

**REPUBLIC OF PALAU  
NATIONAL GOVERNMENT**

**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

**YEAR ENDED SEPTEMBER 30, 2010**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

His Excellency Johnson Toribiong  
President  
Republic of Palau:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2010, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated July 23, 2012. Our report includes a reference to other auditors. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the National Development Bank of Palau, the Palau International Coral Reef Center, the Palau Visitors Authority, and the Public Utilities Corporation, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors also issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority. The findings, if any, included in those reports are not included herein.

### Internal Control over Financial Reporting

Management of the Republic is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Republic's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 13 through 121), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-01 through 2010-6, and 2010-8 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 the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-35 to be a significant deficiency.

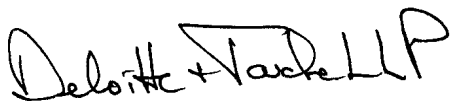
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Republic's financial statements are free of 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 financial statement 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-07, 2010-20, 2010-21, 2010-22, 2010-36 and 2010-37.

We noted certain matters that we reported to management of the Republic in a separate letter dated July 23, 2012.

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Republic of Palau, the Honorable Members of the Olbiil Era Kelulau, others within the entity, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



July 23, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Johnson Toribiong  
President  
Republic of Palau:

## Compliance

We have audited the Republic of Palau's (the Republic) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Republic's major federal programs for the year ended September 30, 2010. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 13 through 121). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Republic's management. Our responsibility is to express an opinion on the Republic's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2010. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Republic's compliance with those requirements.

As described in items 2010-09 through 2010-16, 2010-18, 2010-19, 2010-24, 2010-25, 2010-26, 2010-30 and 2010-34 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding allowable costs/cost principles, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, and subrecipient monitoring that are applicable to its OTIA Direct Grants (CFDA # 15.875) major program; equipment and real property management that is applicable to its Airport Improvement Program (CFDA # 20.106) major program; equipment and real property management, and procurement and suspension and debarment that are applicable to its Special Education - Grants to States (CFDA # 84.027) major program; eligibility that is applicable to its Byrd Honors Scholarships (CFDA # 84.185) major program; equipment and real property management that is applicable to its Freely Associated States - Education Grant Program (CFDA # 84.256) major program; allowable costs/cost principles, equipment and real property management, and procurement and suspension and debarment that are applicable to its Public Health Emergency Preparedness (CFDA # 93.069) major program; allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment, reporting, and program income that are applicable to its Community Health Centers (CFDA # 93.224) major program; and equipment and real property management, period of availability of federal funds, and procurement and suspension and debarment that are applicable to its Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA # 93.283) major program. Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Republic complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-06, 2010-20, 2010-23, 2010-27, 2010-28, 2010-29, 2010-31, 2010-32, 2010-33 and 2010-38.

#### Internal Control over Compliance

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Republic's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-06, 2010-07, 2010-09 through 2010-19, 2010-21, 2010-24, 2010-25, 2010-26, 2010-30 and 2010-34 to be material weaknesses.

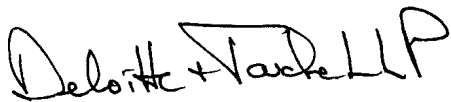
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-23, 2010-27, 2010-28, 2010-29, 2010-31, 2010-32, 2010-33 and 2010-38 to be significant deficiencies.

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Republic's responses and, accordingly, we express no opinion on them.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2010, and have issued our report thereon dated July 23, 2012. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Republic's basic financial statements. We did not audit the financial statements of the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represent 33%, 8% and 42%, respectively, of the assets, net assets and operating revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, are based on the reports of the other auditors. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 10) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Republic. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Republic of Palau, the Honorable Members of the Olbiil Era Kelulau, others within the entity, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



July 23, 2012

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2010

Fund 350100 Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>		
State Administrative Expenses for Child Nutrition	10.560	\$ -
Cooperative Forestry Assistance	10.664	177,704
Community Facilities Loans and Grants	10.766	198,771
<b>Total U.S. Department of Agriculture</b>		<u>376,475</u>
<b>U.S. Department of Commerce</b>		
Special Oceanic and Atmospheric Projects	11.460	293,584
Unallied Management Projects	11.454	-
NOAA Donation to IRC Meeting	11.UNKNOWN	-
<b>Total U.S. Department of Commerce</b>		<u>293,584</u>
<b>U.S. Department of Housing and Urban Development</b>		
Emergency Shelter Grants Program	14.231	-
<b>Total U.S. Department of Housing and Urban Development</b>		<u>-</u>
<b>U.S. Department of Justice</b>		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	-
State Justice Statistics Program for Statistical Analysis Centers	16.550	-
<b>Total U.S. Department of Justice</b>		<u>-</u>
<b>U. S. Department of Labor</b>		
WIA Adult Program	17.258	86,799
ARRA WIA Adult Program	17.258	24,298
WIA Youth Activities	17.259	112,284
ARRA WIA Youth Activities	17.259	4,566
WIA Dislocated Workers	17.260	136,896
ARRA WIA Dislocated Workers	17.260	88,219
<b>Total U.S. Department of Labor</b>		<u>453,062</u>
<b>U.S. Environmental Protection Agency</b>		
Construction Grants for Wastewater Treatment Works	66.418	-
Environmental Education Grants	66.951	-
<b>Total U.S. Environmental Protection Agency</b>		<u>-</u>
<b>U.S. Department of Energy</b>		
State Energy Program	81.041	-
<b>Total U.S. Department of Energy</b>		<u>-</u>
<b>U.S. Department of Homeland Security</b>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-
<b>Total U.S. Department of Homeland Security</b>		<u>-</u>
<b>U.S. Department of Education</b>		
Direct Programs:		
Adult Education - Basic Grants to States	84.002A	26,194
Special Education - Grants to States	84.027	1,059,501

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2010

Fund 350100 Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
Special Education - Preschool Grants	84.173A	-
Byrd Honors Scholarships	84.185A	60,000
Supported Employment Services for Individuals with Significant Disabilities	84.187A	-
Bilingual Education Support Services	84.194Q	-
Freely Associated States - Education Grant Program	84.256A	1,131,069
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	-
Twenty-First Century Community Learning Centers	84.287B	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	416,189
Vocational Education - Occupational and Employment Information State Grants	84.346A	-
Total Direct Programs		<u>2,692,953</u>
Pass-Through Pacific Resources for Educaiton and Learning:		
Career and Technical Education - Basic Grants to States	84.048	<u>186,002</u>
Total Pass-Through Pacific Resources for Educaiton and Learning:		<u>186,002</u>
<b>Total U.S. Department of Education</b>		<u>2,878,955</u>
<b>U.S. Department of Health and Human Services</b>		
Civil Rights and Privacy Rule Compliance Activities	93.001	6,194
Public Health Emergency Preparedness	93.069	1,298,059
Emergency System for Advance Registration of Volunteer Health Professionals	93.089	21,151
Maternal and Child Health Federal Consolidated Programs	93.110AR	214,063
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	117,704
Family Planning - Services	93.217	182,059
Consolidated Health Centers	93.224	687,862
Consolidated Knowledge Development and Application (KD&A) Program	93.230	86,076
State Capacity Building	93.240	73,412
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	485,691
Universal Newborn Hearing Screening	93.251	153,515
Immunization Grants	93.268	218,976
Drug Free Communities Support Program Grants	93.276	-
CDC and Prevention - Investigations & Technical Assistance	93.283	1,143,806
ARRA Health Center Integrated Services Development Initiative	93.703	304,514
National Bioterrorism Hospital Preparedness Program	93.889	369,700
HIV Care Grants	93.917	51,953
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	103,471
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	198,066
HIV/AIDS Surveillance	93.944	26,348
Block Grants for Community Mental Health Services	93.958	41,599
Block Grants for Prevention and Treatment of Substance Abuse	93.959	105,171
Preventive Health Services - STD Control Grants	93.977	39,448
Preventive Health and Health Services Block Grant	93.991	16,392
Maternal and Child Health Services Block Grant to the States	93.994	158,459
ARRA-Immunization	93.712	14,240
ARRA DP09-902 ROP MOH	93.723	<u>14,874</u>
<b>Total Department of Health and Human Services</b>		<u>6,132,803</u>
<b>Total Federal Grants (Fund 350100)</b>		<u>\$ 10,134,879</u>

Note: All of the awards per the above are received in a direct capacity from the specified grantor with the exception of CFDA #84.048, which is received from the Pacific Resources for Education and Learning (PREL)

See accompanying notes to schedule of expenditures of federal awards.



REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2010

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
Fund 350200 Non-Capital:		
<b>U.S. Department of the Interior</b>		
Social, Economic and Political Development of the Territories	15.875	\$ 678,120
<b>Total U.S. Department of the Interior</b>		<u>678,120</u>
<b>Total Non-Capital</b>		<u>\$ 678,120</u>
Fund 420100 <b>U.S. Federal (CIP Project):</b>		
<b>U.S. Department of Homeland Security</b>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ -
<b>Total U.S. Department of Homeland Security</b>		<u>\$ -</u>
<b>U.S. Department of Housing and Urban Development</b>		
Emergency Shelter Grants Program	14.231	\$ -
<b>Total U.S. Department of Housing and Urban Development</b>		<u>\$ -</u>
<b>U.S. Environmental Protection Agency</b>		
Construction Grants for Wastewater Treatment Works	66.418	\$ -
<b>Total U.S. Environmental Protection Agency</b>		<u>\$ -</u>
<b>U.S. Department of the Interior</b>		
Social, Economic and Political Development of the Territories	15.875	\$ -
<b>Total U.S. Department of the Interior</b>		<u>\$ -</u>
<b>U.S. Department of Transportation</b>		
Airport Improvement Program	20.106	\$ 6,564,763
<b>Total U.S. Department of Transportation</b>		<u>6,564,763</u>
<b>Total U.S. Federal (CIP Project)</b>		<u>\$ 6,564,763</u>
Fund 430100 <b>Capital Improvement Projects:</b>		
<b>U.S. Department of the Interior</b>		
Social, Economic and Political Development of the Territories	15.875	\$ -
<b>Total U.S. Department of the Interior</b>		<u>-</u>
<b>Total Capital Improvement Projects:</b>		<u>\$ -</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2010

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2010 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>211(a) &amp; 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000	\$ -
Compact Section 215	5,349,900	4,260,000	1,089,900
Total 211(a) & 215 Current Account	<u>\$ 11,349,900</u>	<u>\$ 10,260,000</u>	<u>\$ 1,089,900</u>
<u>211(b) &amp; 215 Energy Production</u>			
Executive Branch	\$ 125,500	\$ 125,500	\$ -
Investment Management Fees, 211(b) Funds	1,499	1,499	-
Total 211(b) & 215 Energy Production	<u>\$ 126,999</u>	<u>\$ 126,999</u>	<u>\$ -</u>
<u>211(c) &amp; 215 Communications</u>			
Executive Branch	\$ 256,500	\$ 256,500	\$ -
Investment Management Fees, 211(c) Funds	64	64	-
Total 211(c) & 215 Communications	<u>\$ 256,564</u>	<u>\$ 256,564</u>	<u>\$ -</u>
<u>211(d) Maritime/Health/Scholarship</u>			
Patrol boat operations	\$ 631,000	\$ 631,000	\$ -
Investment Management Fees, 211(d) Funds	93	93	-
Total 211(d) Maritime/Health/Scholarship	<u>\$ 631,093</u>	<u>\$ 631,093</u>	<u>\$ -</u>
<u>211(e) Maritime</u>			
Investment Management Fees, 211(e) Funds	\$ 213	\$ 213	\$ -
Total 211(e) Maritime	<u>\$ 213</u>	<u>\$ 213</u>	<u>\$ -</u>
<u>211(f) Trust Fund</u>			
Executive Branch	\$ 1,000,000	\$ 1,000,000	\$ -
Judiciary	1,000,000	1,000,000	-
Legislative	1,000,000	1,000,000	-
Independent Agencies	1,000,000	1,000,000	-
Other Agencies and Activities	1,000,000	1,000,000	-
Investment Management Fees, 211(f) Trust Funds	919,100	919,100	-
Total 211(f) Trust Fund	<u>\$ 5,919,100</u>	<u>\$ 5,919,100</u>	<u>\$ -</u>
<u>213 Defense</u>			
Investment Management Fees, 213 Funds	\$ 9,722	\$ 9,722	\$ -
Total 213 Defense	<u>\$ 9,722</u>	<u>\$ 9,722</u>	<u>\$ -</u>
<u>212(b) &amp; 215 Capital Account</u>			
Investment Management Fees	\$ 55	\$ 55	\$ -
Total 212(b) & 215 Capital Account	<u>\$ 55</u>	<u>\$ 55</u>	<u>\$ -</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2010

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2010 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>221(b)(1) &amp; (2) Special Block Grant &amp; Education Special Grant</u>			
Transfer to Palau Community College	\$ 2,000,000	\$ 2,000,000	\$ -
Investment Management Fees, 221(b) Funds	<u>320</u>	<u>320</u>	<u>-</u>
Total 221(b) Special Block Grant	<u>\$ 2,000,320</u>	<u>\$ 2,000,320</u>	<u>\$ -</u>
 Total Compact of Free Association CFDA #15.875		 \$ 19,204,066	
Less Compact Section 211(a) Current Account		(6,000,000)	
Less Compact Section 215 Current Account		(4,260,000)	
Less Compact Section 211(f) Trust Fund Investment Earnings		<u>(5,919,100)</u>	
 Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		 <u>\$ 3,024,966</u>	

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2010

#### (1) Scope of Review

The Republic of Palau (the Republic) is a governmental entity governed by its own Constitution. The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the OMB Circular A-133 audit (the "Single Audit").

The Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Housing and Urban Development
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. Environmental Protection Agency
- U.S. Department of Education
- U.S. Department of Energy
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Department of Transportation

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2010 basic financial statements, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2010.

##### c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2010. The approved rate was 7.36%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

d. Funding Passed Through to Other Entities

The Republic records as expenditures funding that is passed through to other entities.

As of September 30, 2010, none of the States had provided prior years audit reports to the Republic. The Republic is considered to have responsibility for any questioned costs that could result from Single Audits of these entities.

