporting documents to justify their expenditures and proper recording,
- **Cash Disbursements for Earmarked CIP:** No accounting system to support the recording (classification) of expenditures for earmarked CIP and supporting documents to evidence that funds were expended for their intended purpose,
- **Accounts Receivable:** No accounting system or records to support monies owed to the State,
- **Accounts Payable:** No accounting system or records to support accounts payable and related obligations,
- **Fixed Assets:** No accounting system or records to support fixed asset purchases and disposals,
- **Land Lease:** No accounting system or records to support land leases billings and collections,
- **Payroll:** No records of employee personnel actions, payroll allotment deductions, evaluations and such other pertinent records to ensure personnel matters are properly authorized and documented, and
- **PAN Records:** No records and documents on the Protected Area Network (PAN) fund were provided for our review, which fund was established as separate account outside of the general fund of the State. Hence, we were unable to perform an audit of the fund.

**Third**, we found that the State did not perform any bank reconciliations during the audit period from October 1, 2007 thru September 30, 2015.

**Fourth**, Ngeremlengui State Government for the eight (8) fiscal year period ended September 30, 2015, did not comply with RPPL No. 6-11 by submitting performance reports as required by law.

**Fifth**, we noted that there was no transition process following the State election in 2015 to facilitate the proper inventory and transfer of records, files, equipment and other properties from the outgoing Governor to the incoming Governor.

## **Recommendations**

To correct the above deficiencies, we recommend that Ngeremlengui State Government implement the following recommendations:

**First**, we recommend the Governor introduce as a policy measure the preparation and submission of a Fund Availability Analysis (FAA) as an integral part of formulating the State's annual unified budget and other budgetary measures.

Office of the Public Auditor

**Second**, we recommend the Governor to hire the appropriate finance staff with basic accounting skills and seek training to improve those skills to enable the State to strengthen its accounting system and records management functions.

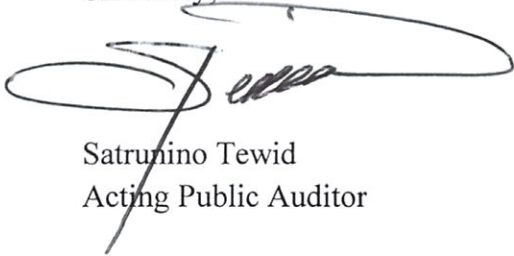
**Third**, we recommend the Governor direct the State Treasurer to perform monthly bank reconciliation to strengthen controls over cash activities and accuracy of bank account balances.

**Fourth**, we recommend the Governor to comply with the performance report reporting requirements of RPPL No. 6-11 and related amendments.

**Fifth**, we recommend the Governor introduce a State policy requiring a formal transition of administration process wherein an inventory of State records and properties is prepared and turned over by the outgoing Governor to the incoming Governor.

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

Sincerely,

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

Saturnino Tewid  
Acting Public Auditor



**PERFORMANCE AUDIT**  
**NGEREMLENGUI STATE GOVERNMENT**  
**OCTOBER 1, 2007 THRU SEPTEMBER 30, 2015 (FY 2008-2015)**

---

**BACKGROUND**

Ngeremlengui State is one of the sixteen (16) States in the Republic of Palau. The State's Constitution, ratified on August 29, 1983, established the constitutional government of the State of Ngeremlengui. The Constitution established the primary branches of the government consisting of the Executive (Office of the Governor), the Traditional Leaders, and the Legislature.

The Executive power of the state government is vested in the Governor who is the chief executive of the State. The Governor shall be elected in a state-wide election for a term of four years. The Governor shall have the power to enforce the laws of the State, to appoint state officers with the advice and consent of the Olbiil Era Ngeremlengui, to spend money and collect taxes pursuant to law, to propose the State annual budget, among other powers and duties.

The Traditional Leaders are called Rubekul a Ngeremlengui composed of four (4) Uong, the highest ranking chiefs in Ngeremlengui; and the four (4) hamlets chiefs of Ngeremlengui. It shall be the duty of the traditional leaders to safeguard and promote the traditional ways of life of the people of Ngeremlengui and to advise the Governor and the Ngeremlengui State Legislature on matters relating to and affecting customs and traditions.

The legislative power of the State of Ngeremlengui is vested in the Olbiil Era Ngeremlengui which shall consist of one house. The members are popularly elected for a term of four (4) years as follows: (a) one member to be elected from each respective hamlets; and (b) six (6) members to be popularly elected at large. The legislature shall have the following powers and duties: to enact tax laws, to borrow money to finance public projects or settle public debts, to ratify agreements between the state and national government, to approve gubernatorial appointments, to provide for the general welfare, peace and security, among other powers and duties.

Compensation for the Governor and State Officers, Council of Chiefs, and the State Legislators shall be established by law, except members of the State Legislature shall not increase their compensation during their term of office.

Article XI, Section 1, of the State's Constitution states in part: "There shall be a Ngeremlengui State Treasury. All revenues derived from taxes, traditions or other sources shall be deposited in the State Treasury. No funds shall be withdrawn from the State Treasury except by law".



## OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit was to determine whether:

- expenditures were incurred in accordance with applicable National and State Government laws and regulations, including competitive bidding,
- cash receipts were properly deposited into the state treasury,
- expenditures and cash receipts were supported by adequate supporting documentation,
- earmarked CIP grants were expended for purposes for which they were earmarked, and
- the state has established proper internal controls to ensure proper safeguarding of its properties and transactions were properly recorded.

The scope of the audit covered the period beginning on October 1, 2007 through September 30, 2015.

As this is a performance audit, we did not conduct audit procedures to assess the fairness of financial statements of Ngeremlengui State or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States*. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our audit objective we reviewed accounting records and reports maintained at Ngeremlengui State Office and the Bureau of National Treasury. The review included examining bank reconciliations, earmarked CIP funds, budgetary laws, accounts receivable and accounts payable, fixed assets, cash receipts, and non-payroll and payroll expenditures. In performing the review, we conducted specific 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 as well as on-site inspection of the State's fixed assets. We also interviewed appropriate state officials and reviewed relevant accounting records and reports maintained at the Bureau of National Treasury.