During the year ended September 30, 2010, the Republic passed through federal funding to the following entities:

Palau Community College, Compact Section 221(b), CFDA #15.875                      \$ 2,000,000

This entity separately satisfies its OMB Circular A-133 reporting requirements.

e. Single Audit Excluded Funding

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding have been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the U.S. Department of the Interior, Office of the Inspector General (OIG). The OIG took this position since there were no compliance requirements imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There are no compliance requirements associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |  |             |
|--|-------------|
| 1. Type of auditors' report issued:                          | Unqualified |
| Internal control over financial reporting:                   |             |
| 2. Material weakness(es) identified?                         | Yes         |
| 3. Significant deficiency(ies) identified?                   | Yes         |
| 4. Noncompliance material to the financial statements noted? | Yes         |

*Federal Awards*

- |   |           |
|---|-----------|
| Internal control over major programs:   |           |
| 5. Material weakness(es) identified?  | Yes       |
| 6. Significant deficiency(ies) identified?  | Yes       |
| 7. Type of auditors' report issued on compliance for major programs   | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes       |
| 9. Identification of major programs:  |           |

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education – Grants to States
84.185	Byrd Honors Scholarships
84.256	Freely Associated States – Education Grant Program
93.069	Public Health Emergency Preparedness
93.224	Consolidated Health Centers
93.283	CDC and Prevention-Investigations and Technical Assistance
15.875	Economic, Social, and Political Development of the Territories
20.106	Airport Improvement Program

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$612,082 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>
2010-01	Financial Reporting
2010-02	Revenues
2010-03	Revenues
2010-04	Expenditures
2010-05	Accounts Payable
2010-06	Federal and Non-federal Grants Receivables
2010-07	Allowable Costs/Cost Principles
2010-08	Fixed Assets
2010-20	Single Audit Report
2010-21	Local Noncompliance – Palau Constitution
2010-22	Local Noncompliance - Procurement
2010-35	Fixed Assets
2010-36	Local Noncompliance - Procurement
2010-37	Local Noncompliance - Borrowing

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2010-07	Nonmajor	Allowable Costs/Cost Principles	\$ 781,000
2010-06	Nonmajor	Cash Management	\$ -
2010-17	Nonmajor	Period of Availability of Federal Funds	\$ 61,419
2010-20	All Major	Single Audit Report	\$ -
2010-21	Nonmajor	Reporting	\$ -
2010-06	15.875	Cash Management	\$ -
2010-09	15.875	Allowable Costs/Cost Principles	\$ 195,080
2010-10	15.875	Equipment and Real Property Management	\$ -
2010-13	15.875	Period of Availability of Federal Funds	\$ 77,179
2010-24	15.875	Procurement and Suspension and Debarment	\$ -
2010-25	15.875	Subrecipient Monitoring	\$ -
2010-06	20.106	Cash Management	\$ -
2010-10	20.106	Equipment and Real Property Management	\$ -
2010-23	20.106	Cash Management	\$ -
2010-32	84.027	Allowable Costs/Cost Principles	\$ -
2010-38	84.027	Allowable Costs/Cost Principles	\$ 1,935
2010-10	84.027	Equipment and Real Property Management	\$ -
2010-23	84.027	Cash Management	\$ -
2010-26	84.027	Procurement and Suspension and Debarment	\$ 30,420
2010-06	84.185	Cash Management	\$ -
2010-14	84.185	Eligibility	\$ 36,000
2010-06	84.256	Cash Management	\$ -
2010-10	84.256	Equipment and Real Property Management	\$ -
2010-15	93.069	Allowable Costs/Cost Principles	\$ 49,570
2010-10	93.069	Equipment and Real Property Management	\$ -
2010-27	93.069	Matching, Level of Effort, Earmarking	\$ 16,484
2010-28	93.069	Period of Availability of Federal Funds	\$ 4,750
2010-11	93.069	Procurement and Suspension and Debarment	\$ 144,599
2010-29	93.069	Reporting	\$ -
2010-12	93.224	Allowable Costs/Cost Principles	\$ 93,442

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

**Section III - Federal Award Findings and Questioned Costs, Continued**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2010-10	93.224	Equipment and Real Property Management	\$ -
2010-16	93.224	Procurement and Suspension and Debarment	\$ 65,056
2010-30	93.224	Program Income	\$ -
2010-18	93.224	Reporting	\$ -
2010-31	93.224	Special Tests and Provisions	\$ -
2010-32	93.283	Allowable Costs/Cost Principles	\$ 20,638
2010-10	93.283	Equipment and Real Property Management	\$ -
2010-33	93.283	Matching, Level of Effort, Earmarking	\$ 20,500
2010-34	93.283	Period of Availability of Federal Funds	\$ 48,861
2010-19	93.283	Procurement and Suspension and Debarment	\$ 21,166



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Financial Reporting

Finding No. 2010-01

Criteria:

1. The interim and annual financial statements of the Republic should be prepared in conformity with generally accepted accounting principles (GAAP). The Republic's accounting system should provide data that permits reporting on the financial status and operations of the Republic in conformity with GAAP. Therefore, a closing process must occur to roll forward ending 2009 balance sheet balances into 2010 as beginning balances.
2. Approved audit adjustments should be recorded, and the affected balance sheet accounts should be verified against audit reports to confirm proper recording.
3. A reconciliation process should occur on a monthly, quarterly or annual basis to confirm that all balance sheet accounts are reconciled and supported by existing, valid and complete detail schedules. Supporting schedules should be checked and verified to be free of mechanical inaccuracies. Reconciling items should be adequately explained and documented so that persons other than the preparer (i.e., management, auditors, etc.) can readily understand the basis for the reconciling items.
4. Significant fluctuations in revenues and expenditures should be examined and explained to confirm that no material misstatements exist in the accounts.
5. The Bureau of Budget and Management (Budget Office) should assist in the preparation of the General Fund Schedule of Revenues, Expenditures-Budget and Actual (the budgetary statement), which is required supplementary information to the financial statements.

Condition:

1. The 2010 preliminary unaudited financial reports provided to the auditors in January 2011 did not contain 2009 balance sheet ending balances. Therefore, the 2010 financial statements reported the incomplete financial status of the Republic.

<u>Report</u>	<u>Date Received</u>
101P, 134P, 132p org – ending balances and summary	1/26/2011
102P, 135P – general ledger detail	1/31/2011

2. Revised financial reports were subsequently provided on February 08, 2011; however, the General Fund beginning fund deficit was overstated by \$1,466,057 because 2009 audit adjustments were not correctly recorded.
3. There was no indication of a reconciliation process taking place prior to providing auditors the 2010 financial reports. A total of 95 adjustments, of which 74 represent actual audit adjustments and 21 represent reclassification entries, were proposed to correct misstatements as a result of ongoing reconciliations during audit fieldwork, which extended until February 14, 2012.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Financial Reporting, Continued

Finding No. 2010-01, Continued

Condition, Continued

- i. The following cash accounts were not reconciled. An adjustment of \$134,411 was proposed to correct acct # 113. Although the net misstatement in acct #s 109, 110 and 120 is immaterial (\$45,638), individual balances are misleading:

<u>Acct #</u>	<u>Account Description</u>	<u>Recorded balance</u>	<u>Per Bank Confirmation</u>	<u>Variance</u>
109	Savings	\$ 715,178	\$ -	\$ 715,178
110	Savings	\$ 1,096,808	\$ 1,816,236	\$ (719,428)
113	Bank of Tokyo EDEF 2 TECH	\$ 355,640	\$ 490,051	\$ (134,411)
120	COOP FACLTIES	\$ 123,437	\$ 73,549	\$ 49,888

- ii. The Compact Section 211(f) and other Compact fund investments were not reconciled and were understated by \$13,692,505 and \$2,993,473, respectively. A reconciliation of the General Fund beginning deficit and the Compact investments was performed, and a set of third revised financial reports were provided to the auditors on February 15, 2011.
- iii. Accounts receivable were reconciled during audit fieldwork and much time was spent in the audit request process as source documentation was not readily available. The sale of land which occurred in September 2010 was not accrued or recorded in the proper period. Audit adjustments were proposed to correct the resulting understatement in the General Fund accounts receivable of \$621,263 (fund no. 100100).
- iv. Federal and non-federal related due from grantor agencies were reconciled during audit fieldwork. Supporting schedules were provided on March 15, 2011 for federal grants, June 2, 2011 for non-federal grants and June 3, 2011 for non-federal CIP grants. However, changes and corrections were proposed to the schedules to arrive at valid and complete schedules to enable auditors to perform test procedures. Revised schedules were provided up to July 14, 2011. More detailed findings that resulted from testing federal and non-federal receivables are presented at Finding No. 2010-06.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Financial Reporting, Continued

Finding No. 2010-01, Continued

Condition, Continued

- v. Much time was spent in the examination of interfund receivables and payables as these balances were not reconciled. Audit adjustments were proposed to correct the following variances:

	<u>Balance</u>	<u>Per Treasury Fund</u>	<u>Variance</u>
<u>General Fund:</u>			
100100	\$ 52,056,972	\$ 51,980,913	\$ 76,059
106666	\$ 1,425,175	\$ 2,003,750	\$ 578,575
<u>Other Funds:</u>			
311120	\$ 125,500	\$ -	\$ 125,500
311300	\$ 271,500	\$ 15,000	\$ 256,500
311400	\$ 631,000	\$ -	\$ 631,000
321000	\$ 2,000,000	\$ -	\$ 2,000,000
600000	\$ 2,072,788	\$ 2,283,454	\$ 210,666
<u>Trust Fund:</u>			
621000	\$ 5,000,000	\$ -	\$ 5,000,000

In addition, the assessment of interfund receivables and payables was performed through the audit request process in which an audit adjustment of \$1,205,346 was proposed on February 14, 2012 to correct General Fund interfund payables.

- vi. Prepaids were noted as having been reconciled at September 30, 2010, and the related supporting schedule was provided on May 13, 2011. However, the schedule appeared to be a general ledger detail list of debit and credit entries which did not provide actual advanced vendor payments at September 30, 2010. The schedule was corrected and was again provided on May 17, 2011, and the following variances were noted and corrected through proposed audit adjustments.

<u>Fund</u>	<u>First Schedule</u>	(A) <u>Revised Schedule</u>	(B) <u>Recorded Balance</u>	(A-B) <u>Variance</u>
100100	\$ (10,052)	\$ 23,450	\$ (10,052)	\$ 33,502
350100	\$ 184,144	\$ 281,366	\$ 184,144	\$ 97,222
440100	\$ (179,776)	\$ 669,624	\$ (179,776)	\$ 849,400

- vii. Property schedules were prepared at the request of the auditors and during fieldwork, which were received at various dates from July 21, 2011 through August 4, 2011. The estimated value of the damaged sections of the Compact Road was received on August 15, 2011. A more complete assessment of the Compact Road damages was anticipated thereafter; however, such assessment was not available as of report date. In addition, adjustments were made to the property schedules as deemed necessary based on actual additions and disposals during fiscal year 2010. As a result, net fixed assets were understated by \$18,650,556. Audit adjustments were proposed to correct these misstatements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Financial Reporting, Continued

Finding No. 2010-01, Continued

Condition, Continued

- viii. An accounts payable schedule was received on May 13, 2011; however, variances were noted that were not reconciled until July 15, 2011. As a result, audit adjustments were proposed to correct an understatement of \$1,088,785 in accounts payable in fund 440100.
  - ix. A significant number of missing accounts payable vouchers (approximately 2,300) were not detected until a vendor payment needed to be processed subsequent to September 30, 2010. Much time was spent in the examination of the 2010 paid history report to determine the amount of missing vouchers and whether there were material duplicate vouchers in fiscal year 2010 as a result of processing new vouchers for the missing vouchers. This instance is presented in further detail at Finding No. 2010-05.
- 4. Explanations of fluctuations in revenues and expenditures were provided through the audit request process until December 1, 2011.
  - 5. Substantial modifications were proposed to the General Fund Schedule of Revenues, Expenditures, and Changes in Deficit-Budget and Actual based on 2010 budget authorizations, supplemental budget authorizations, authorized budget reprograms from the Executive Branch and the Congress; and the carryover of continuing appropriations.

Cause:

- 1. This is the first time the current accountant prepared the financial statements as of and for the year ended September 30, 2010, after the transition period in 2009.
- 2. The Grants Management Officer, who was assigned to record the 2009 audit adjustments, has had no training or experience in posting audit adjustments to the DILOG accounting system.
- 3. There appears to be a lack of resources dedicated to facilitating timely reconciliation of all balance sheet accounts.
- 4. There is no monitoring process in place to examine fluctuations in revenues and expenditures to determine that no material misstatements exist in the accounts.
- 5. The Division of Finance and Accounting prepares the budgetary statements and a copy is forwarded to the Budget Office. There is no indication that the Director of the Budget Office examines the budgetary statement for completeness and accuracy.

Effect: The effect of the above conditions is material weaknesses in the financial reporting processes and material misstatements in the financial statements prior to proposed audit adjustments.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Financial Reporting, Continued

Finding No. 2010-01, Continued

Recommendation: We recommend that management implement internal control policies and procedures to determine that the above criteria are adhered to.

Auditee Response and Corrective Action Plan: ROP acknowledge this finding, and further note the following:

- MOF limited staff knowledgeable and capable of system report generation.
- With limited budget, Bureau of National Treasury & ISSS within the Ministry of Finance has not been able to fill few of its key areas such as IT/Management Information System, System Accountant, and Senior Accountants, and even the continuation of capacity building and succession plan within the ministry. With limited budget to fund additional qualified staffs, MoF will continue to face these similar challenges in achieving its goals and objectives.

ROP/MOF will continue to work with its available financial and human resources as we strive to achieve timely transmittal of future reporting requirements.

Full name of the person responsible for the corrective action plan: ROP Executive Management, Minister of Finance, Bureau Directors, and Bureau Chiefs to continue working with OEK on the possibility of budget appropriation to fund the much needed positions.

When will the corrective action plan be implemented: On-going

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Revenues

Finding No. 2010-02

Criteria: An effective system of internal control includes policies and procedures requiring the completeness of cash receipts issued.

Condition: Approximately 70,099 cash receipts were issued by the Bureau of National Treasury during the year ended September 30, 2010, of which forty-eight (48) were out of sequential order and could not be provided or explained by the Republic (i.e. cash receipt #s 1106696-97, 1106699, 1107312, 1108461, 1111671, 1113815, 1116743, 1118131-32, 1121280-81, 1124387-88, 1126221-22, 1126856, 1128822, 1130977, 1134618, 1136915, 1138687, 1138803, 1139162, 1140310, 1143958, 1145875, 1145937, 1148341, 1148630, 1150338, 1151279-83, 1159037, 1159792-1159794, 1160268, 1168963, 1171734-36, 1171752, 1171765 and 1172155.)

Cause: The cause of the above condition is the lack of control procedures requiring the completeness of issued cash receipts. There are no procedures to determine that exceptions in the sequential order of daily receipts are documented and approved by immediate supervisors.

Effect: The absence of an approval of exceptions in the sequential order of daily receipts is a control weakness whereby the Republic's collections may be subject to malfeasance.

Recommendation: We recommend that the Republic establish policies and procedures to determine that cash receipts are issued in sequential order. Exceptions in the sequential order should be documented and be approved by an immediate supervisor on a daily basis.

Prior year status: Control weaknesses in the sequential order of daily cash receipts was a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROP concurs with the recommendation to establish policies and procedures on documentation and approval of cancelled or voided receipts, however, the gaps in the cash receipts numbering sequence will continue to be the DILOG system report deficiency until the system is fixed. (refer to IDC/CDC's email response to this particular problem and similar finding in FY2009.

Full name of the person responsible for the corrective action plan: Director-Bureau of National Treasury and BNT Collection Staff

When will the corrective action plan be implemented: Internal policies and procedures were implemented immediately upon addressing the similar audit finding with the auditors while conducting FY2009 audit. Corrective actions were implemented in the middle of fiscal year 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Revenues

Finding No. 2010-03

Criteria: An audit trail should exist for all cash receipts. Collectability of receivables should be monitored and collection efforts should be enforced so that account balances are current. In addition, billings/statements of accounts (SOA) should be sent to customers in a timely manner.

Condition: Of \$1,486,285 in Hospital Trust Fund revenues, twelve receipts, totaling \$194,259, were tested, and the following exceptions were noted:

1. For seven receipts, the supporting invoices documenting service dates, types of services rendered and rates charged could not be provided:

<u>Receipt No.</u>	<u>Amount</u>
209922	\$ 226
215455	3,955
219274	4,905
516360	523
520791	375
521031	1,365
533061	<u>1,405</u>
	\$ <u>12,754</u>

2. Variances of two cash receipts represented uncollected balances owed to the National Hospital which have not been collected as of September 30, 2010. There was no evidence that statements of accounts and/or collection notice letters were prepared and sent to the patients, and there was no evidence that timely follow up was performed during fiscal year 2010.

<u>Receipt Date</u>	<u>Receipt No.</u>	(A) <u>Receipt Amount</u>	<u>Invoice No.</u>	(B) <u>Invoice Amount</u>	(A) - (B) <u>Balance Owed</u>
4/29/10	514651	\$ 15,000	713247	\$ 21,153	\$ (6,153)
5/04/10	515813	<u>20,000</u>	705084	<u>24,492</u>	<u>(4,492)</u>
		\$ <u>35,000</u>		\$ <u>45,645</u>	\$ <u>(10,645)</u>

Cause: The Ministry of Health does not have a process in place to determine that an audit trail exists for National Hospital cash receipts. The Hospital Information System, which contains patients' data and related invoices, was not available or operating as of fieldwork. In addition, there is a lack of evidence that patients' outstanding balances are monitored and followed up for collection.

Effect: The effect of the above conditions is potential misstatement of National Hospital revenues and a lack of revenue collection.

Recommendation: We recommend that the Ministry of Health establish a systematic filing system to determine that supporting invoices and other relevant documents are filed and maintained to support cash receipts. We also recommend that statements of account (SOA) and collection notices be sent to customers in a timely manner.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Revenues, Continued

Finding No. 2010-03, Continued

Prior Year Status: Lack of control procedures over National Hospital cash receipts was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: 2010-03(1&2): MoH concurs with the finding. There were two factors contributing to these issues. 1). The billing system was not reliable at the time and was subject to frequent downtime. 2). The existing human resource is not sufficient to manage all aspect of the complete billing & collections system, (i.e., to address accounts receivables). Recruitment was subject to hiring freezes thus Billing & Collections elected to use alternative methods to control A/R by providing statement of account during each patient visits rather than the traditional method of mailing notices. A new billing and collection system was developed and implemented in April 2011 following the implementation of the National Health Insurance. With the hiring freeze there is an ongoing effort to identify an employee in the system to address the accounts receivables on a full-time basis.

Full name of the person responsible for the corrective action plan: MoH Comptroller & MoH Billing & Collection staff, with final corrective action plan to be reviewed and approved by the Minister of Finance and Director of Bureau of National Treasury.

When will the corrective action plan be implemented: October 1, 2012



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Expenditures

Finding No. 2010-04

Criteria: An effective system of internal control includes policies and procedures requiring that transactions are authorized, supported, and approved prior to incurrence and recorded in the proper period.

Condition: Journal voucher entries and related supporting documents did not provide an adequate narrative description to explain the following entries. Without adequate explanation, an outside party has substantial difficulty trying to understand the basis of the entry.

1. Of fifty-nine General Fund non-payroll disbursements tested, totaling \$2,516,941, seventeen journal vouchers did not contain adequate support and explanation:

<u>Voucher no.</u>	<u>Amount</u>
DF000169	\$ 543,200
DF000012	8,341
DF000033	8,067
D0002802	10,000
DF000044	28,325
DF000059	30,333
DF000067	6,699
DF000101	9,982
DF000116	27,634
DF000122	19,262
DF000120	18,852
DF000164	276,321
DF000150	9,043
DF000157	8,932
DF000156	7,464
DF000136	4,445
DF000182	91,299
DF000182	23,600
	<u>\$ 1,131,799</u>

2. Of the eighteen journal vouchers tested, totaling \$15,818,231, we noted the following:
  - a. Five journal voucher entries lack adequate narrative description to explain the entries:

<u>Voucher no.</u>	<u>Date</u>	<u>Amount</u>
DF000027	02/01/2010	\$ 193,790
DF000042	03/23/2010	1,150,955
DF000062	05/17/2010	280,000
DF000071	05/26/2010	181,427
DF000120	08/31/2010	271,638
		<u>\$ 2,077,810</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No. 2010-04, Continued

Condition, Continued

- b. There was no detail explanatory documentation attached to four journal vouchers that would provide a trail to support the adjustments.

<u>Voucher no.</u>	<u>Date</u>	<u>Unsupported Amount</u>
DF000027	02/01/2010	\$ 167,348
DF000042	03/23/2010	1,150,955
DF000062	05/17/2010	280,000
DF000120	08/31/2010	<u>303,332</u>
		\$ <u>1,901,635</u>

- c. During examination of the journal voucher log book, we noted the following:

<u>Voucher No.</u>	<u>Date</u>	<u>Amount</u>	<u>Comment</u>
DF000124	09/09/2010	\$ 10,197	One journal voucher number was used twice for two separate entries.
		<u>968</u>	
		\$ <u>11,165</u>	

Cause: The cause of the above condition is a lack of control procedures over initiating journal vouchers.

Effect: Transactions recorded through journal vouchers, although signed as to approval, are not adequately supported.

Recommendation: We recommend that all journal vouchers be reviewed for propriety by appropriate management other than the preparer. The basis of all journal vouchers should be adequately documented.

Prior Year Status: The lack of control procedures over initiating journal vouchers was reported as a finding in the Single Audits of the Republic for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: Item No. 1 & 2(a-c): ROP concurs with the findings and that management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. However; corrective actions were implemented in the latter part of FY2010 to address supporting documentations and explanations/ justifications to any Journal Vouchers being processed.

Full name of the person responsible for the corrective action plan: MoF – BNT Director, Chief of Finance & Accounting, and respective senior staffs involved with the journal vouchers.

When will the corrective action plan be implemented: Completion of guidelines and procedures is expected by the end of FY2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Accounts Payable

Finding No. 2010-05

Criteria: An effective system of internal control includes policies and procedures requiring that the integrity of financial data is maintained in the CAPPs, the application system that processes account payable data.

Condition: The Republic realized there were missing vouchers in the CAPPs in October 2010. The Republic's accounting software vendor was immediately notified and was able to recover approximately 2,300 missing vouchers, some of which related to fiscal year 2010. However, there were still missing vouchers found when the Republic prepared disbursements for unpaid vouchers. When the Republic needed to prepare disbursements and discovered that a voucher was missing in CAPPs, a new voucher was created to replace the missing voucher. Since the original voucher was posted in the DILOG general ledger, a reversal entry was necessary to avoid duplicate entries and an overstatement of expenditures. However, there was no indication that procedures were performed to determine that there were no duplicate entries in the accounts payable population as a result of this situation. Alternatively, we obtained a paid history report for the year ended September 30, 2010, which was generated by voucher number and much time was spent in the examination of this report and the system to determine whether a material overstatement of expenditures existed as a result of this situation.

Cause: The cause of the above condition is the lack of control procedures over the CAPPs. More than one person has access in assigning the next voucher number field in the CAPPs. A voucher number which was previously issued and used was assigned as the next unused number during October 2010. As a result, the CAPPs was not properly processing accounts payable data. This condition led to the missing vouchers.

Effect: The effect of the above condition is a potential overstatement of expenditures.

Recommendation: We recommend that the Republic minimize access to the CAPPs and establish control procedures so that the official accounts payable voucher number log can be filed and maintained to confirm the sequential integrity of voucher numbers issued.

Auditee Response and Corrective Action Plan: ROPNG acknowledge the incident occurred at the beginning of FY2011 (October 2010), and only happened once during the year ending closing period. However, ROP does not concur with the finding due to the following reasons:

1. The control procedures over the CAPPs module was and is in place with three designated MOF staff with access. There needs to be at least two system administrator in case of unexpected emergency or unavailability of any one of the administrator, which was the case then.
2. The incident that happened was caused by a pure human error and the corrective action was address immediately. One of the Administrator relied on information provided by a staff instead of verifying the information from the printed report.
3. System provider was contacted immediately and worked non-stop with Finance & Accounting Management and staff, and ISSS team to restore the missing APV.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Accounts Payable, Continued

Finding No. 2010-05, Continued

Full name of the person responsible for the corrective action plan: MoF – BNT Director, Chief of Finance & Accounting, and respective ISSS senior staffs.

When will the corrective action plan be implemented: Corrective action was done in first quarter of FY2011

Auditor Response: Instances of overstatement in expenditures as a result of the above condition were noted such as the one at Finding 2010-09, Condition 1.b., therefore the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

CFDA Program:	U.S. DA	10.664	Cooperative Forestry Assistance
CFDA Program:	U.S. DA	10.766	Community Facilities Loans and Grants
CFDA Program:	U.S. DOC	11.437	Pacific Fisheries Data Program
CFDA Program:	U.S. DOC	11.460	Special Oceanic and Atmospheric Projects
CFDA Program:	U.S. HUD	14.231	Emergency Shelter Grants Program
CFDA Program:	U.S. DOI	15.875	Economic, Social, and Political Development of the Territories
CFDA Program:	U.S. DOT	20.106	Airport Improvement Program
CFDA Program:	U.S. EPA	66.418	Construction Grants for Wastewater Treatment Works
CFDA Program:	U.S. ED	84.002	Adult Education - Basic Grants to States
CFDA Program:	U.S. ED	84.048	Career and Technical Education - Basic Grants to States
CFDA Program:	U.S. ED	84.185	Byrd Honors Scholarships
CFDA Program:	U.S. ED	84.187	Supported Employment Services for Individuals with Significant Disabilities
CFDA Program:	U.S. ED	84.256	Freely Associated States - Education Grant Program
CFDA Program:	U.S. DHS	83.544	Public Assistance Grants

Federal and Non-federal Grants Receivables/Cash Management

Finding No. 2010-06

Criteria: Receivables due from and payables due to grantor agencies should be reconciled and differences should be promptly resolved. The detail of this can be maintained apart from the general ledger system but should be regularly reconciled with related general ledger balances.

Conditions: The number of instances noted below which have been repeated for the sixth year indicate a lack of adequate resources dedicated to monitor all grants received by the Republic. During tests of receivables due from and payables due to grantor agencies, we noted the following:

1. Three Capital Improvement Project awards (CFDA #15.875) have been closed and have been inactive for over five years. A balance of \$180,453 due to the grantor agency remains on the books at September 30, 2010 (grant nos. T-233, T-269, T-231).
2. Three grant awards from the U.S. Department of Agriculture (CFDA #10.664) have been closed and inactive for three years. A balance of \$10,564 due from the grantor agency has not been collected as of September 30, 2010, and there were no records provided to determine the status of this collection effort as follows:

<u>U.S Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Agriculture	CFHP Invasive Species	R53725	\$ 302
Agriculture	Conservation Education	R63723	6,952
Agriculture	Coop. Forestry Health Protection	R63724	<u>3,310</u>
			\$ <u>10,564</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

3. Nine grant awards from the U.S. Department of Agriculture (CFDA #10.664) with a balance of \$167,310 due from the grantor agency have not been collected as of September 30, 2010. A request for reimbursement of funds was sent during audit fieldwork and there have been no subsequent receipts as of August 2011 as follows:

<u>U.S. Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Agriculture	Conservation Education	R98700	\$ 5,699
Agriculture	Coop. Land Forest Health Protection	R98701	20,566
Agriculture	Invasive Species Plants	R98702	27,856
Agriculture	Forest Restoration	R98703	33,877
Agriculture	Urban & Community Forestry	R98704	58,772
Agriculture	Savanna Restoration Project	R98705	17,215
Agriculture	Cycad Scale Control	R98706	495
Agriculture	Invasive Plants Management	R08702	2,696
Agriculture	Forest Resource Management /Restoration, Nurseries & Genetic Resources	R08703	<u>134</u>
			<u>\$ 167,310</u>

4. Four grant awards from the U.S. Department of Agriculture (CFDA #10.664) have been closed and have been inactive for over four years. A balance of \$11,691 due to the grantor agency remains on the books as follows:

<u>U.S. Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Agriculture	Rural Fire Prev/Control	J63630	\$ (1,505)
Agriculture	Palau Fire Prev/Control	J93630	(600)
Agriculture	Forest Stewardship	R63713	(5,595)
Agriculture	Urban Community Forestry	R03712	<u>(3,991)</u>
			<u>\$ (11,691)</u>

5. Two grant awards from the U.S. Department of Agriculture (CFDA #10.766) were inactive during the year ended September 30, 2010. A balance of \$123,932 due from the grantor agency has not been collected as of September 30, 2010, and there were no records available to determine the grant status. It appears that there is ongoing communication with the grantor representative in relation to the collectability of the receivable; however, such is not documented in file as follows:

<u>U.S. Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Agriculture	PHS Fencing	E73733	\$ 74,222
Agriculture	EQPB Econ Fac Grant	R53728	<u>49,710</u>
			<u>\$ 123,932</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

6. Three grant awards from the U.S. Department of Agriculture (CFDA #10.766) with a balance of \$139,164 due from the grantor agency have not been collected as of September 30, 2010. Although the grants are still active, there were no records available to determine the grant status. It appears that there is ongoing communication with the grantor representative in relation to the collectability of the receivable; however, such is not documented in file as follows:

<u>U.S Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Agriculture	Marine Hazard Spill Equipment	R53729	\$ 52,304
Agriculture	Emergency Communications Equipment	J83642	47,010
Agriculture	Coop Fire Protection Program	J93643	<u>39,850</u>
			<u>\$ 139,164</u>

7. One award from the U.S. Department of Agriculture (CFDA #10.766) was inactive during the year ended September 30, 2010. A balance of \$24,197 due to the grantor agency has not been returned as of September 30, 2010 and there was no record on file to determine the grant status as follows:

<u>U.S Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Agriculture	Purchase 4 Ambulances	J73732	\$ <u>(24,197)</u>

8. One award from the U.S. Department of Commerce (CFDA #11.437) has been closed and inactive for five years. A balance of \$26,036 due from the grantor agency has not been collected as of September 30, 2010, and there were no records on file to determine the grant status. It was represented that the grant is closed, and the balance due from the grantor agency does not appear collectible. An audit adjustment was proposed to write off the amount as follows:

<u>U.S. Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Commerce	Fish & Wild Life Project	A33601	\$ <u>26,036</u>

9. Two grant awards from the U.S. Department of Education (CFDA #84.002A) with a balance of \$15,550 due from the grantor agency have not been collected as of September 30, 2010, and there were no records on file to determine the grant status as follows:

<u>U.S. Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Education	Adult Education Program 1996	E63583	\$ 12,271
Education	Adult Education Program	E63583	<u>3,279</u>
			<u>\$ 15,550</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

10. Seven grant awards from the National Weather Service of the U.S. Department of Commerce (CFDA #11.460), with an aggregate balance of \$104,956 due from the grantor agency, have not been collected as of September 30, 2010, and there were no records on file to determine the grant status. A reconciliation of the grant awards during audit fieldwork resulted in a proposed audit adjustment to decrease the balance by \$51,514 to its correct balance of \$53,442:

<u>Grant no.</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>	<u>Adjustment</u>	<u>Adjusted Balance</u>
52ABNW200001	A23600	\$ 33,107	\$ (33,107)	\$ -
AB133W-07-RP-0027	A73600	35,337	(35,337)	-
AB133W-07-CN-0081	F83600	23,520	(23,520)	-
AB133W-07-CN-0081	F93600	7,683	(6,252)	1,431
AB133W-07-CN-0081	F03600	52,256	(245)	52,011
52ABNW200001	A33600	(15,186)	15,186	-
AB133W-07-CN-0081	A83600	(31,761)	31,761	-
		\$ <u>104,956</u>	\$ <u>(51,514)</u>	\$ <u>53,442</u>

11. Five grant awards from the Byrd Scholarship Program of the U.S. Department of Education (CFDA # 84.185A) were inactive during the year ended September 30, 2010. A balance of \$23,250 due to the grantor agency remains on the books and there were no records on file to determine the grant status as follows:

<u>U.S. Department</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Education	E83579	\$ (3,000)
Education	E13579	(7,500)
Education	E33579	(6,750)
Education	E63579	(4,500)
Education	E83579	<u>(1,500)</u>
		\$ <u>(23,250)</u>

12. Nine grant awards from the Vocational Education Improvement Program of the U.S. Department of Education (CFDA #84.048) had grantor approval in fiscal year 2008 to use the remaining funding balance of \$46,310 as soon as possible. However, the funding had not been used as of September 30, 2010. Unused funding remains on the books as follows:

<u>U.S. Department</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Education	E63591	\$ (104)
Education	E73591	(1,617)
Education	E93591	(17)
Education	E23591	(895)
Education	E33591	(605)
Education	E43599	(11,216)
Education	E53591	(2,077)
Education	E63591	(12,320)
Education	E73591	<u>(17,459)</u>
		\$ <u>(46,310)</u>



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

13. One award from the U.S. Department of Education (CFDA #84.048) with a balance of \$5,432 due from the grantor agency has not been collected as of September 30, 2010. Although the grant is still active, there were no records on file to determine the grant status as follows:

<u>U.S Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Education	Vocational Education Improvement Prog	E83591	\$ <u>5,432</u>

14. A grant award from the U.S. Department of Education (CFDA #84.187A – Cost Center #H63689) was inactive during the year ended September 30, 2010. A balance of \$3,754 due to the grantor agency remains on the books.
15. A grant award from the U.S. Department of Education (CFDA #84.256A-Cost Center E33595) was closed and has been inactive for over four years. A balance of \$13,451 due to the grantor agency remains on the books as of September 30, 2010.
16. Grant awards from the U.S. Department of Homeland Security (CFDA #83.544) have been closed. However, a balance due to the grantor agency of \$14,524 has not been returned as of September 30, 2010 as follows:

<u>Public Assistance Grants</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
FEMA DPIG Program FY95	A53710	\$ (9,460)
FEMA (HMGP-AG's Office)	A93514	(211)
Narrard Typhoon Shelter	A93516	(3,290)
Ngchesar Typhoon Shelter	A93517	(5)
Typhoon Shelter School	A93518	(1,386)
Harde (4) Typhoon Shelter	D93515	<u>(172)</u>
		\$ <u>(14,524)</u>

17. Twelve grant awards from the Office of Territorial and International Affairs (OTIA) of the U. S. Department of the Interior (CFDA #15.875) have been inactive for over four years, with balances due to and due from the grantor agency as of September 30, 2010 as follows:

<u>U.S. Department</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Interior	PIRRAF Grants Balance	A33833	\$ 15,000
Interior	Fixed Asset Accounting System	A13850	34,735
Interior	Health Information Sys Impr MCI-6	H23851	10,869
Interior	PUC GRT OMIP-PPUC-200101	R13871	3,840
Interior	Palau Wastewater Collection System	R33876	26,000
Interior	ROP / PCC Joint Training	R23880	6,988
Interior	Voc Educ Trng (PCC)	R53880	<u>45,256</u>
	Total due from grantor agency		\$ <u>142,688</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

<u>U.S. Department</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Interior	PPUC OMIP Drawdown's Holding Acct.	A33871	\$ (17,180)
Interior	Highway O&M Engineer	R23886	(30,302)
Interior	GIS Development & Training PAL-85	R23897	(2,946)
Interior	Trmnt/Prev Block Grants	J53836	(14,880)
Interior	Voc Educ Trng (PCC)	R63880	<u>(74,819)</u>
Total due to grantor agency			\$ <u>(140,127)</u>

18. One grant award from the U.S. Department of the Interior (CFDA #15.875) with a balance of \$87,431 due from the grantor agency as of September 30, 2010, has not been collected as of August 2011. The related project was completed in October 2010 and a request for reimbursement was submitted on January 28, 2011. However, the grantor agency requested copies of invoices, receipts and a spreadsheet to support the amount requested on January 28, 2011 and again on May 28, 2011 as follows:

<u>U.S. Department</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Interior	FMS TA-ROP-FMS-2009-2	F93856	\$ <u>87,431</u>

19. One award from the OTIA of the U.S. Department of the Interior (CFDA #15.875) has closed; however, a balance of \$42,097 due to the grantor agency has not been returned as of September 30, 2010. It was represented that the due to grantor balance at September 30, 2010 will zero out as expenditures were recorded subsequent to September 30, 2010. There was no evidence in file that the grant was extended.