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

## PRIOR AUDIT COVERAGE

The latest audit report of Ngeremlengui State is dated December 18, 2009 covering fiscal years 2002 to 2007. Since then, there has been no other audit, attestation, or related studies conducted on the State Government.

## FINDINGS AND RECOMMENDATIONS

### **Finding 1: Fund Availability Analysis (FAA)**

---

Article XI, Section 1 of the State's Constitution states in part, "there shall be Ngeremlengui State Treasury. All revenues derived from taxes, traditions or other sources shall be deposited in the State Treasury. No funds shall be withdrawn from the State Treasury except by law". In addition, sound budgetary processes and, to implement the intent of Section 1 above, dictate that all revenue sources and amounts should be identified as basis to establish a ceiling by which funds are made available for authorization and appropriation in a State budget act. This process is carried out by conducting a Fund Availability Analysis (FAA) to identify all sources of revenues available for authorization and appropriation and should be made an integral part of the budget process.

During the audit, we found that the State's Unified Budgets for Fiscal Years 2008-2012 and Fiscal Years 2014-2015 did not accompany a FAA identifying the sources of revenues available for authorization and appropriation. In addition, although the Fiscal Year 2013 Unified Budget (NPL No. 8-11) accompanied an FAA authorizing \$466,000 (ceiling) for appropriation, \$516,100 was appropriated for obligation and expenditure, exceeding authorized ceiling by \$50,100. Furthermore, there was insufficient documentation to show the source of revenue to make up the shortfall.

The cause of the above condition is that the State does not have a policy requiring that an FAA be an integral part of the budget formulating process.

As a result, we were unable to determine whether Ngeremlengui State Unified Budgets for Fiscal Years 2008-2012 and 2014 and 2015 were balanced budgets where total estimated revenues equaled to or were more than estimated expenditures. In addition, without an FAA as part of the budget process, we were unable to verify the reasonableness of revenue estimates and, more importantly, whether the State operated within its means.

### **Recommendation**

We recommend the Governor introduce a policy to require that a Fund Availability Analysis (FAA) be made an integral part of the budget preparation process. The FAA is a critical component of the budget preparation process as it identifies all revenue sources and amounts that are available for authorization and appropriation. The revenue authorization establishes a ceiling for appropriations to ensure the State sets budget authority within the limits of anticipated revenue collections to avoid budget deficits.

*NSG Response: Governor will request amendment to NPL9-12, Submission of State Unified Budget Act, to require FAA as part of Unified Budget Act. As a matter of practice, since FY2016, FAA has been prepared each year and submitted together with the Unified Budget to Olbiil ra Ngeremlengui.*



**Finding No. 2: Failure to Enter into Public Record Sufficient Information for a Proper Audit**

---

A sound system of internal control dictates that proper accounting records be maintained and stored securely to ensure that revenues and expenditures of public funds are properly substantiated and that funds are administered pursuant to State budget and other applicable laws. Further, 40 PNCA § 280 states:

“(a) All agencies shall enter into public record sufficient information for a proper audit, and make the same available to the Public Auditor at his request.

(b) Any person who willfully fails or refuses to furnish or any book, record, paper, document, data, or sufficient information necessary to a proper audit which the Public Auditor is authorized by law to perform shall be guilty of an offence, punishable by not more than three months imprisonment or a fine of \$1,000.00 or both.”

Our audit disclosed that during the period fiscal years 2008-2015 (October 1, 2007-September 30, 2015), Ngeremlengui State failed to enter into its accounting records sufficient documentation to facilitate a proper audit. We found that records were deficient or missing to support activities in the following areas:

- **Cash Receipts:** \$323,449 of revenues lacked source documents, cash receipts, bank deposit slips and cash receipts reports to support the integrity of collections. These documents are essential in ensuring that collections contain the proper documents to support their recording and classification, reconciliation, deposit and monitoring of cash activities. Please refer to Finding No. 3, pages 9-11, for details,
- **Cash Disbursements:** \$218,080.08 of cash disbursements were without proper supporting documents such as invoices and other source documents to support the proper recording and classification of expenditures, Accounts Payable Vouchers (APV) and related supporting documents to evidence proper approval, certification of funds, account classification, and documents to evidence competitive bidding. Specifically, of the \$218,080.08, \$70,775.71 were without proper supporting documents such as invoices and other source documents, \$58,083.87 were missing Accounts Payable Vouchers (APV) files with supporting documents, and \$89,220.50 were without documents to evidence competitive bidding. Please refer to Findings Nos. 4 and 5, pages 11 and 13 respectively, for details,
- **Cash Disbursements for Earmarked CIP:** No accounting records and system to support the recording and classification of earmarked CIP transactions. Please refer to Finding No. 6, pages 13-15, for details,
- **Accounts Receivable:** No accounting records and system to support the recording of monies owed to the State. Please refer to Finding No. 7, pages 15-16, for details,



- **Accounts Payable:** No accounting records and system to support the recording of accounts payable and related obligations. Please refer to Finding No. 8, pages 16-18, for details,
- **Fixed Assets:** No accounting records and system to support the recording of fixed asset purchases and disposals. Please refer to Finding No. 9, pages 18-20, for details,
- **Land Leases:** No accounting records and system to support the recording of land leases billings and collections. Please refer to Finding No. 10, pages 20-22, for details,
- **Payroll:** No records to support employee allotment deductions and other pertinent records to ensure employee payroll records are accurate and complete. Please refer to Finding No. 11, pages 22-23, for details and
- **PAN Records:** The State did not provide the records and documents surrounding the activities, revenues and expenditures, of the Protected Area Network (PAN) fund, which was established as separate account outside of the general fund of the State. Hence, we were unable to perform an audit of the fund.