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Hospital Patient Records & Billing System	H83863	\$ <u>(42,097)</u>

20. Four grant awards with balances totaling \$12,892 due from grantor agencies have not been collected as of September 30, 2010, and there were no records provided to determine the grant status as follows:

<u>U.S. Department/CFDA</u>	<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Transportation/20.106	Rapid Intervention Vehicle	T8RIV1	\$ 8,400
Transportation/20.106	Runway Rehabilitation Phase I	T5RWR1	1,267
Environmental Protection Agency/66.418	Rural Sanitation Project Phase III	R64681	1,897
Homeland Security/83.544	Ngarbau Typhoon Shelter Admin	D44660	<u>1,328</u>
			\$ <u>12,892</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

21. Five grant award notifications could not be provided as follows:

<u>U. S. Department</u>	<u>Grant</u>	<u>CFDA – Cost Center</u>	<u>Award</u>
Housing and Urban Development	Ngeremlengui School Renovation	14.231- RD0004	\$ 180,000
Environmental Protection Agency	Rural Sanitation Project Phase III	66.418 – R64681	\$ 632,216
Homeland Security	Peleliu Milkfish Project	83.544 – A84661	\$ 29,580
Homeland Security	Peleliu Milkfish Admin	83.544 – D84661	\$ 2,587
Homeland Security	Ngarbau Typhoon Shelter Admin.	83.544 – D44660	\$ 4,905

22. For one grant award from the U. S. Department of Transportation (CFDA # 20.106) with a balance of \$270,327 due from the grantor agency, there were no records on file to determine the status as of September 30, 2010. There have been no subsequent receipts as there has been no reconciliation and request for reimbursement.

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
Perimeter Security Fence	T7PSF1	<u>\$270,327</u>

23. Seventeen non-federal grant awards were inactive during the year ended September 30, 2010. Individual cost center numbers indicate the grants were awarded between 2001 and 2008. There was no indication of grant status as related grant files could not be provided. It was represented that most of these grants have closed. Balances due to the grantor agencies are as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
PAL Capacity Dev for NPP	F83929	\$ (4,024)
National Biodiversity Plan	A23930	(11,870)
Climate Change Interim	A43930	(313)
Energy Support ASST-OPER	A88984	(231,000)
WHO APW Health Career Trng	H43927	(958)
WHO APW Health Career Trng	H63927	(830)
FAA Recruit Quality Pers	A13971	(1,154)
FFA Sponsorol Fishing Boat	S53971	(2,337)
Boundary Delimitation Pro	S73971	(362)
FFA (PDF Conference)	S83971	(1,159)
FFC59 Meeting in Majuro	R53971	(27)
55th Tuna Conference	R43971	(190)
PI Forum Leaders Meeting	S8FFA1	(7,816)
Humanitarian Assistance to PSB	F78974	(51,616)
Curriculum Frameworks	E7PRI1	(1,053)
Palauan Textbook	E7PRI3	(3)
Contintal Shelf	R98988	<u>(78,076)</u>
		\$ <u>(392,788)</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

24. Four non-federal grant awards were inactive during the year ended September 30, 2010, with a balance due from the grantor agency of \$92,213. There was no indication of grant status as related grant files could not be provided as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
National Biosafety Framework	A23931	\$ 42,350
UNDP (Global Env. Mgmt.)	A33939	24,838
TAIYO (TAOCH) Clearing	B91401	25,000
Fisheries & Maritime Cons.	R23971	<u>25</u>
		\$ <u>92,213</u>

25. Five non-federal grant balances at September 30, 2010 could not be substantiated as there were no records on file to determine the grant status and there have been no activities subsequent to September 30, 2010. In addition, an audit adjustment was proposed for \$60,000 to correct the balance due from the grantor under cost center no. E8PRI1:

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>Due from (Due to)</u>
Pride Grant: Palau Achievement Tests	E7PRI2	\$ (600)
Pride Grant: MOE School Handbook	E8PRI1	59,998
Packard EBM Project-EQPB	A63980	2,530
Energy Sect in 5 ACP Isls	F88979	1,594
Taiwan/Palau UN Training	S98984	<u>820</u>
		\$ <u>64,342</u>

26. Two non-federal grants were inactive during the year ended September 30, 2010 that reflected a balance due from the grantor agency. The projects have been completed and there was no indication that balances will be collected. An audit adjustment was proposed to write off uncollectable amounts totaling \$143,071 as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>9/30/10 Balance</u>
UN Devel Programme (UNDP)	F53929	\$ 133,110
UNDP Public Sector Program	A73929	<u>9,961</u>
		\$ <u>143,071</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

27. There were no records to determine the status as of September 30, 2010 of seven non-federal grants with balances due to the grantor agency as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	9/30/10 <u>Balance</u>
PAC Adapt to Climate CHNG	A93930	\$ (49,002)
Marine Law Observer	J8FFA1	(2,859)
FFA-Palau PDF Fund- 15%	R83971	(17,705)
Palau PDF 15%	R03971	(48,636)
EQPB EBM Project Cycle II	A03980	(51,813)
Tech. Coop. Facility	F0TFC1	(17,679)
Purchase X-Ray Machines	H08984	(149,646)
		\$ <u>(337,340)</u>

28. There were no activities subsequent to September 30, 2010 and/or there were no records to determine the grant status as of September 30, 2010 for three grants with balances due to the grantor agency. It was represented that each of the grants are still active as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	9/30/10 <u>Balance</u>
SOPAC-Ngerikiil Watershed	A98975	\$ (146,701)
Ministry of State Equipment	S08968	(99,975)
PAL renewable energy NPE2	F8PE02	(65,387)
		\$ <u>(312,063)</u>

29. There were no records to determine the grant status as of September 30, 2010 for two non-federal grants with receivable balances as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	9/30/10 <u>Balance</u>
2ND National Comm. UNFCCC	A63930	\$ 130,010
IWRM Project (SOPAC)	A78975	<u>1,483</u>
		\$ <u>131,493</u>

30. A memorandum of understanding (MOU) was provided for examination in place of a grant award; however, the MOU was not signed by the awarding Agency. It was represented that the MOU was signed by the awarding Agency but a copy was not provided. A request for the signed MOU has been made; however, as of date of fieldwork, the MOU has not been provided.

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>Award</u>
PAC Adapt To Climate Chng	A93930	<u>\$800,000</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

31. A grant award notification could not be provided for the following fourteen non-federal grants as follows:

<u>Grant Description</u>	<u>Cost Center no.</u>	<u>Award</u>
National Biodiversity Plan	A23930	\$ 330,000
Climate Change Interim	A43930	\$ 15,000
2ND National Comm. UNFCCC	A63930	\$ 405,000
Taiyo (Taoch) Clearing	B91401	\$ 25,000
Fisheries & Maritime Cons.	R23971	\$ 30,000
Marine Law Observer	J8FFA1	\$ 25,000
FFA Sonsorol Fishing Boat	S53971	\$ 114,975
Boundary Delimitation Pro	S73971	\$ 16,985
FFA (PDF Conference)	S83971	\$ 4,980
FFC59 Meeting in Majuro	R53971	\$ 4,348
55th Tuna Conference	R43971	\$ 16,203
PI Forum Leaders Meeting	S8FFA1	\$ 100,000
IWRM Project (SOPAC)	A78975	\$ 31,300
Energy Support ASST-OPER	A88984	\$ 1,669,000

32. There were no records of grant awards that could be provided for thirty-seven non-federal grants capital improvement projects. Further investigation noted these cost centers represent grant awards from 2004 through 2008 in which most of the related projects were completed in prior years but which have not been reconciled as of September 30, 2010. A reconciliation of these grant awards was performed during audit fieldwork and, as a result, an audit adjustment was proposed to correct a \$515,672 overstatement of grants receivable:

<u>Grant</u>	<u>Cost Center no.</u>	<u>Amount</u>
Environ Assessment Study	B40604	\$ -
Elechui Road Improvement	B60102	\$ 20,000
Ordemel Road Repair Proj.	B60201	\$ 350,000
Airai Road Improve Porj.	B60202	\$ 200,000
Marine Resource Road Proj.	B60605	\$ 100,000
Koror Parks Improvement	B60606	\$ 50,000
Solar Lighting System	B61601	\$ 50,000
North Babeldaob Waterline	R64827	\$ 115,000
WB Petroleum T/A Mathching	R64836	\$ 200,000
Peleliu/Angaur UNWAY LGH	R64846	\$ 58,000
NTF Agriculture/Dev/Biodi	R64849	\$ 20,000
Capitol/Melekeok Sewer SY	R64966	\$ 300,000
Museum Project FY 06	R64998	\$ 125,000
PTRL Boat Dry docking/Refit06	J64923	\$ 200,000
PS Patrol Motorcycles	J64924	\$ 200,000
MOH Pac System	H64853	\$ 350,000
Operation Counter Invasion	A64834	\$ 100,000
2007 FEMM	F64815	\$ 10,000
Phase IV-Final A/N Road	R84898	\$ 3,100,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

Grant	<u>Cost Center no.</u>	<u>Amount</u>
Medorm/Elechui Rd. Improv	B40101	\$ 735,001
Kasebelau Rd. Ext/Fire Hyd	B40201	\$ 126,000
Melekeok Road Improvement	B40702	\$ 100,000
Road Construct/Improve	B41001	\$ 50,000
Road Construct/Improve	B41101	\$ 50,000
Ngirngemelas Square	B41401	\$ 50,000
Asphalt Rd Repair/Improv	B41501	\$ 300,000
Peleliu War Memorial	B41502	\$ 5,000
Public Schools Fac. Improv	R44873	\$ 200,000
Koror Cnt Pavement Repair	R44896	\$ 171,000
Koror Wtr./Wastewtr Parts	R44963	\$ 145,448
New Product Dev Committee	F44818	\$ 25,000
Capital Ph III - Sewer	R44962	\$ 2,783,000
Melekeok State Building	B40701	\$ 11,000
Water System Improvement	B40401	\$ 80,000
Wave Retaining Wall/Erosi	B40402	\$ 15,000
Island Ring Road	B40501	\$ 92,000
T-Dock Repair	B40601	\$ 500,000

33. There were no records to determine the status of certain non-federal grant awards for fifty six (56) capital improvement projects as of September 30, 2010 and a balance of \$3,393,242 due to the grantor agency remains on the books as follows:

<u>Grant Description</u>	<u>Fund no.</u>	9/30/10 <u>Balance</u>
Thirty two (32) projects under 2008 State Economic Stimulus Package	440100	\$ (72,713)
Seven (7) projects under 2009 State Economic Stimulus Package	440100	(780,670)
Seventeen (17) projects under 2010 State Economic Stimulus Package	440100	(2,539,859)
		\$ (3,393,242)

Included in the 2008 State Economic Stimulus Package is a project described as Capitol Complex MIS-Ph2 which did not have any activities subsequent to September 30, 2010 for the balance due from the grantor agency. We noted a memo dated December 1, 2008 certifying the completion of the project; therefore, the project was completed as of September 30, 2010; however, the remaining balance due from the grantor agency has not been collected as of date of fieldwork as follows:

<u>Grant</u>	<u>Cost Center no.</u>	9/30/10 <u>Balance</u>
Capitol Complex MIS-Ph2	F84814	\$ <u>179,600</u>

A variance of \$231,000 was noted between the grant award notification amount and the total amount per fiscal year 2008 state stimulus package breakdown. The total per fiscal year 2008 state stimulus package breakdown agrees with the amounts recorded in the schedule of expenditures of Taiwan awards (SETA). However, there was no evidence on file that the grantor agency approved the increase of \$231,000:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Conditions, Continued

<u>Grant Description</u>	<u>Amount per Grant Award</u>	<u>Amount Per schedule</u>	<u>Variance</u>
2008 State Stimulus Package	<u>\$3,600,000</u>	<u>\$3,831,000</u>	<u>\$ 231,000</u>

For amounts presented in condition #s 2, 3, 5, 6, 9, 10, 13, 17, 18, 20, 22, 24, 25, 29 and 33 as due from grantor agencies, the collectability of such does not appear uncertain; however, the Republic has not taken effective measures to timely collect outstanding grants receivable, which will continue to exacerbate the Republic's cash flows. Further failure by the Republic to collect these grants receivable could ultimately result in uncollectible accounts receivable.

Cause: There are no defined policies and procedures requiring the reconciliation of receivables due from and payables due to grantor agencies. The schedules of expenditures of federal and non-federal awards are provided through the audit request process. Much time is spent in the audit request process due to the lack of a systematic filing system for grant-related documents, such as approved grant extensions and status of year end receivables due from and payables due to grantor agencies. In addition, balances due to grantor agencies are not returned after program completion while balances due from grantor agencies are not periodically followed up on.

Effect: The effect of the above condition is a potential misstatement of receivables due from and payables due to federal and non-federal grantor agencies.

Recommendation: We recommend that management communicate with the affected grantor agencies to resolve and close the above mentioned programs. We further recommend that the Republic establish procedures requiring the reconciliation of the receivables due from and payables due to grantor agencies at least quarterly.

Prior Year Status: The lack of reconciliation and resolution of federal and non-federal receivables due from and payables due to grantor agencies was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2009.

Auditee Response and Corrective Action Plan: Item 1 – 33: ROP concurs with reservations. ROP continues to reconcile some of these old grants that expired more than 10 years ago, one more than 20 years ago. ROP has informed and currently working with ministries and agencies who were implementing these projects/grants this fiscal year 2012 and have them communicate to respective grantor agency for reconciliation and proper removal or adjustment to close out these account from ROP's books. ROP continues to communicate with grantor agencies and have received some of the receivables. Some adjustments have been made to close out some of these old accounts. ROP continues to clean up its Schedule of Federal Awards. ROP just recently implemented a new standard operating procedure, in response to similar findings, regarding timely obligation and liquidation of grants and assistance. Ministry of Finance will continue to educate and monitor all ministries to ensure this SOP is properly implemented.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2010-06, Continued

Full name of the person responsible for the corrective action plan: MoF – BNT Director, Chief of Finance & Accounting, Grant Management Coordinator, and respective ministries and agencies.

When will the corrective action plan be implemented: On going effort

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-07  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic Social, and Political Development of the Territories  
Grant Number: Compact of Free Association  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$781,000

Criteria: The Compact of Free Association stipulates the following requirements:

1. That \$631,000 be received by the Republic annually for 15 years commencing on the effective date of the Compact for the following purposes:
  - (1) Surveillance and enforcement of ROP's maritime zone;
  - (2) Health and medical programs, including referrals to hospitals and treatment centers; and
  - (3) Scholarship fund for post-secondary education.
2. That \$150,000 be received by the Republic annually for 15 years commencing on the effective date of the Compact as a contribution for operations and maintenance of communication systems.

Condition: The Fiscal Year 2010 Supplemental Budget Authorization and Appropriation Act appropriated \$631,000 from Compact Section 211(d) and \$150,000 from Compact Section 211(c) for the purpose of covering the operational and contingent expenditures of the Executive Branch. There was no indication that such appropriation was for the purposes stated in the above criteria.

Cause: The cause of the above condition is lack of control procedures to determine compliance with Compact Section requirements.

Effect: The effect of the above criteria is potential noncompliance with Compact Section requirements and questioned costs of \$781,000 result.

Recommendation: We recommend that the Republic establish procedures to determine that appropriated Compact Section funds serve the required purposes.

Auditee Response and Corrective Action Plan: The Republic of Palau ("ROP") responds to Finding No. 2010-07 as follows:

The "Criteria" for Finding 2010-07 misapprehend the applicable law and are inaccurate. As stated in the Criteria, the Compact of Free Association (U.S. Public Law No. 99-658, hereafter "COFA") did in fact provide funds to the ROP pursuant to COFA §211(d) (\$631,000 annually), and COFA §211(c) (\$150,000 annually). However, while otherwise accurately quoted in the Criteria, the Criteria ignores the clause immediately following the enumerated amounts: "for fifteen years commencing on the effective date of this Compact... ."

The COFA entered into force on October 1, 1994, and the 15 year period stated in COFA §211(c)&(d) expired at the end of Fiscal Year 2009, September 30, 2009. While the U.S. Government ultimately did agree to extend direct assistance to the ROP for FY2010 at the same overall level as provided in FY2009, the ROP was under no legal obligation to expend such funding for the same purposes as had been required during the first fifteen years of the COFA.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-07, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic Social, and Political Development of the Territories  
Grant Number: Compact of Free Association  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$781,000

Auditee Response and Corrective Action Plan, Continued:

The Criteria in Finding No. 2010-07 also ignore the clause in COFA §211(c) that permits the ROP to spend the \$150,000 provided annually thereunder “for such other current or capital account activity as the Government of Palau may select.” The ROP has never been limited by the terms of the COFA to only spend the COFA §211(c) funds for the “operations and maintenance of communication systems.”

The “Condition” for Finding 2010-07, for the reasons stated above, and for the following reasons, also misapprehends the applicable law, is inaccurate, and fails to appreciate the logical and practical aspects of the ROP’s expenditures for the types of activities enumerated in COFA §211(c) and (d).

All of the activities enumerated in COFA §211(c)&(d) are in fact performed, paid and accounted for by the ROP regardless of whether they are required by the provisions of the COFA. For instance, the ROP conducts surveillance of and enforces its maritime zone; pays for health and medical programs, including referrals to hospital and treatment centers; and manages a scholarship fund to support the post-secondary education of citizens of Palau attending United States accredited, post-secondary institutions in Palau and in the United States. Similarly, the ROP incurs and pays significant expenses for communications purposes and other current or capital account activity. The \$781,000 cited in Finding 2010-07 is dwarfed by the ROP’s actual expenditures for those activities in FY2010. For health and medical programs alone, the ROP was authorized by The Fiscal Year 2010 Annual National Budget Authorization and Appropriation Act (RPPL No. 8-8”) to spend and did spend over \$6.5 Million. Finding 2010-07 ignores the fact that the ROP did make such expenditures for such purposes.

In light of the foregoing, the ROP rejects the “Cause” and the “Recommendation” set forth in the Finding. The Recommendation in particular is an unnecessary and illogical course of action that the ROP does not intend to implement or pursue.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Fixed Assets

Finding No. 2010-08

Criteria: The Republic's Property Management Policies and Procedures Manual (RPPM) dated September 17, 2003, Chapter IV, section 203.4 § (d), stipulates that the total value of capitalized property recorded in the property accountability records will be compared with the related balances shown in the general ledger control account at least quarterly. Property records must be integrated with or reconciled with the related general ledger account. Any differences will be documented, reconciled, and adjusted in accordance with sound accounting practices to bring the two records into complete agreement.

Condition: Expenditures of \$1,898,000 represent an upgrade of radio communications for the Bureau of Public Safety. This project was not recorded in the fixed assets schedule. It was represented that the total amount of the project should be recorded as one item in the fixed assets schedule; however, as of September 30, 2010, this item has not been recorded. An audit adjustment was proposed to correct the misstatement.

Cause: There is the lack of a mechanism in place to capture transactions affecting the Republic's investment in property.

Effect: The effect of the above condition is a material misstatement of fixed assets.

Recommendation: We recommend that the Republic establish procedures to periodically reconcile fixed assets.

Prior Year Status: Lack of reconciliation of fixed schedules was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: Concur with Auditor citing's. BPS Radio Communication System was not recorded as there was an internal debate whether each component will be capitalized separately or as one system. This system is complete and operational at this time. Property and Supply will take appropriate action to capitalize it. The system will be capitalized as a single unit.

Full name of the person responsible for the corrective action plan: MoF – BNT Director, Chief of Property and Supply, with Chief of Finance and Accounting

When will the corrective action plan be implemented: Radio Communication unit has been capitalized as one complete system with RP No. 4114

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-09  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Developments of the Territories  
 Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
 TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$195,080

Criteria: An effective system of internal control includes policies and procedures requiring that expenditures be authorized, supported and approved prior to incurrence.

Furthermore, per the Property Management Policies and Procedures Manual, Chapter IV, Section 205.1, it is the policy of the Republic to document the receipt of all government equipment/property, regardless of the method or source of acquisition. This includes, but is not limited to, equipment/property that is acquired from commercial sources, fabricated in the government shops, donated, recovered or obtained by transfer. Equipment/property received will be recorded on a receiving report to:

- a) Provide record of receipt;
- b) Provide a document of entry to the records and account; and
- c) Substantiate the disbursement voucher.

Condition:

1. Of forty-three expenditures tested, totaling \$566,917 of a total population of \$678,120, we noted the following:

- a. For six (or 14%), a certificate of completion or equivalent document evidencing receipt of services was not documented, as follows:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
298112	778807	\$ 24,500	R93835	Professional services
70238137	777182	17,700	F93856	MOF – System upgrade
294910	773694	14,000	R93835	Professional Services
70238137	777185	7,500	F93856	MOF – System upgrade
290027	750965	5,120	R93835	Technical support
291515	764628	<u>1,200</u>	R93835	Support development
		<u>\$ 70,020</u>		

- b. For one (or 2%), the expenditure represented an invalid accounts payable voucher (APV) number, as determined by ‘Not In Capps’ in the general ledger. A new APV number was assigned to the same expenditure item to allow for payment, thereby charging the grant twice. There was no credit entry noted to reverse the double recording as of fieldwork:

<u>Cost center</u>	<u>Voucher no.</u>	<u>Amount</u>
F93844	784690	\$ 15,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-09, Continued  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Developments of the Territories  
 Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
 TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$195,080

Condition, Continued:

2. An installation of a comprehensive electronic healthcare patient record and billing system for the Ministry of Health commenced in 2006 and was substantially paid for and completed by December 2010. However, there was a lack of evidence of progress reports obtained requiring that services for disbursements made be received as stated in the executed contract of \$854,880 (contract no. 06-215); and that the status of work completion be monitored. Alternatively, we examined the hardware, software and other items of the project, some of which could not be verified for completeness:

<u>Cost Center no.</u>	<u>Description</u>	<u>Amount</u>
H63863	Misc. (Hardware)	\$ 1,720
	Software:	
H63863	Fixed Assets	12,000
H63863	Billing/Accounts Receivable	23,500
H63863	Inventory	18,000
H63863	Train the Trainer	15,000
H83863	8 scanners unlocated at \$980 ea	7,840
H83863	System Administrator Training	17,000
H83863	Additional Training	<u>15,000</u>
	Total	\$ <u>110,060</u>

Cause: The cause of the above condition is lack of conformance with existing procedures to determine that recording of expenditures and use of federal funds are proper and that adequate documentation is maintained to support program expenditures. Furthermore, there is a lack of timely account reconciliation.

Regarding Condition 2, although we verified the overall installation of the comprehensive electronic healthcare patient record and billing system, we could not substantiate successful completion of the above sections of the project as specifically itemized in the contract. The above criteria have not been implemented for the acquisition of equipment/property acquired through the use of executed contracts. Receiving reports are only utilized for equipment/property acquired through purchase orders.

Effect: The effect of the above condition is possible use of federal funds for invalid expenditures, and questioned costs of \$195,080 result.

Recommendation: We recommend that the Republic strengthen procedures so that adequate documentation supporting program expenditures is maintained on file and that vouchers entered into the accounts payable subsidiary ledger system are reconciled timely.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-09, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Developments of the Territories  
Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$195,080

Prior Year Status: The lack of certificate of completion or equivalent evidencing receipt of services was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

The lack of implementation of the above criteria for the acquisition of equipment/property based on executed contracts was reported as a finding in the Single Audit of the Republic for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal control guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures.

Full name of the person responsible for the corrective action plan: Minister of Finance, Director of National Treasury, Chief of Property & Supply, Chief of Finance & Accounting, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented: Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-10  
 CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories  
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program  
 CFDA Program: U.S. ED 84.027 Special Education – Grants to States  
 CFDA Program: U.S. ED 84.256 Freely Associated States - Education Grant Program  
 CFDA Program: U.S. DHHS 93.069 Public Health Emergency Preparedness  
 CFDA Program: U.S. DHHS 93.224 Consolidated Health Centers  
 CFDA Program: U.S. DHHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4, TA-ROP-CSP-2008-3, OMIP-ROP-2007-2; NAT-1-4416-1-1-10, NAT-1-4416-1-1-11, NAT-1-4416-1-1-12, NAT-1-4416-1-1-13, NAT-1-4416-1-1-13; H027A090006A; S256A090006; 1H75TP000331; 6H80CS02467-25-00, 2H80CS0002467-24-00; 3U50CI923972-05S1, 5U58DP000776-02, 5U58DP00076-04, 1U58DP001952-01, 5U58DP001952-02, 5UR3DD000416-02, 5UR3DD000416-03;  
 Requirement: Equipment and Real Property Management  
 Questioned Costs: \$0

Criteria: Procedures for managing equipment, whether acquired in whole or in part with grant funds, should meet the following requirements:

- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who hold title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of property, and any ultimate disposition data including the date of disposal and sale price of the property;
- If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to require the highest possible return.
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
- A control system must be developed to require adequate safeguards to prevent loss, damage, or theft of the property;
- Adequate maintenance procedures must be developed to keep property in good condition.

Conditions:

CFDA #15.875

1. Of the eighteen assets listed as program equipment, totaling \$127,968, and acquired between 2008 and 2010, nine items, totaling \$78,987, were tested and the following were noted:
  - a. Related software costs were not included in the fixed asset listing provided for the following information systems:

<u>Cost Center</u>	<u>Cumulative Expenditures</u>	<u>System</u>
H63863/H83863	\$ 807,334	Hospital Collection and Billing System (Phase I and II)
E73877	235,372	Computer Maintenance and Management System
E73877	<u>30,972</u>	Networked computer system
	<u>\$1,073,678</u>	



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-10, Continued

Conditions, Continued

- b. In examining one fixed asset (scanner with tag # RP-3514), purchased on March 09, 2005 at a cost of \$7,730; we noted that the asset was placed on a shelf and was not in use. Although the asset may still be utilized, it has been sitting idle for three years.

CFDA #20.106

2. Of three listed program assets, totaling \$1,386,164, the following were noted:

- a. One item (TAG# LP 1165) had a purchase cost that differed from underlying property records, and there was no evidence of a reconciliation performed, as follows:

<u>Listed cost</u>	<u>Correct cost</u>	<u>Variance</u>
\$150,400	\$376,000	\$225,600

- b. A complete reconciliation of fixed assets was not performed in fiscal year 2010. Our tests of fixed assets noted that four assets, including two infrastructure assets, were not included in the fixed assets listing, as follows:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C7001301	Aircraft Rescue and Fire Fighting Building	\$ 3,020,782
C6001001	Airport Runway	18,077,044
C8000101	Loading Bridges and Convey Construction	3,277,282
Vchr#664572/check no. 258801	Auxiliary equipment (Trailer)	<u>333,126</u>
	Total Assets	\$ <u>24,708,234</u>
C9003001/0901	Construction and Design of secondary Apron (in progress)	\$ 5,718,637
C8002701	Perimeter Security Fence (in progress)	<u>2,023,467</u>
	Total Construction in Progress	<u>7,742,104</u>
	Total	\$ <u>32,450,338</u>

CFDA #84.027

3. Of twenty fixed assets listed as program equipment, totaling \$324,745, acquired between 1996 and 2010, thirteen items, totaling \$287,480, were selected for verification, and the following were noted:

- a. A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. One asset (tag no. MP-99766, purchase date: 7/1/1998, cost: \$4,285) was not included in the inventory count sheets and was classified as an unlocated asset in the fixed asset records. We were informed that the custody of the asset was transferred from Special Education to the Ministry of Education. We were able to verify the existence of the asset; thus, no questioned costs result.

- b. There was no evidence of an effective maintenance plan throughout the year ended September 30, 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-10, Continued

Conditions, Continued

CFDA# 84.256

4. Of twenty-three fixed assets listed as program equipment, totaling \$237,304, acquired between 1996 and 2009, twelve items totaling \$153,929, were selected for verification, and the following were noted:

- a. There was no evidence of an effective maintenance plan throughout the year ended September 30, 2010.
- b. A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. The fourteen items tested were not included in the inventory count sheets. We were able to verify the existence of thirteen items, and one remains unlocated. Details are as follows:
  - i. One asset (tag no. RP-2014, purchase date: 3/31/99, cost: \$26,700) was not operable as of September 30, 2010, but is still recorded in the fixed asset records. The same asset was raised as a finding in the FY2009 audit for lack of an official report of survey. A report of survey was subsequently provided on April 4, 2011 in response to audit requests.
  - ii. Eleven assets were not counted by ROP personnel but were sighted in the audit process (no questioned costs result since the assets were verified):

<u>Tag No.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-2001	03/04/1999	PICK-UP, LP# 639, NISSAN 4-DR	\$ 18,895
RP-2014	03/31/1999	DUPLO DUPLICATOR	26,700
RP-2807	06/30/2001	PUBLIC ADDRESS SYSTEM DISC PLAYER W/ BAR CODE	16,800
RP-99637	01/28/1998	READER DISC PLAYER, W/COLOR	12,147
RP-99636	01/28/1998	TELEVISION DISC PLAYER W/COLOR	12,146
RP-99638	01/28/1998	TELEVISION	12,146
RP-99645	02/04/1998	VIDEODISCS	5,642
RP-99648	02/04/1998	VIDEO DISC PLAYER	5,642
RP-99651	02/04/1998	VIDEO DISC PLAYER	5,642
RP-2956	11/16/2000	OUTBOARD ENGINE, MOTOR	8,070
RP-3479	07/30/2004	CPU/HARD DRIVE, XSERVE DUAL	7,099

iii. We could not verify the existence of one asset. We were informed that the asset was transferred to a repair shop, but further investigation revealed that the item was broken and could not be repaired. A report of survey was prepared in February 2011 for the disposal of the asset; however, the asset could not be located in the repair shop. An official transfer or property form or equivalent documentation supporting the transfer was not available. The asset was reported missing in the 2009 Single Audit of the Republic as follows:

<u>Tag No.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-98467	06/25/1996	JEEP, LP# 556, GRAND CHEROKEE	\$ 23,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-10, Continued

Conditions, Continued

CFDA #93.069

5. During the update of our understanding of the program's flow of transactions, we noted there was no evidence of an effective maintenance plan throughout the year ended September 30, 2010.