The cause of the above condition is lack of management supervision and monitoring to ensure that essential accounting functions are carried out and operations reports are produced to support management decision making processes. In addition, lack of training to ensure that Treasury Department staffs have the basic skills to carry out the accounting functions contributed to the lax environment.

As a result, State revenues and expenditures, accounts payable and receivable, fixed assets, land leases and other financial activities lacked underlying documents to substantiate the recording of activities. Hence, the State was unable to prepare basic financial reports such as budget verses expenditures and other management reports that are critical to support management decision making. In addition, the OPA was unable to audit the Protected Area Network (PAN) Fund as the State did not provide the Fund's records and documents for our examination.

### **Recommendation**

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to facilitate strengthening of the state's accounting system and records management functions. As part of the record-keeping system, it is essential that the State Treasury maintains records to support revenues and expenditures, including PAN activities, accounts payable and receivable, fixed assets, land leases and related financial activities. Further, the Governor or his/her designee should monitor the accounting functions to ensure that they are properly and timely carried out. Finally, we recommend the Office of the Attorney General or the Special Prosecutor further pursue this matter and take appropriate action for failure of responsible official(s) to comply with 40 PNCA Section 280.

**NSG's Response:** *The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

- 1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*
- 2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*
- 3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

### **Finding No. 3: Cash Receipts-Revenues**

---

A sound system of internal control requires a system of cash receipts to support the recording, processing and reporting cash receipts. The system, at a minimum, should include the following:

- Issuance of cash receipts to evidence revenue collections
- Recording and classification of cash receipts,
- Deposit of cash receipts,



Office of the Public Auditor

- Reconciliation of cash receipts, and
- Filing of cash receipts together with supporting documents.

The audit revealed that \$323,449 of revenue collections were missing supporting documents such as source document of revenue, cash receipts, cash receipts reports and deposit slips.

The cause of the above condition is that the State did not have staff with the basic accounting skills and proper training to implement a system to account for cash receipts. In addition, there was absence of management supervision to ensure these essential accounting functions were properly carried out.

As a result, we were unable to verify the sources (breakdown) for the \$323,449; amounts sourced from Block Grants, Fishing Rights Fees, local revenues and other sources. In addition, we were unable to verify that all revenue collections were properly deposited into the State Treasury. Finally, we were unable to determine if all revenues were timely deposited.

**Recommendation**

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. As part of the record-keeping system, it is essential that the State Treasury maintain records to support revenues collections, reconciliation, processing and reporting. In addition, policies and procedures such as issuance of cash receipts, recording, reconciliation, and deposit are essential to guide the administration of cash receipts.

*NSG's Response: The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

1. *Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*



2. *The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*

3. *In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

#### **Finding 4: Cash Disbursements**

---

A sound system of internal control dictates that disbursement of public funds should contain the proper supporting documents to justify the purpose and amount of expenditures. Accordingly, cash disbursement should contain supporting documents such as a check copy, accounts payable voucher, invoice/receipts and such other documents to justify expenditure of funds and to support their recording and classification in the underlying accounting system. In addition, a records management system should be in place to ensure that these documents are properly filed and secured for easy retrieval and use.

Our audit revealed the following deficiencies in the State's cash disbursement system:

- \$58,083.87 of disbursements were missing files; no invoices, Accounts Payable Voucher and other records to support proper approval, certification of funds, expenditure classification, etc. to justify expenditure of funds. Please refer to Appendix I, pages 28-29, for details,
- \$70,775.71 of disbursements were without proper supporting documents such as invoices, receipts, etc. to justify and support expenditures. Please refer to Appendix II, pages 30-31, for details.

The cause of the above condition is that the State did not have staff with the basic accounting skills and proper training to implement a system to account for cash disbursements. In addition, there was absence of management supervision to ensure these essential accounting functions are properly carried out.

As a result, questions costs of \$128,859.58 exist due to lack of proper supporting documents.

## Recommendation

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. As part of the record-keeping system, it is essential that the State Treasury maintains records to support cash disbursements such as check copy, accounts payable voucher, invoices/receipts and such other relevant supporting documents. These source documents serve as basis for justifying expenditures and their recording and classification in line with State budget.

*NSG's Response: The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

*1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*

*2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*

*3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*



**Finding No. 5: Competitive Bidding**

---

40 PNCA § 625 (b) requires that all procurements by State Governments costing \$5,000 or more shall be subject to competitive bidding.

We found the State Government procured goods and services costing \$5,000 or more without competitive bidding. The State procured professional services, equipment, construction materials and other goods and services without competitive bidding. As a result, we designated these expenditures as Questioned Costs. Please refer to Questioned Costs, Appendix III, page 32, for details.

The cause of the above condition is that State Government procurement officer(s) is (are) not familiar with the ROP procurement Law and Regulations.

As a result, we questioned \$89,220.50 of expenditures incurred during the period fiscal years 2008-2015 due to lack of competitive bidding. The absence of competitive bidding provided no assurance that the State obtained the lowest price and/or best quality product for its money.

**Recommendation**

We recommend the Governor seek training for the State procurement officer(s) responsible for the administration of state procurements. Accordingly, we recommend the Governor seek assistance from the National Government to provide training to the State procurement officers, especially in light of the recent amendments to the ROP Procurement Law and Regulations. The State Procurement Officer(s) should obtain the appropriate training on the ROP Procurement Law and Regulations to become familiar with the procurement requirements, e.g., competitive bidding and price quotations, to ensure the proper administration of state procurements and to avoid questioned costs in the future.

**Finding 6: Earmarked Capital Improvement Project (CIP)**

---

A sound system of internal control dictates that proper supporting documents such as invoices and other source documents are obtained and filed securely to support the expenditure and recording of earmarked Capital Improvement Project funds appropriated by the Olbiil Era Kelulau (OEK) for a specific purpose.