CFDA #93.224

6. During the update of our understanding of the program's flow of transactions, we noted adequate maintenance procedures were not evident, and there was no evidence that an annual inventory was performed. Of the twenty assets listed as program equipment totaling \$194,381 acquired between 2001 and 2010, twelve items totaling \$145,071 were selected for verification, and the following were noted:

- a. A complete reconciliation of the fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. One asset could not be located and was not included in the inventory count sheets as follows:

<u>Tag No.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-2688	02/06/2001	PICK-UP, LP# 787, CHASSIS NO.	\$ 6,900

- b. Two assets were not operable as of September 30, 2010. However, there has been no official report of survey as of May 2011, as follows.

<u>Tag no.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-3326	01/10/2003	COPIER, DIGITAL, CANON	\$ 7,517
RP-3408	12/29/2003	TERRANO, LP# 896, NISSAN 1996	\$ 9,250

CFDA# 93.283

7. Of twenty-five fixed assets listed as program equipment totaling \$392,325 and acquired between 2004 and 2009, seventeen items, totaling \$330,058 were selected for verification, and the following was noted:

- a. There was no evidence of an effective maintenance plan throughout the year ended September 30, 2010.
- b. One asset (tag no. RP-3598, purchase date: 4/10/2006, cost: \$6,250) was not included in the inventory count sheets and was classified as unlocated in the fixed asset records. We were informed that the unlocated asset was returned when a similar asset was purchased to obtain an offered discount. The new asset is not reflected in the fixed asset records and is not in use.

<u>Cost Center No.</u>	<u>Amount</u>	<u>Description</u>	<u>Remarks</u>
H03683	\$5,630	MAMMO BUCKY FOR GE800T SYSTEM	Not included in fixed asset records

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-10, Continued

Conditions, Continued

- c. We could not verify the existence of an asset. We were informed that the asset was sent for repair; however, further investigation revealed that the item was broken and could not be repaired. It was represented that the item was subsequently sent to the Division of Property and Supply (DPS) for disposal. Staff of DPS represented that they were not aware that the item was sent to their office. There has been no official report of survey to dispose of the asset.

<u>Tag No.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-3492	12/15/2004	Mammography Processor, AGFA	\$ 25,250

- d. In addition, one asset was not included in the fixed asset records provided.

<u>Cost Center</u>	<u>Amount</u>	<u>Description</u>	<u>Remarks</u>
H93683	\$7,546	MAMMOGRAPHY PROCESSOR, AGFA	Not included in fixed asset records

- e. Certain software recorded in the fixed asset records is no longer in use. We were informed that the recorded software was replaced by a new system and was not removed from the asset records.

<u>Tag No.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
SWR-1031	11/15/2004	Software, Microsoft MS	\$ 12,678
SWR-1032	11/15/2004	Software, Microsoft SQL server	<u>25,664</u>
			<u>\$ 38,342</u>

Cause: The cause of the above condition is a lack of controls over fixed assets. There is no mechanism in place to capture all categories of assets purchased under each grant and to determine that all assets listed are operable and in use.

Effect: The effect of the above condition is noncompliance with federal equipment management regulations.

Recommendation: We recommend that the Republic strengthen control procedures to facilitate compliance with federal equipment management regulations. In addition, management should take reasonable steps to address all assets purchased so that assets do not sit idle.

Prior Year Status: Weaknesses in controls over fixed assets were reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2009.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-10, Continued

Auditee Response and Corrective Action Plan: ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal controls guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures. MOF management is currently communicating with the FMS provider, namely CDC Software, Inc. on the possibility of utilizing the Fixed Asset module for recording and maintenance of ROPNG fixed assets records.

Full name of the person responsible for the corrective action plan: Minister of Finance, Director of National Treasury, Chief of Property & Supply, Chief of Finance & Accounting, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented: Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331-01  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$144,599

Criteria: In accordance with applicable procurement regulations, all procurement transactions should be conducted in a manner providing full and open competition. It specifically requires the following:

- For procurement under small purchase procedures, price or rate quotations shall be obtained from an adequate number of qualified sources;
- For procurement by sealed bids, bids should be publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price.

Additionally, procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

- The item is available only from a single source;
- The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
- The awarding agency authorizes noncompetitive proposals; or
- After solicitation of a number of sources, competition is determined inadequate.

Condition: Of forty-six expenditures tested, totaling \$475,560, of a total population of \$1,106,406, the following exceptions were noted:

1. For nineteen small purchase expenditures, the related procurement documents evidencing competitive procurement were not available. We were informed that procurement requirements were not followed because the President of the Republic of Palau waived application of the procurement policy. However, there was no evidence that the grantor agency approved the waiver of federal requirements.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
285572	753513	\$ 5,000	H98656	Space rental
293868	754306	3,075	H98656	Medical supplies
288601	754570	9,995	H98656	Copier machine
288552	759694	8,100	H08656	Chillers
288530	760128	5,000	H98656	Space rental
305572	762256	3,950	H98656	Thermometers
290922	764457	5,000	H98656	Space rental
290922	764459	5,000	H98656	Space rental
293852	764597	3,986	H98656	Space rental
292654	766045	7,000	H98656	Space rental
292651	766044	5,000	H98656	Space rental

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.069 Public Health Emergency Preparedness  
 Grant Number: 1H75TP000331-01  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$144,599

Condition, Continued:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
292892	769134	9,445	H08656	Medical supplies
293995	771343	7,000	H08656	Space rental
293845	771274	5,400	H98656	Advertisements
294102	772671	5,000	H98656	Space rental
296853	780120	9,600	H98656	Summer camp
297601	781811	4,500	H98656	Space rental
295695	DF000119	7,000	H98656	Space rental
301148	791083	<u>7,945</u>	H08656	Computer equipment
		<u>\$116,996</u>		

2. For five expenditures, the lowest price quote was not selected, and either justification is not sufficient or there was no justification documented in the file. The amount of questioned costs reflects the difference between the lowest and the selected bids, as follows.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Questioned Costs</u>	<u>Cost center</u>	<u>Remarks</u>
297623	A	\$ 9,662	H08656	
286740	755232	2,000	H98656	
287792	755234	4,140	H98656	We were not able to quantify the difference between the lowest and the selected bid. The amount of questioned costs represents the total invoice amount
287792	755235	3,860	H98656	
302210	792315	<u>7,941</u>	H98656	
		<u>\$ 27,603</u>		

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331-01  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$144,599

Condition, Continued:

3. For one expenditure item, there was no evidence on file that quotations were obtained from an adequate number of qualified sources. Four vendors were solicited for the procurement action below, but only two positive responses were received.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
284949	752028	\$ 3,625	H08656	Chiller

Cause: The cause of the above condition is potentially inadequate procurement documentation and inadequate compliance with laws. Under Condition 3, the Republic contacted four vendors even though only two responded. Procurement regulations are not clear as to whether the Procurement Officer shall obtain positive responses from at least three vendors.

Effect: The effect of the above condition is noncompliance with applicable federal procurement regulations. The amount of \$3,625 presented in Condition 3 is not questioned as a determination is necessary to clarify whether the procurement officer shall obtain three positive responses.

Recommendation: We recommend that the Republic comply with the criteria. If exceptions are allowed by procurement regulations, they should be reviewed and approved, and the reasons should be documented in the procurement file.

Auditee Response and Corrective Action Plan:

2010-11(1): ROPNG does not concur to this finding. These transactions were processed in accordance with procurement waiver issued by President, memo no. 09-585. Additionally, following is an email communication from the grantor agency indicated that the programs were implemented in conformance with the Federal requirements: Refer to the following excerpts from the grantor's email.

Here is the link to the H1N1 PHE Declaration:

\*\*\*Public Health Emergency Declaration [http://www.hhs.gov/secretary/phe\\_swh1n1.html](http://www.hhs.gov/secretary/phe_swh1n1.html)

6.302 Circumstances permitting other than full and open competition.

The following statutory authorities (including applications and limitations) permit contracting without providing for full and open competition. Requirements for justifications to support the use of these authorities are in 6.303.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331-01  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$144,599

Auditee Response and Corrective Action Plan, Continued:

6.302-2 Unusual and compelling urgency.

(a) Authority.

(1) Citations: 10 U.S.C. 2304(c)(2) or 41 U.S.C. 253(c)(2).

(2) When the agency's need for the supplies or services is of such an unusual and compelling urgency that the Government would be seriously injured unless the agency is permitted to limit the number of sources from which it solicits bids or proposals, full and open competition need not be provided for.

(b) Application. This authority applies in those situations where—

(1) An unusual and compelling urgency precludes full and open competition; and

(2) Delay in award of a contract would result in serious injury, financial or other, to the Government.

(c) Limitations.

(1) Contracts awarded using this authority shall be supported by the written justifications and approvals described in 6.303 and 6.304. These justifications may be made and approved after contract award when preparation and approval prior to award would unreasonably delay the acquisition.

(2) This statutory authority requires that agencies shall request offers from as many potential sources as is practicable under the circumstances.

(d) Period of Performance.

(1) The total period of performance of a contract awarded using this authority—

(i) May not exceed the time necessary—

(A) To meet the unusual and compelling requirements of the work to be performed under the contract; and

(B) For the agency to enter into another contract for the required goods and services through the use of competitive procedures; and

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331-01  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$144,599

Auditee Response and Corrective Action Plan, Continued:

- (ii) May not exceed one year unless the head of the agency entering into the contract determines that exceptional circumstances apply.
- (2) The requirements in paragraph (d)(1) of this section shall apply to any contract in an amount greater than the simplified acquisition threshold.
- (3) The determination of exceptional circumstances is in addition to the approval of the justification in 6.304.
- (4) The determination may be made after contract award when making the determination prior to award would unreasonably delay the acquisition.

Sharon  
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2010-11(2 & 3): ROPNG does not concur to these findings. These transactions were processed in accordance with procurement waiver issued by President, memo no. 09-585. Additionally, following is an email communication from the grantor agency indicated that the programs were implemented in conformance with the Federal requirements: Refer to the following excerpts from the grantor's email.

Here is the link to the H1N1 PHE Declaration:

\*\*\*Public Health Emergency Declaration [http://www.hhs.gov/secretary/phe\\_swh1n1.html](http://www.hhs.gov/secretary/phe_swh1n1.html)

6.302 Circumstances permitting other than full and open competition.

The following statutory authorities (including applications and limitations) permit contracting without providing for full and open competition. Requirements for justifications to support the use of these authorities are in 6.303.

6.302-2 Unusual and compelling urgency.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331-01  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$144,599

Auditee Response and Corrective Action Plan, Continued:

(a) Authority.

(1) Citations: 10 U.S.C. 2304(c)(2) or 41 U.S.C. 253(c)(2).

(2) When the agency's need for the supplies or services is of such an unusual and compelling urgency that the Government would be seriously injured unless the agency is permitted to limit the number of sources from which it solicits bids or proposals, full and open competition need not be provided for.

(b) Application. This authority applies in those situations where—

(1) An unusual and compelling urgency precludes full and open competition; and

(2) Delay in award of a contract would result in serious injury, financial or other, to the Government.

(c) Limitations.

(1) Contracts awarded using this authority shall be supported by the written justifications and approvals described in 6.303 and 6.304. These justifications may be made and approved after contract award when preparation and approval prior to award would unreasonably delay the acquisition.

(2) This statutory authority requires that agencies shall request offers from as many potential sources as is practicable under the circumstances.

(d) Period of Performance.

(1) The total period of performance of a contract awarded using this authority—

(i) May not exceed the time necessary—

(A) To meet the unusual and compelling requirements of the work to be performed under the contract; and

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-11, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331-01  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$144,599

Auditee Response and Corrective Action Plan, Continued:

(B) For the agency to enter into another contract for the required goods and services through the use of competitive procedures; and

(ii) May not exceed one year unless the head of the agency entering into the contract determines that exceptional circumstances apply.

(2) The requirements in paragraph (d)(1) of this section shall apply to any contract in an amount greater than the simplified acquisition threshold.

(3) The determination of exceptional circumstances is in addition to the approval of the justification in 6.304.

(4) The determination may be made after contract award when making the determination prior to award would unreasonably delay the acquisition.

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Auditor Response: Given the nature of the transactions indicated above and the limited number of vendors on island, it would appear feasible to solicit at least three quotes or a cost analysis thus, permitting full and open competition. In addition, approval by the grantor agency to waive application of procurement requirements was not evident. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-12  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$93,442

Criteria: In accordance with applicable allowable costs/cost principles requirements, the following apply:

- Expenditures should be in accordance with the applicable cost principles and should benefit the Program.
- Prior grantor approval should be obtained prior to purchasing capital outlays in excess of \$5,000.
- If an employee works less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.
- Where employees are expected to work solely on the program, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Furthermore, the U.S. Public Health Service Grants Policy Statement Section 8-1 allows for cumulative amounts of transfers among direct cost categories for the current budget period without prior grantor approval, not to exceed 25% of the total amount awarded, or \$250,000, whichever is less. In addition, the grantee is permitted to re-budget within and between budget categories in the approved total direct cost budget of the project to meet unanticipated requirements or to accomplish certain programmatic changes.

Condition:

1. Expenditures of \$24,500, representing space rental for monthly meetings of the Governing Board, could not be agreed to grant award budget breakdown. It was represented that the budget for space rental was included in the authorized budget shifting; however, such shifting was not evident in grant files. In addition, space rental appears to be anticipated costs of the program throughout the year, rather than unanticipated requirements or programmatic changes, and should have been incorporated in the initial grant budget request. Questioned costs of \$24,500 exist.
2. Of nineteen expenditures tested, totaling \$185,278 of a total population of \$429,443, the following exceptions were noted:
  - a. Expenditures which represent space rental for monthly meetings of the Governing Board throughout fiscal year 2010 amount to \$24,500, of which \$22,207 could not be traced to minutes of board meetings. Four invoices totaling \$2,293 were traced to board minutes dated October 30, 2009; December 18, 2009; April 30, 2010; and August 27, 2010. Details of unsupported space rental are as follows:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-12, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$93,442

Condition, Continued:

<u>Voucher no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>
U00064	\$ 1,333	2H80CS02467-24-00	H93690
U00170	3,388	2H80CS02467-24-00	H93690
U00298	8,486	6H80CS02467-25-01	H03690
U00404	3,500	6H80CS02467-25-01	H03690
U00450	<u>5,500</u>	6H80CS02467-25-01	H03690
	\$ <u>22,207</u>		

This questioned cost is already included in Condition 1 above.

- b. Travel costs were charged to the program for an employee of the Ministry of Health, who is not specifically associated with, or employed by, the Community Health Center program, to attend a Sage MIP Accounting System workshop from July 25 to 29, 2010. In addition, there was no evidence indicating that the Sage MIP Accounting system was being, or has been, used by the program or the Ministry of Health as of September 30, 2010 or through the date of our inquiry in June 2011:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
788169	300161	\$ 2,642	6H80CS02467-25-01	H03690	Per diem, airfare, taxi fare and registration fee

- c. There was no receiving report or equivalent document in file to support the expenditure recorded:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF000067	277257	\$ 60,000	2H80CS02467-24-00	H93690	Wireless connection to Peleliu Dispensary

- d. There was no prior grantor approval for the following purchase:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
777522	296893	\$ 6,300	6H80CS02467-25-01	H03690	1 boat trailer

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-12, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$93,442

Condition, Continued:

3. Of the fourteen employees tested, with salaries totaling \$9,290, of a total population of \$232,366, we noted the following:
- a. Not all personnel appear to work 100% on the program; however, 100% is charged to the program. Salaries unrelated to the program could not be determined based on available evidence, and therefore, no questioned costs could be estimated for the programs (i.e., check nos. 1286305, 1296139, 1305958, 1308375, and 1315766).
  - b. For nine (or 64%) charged to grant numbers 2H80CS02467-25-00 and 2H0CS02467-25-01, there was no evidence of periodic or at least semiannual certification obtained from the employee who worked 100% on the program (i.e., check nos. 1259435, 1261868, 1274040, 1278935, 1288768, 1293688, 1298578, 1301022, and 1303495).

Cause: The causes of the above are as follows:

1. lack of documentation to support rental expenditures for board meetings;
2. lack of documentation substantiating receipt of acquired goods/services;
3. lack of controls over obtaining required prior grantor approval;
4. lack of monitoring controls over allowable costs;
5. lack of policy to maintain contemporaneous records documenting the time worked per applicable program and lack of an alternative system either developed or approved by the grantor agency;
6. lack of policy to require periodic certifications from employees who work solely on the program; and
7. lack of documentation substantiating the manner in which the program budget is allocated in the allotment process.
8. lack of established policies and procedures to confirm proper recording of expenditures and use of federal funds.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of \$93,442 result.