Records show that the State received appropriations from the Olbiil Era Kelulau, \$5,000 each for fiscal year 2010 and 2011, earmarked for the operation of Ngeremlengui State Public Lands Authority. The audit revealed however that the State did not maintain records to show how the earmarked funds were expended and whether the funds were expended in accordance with the intent of the appropriation laws.



The cause of the above problem is that the State Government did not have skilled accounting staff knowledgeable on how to record, account and document expenditures associated with earmarked CIP funds.

As a result, due to lack of records, the State is unable to demonstrate that earmarked CIP funds, \$10,000, were expended in accordance with the intent of appropriation laws.

### **Recommendation**

We recommend that, in the future, if the State receives earmarked appropriations from the OEK for specific programs, the Governor set up special accounts to capture and record the revenues and expenditures of the programs and direct the State Treasury to ensure that all documents supporting such revenues and expenditures are obtained and securely filed.

***NSG's Response:** The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

- 1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*
- 2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*
- 3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

### **Finding No. 7: Accounts Receivable**

---

A sound system of recordkeeping dictates that the State Government should establish an accounting system to record, process and report accounts receivable to support amounts reported in the financial statements. In addition, policies and procedures are essential to administer and manage accounts receivable.

Ngeremlengui State's revenue sources include block grants, land leases and other revenues that are susceptible to accrual; that is postponement of revenues collections create accounts receivable, which the State should have a system in place to record, process and report. For example, we found accounts receivable totaling \$7,669 that should have been recorded as of September 30, 2015. However, because the State did not have a system to record the receivable, accounts receivable and related revenues would be understated at September 30, 2015. In addition, the State did not have policies and procedures for managing and administering accounts receivable, e.g., sending billings, follow-up notices, interest charges, etc.

The cause of the above condition is that the State did not have staff with basic bookkeeping skills and proper training to implement an accounting system that includes a module for recording, processing and reporting accounts receivable.

Without a system to record and monitor accounts receivable, the State is unable to record, process and report accounts receivable. This will affect measuring and recording revenues related to receivables. In addition, the absence of an accounts receivable accounting system leads to ineffective monitoring, reconciliation and collection of accounts receivable. As a result, we were unable to determine the accounts receivable balance at September 30, 2015.

### **Recommendation**

We recommend the Governor hire appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. As part of the record-keeping system, it is essential that the State Treasury maintain records to support the recording, processing and reporting accounts receivable. Finally, to augment the accounts receivable system, the Governor should develop policies and procedures to manage and administer accounts receivable.

**NSG's Response:** *The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in*



**Office of the Public Auditor**

*Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

*1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*

*2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*

*3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

**Finding No. 8: Accounts Payable**

---

A sound system of internal control dictates that the State Government should establish an accounts payable accounting system to record, process and report accounts payable to support amounts reported in the financial statements. In addition, policies and procedures are essential to manage and administer accounts payable.

The audit revealed the State did not have a system to record, process and report accounts payable during the period fiscal years 2008 through 2015. We found that although the state made purchases on credit, creating accounts payable, there was no reliable system in place to record, process and report accounts payable. For example, our tests of records revealed \$1,366 of accounts payable that were



unrecorded as of September 30, 2015. Thus, accounts payable and related expenditures were understated as of September 30, 2015. In addition, the State did not have policies and procedures for managing and administering accounts payable, e.g., managing interest charges, aging accounts payables, filing unpaid invoices, etc.

The cause of the above condition is that the State did not have staff with basic bookkeeping skills and proper training to implement an accounting system that includes an accounts payable module.

The effect of the above condition is that the State's accounts payable and related expenditures maybe understated for the period ended September 30, 2015. Further, accounts payable and related information needed for budgetary deliberations may not be readily available to present accurate accounts payable and related expenditures. Finally, the State is not able to effectively and efficiently manage and monitor its accounts payable and other obligations.

### **Recommendation**

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. As part of the record-keeping system, it is essential that the State Treasury maintain records to support the recording, processing and reporting accounts payable. Finally, to augment the accounts payable system, the Governor should develop policies and procedures to manage and administer accounts payable.

***NSG's Response:** The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

*1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*

*2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance*

*Officers have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*

*3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

#### **Finding No. 9: Fixed Assets**

---

A fixed asset accounting system is essential to account for, monitor, and safeguard fixed assets. A detailed fixed asset accounting system is essential to properly account for the acquisition, depreciation and disposal of fixed assets. Furthermore, policies and procedures are necessary to identify State properties, capitalize fixed assets, conduct periodic physical inventory and to safeguard them against unauthorized use or disposal.

The audit revealed that the State has not developed a system to record the acquisition, depreciation and disposal of fixed assets, including donated equipment. Specifically, the State is not recording cost of fixed assets and keeping track of their annual depreciation. In addition, the State has not developed policies and procedures regarding treatment of its fixed assets, e.g., capitalization of fixed assets, methodology for calculating depreciation, inventory, survey and disposal of fixed assets, etc. For example, we found that the State purchased three (3) outboard motorboats and acquired one by donation. We were able to physically verify the existence of the donated boat and verified the sale and deposit of the proceeds from the sale of another boat; however, the State was unable to locate the other two boats or provide documentation on their disposition.

The State has not established a system to account for fixed asset.

The State is unable to effectively account for, monitor, and safeguard its fixed assets. Information such as equipment cost, method of depreciation, years of service, location, and condition is not readily available for management's decision making.



## Recommendation

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. We further recommend the Governor direct the State Treasurer to establish a system to keep track of State's fixed assets. The fixed asset accounting system should include the following:

- Procedures to record fixed asset acquisitions, which includes the acquisition date, description, cost, vendor, etc.,
- Policies establishing the threshold for capitalization of fixed assets,
- Procedures for calculating fixed asset depreciation,
- Procedures to for surveying and disposing fixed assets, and
- Procedures to identify, monitor, and conduct annual inventory of fixed assets to determine their condition and location.

Finally, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the circumstances surrounding the missing two outboard motorboats and take appropriate action for any unauthorized disposal, taking or misappropriation of state properties.

***NSG's Response:** The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

*1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*

*2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*

3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.

The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.

### **Finding No. 10: Land Lease Program**

---

A sound system of internal control dictates that a system of record keeping should be established to record, process and report land lease activities, which should include, at a minimum, the following:

- A filing system for filing duly approved Lease Agreements together with relevant maps and related documents concerning the lease,
- Subsidiary ledgers to record and keep track of lease billings and collections,
- A process for reconciling lease receivables, payments and deposit, and
- Policies and procedures for the administration of land lease program in accordance with the program rules and regulations.

The audit revealed that the State has not established a system to facilitate effective administration of the Land Lease Program. As the program has the potential to be a major source of revenue for the State, it is critical that the State establish a system and processes for the proper administration of the program. We found that leaseholders were not making the required lease payments and the State does not maintain a system (subsidiary ledgers) to record lease billings and collections. Consequently, we were unable to determine the amount of lease receivables that were in arrears and the revenues associated with the land lease program. In addition, the State does not have policies and procedures for the administration of the land lease program, which are critical to providing guidelines to employees to ensure that the program is operated effectively and efficiently in accordance with the Land Lease Program rules and regulations.

This condition is caused by lack of skilled staff and training in administering land lease programs. In addition, the absence of policies and procedures further complicates the problem.

As a result, leaseholder files are not uniformly maintained, billings and follow up notices are not prepared and issued, leaseholder subsidiary ledgers are not maintained; thus, rendering the State ineffective in the administration of the land lease program. Consequently, we were unable to determine the land lease receivables as of September 30, 2015 and associated revenues.



## Recommendation

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. We further recommend the State establish a system of record-keeping to include the following components:

- A filing system for filing duly approved Lease Agreements together with maps to leases,
- Subsidiary ledgers to record and keep track of lease billings and collections,
- A process for reconciling lease receivables, payments and deposit,
- Policies and procedures for the administration of land lease program in accordance with the program rules and regulations, and
- The State seeks training for its employees on the administration of land lease programs.

*NSG's Response: The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

*1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*

*2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*

*3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

### **Finding No. 11: Payroll System**

---

A sound system of internal control dictates that the State maintains personnel records for each employee and reconcile those records, most important of which is the employee Personnel Action Form (PAF), with those maintained by the Bureau of National Treasury (ROP) to ensure that the National Treasury has in its records the properly approved PAF with which to process State Payroll. In addition, the State should on a bi-weekly basis reconcile its payroll expenditures to the payroll register generated by the Bureau of National Treasury, for those payroll administered by National Treasury, to ensure the accuracy of payroll expenditures.

Our audit revealed that although the State has established a personnel system for State employees, the State was not reconciling its records, especially employees' Personnel Action Forms, with those used by National Treasury to process State payroll to ensure consistency and accuracy. In addition, the State was not reconciling its payroll expenditures on a bi-weekly basis to the payroll register generated by National Treasury to ensure the accuracy of payroll expenditures.

This condition is caused by lack of skilled staff and training in personnel administration. In particular, the importance of maintaining accurate and up-to-date personnel records, such as employees' Personnel Action Forms, with which to reconcile to those used by National Treasury to process State payroll.

As a result, for State payroll processed through National Treasury, we found the following weaknesses in our testing of State's payroll records:

- Two (2) employees received higher pay rate than the rate authorized in their Personnel Action Forms (PAF). For example, in the first case one employee's authorized bi-weekly pay per the PAF was \$220; however, we found that actual pay was \$249 (check # 1581769). In the second case, another employee's pay rate was \$500 bi-weekly but actual pay was \$510.40 (check # 1619271),
- 36 payroll transactions were missing payroll allotment forms,
- 4 payroll transactions were missing the appropriate PAF,
- 14 employees were missing Personnel Files, and
- 24 payroll transactions were missing timesheets.



In addition, the absence of bi-weekly payroll reconciliation can lead to errors or other irregularities by the Bureau of National Treasury without timely detection, which can lead to overcharging of payroll expenditures on State's payroll allotments reserved to fund state's payroll at National Treasury.

### **Recommendation**

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to strengthen the state's record-keeping functions. We further recommend that the Governor direct the State Treasury to reconcile its payroll records, Personnel Action Forms in particular, with those used by National Treasury to process State payroll to ensure consistency and accuracy. Finally, we recommend the Governor also direct the State Treasury to perform bi-weekly review and reconciliation of the National Treasury's payroll register to ensure the accuracy of state payroll expenditures.

***NSG's Response:** The State's treasurer has been in office since January of 2016. She is a young Palauan with education and relevant work experience: a graduate of PC C's two-year program in Office Administration; experience in the U.S. with small finance services; as well as having served as a Clerk at Ngatpang State Legislature.*

*Various trainings in capacity building have been made a part of the Treasurer's responsibilities to ensure that the Ngeremlengui State has a systemized finance management process that meets reporting requirements. They are:*

- 1. Early in 2016, the Office of the Public Auditor (OPA) conducted training with both the Treasurer and the State's PAN Administrative Finance Officer on the use of QuickBooks to automate the recording of transactions so as to eventually enable the State to produce financial statements. The RPPL No. 9-9 mandates State Governments to undergo a financial audit on an annual basis and the QuickBooks is the basis to meet this requirement;*
- 2. The UNDP Strengthening Local Governance Project with Bureau of Domestic Affairs, Ministry of State started in 2016 and will end this 2020. Key project partners include OPA and Ministry of Finance. As a participating project State, the Treasurer, Administrative Officer, and PAN Finance Officer have been involved in reviews and discussions leading up to a draft State Finance Operating Procedures. Further QuickBooks training on accounting budget was provided in 2019 at PCC and conducted by SBDC;*
- 3. In preparation for the FY2016 and FY2017, the first State financial audit is now being undertaken by Deloitte & Touche. OPA and MOF in February, 2019, provided technical assistance to the Treasurer to prepare a Trial Balance and a Statement of Revenues and Expenditures for each fiscal year.*

*The State's FY2020 budget has \$10,000 for audit of FY2018, which talks have begun with OPA to set and schedule.*

### **Finding No. 12: Bank Reconciliation**

---

Bank Reconciliation is a critical function of the State's internal control system to ensure that bank service charges, errors, and other reconciling items are detected and adjusted timely to agree the cash balance per book to bank balance. This function should be performed on a monthly basis to ensure that state savings and checking accounts are properly monitored to detect errors or other irregularities that require timely adjustments. In addition, inactive accounts should be identified and consolidated with other active State accounts to avoid unnecessary bank services charges.