Recommendation: We recommend that the Republic establish procedures requiring that expenditures be valid and substantiated by documentation supporting program relevancy, that periodic certification be obtained from employees who work solely on the program, and that the program budget allocation/allotment form be prepared based on the actual cost categories of the grant award. Changes to the grant's cost categories should be documented accordingly.

Further, we recommend that the Republic discuss Condition 3 with the funding agency and an approved method of cost allocation be adopted.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-12, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$93,442

Prior Year Status: Noncompliance with cost allocation principles requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2009.

Auditee Response and Corrective Action Plan:

2010-12(1a): Space Rentals were initially requested to cover Board meetings. Later on it became necessary for the Program to convene meetings with and between other community partners and Ministry of Health staff who are involved in activities that supports the Program and the established MOA between Governing Board and Ministry of Health. As such, Program consolidated these meetings to an established purchase order for space rentals and processed shifting and redirection of funds to appropriate subaccounts with concurrence from Project Officer. It is widely understood that had the program requested funds specifically for space rental in the request it would have requested for within the "Others" line item because there is no separate line item on the NGA for "All Other Rentals". In this case, "Other" is an approved line item of the budget. Program will incorporate required budget in the budget narrative and will improve filing system for all shifting.

2010-12(2a): Space Rentals were initially requested to cover Board meetings. Later on it became necessary for the Program to convene meetings with and between other community partners and Ministry of Health staff who are involved in activities that supports the Program and the established MOA between Governing Board and Ministry of Health. As such, Program consolidated these meetings to an established purchase order for space rentals and has further incorporated this activity into its annual budget narrative. It is not required to provide minutes of other meetings that are not strictly "Board meetings".

2010-12(2b): Employee who attended this training is associated with Community Health Centers as they are responsible for grants management aspect of the grant (i.e. procurement, payroll, and billing & collection processes). Community Health Centers contributed to this training knowing that the overall goal is to improve efficiency in the financial management of the grants. There was no evidence indicating the system is being used at this time because it was not meant to be implemented during this period. The first phase of implementation was tentatively scheduled for October 2011, but dependent on the readiness level for employees involved and other relevant factors.

2010-12(2c): This was a contract and thus no receiving report was required. Wireless Connection is in use at this time. Certificate of Completion has been requested from Mindy Sugiyama, HIS Manager. Program Manager will ensure future connectivity projects will have documented certification of completion.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-12, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$93,442

Auditee Response and Corrective Action Plan, Continued

2010-12(2d): This was supposed to be a cost-shared activity for two Program's who frequently uses the boat for outreach activities. Error was made during the requisitioning process and was charged entirely in CHC Account. Specific request is being reviewed and expenditures to be transferred to appropriate account. Original approved budget was for \$3,150 per program. Program to ensure that prior grantor approval is documented for purchase of similar items.

2010-12(3a): Program concurs with this finding in that due to nature of work and the MOA it was close to impossible to maintain determination of fte's related and unrelated to program. Program had continued to rely on individual schedules and estimates of time and effort spent to estimate fte's followed by continuous updates to annual budget narratives. There is an ongoing effort by the Ministry of Health to develop a cost allocation plan for employees. We anticipate that this will eventually address this issue of allocating and accounting for personnel time spent on Community Health Centers.

2010-12(3b): We concur with this finding. The issues of employee certification and time effort logs have been discussed extensively. Semi-annual certifications for employees were prepared in prior years but the process was not sustainable and cost effective. We have re-evaluated the existing process and will be implementing a more cost-effective approach for employee certification, a process that will be less costly while still meeting this requirement. Forms are being developed which will consolidate verification and certification of employees who spent all or a fraction of their time on each program. To ensure sustainability of this reporting we are currently discussing to integrate with payroll or human resource business processes.

Full name of the person responsible for the corrective action plan:

2010-12(1): MoH Comptroller and MoH Program Managers & staffs  
MoH Comptroller and MoH Program Managers & staffs  
2010-12(3a,b): MoH Comptroller and MoH Program Managers & MoH Human Resource

When will the corrective action plan be implemented: Implemented January 1, 2011

2010-12(3a,b): October 1, 2012

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-13  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
 Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
 TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
 Requirement: Period of Availability of Federal Funds  
 Questioned Costs: \$77,179

Criteria: Expenditures should be obligated and liquidated within the grant period as stated in the grant terms and conditions.

Condition: Of forty-three expenditures tested, totaling \$566,917, of a total population of \$678,120, six expenditures were not liquidated within the grant period, and an approved grant extension was not evident.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Grant Period End</u>	<u>Check Date</u>	<u>Cost Center</u>	<u>Amount</u>
289434	758354	01/01/10	02/05/10	F83844	\$ 18,000
297759	782466	04/30/10	08/09/10	A83868	34,679
291620	751679	01/01/10	03/16/10	F83844	10,000
297800	782049	01/01/10	08/11/10	F83844	6,000
297800	782051	01/01/10	08/11/10	F83844	4,500
297800	782050	01/01/10	08/11/10	F83844	<u>4,000</u>
					\$ <u>77,179</u>

Cause: The cause of the above condition is inadequate monitoring of existing procedures requiring that grant funds be obligated and liquidated within the grant period.

Effect: The effect of the above condition is noncompliance with grant period of availability requirements and questioned costs of \$77,179 result.

Recommendation: We recommend that the Republic strengthen procedures requiring that grant funds be obligated and liquidated within the grant period.

Prior Year Status: Lack of internal control procedures over period of availability of Federal funds was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROP concurs with the finding but does not concur with the questioned cost. ROP did communicate to grantor agency by sending final financial reports and request for reimbursements. Grantor agency honored ROP's request and reimbursed ROP. These expenses were necessary, reasonable, and allocable to the program. ROP will make sure to ask for grant extensions.

Full name of the person responsible for the corrective action plan: MOF-BNT Director, Chief of Finance & Accounting, and Grant Management Coordinator

When will the corrective action plan be implemented: On-going

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-14  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.185 Byrd Honors Scholarships  
Requirement: Eligibility  
Questioned Costs: \$36,000

Criteria: In accordance with 34 CFR 654, The Robert C. Byrd Honors Scholarship Program, only students who meet the eligibility criteria set out in sections 654.40 and 654.51 are eligible for scholarship. The eligibility criteria are as follows:

- a. applicant must be a citizen, national, permanent resident of the Republic of Palau or the United States;
- b. applicant must have a cumulative GPA of 3.5 or better and a TOEFL score of 500 or better;
- c. applicant must be in the top five ranking of the class; and
- d. applicant is not ineligible to receive assistance as a result of default on a Federal student loan or other obligation, as provided under 34 CFR 75.60.

Condition: Of thirty-four scholarship expenditures tested, totaling \$51,000, of a total population of \$60,000, the following were noted:

- 1. For fifteen applicants, the student either has a GPA below 3.5 or is not in the top five ranking of his/her class.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Scholarship Amount</u>
286157	754788	\$ 1,500
286175	754755	1,500
286128	754758	1,500
286130	754773	1,500
286134	754784	1,500
286135	754783	1,500
286163	754771	1,500
286150	754765	1,500
286151	754766	1,500
286153	754781	1,500
286156	754787	1,500
286158	754789	1,500
286160	754768	1,500
286161	754761	1,500
286167	754762	<u>1,500</u>
Total questioned cost		<u>\$22,500</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-14, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.185 Byrd Honors Scholarships  
Requirement: Eligibility  
Questioned Costs: \$36,000

Condition, Continued:

2. There is no internal control process in place to determine whether applicants currently enrolled in an institution of higher education are ineligible for the scholarship as a result of default on federal student loan or other obligations.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Scholarship Amount</u>
286167	754762	\$ 1,500
286156	754787	1,500
286128	754758	1,500
286175	754755	<u>1,500</u>
Total already questioned in 1. above		<u>6,000</u>
286138	754753	1,500
286172	754760	1,500
286173	754752	1,500
286141	754754	1,500
286127	754757	1,500
286168	754751	1,500
286139	754750	1,500
286174	754749	1,500
286146	754756	<u>1,500</u>
Total questioned costs		<u>13,500</u>
		\$ <u>19,500</u>

Cause: The cause of the above conditions is lack of controls over eligibility requirements.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$36,000 result.

Recommendation: We recommend that the Program require that only eligible applicants receive financial assistance.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-14, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.185 Byrd Honors Scholarships  
Requirement: Eligibility  
Questioned Costs: \$36,000

Auditee Response and Corrective Action Plan:

Response to 2010 CFDA Program: 84.185 Byrd Honor Scholarships Audit Finding:

We are not concurring with this audit finding as the following will attest that criteria for selecting scholarship recipient was adhered to and while each student met all requirements under the scholarship program, the attached criteria clearly shows that there is an internal control over all funding disbursements under the program.

In the attached “Criteria for Selecting Scholarship Recipient” under the A Renew Application Must:

A renew application must:

- continue to be enrolled full-time
- make satisfactory academic progress as determined by the college he/she is enrolled in
- provide official college transcript(s) of grades
- provide confirmation from a school official regarding his/her enrollment status and academic standard

Under Condition #1, page 57, the fifteen applicants were continuing students; therefore, fall under “A Renew Application” criteria. Since they are either in their second year or more, they meet each of the four criteria. They have to be 1. Continue to be enrolled full-time, 2. Make satisfactory academic progress as determined by the college he/she is enrolled in, 3. Provide official college transcript of grades, and 4. Provide confirmation from a school official regarding his/her enrollment status and academic standard.

The “Criteria for Selecting Scholarship Recipient” under the “A Renew Application Must” serve as the program’s internal control. Per internal control process, a school submits the continuing student’s official transcript and a letter confirming that the student is in good academic standard.

In addition, a school official transcript will not be released to any institution unless the student has fully paid all of his/her student debts or loans. A student will not be allowed to enroll or continue in any US college or university if he/she is in default in student loans. If students are deemed as in “good standing”, they must maintain good grades as well as financial obligations to the school.

Auditor Response: Under Condition 1., eleven (11) applicants were first time applicants and four (4) were renew applicants who did not provide evidence of satisfactory academic progress, therefore the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-15  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$49,570

Criteria: Costs charged to the grant should have direct or indirect benefit to the grant. In addition, expenditures must be authorized and fall within the grant budget.

Condition: Of forty-three expenditures tested, totaling \$475,560, of a total population of \$1,106,406, two expenditures related to one item for computer software, but were not specified in the grant award, and prior grantor approval was not evident:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
298834	782861	\$ 43,908	Accounting software
298834	785269	<u>5,662</u>	Consultation, on-site training
		<u>\$ 49,570</u>	

Cause: The cause of the above condition is inadequate budget documentation supporting program expenditures.

Effect: The effect of the above condition is questioned costs of \$49,570 result.

Recommendation: We recommend that management implement control procedures to prevent costs of local and/or another Federal grants from charging the grant.

Auditee Response and Corrective Action Plan: The purpose of the Public Health Emergency Preparedness (PHEP) is to upgrade our ability to effectively respond to a range of public health threats, including infectious diseases, natural disasters, and biological, chemical, nuclear, and radiological events. Preparedness activities funded by the PHEP cooperative agreement are targeted specifically for the development of emergency-ready public health departments that are flexible and adaptable. In response to the 2009 H1N1 influenza pandemic, CDC also administered funding through the Public Health Emergency Response grant to upgrade state and local preparedness and response capacity during the pandemic. An emergency ready public health department is one that can instantly identify all available financial resources during an emergency. As such, program procured this software with this one goal in mind.

These transactions were processed in accordance with procurement waiver issued by President, memo no. 09-585. Additionally, following is an email communication from the grantor agency indicated that the programs were implemented in conformance with the Federal requirements: Refer to the following excerpts from the grantor's email

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-15, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$49,570

Auditee Response and Corrective Action Plan, Continued:

Here is the link to the H1N1 PHE Declaration:

\*\*\*Public Health Emergency Declaration [http://www.hhs.gov/secretary/phe\\_swh1n1.html](http://www.hhs.gov/secretary/phe_swh1n1.html)

6.302 Circumstances permitting other than full and open competition.

The following statutory authorities (including applications and limitations) permit contracting without providing for full and open competition. Requirements for justifications to support the use of these authorities are in 6.303.

6.302-2 Unusual and compelling urgency.

(a) Authority.

(1) Citations: 10 U.S.C. 2304(c)(2) or 41 U.S.C. 253(c)(2).

(2) When the agency's need for the supplies or services is of such an unusual and compelling urgency that the Government would be seriously injured unless the agency is permitted to limit the number of sources from which it solicits bids or proposals, full and open competition need not be provided for.

(b) Application. This authority applies in those situations where—

(1) An unusual and compelling urgency precludes full and open competition; and

(2) Delay in award of a contract would result in serious injury, financial or other, to the Government.

(c) Limitations.

(1) Contracts awarded using this authority shall be supported by the written justifications and approvals described in 6.303 and 6.304. These justifications may be made and approved after contract award when preparation and approval prior to award would unreasonably delay the acquisition.

(2) This statutory authority requires that agencies shall request offers from as many potential sources as is practicable under the circumstances.

(d) Period of Performance.

(1) The total period of performance of a contract awarded using this authority—

(i) May not exceed the time necessary—

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-15, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 1H75TP000331  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$49,570

Auditee Response and Corrective Action Plan, Continued:

(A) To meet the unusual and compelling requirements of the work to be performed under the contract; and

(B) For the agency to enter into another contract for the required goods and services through the use of competitive procedures; and

(ii) May not exceed one year unless the head of the agency entering into the contract determines that exceptional circumstances apply.

(2) The requirements in paragraph (d)(1) of this section shall apply to any contract in an amount greater than the simplified acquisition threshold.

(3) The determination of exceptional circumstances is in addition to the approval of the justification in 6.304.

(4) The determination may be made after contract award when making the determination prior to award would unreasonably delay the acquisition.

Sharon  
L. Sharon Sharpe, MBA,

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Division of State and Local Readiness,  
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SSharpe@cdc.gov  
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ROPNG does not concur with the finding and it should be removed.

Auditor Response: This finding focuses not on procurement, but on allowable costs/cost principles. The accounting system of the Republic of Palau National Government, including systems applicable to federally funded programs, is centralized under the Ministry of Finance. In addition, prior grantor approval was not evident. Therefore, the finding remains.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-16  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00, 2H80CS02467-23-00  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$65,056

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic. However, procurement requirements shall not be artificially divided so as to constitute a small purchase. When appropriate, an analysis shall be made of purchase alternatives to determine which would be the most economical practical procurement.

Additionally, purchases over \$10,000 require formal bidding process. Public notice of the invitation for bids shall be announced on all radio or television stations and shall be made a reasonable time at least fifteen days prior to the date of the initial day of the bidding time.

Furthermore, for emergency procurement, the President shall determine the existence of a threat to public health, welfare, or safety. An emergency procurement shall be as competitive as practicable under the circumstances. A detailed and substantiated written determination describing the emergency, the extent of the competition obtained if any, and the basis for the selection of a particular contractor shall be prepared by the Procurement Officer concerned and made part of the contract file.

Condition: Of nineteen expenditures tested, totaling \$185,278, of a total population of \$429,443, the following exceptions were noted:

1. There were five purchase orders, totaling \$24,500, representing space rental for monthly meetings of the Governing Board. It was represented that the Board meets at least once a month. The total of the purchase orders exceed \$10,000 and therefore the program should have procured the service through the bidding process. This procurement is questioned at Finding No. 2010-12; therefore, no questioned costs are presented at this finding for the following:

<u>Purchase Order no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
U00064	\$ 2,000	2H80CS02467-24-00	H93690	Space rental
U00170	4,000	2H80CS02467-24-00	H93690	Space rental
U00298	9,000	6H80CS02467-25-01	H03690	Space rental
U00404	3,500	6H80CS02467-25-01	H03690	Space rental
U00450	6,000	6H80CS02467-25-01	H03690	Space rental
	<u>\$ 24,500</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-16, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00, 2H80CS02467-23-00  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$65,056

Condition, Continued:

2. A contract was awarded (RFP No. 01-08) without documentation or analysis to evidence the basis of selection from three bidders:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF000027	265417	\$ <u>3,193</u>	2H80CS02467-23-00	H83690	Medical supplies

3. Two disbursements did not go through the procurement process. A memorandum by the President of the Republic approved a waiver of the regular procurement procedures for emergency purchase. It would appear that an attempt to apply the emergency procurement method was utilized; however, the memorandum does not discuss the existence of a threat to public health, welfare, or safety. Moreover, the procurement file does not contain evidence of any competition, which would have been practicable under the circumstances. Furthermore, there was no written determination describing the emergency, the extent of the competition obtained and the basis for the selection of the contractor prepared by the Procurement Officer in file:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
764484	291033	\$ 34,999	2H80CS02467-23-00	H93690	One crew cab pick-up
778151	296893	<u>26,864</u>	2H80CS02467-23-00	H93690	Two boat engines
		\$ <u>61,863</u>			

Cause: The cause of the above condition is inadequate documentation of small and emergency purchases and weak controls requiring that competition remains open among vendors.