The audit revealed that the state did not perform any bank reconciliation of its bank accounts during the period fiscal years 2008 through 2015. We found that the State was operating six (6) bank accounts, two of which had little or no activity while incurring unnecessary bank charges, with no documentation to show that the state monitored the activities of the accounts or performed any bank reconciliation. In addition, we found that documentation surrounding the bank accounts, e.g., monthly bank statements, were not maintained or filed in an orderly fashion to support monitoring and reconciliation of the accounts.

The cause of the above condition is that the State did not have staff with adequate accounting skills to perform bank reconciliations and monitoring of State's bank accounts.

As a result, the State unnecessarily incurred bank service charges of \$1,255.92. In addition, the State was unable to show bank reconciliations to agree the balances of its savings and checking account balances with those of the bank.

### **Recommendation**

We recommend the Governor hire the appropriate staff with basic accounting skills and seek training to upgrade those skills to facilitate strengthening of the state's record-keeping functions. As part of the recordkeeping system, the Governor should direct the State Treasury to perform monthly bank reconciliation on all State bank accounts to agree the balances per the state records to the bank balances. Finally, the State should only maintain the essential number of bank accounts to service its banking needs and consolidate inactive (those with minimal activities) with active accounts to minimize bank service charges, and therewith lessen the burden on State Treasury staff to perform bank reconciliations.



*NSG's Response:* There are currently only two active State bank accounts; 1) Bank of Hawaii account for all State Operations; 2) Bank of Guam account for PAN site operations created separately by Olbiil resolution no. 8-17-4. The BoH account is reconciled monthly by the State Treasurer, while the PAN Site BoG account is also reconciled monthly by the PAN Site Administrative and Finance Officer.

### **Finding 13: Performance Report Act 2001**

---

The Republic of Palau Public Law (RPPL) No. 6-11, Section 371, requires each agency to submit performance reports to the OPA no later than April 1<sup>st</sup> of each year. On May 18, 2005, the RPPL No. 7-7 amended RPPL No. 6-11, Section 371, by requiring that performance reports from each agency shall be submitted no later than April 15<sup>th</sup> of each year.

Based on OPA records, Ngeremelengui State Government did not submit any performance reports as required for any of the fiscal years 2008-2015. Thus, the Governor failed to comply with RPPL No. 6-11 by failing to prepare and submit the required reports.

The cause of the above condition is either Ngeremlengui State is not aware of the requirements of RPPL No. 6-11, performance reporting, or the State does not have the staff with the basic skills to prepare the performance reports.

As a result, the Governor failed to comply with RPPL No. 7-7 by failing to submit the required performance reports to the Office of the Public Auditor for fiscal years 2008-2015.

### **Recommendation**

We recommend the Governor of Ngeremlengui State complies with the reporting requirements of RPPL No. 6-11 and related amendments.

*NSG's Response:* Governor is now compliant with this requirement with submittal of the annual performance report done on a timely basis every year since FY2016. An exception is the current FY2020, wherein due to COVID19, a call for States' reports was put on hold by the MOF.

### **Finding 14: Transition of Administrations**

---

A structured transition process is critical to facilitate the proper inventory and transfer of State records, files, equipment and other properties from the outgoing to the incoming administration. This transition process is essential in ensuring that the incoming administration has available records and information with which to make informed decisions about the financial position of the Government going forward.

During the audit, we found that there was no structured transition process in the turnover of administration following the State election in 2015. Hence, we noted that there was no formal transition process whereby inventory and transfer of records, files, equipment and other property occurred between the outgoing and incoming administrations. The transition process is critical to ensure that the incoming administration has available records and information with which to make informed decisions regarding the financial position of the State, personnel, equipment and other resources going forward.

The cause of the above condition is that the State does not have a policy covering turnover of administrations and the critical transition process that should occur.

As a result, at the conclusion of the term of office of a state governor, he/she is not required or obligated by law or regulation to ensure that a structured transition process occurs to inventory and transfer records, files, equipment and other state properties to the incoming administration.

### **Recommendation**

We recommend the Governor work with the State Legislature to enact a State policy requiring a formal transition process to inventory and transfer state records, files, equipment and other properties from the outgoing and to the incoming administration. This transition process is critical to ensure that the new administration has available records and information with which to make informed decisions regarding the financial condition, personnel, equipment and other pending matters of the state going forward.

*NSG's Response: State financial records of transactions are now automated and systemized in QuickBooks, but the one area still needing good process is how to capture and accurately categorize and physically keep inventory of fixed assets that are from direct State purchases; grant & other funding sources; private donations, and to depreciate and assess remaining useful life. We recognize this recommendation is an essential policy of good governance and it is duly noted and will be acted on this current State administration.*



## CONCLUSION

The performance audit of Ngeremlengui State covering fiscal years 2008-2015 brings to an end the performance audits of State Governments and the transition to financial audits mandated by RPPL No. 9-11.

While the transition to a financial audit will provide vital information regarding the financial operation and condition of the State Government going forward, we must reiterate, as we did during our Performance Audits, the importance of maintaining and continually upgrading the State's accounting and recordkeeping system that serves as a basis for the financial audit. In this performance audit, the Office of the Public Auditor, again, reports repeat internal control weaknesses relating to cash receipts (revenues), cash disbursement (expenditures), accounts receivable, accounts payable, fixed assets, payroll, and other deficiencies relating to the State's accounting system. In addition, we report issues relating to compliance with laws and regulations, e.g., compliance with the Republic of Palau Procurement Law and Regulations. Finally, we were unable to audit the Protected Area Network (PAN) Fund due to the inability of the State to provide the Fund's records and documents.

The State should continue to recruit and hire staff with sufficient skills and provide training to further strengthen those skills in accounting, records management and relevant public laws and regulations, such as the procurement law and regulations. These issues are a prerequisite to a successful financial audit.

As the financial audit has already commenced, the Office of the Public Auditor looks forward to working with the Governor to coordinate the financial audit of the State and to facilitate training to further improve the accounting system and records management of Ngeremlengui State.

## APPENDIX I

## QUESTIONED COSTS (QC) DUE TO MISSING APV DOCUMENTS

Check No.	Check Date	QC	Notes/Comments
101	1/17/2008	\$ 1,417.48	No documents
126	1/24/2008	\$ 899.64	No documents
125	1/24/2008	\$ 1,265.52	No documents
130	1/29/2008	\$ 490.47	No documents
153	2/5/2008	\$ 711.35	No documents
160	2/20/2008	\$ 500.00	No documents
1006	3/5/2008	\$ 180.00	No documents
1012	3/21/2008	\$ 229.36	No documents
1039	5/20/2008	\$ 924.60	No documents
1055	6/16/2008	\$ 240.00	No documents
1071	7/16/2008	\$ 2,200.00	No documents
1084	8/1/2008	\$ 1,038.85	No documents
1097	8/19/2008	\$ 355.39	No documents
1102	8/21/2008	\$ 352.80	No documents
1107	8/27/2008	\$ 1,200.00	No documents
1113	9/8/2008	\$ 500.00	No documents
1117	9/15/2008	\$ 13,010.00	No documents
10	9/15/2008	\$ 484.63	No documents
119	9/24/2008	\$ 300.00	No documents
1120	9/29/2008	\$ 1,909.02	No documents
1126	10/10/2008	\$ 1,142.49	No documents
1134	10/13/2008	\$ 5,901.42	No documents
1139	10/22/2008	\$ 550.00	No documents
1145	11/3/2008	\$ 811.60	No documents
135	11/25/2008	\$ 250.00	No documents
1163	12/17/2008	\$ 347.00	No documents
1169	1/14/2009	\$ 715.00	No documents
1173	1/28/2009	\$ 1,484.51	No documents
175	1/30/2009	\$ 50.00	No documents
176	1/30/2009	\$ 75.00	No documents
186	2/13/2009	\$ 50.00	No documents
1189	2/23/2009	\$ 600.00	No documents
195	2/26/2009	\$ 100.00	No documents
<b>Subtotal:</b>	<b>=</b>	<b>\$ 40,286.13</b>	

**No Documents Means:** Missing Accounts Payable Voucher (APV)/Supporting Documents such as invoices/receipts and other documents to justify expenditures, certification of funds, accounts classification, etc.



## APPENDIX I, Continued

## QUESTIONED COSTS (QC) DUE TO MISSING APV DOCUMENTS

Check No.	Check Date	QC	Notes/Comments
Balance Forward (BF)		\$ 40,286.13	BF fromPage 28
1200	3/13/2009	\$ 211.20	No documents
204	3/13/2009	\$ 50.00	No documents
1196	3/13/2009	\$ 1,050.00	No documents
216	3/26/2009	\$ 75.00	No documents
1201	4/2/2009	\$ 1,490.00	No documents
224	4/9/2009	\$ 50.00	No documents
1203	4/9/2009	\$ 1,490.00	No documents
234	4/24/2009	\$ 963.50	No documents
1212	4/29/2009	\$ 177.50	No documents
1222	5/4/2009	\$ 350.00	No documents
242	5/8/2009	\$ 56.00	No documents
249	5/21/2009	\$ 50.00	No documents
250	5/21/2009	\$ 56.00	No documents
1261	6/10/2009	\$ 882.69	No documents
1268	6/17/2009	\$ 400.00	No documents
1288	6/24/2009	\$ 1,858.47	No documents
1290	6/24/2009	\$ 2,200.00	No documents
1323	7/10/2009	\$ 510.00	No documents
1349	7/31/2009	\$ 288.55	No documents
1387	9/2/2009	\$ 387.83	No documents
1391	9/9/2009	\$ 1,200.00	No documents
1421	9/30/2009	\$ 1,496.00	No documents
T-029	4/18/2012	\$ 1,880.00	No documents
746	11/27/2012	\$ 625.00	No documents
<b>Subtotal No Documents: =</b>		<b>\$ 58,083.87</b>	
<p><b>No Documents Means:</b> Missing Accounts Payable Voucher (APV)/Supporting Documents such as invoices/receipts and other documents to justify expenditures, certification of funds, accounts classification, etc.</p>			

## APPENDIX II

## QUESTIONED COSTS (QC) DUE TO MISSING SUPPORTING DOCUMENTS

Check No.	Check Date	QC	Notes/Comments
1068	7/8/2008	\$ 9,000.00	No supporting documents
118	10/31/2008	\$ 312.00	No supporting documents
134	11/21/2008	\$ 2,000.00	No supporting documents
1369	8/14/2009	\$ 700.00	No supporting documents
345	8/27/2010	\$ 10.00	No supporting documents
358	9/30/2010	\$ 637.61	No supporting documents
1841	11/12/2010	\$ 5,315.00	No supporting Documents
1940	2/3/2011	\$ 253.32	No supporting documents
436	3/14/2011	\$ 20.00	No supporting documents
2109	7/14/2011	\$ 130.00	No supporting documents
2143	8/10/2011	\$ 1,500.00	No supporting documents
563	9/8/2011	\$ 50.00	No supporting documents
2285	12/12/2011	\$ 342.25	No supporting documents
T-020	3/30/2012	\$ 186.66	No supporting documents
2409	4/6/2012	\$ 1,500.00	No supporting documents
T-028	4/16/2012	\$ 580.89	No supporting documents
T-041	4/30/2012	\$ 2,000.00	No supporting documents
607	5/3/2012	\$ 350.00	No supporting documents
2463	5/24/2012	\$ 2,500.00	No supporting documents
644	6/13/2012	\$ 75.00	No supporting documents
673	7/26/2012	\$ 20.00	No supporting documents
2034	8/17/2012	\$ 300.15	No supporting documents
692	8/23/2012	\$ 50.00	No supporting documents
728	10/18/2012	\$ 146.00	No supporting documents
754	11/29/2012	\$ 150.00	No supporting documents
764	12/14/2012	\$ 146.00	No supporting documents
790	1/24/2013	\$ 25.00	No supporting documents
840	3/7/2013	\$ 2,089.71	No supporting documents
2211	3/27/2013	\$ 50.00	No supporting documents
851	4/8/2013	\$ 1,591.94	No supporting documents
<b>Subtotal:</b>	<b>=</b>	<b>\$ 32,031.53</b>	
<p><b>No Supporting Documents Means:</b> Missing Supporting Documents such as invoices/receipts and other documents to justify expenditures.</p>			



## APPENDIX II, Continued

## QUESTIONED COSTS (QC) DUE TO MISSING SUPPORTING DOCUMENTS

Check No.	Check Date	QC	Notes/Comments
Balance Forward (BF)		\$ 32,031.53	BF from page 30
870	5/2/2013	\$ 50.00	No supporting documents
2245	5/3/2013	\$ 38.78	No supporting documents
880	5/16/2013	\$ 251.00	No supporting documents
2276	6/14/2013	\$ 10,000.00	No supporting documents
881	6/21/2013	\$ 110.00	No supporting documents
2293	6/26/2013	\$ 84.00	No supporting documents
2294	6/26/2013	\$ 1,002.56	No supporting documents
882	7/2/2013	\$ 150.00	No supporting documents
2325	8/7/2013	\$ 7,000.00	No supporting documents
885	8/13/2013	\$ 554.39	No supporting documents
884	8/13/2013	\$ 220.00	No supporting documents
2350	8/28/2013	\$ 450.00	No supporting documents
887	9/19/2013	\$ 4,128.00	No supporting documents
3153	9/25/2013	\$ 8,500.05	No supporting documents
2397	10/9/2013	\$ 750.00	No supporting documents
2432	11/22/2013	\$ 137.50	No supporting documents
2448	12/3/2013	\$ 250.00	No supporting documents
2589	4/1/2014	\$ 350.00	No supporting documents
2627	5/15/2014	\$ 253.65	No supporting documents
2775	10/28/2014	\$ 767.00	No supporting documents
2856	12/1/2014	\$ 58.00	No supporting documents
2996	5/4/2015	\$ 1,057.69	No supporting documents
3092	7/31/2015	\$ 240.00	No supporting documents
3154	9/28/2015	\$ 2,341.56	No supporting documents
Subtotal No Supporting Documents: =		\$ <b>70,775.71</b>	
Question Costs From Page 29: =		\$ <b>58,083.87</b>	
Total Question Costs Due To Missing APV Documents/No Supporting Documents: =		\$ <b>128,859.58</b>	
<p><b>No Supporting Documents Means:</b> Missing Supporting Documents such as invoices/receipts and other documents to justify expenditures.</p>			

**APPENDIX III**

**QUESTIONED COSTS (QC) DUE TO LACK OF COMPETITIVE BIDDING**

Check No.	Check Date	QC	Notes/Comments
2116	12/11/2012	\$ 5,800.00	Lack competitive Bidding Documents
1	8/25/2008	\$ 10,325.00	Lack competitive Bidding Documents
2165	1/29/2013	\$ 5,000.00	Lack competitive Bidding Documents
2211	3/27/2013	\$ 5,000.00	Lack competitive Bidding Documents
2414	10/25/2013	\$ 7,200.00	Lack competitive Bidding Documents
3043	6/16/2015	\$ 5,000.00	Lack competitive Bidding Documents
665	7/25/2012	\$ 5,000.00	Lack competitive bidding and supporting documents
677	8/6/2012	\$ 5,000.00	Lack competitive bidding and supporting documents
881	6/21/2013	\$ 7,804.50	Lack competitive bidding and supporting documents
861	4/18/2013	\$ 6,579.00	Lack competitive bidding and supporting documents
884	8/13/2013	\$ 5,676.00	Lack competitive bidding and supporting documents
887	9/19/2013	\$ 10,836.00	Lack competitive bidding and supporting documents
3058	7/2/2015	\$ 5,000.00	Lack competitive bidding and supporting documents
3076	7/23/2015	\$ 5,000.00	Lack competitive bidding and supporting documents

**TOTAL QUESTION COSTS FOR LACK COMPETITIVE BIDDING/SUPPORTING DOCUMENTS: = \$ 89,220.50**

**TOTAL QUESTIONED COSTS DUE TO MISSING DOCUMENTS ON PAGE 31: = \$ 128,859.58**

**TOTAL QUESTIONED COSTS (QC): = \$ 218,080.08**

**Lack Competitive Bidding and Supporting Documents Means:** Goods and services purchased without competitive bidding as per Palau Procurement Law and Regulations and no supporting documents such as invoices/receipts and other documents to justify expenditures, certification of funds, etc.





**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](http://www.palauopa.org)  
E-MAIL ADDRESS: [admin@palauopa.org](mailto:admin@palauopa.org)

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

**(Closed on Legal Holidays)**