In addition, there was no comparative analysis or written documentation requiring that the basis of the award be the most economically practical procurement. It was verbally explained that the awards were based on the ability of vendors to deliver pharmaceutical supplies in a timely manner and to deal with the delay in vendor payments by the Republic. However, these matters were not specifically encompassed in the bid requirements.

Federal monies were used for an emergency purchase without obtaining a waiver of procurement requirements from the grantor agency and without adequate documentation of the nature and applicability of the emergency.

Effect: The effect of the above condition is noncompliance with applicable Federal and local procurement regulations, and questioned costs of \$65,056 result.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved, and the reasons should be documented in the procurement file.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-16, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-01, 2H80CS02467-24-00, 2H80CS02467-23-00  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$65,056

Prior Year Status: Noncompliance with procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2009.

Auditee Response and Corrective Action Plan:

2010-16(1): Due to the different budget fiscal year for ROP and Funders, every year, program is faced with the above issues. ROP closes down its books in September of each year, whereas, program fiscal budget year is January-December. As a result, we are advised by National finance to close all PO's by September 30 and re-opening them October 1. Just recently, this has been addressed and we will no longer have to close out our existing PO's until the end of our budget period (December). This explains the same PO's letter number although funding is for 2009 & 2010. There is an ongoing effort by the Ministry of Health to consolidate procurement for major expenditure items. This process has been implemented for medical supplies & drugs and will soon be implemented for space rental in which all space rental required by the Ministry of Health will be put to bid much like the procurement for medical supplies & drugs.

2010-16(2): Concur with audit findings; there were document which shows recommended amount to be awarded to each awardee along with determination for award. However, the determination for award did not provide a detailed analysis to support those figures. The determination for award put emphasis on ROP payment capability but such factor was not noted in bid specifications. Any future bid for Medical/Pharmaceutical supplies will have those qualifying criteria noted in bid specification and recommendation will have detailed analysis to support awarded amount.

2010-16(3): ROPNG does not concur with this finding and question cost. Although the waiver of procurement failed to specifically address existence of threat to public health, welfare, or safety, we do not concur to this finding for the following reason. The principle of the matter is that health, welfare, or safety of people would have been jeopardized if the transportation system required to transport necessary medical supplies, drugs and personnel to dispensaries is not addressed, especially for outlying states of Peleliu, Angaur and Kayangel. Even though, a waiver was obtained, the program obtained quotes from available vendors and a selection was made based on available information. Moreover, emergency purchases consider all procurements to be emergencies in nature, thus; exempt applicable procurement requirements.

Full name of the person responsible for the corrective action plan: MoH Comptroller and MoH Program Managers with MIP Committee

When will the corrective action plan be implemented: Ongoing

Auditor Response: Regarding Condition 3, the procurement file did not contain evidence of the referenced quotes obtained from available vendors or of any competition. Given the nature of the expenditures and limited number of vendors on island, it would appear feasible to solicit at least three quotes or a cost analysis thus, permitting full and open competition. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-17  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.766 Community Facilities Loans and Grants  
Grant Number: 62-003-942940238  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$61,419

Criteria: A grantee must liquidate all obligations incurred under the award no later than ninety days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Report (SF-425). The Federal Agency may extend this deadline at the request of the grantee.

Condition: Of eighty-two (82) federal grants receivable items tested, totaling \$3,620,318, expenditures of \$61,419 were obligated subsequent to grant expiration on December 31, 2006 (cost center no. R53729). It was represented that Grants Management communicated with the grantor agency for collectability of the outstanding balance; however, there was no such documentation on file. There are no records on file evidencing grantor approval of a grant extension.

Cause: The cause of the above condition is a lack of controls over period of availability compliance. There is no mechanism in place to freeze accounts for expired grants.

Effect: The effect of the above condition is the lack of compliance with period of availability requirements, and questioned costs of \$61,419 result.

Recommendation: We recommend that management establish policies and procedures to comply with period of availability requirements.

Auditee Response and Corrective Action Plan: ROP concurs with the finding and has taken immediate corrective action by entering the grant expiration date in the system.

Full name of the person responsible for the corrective action plan: Chief of Finance & Accounting, Grant Management Coordinator, and appropriate MoF staff.

When will the corrective action plan be implemented: Implemented in mid FY2011

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-18  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 2H80CS02467-24-00, 2H80CS02467-23-00  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: Reports submitted to a grantor agency should include all activities of the reporting period, should be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements.

Condition: The 2009 universal data system (UDS) report due on February 15, 2010 reported program revenues and expenditures for which there were no underlying accounting records provided or maintained on file. Alternatively, we compared the reports with recorded expenditures for the period and noted the following:

1. Recorded expenditures did not agree to the UDS report as detailed below:

<u>Cost Center no.</u>	<u>Grant no.</u>	<u>Reporting Period</u>	<u>UDS Report</u>	<u>Recorded Expenditures</u>	<u>Variance</u>
H93690	2H80CS02467-24-00	2009		\$ 477,749	
H83690/I83690	2H80CS02467-23-00	2009		<u>101,800</u>	
	Total		<u>\$631,262</u>	<u>\$ 579,549</u>	<u>\$ 51,713</u>

2. Revenues reported in the UDS report amounted to \$545,669; however, there were no program revenues recorded in the general ledger accounts for grant no. 2H80CS02467.

Cause: The cause of the above condition is the lack of internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program revenues and expenditures.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result from this finding as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that management establish internal control procedures over adequate file maintenance requiring underlying records exist to support reported program revenues and expenditures.

Auditee Response and Corrective Action Plan:

2010-18(1): UDS report is generated based on calendar year January-December following budget period for grant, whereby the ROP fiscal year runs from October-September. Therefore, expenditure data presented in this finding are not comparable. *Please note: there appears to be a huge difference in the above recorded expenditures of \$477,749 for H93690 and a more recently generated report for H93690 (HHS 07/06/11) which record expenditure of \$658,992.81.*

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-18, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 2H80CS02467-24-00, 2H80CS02467-23-00  
Requirement: Reporting  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

2010-18(1): At this time revenues are not required to be recorded in the general ledger for this account. It is required that all revenues generated by the Ministry of Health shall be deposited to the Hospital Trust Funds. Program will work with MOF see if this is allowable.

Full name of the person responsible for the corrective action plan: MoH Comptroller, MoH Program Manager, and MoF Grant Coordinator/Sr. Accountant

When will the corrective action plan be implemented: January 1, 2012

Auditor Response: Under Condition1, the recorded expenditures of \$579,549 were incurred during the period from January to December 2009, therefore the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-19  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
5U58DP001952-02  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$21,166

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Determination of airfare cost should be based available airlines between Palau and the destination.

Additionally, the procurement law specifically provides for the following:

- Public notice of the invitation for bids shall be made a reasonable time at least 15 days prior to the date of initial day of the bidding time and shall be furnished to all required public sites as enumerated in the law, be published in a newspaper of general circulation, and shall be announced on all radio and television stations within the Republic.
- Bidding time of at least thirty days shall be provided unless the procurement officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The minimum time period should not be less than fifteen days after the notice of invitation for bids is posted.
- The contract must be awarded with reasonable promptness, but in no event later than thirty days after opening the bids, by written notice to the responsive bidder whose bid fully meets the requirements of the invitation for bids.

Condition

1. There was no evidence on file that quotations were obtained from an adequate number of qualified sources for one procurement transaction. In addition, there was no evidence on file that inquiries were made of other available vendors on island as follows:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost center</u>	<u>Amount</u>	<u>Description</u>
298336	782582	K03660	\$ <u>4,500</u>	Rental space

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-19, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
5U58DP001952-02  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$21,166

Condition, Continued:

2. Written justification on file did not appear to substantiate sole source as there could be more than one service provider:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Cost Center</u>	<u>Description</u>
771275	293789	\$ 8,333	193660	Behavioral Risk Factor Surveillance System Survey
791908	300747	<u>8,333</u>	193660	Behavioral Risk Factor Surveillance System Survey
		<u>\$ 16,666</u>		

Cause: The cause of the above condition is the lack of compliance with procurement regulations.

Effect: The effect of the above condition is noncompliance with established procurement regulations, and questioned costs of \$21,166 result.

Recommendation: We recommend that the Republic implement procedures requiring compliance with procurement regulations.

Prior Year Status: Noncompliance with established procurement regulations was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2009.

Auditee Response and Corrective Action Plan:

2010-19(1): ROP does not concur with the finding as the procurement was under an open purchase order with all required documents obtained before RQ was approved. However, will ensure future procurements and request for payments are fully documented and supported separately.

2010-19(2): The 2010 finding assumes that the project was initiated with the intent for sole source. The justification for sole source remains correct; there is no other vendor in the Region certified for BRFSS data collection, SMS Inc., remains the only firm providing BRFSS data collection in the region. This said, the background of the project is important in understanding the direction that was taken to end up with the selection of this particular firm. The project was moving towards a partnership with the University of Guam to build capacity and purchase surveillance equipments. Funder did not approve this approach and does not recognize the UOG for capacity building and in particular, surveillance activities. Hence, it was necessary to move into contractual terms with a certified BRFSS firm. Solicitation of off-island firms in Guam and Hawaii resulted in only one vendor formal response, SMS Inc. Therefore, it is important to note that there was only one response and justification can't accommodate the reasons for lack of response from other vendors.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-19, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
5U58DP001952-02  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$21,166

Auditee Response and Corrective Action Plan, Continued:

Moving Forward: The 2011 solicitation resulted again in only one vendor, SMS, Inc., submitting a formal response to the RFP.

Corrective Action Plan: RFP solicitations beyond the region to include international firms.

Full name of the person responsible for the corrective action plan: MoH Financial Office and Program Managers and Coordinator

When will the corrective action plan be implemented: April 1, 2012

Auditor Response: Less than three quotations were on file. We are aware that there are at least three available vendors on island for space rental. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Single Audit Report

Finding No. 2010-20

Criteria: The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit made for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, and auditor's reports to the Federal clearinghouse and make it available for public inspection 9 months after the end of the period audited, or within a longer timeframe as authorized by the Federal agency when the 9-month timeframe would place an undue burden on the entity.

Condition: The Republic did not transmit the 2010 audit reporting package to the Federal Audit Clearinghouse within the required timeline, and there was no evidence of authorized extension.

Cause: The cause of the above condition is primarily due to conditions presented at finding 2010-01.

Effect: The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996.

Recommendation: We recommend that the Republic require compliance with the above criteria.

Prior Year Status: The lack of timely transmittal of the annual audit reporting package was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROP acknowledge the late submission of FY2010 audit report; and further noted the following reasons for late submission:

- delay of audit funding confirmation and approval from the grantor
- delay in signing of the auditor's contractual service agreement and commencement of audit work
- delay in production of requested reports during audit field work was due to MOF limited staff knowledgeable and capable of system report generation. With limited budget, Bureau of National Treasury & ISSS within MoF has not been able to fill few of its key areas such as IT/Management Information System, System Accountant, and Senior Accountant, and even the continuation of capacity building and succession plan within the ministry.

ROP continues to work with those few main ministries and agencies on their timely responses as we strive to achieve timely transmittal of future reporting requirements.

Full name of the person responsible for the corrective action plan: ROP Executive Management Team, Minister of Finance, Bureau Directors, Bureau Chiefs, Grant Management Coordinator, and Grant Program Managers, and appropriate technical staff.

When will the corrective action plan be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance – Palau Constitution and Federal Noncompliance - Reporting

Finding No. 2010-21

Criteria: The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit made for such fiscal year. The audit shall cover the entire operations of the entity which expended or otherwise administered Federal awards during the fiscal year under audit, provided that such audit shall encompass the financial statements and schedule of expenditures of federal awards.

In addition, per the Republic's Constitution, the National Treasury of Palau is established into which all revenues from national taxes or other sources due the Republic shall be deposited. No funds shall be withdrawn from the National Treasury except by law.

Condition: Per the Republic's diplomatic note dated October 12, 2009 (Note No. 076/MSUS/2009), it was indicated that the United States was to provide Palau with financial assistance in the amount of \$98,333 per Uighur (based on 6 individuals) for resettlement, medical, and translator costs to be expended solely for the resettlement of the Uighurs by the 'Government of Palau' at the discretion of the President of Palau, subject to applicable Palau law. The United States was to transfer said amount to 'Palau', in a manner satisfactory to Palau and consistent with applicable U.S. law, on or before the date of the transfer of the Uighurs.

We are aware that the Uighurs settled in the Republic during the year ended September 30, 2010. However, we did not note such financial assistance and related expenditures recorded in the Republic's 2010 financial statements.

In addition, auditors requested for a schedule of expenditures of federal awards (SEFA) on December 30, 2010 (request no. 10-01), and the request specifically stated that the Uighurs grant activities should be included in the SEFA unless a waiver from the grantor agency has been obtained. Documents pertaining to 2010 activities of the Uighurs were not available as of report date despite monthly audit status reports for the period from January 2011 through July 2011 citing Uighurs grant activities as pending. There has also been no written representation or equivalent provided from the grantor agency to confirm that such financial assistance is not subject to the Single Audit Act.

Cause: The cause of the above condition is the lack of documents pertaining to financial assistance for the resettlement of Uighurs in the Republic after repeated requests.

Effect: The effect of the above condition is potential noncompliance with the Single Audit Act Amendments of 1996 and the Palau Constitution.

Recommendation: We recommend that the Republic obtain clarification on the status of the financial assistance for the resettlement of Uighurs in the Republic.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance – Palau Constitution and Federal Noncompliance - Reporting, Continued

Finding No. 2010-21, Continued

Auditee Response and Corrective Action Plan: The Republic of Palau (“ROP”) responds to Finding No. 2010-21 as follows:

The ROP believes the “Criteria” and the “Condition” for Finding No. 2010-21 misapprehend the applicable law and facts and are therefore inaccurate. As a consequence, the stated “Effect” is also inaccurate.

The funds received from the United States Government for the purpose of resettling the Uighurs in Palau were not provided by the United States nor were they received by Palau pursuant to the provisions of the Compact of Free Association (U.S. Public Law No. 99-658, hereafter “COFA”). They were provided by the United States pursuant to a special diplomatic arrangement, and were received and expended by President Toribiong pursuant to his inherent powers under the Palau Constitution as the Chief Executive of the Republic of Palau and his specific Article VIII, Section 7(2) Palau Constitutional power to conduct Palau’s relations with foreign nations. As such, the funds are not auditable under the terms of the COFA or under the U.S. law cited in the Criteria.

Similarly, the Article XII, §1 Palau Constitution provision cited in the Criteria: “revenues to be deposited into appropriate treasury...;” is inapplicable as the funds provided by the United States for use in resettling the Uighurs were not moneys given to the Republic for its use and therefore were not subject to the appropriation of the Palau National Congress. Even if the funds were subject to such provision of the Palau Constitution, the expenditure of those funds would be covered and permitted by the general omnibus appropriation language contained in each fiscal year’s budget bill to the effect, paraphrasing, that all external funds received from the United States are authorized to be appropriated and are appropriated in the amounts received for those specific programs or projects for which they are granted, donated, or otherwise contributed.

As a result of the foregoing, the ROP rejects the “Cause” and the “Effect” stated in the Finding. The expenditure of the funds received from the United States for purposes of resettling the Uighurs is not an item to be included in the FY2010 audit. For that reason, the ROP has repeatedly advised that it does not intend to provide the auditor with the subject documentation, and that the auditor is free to note the ROP’s rejection, but should issue the final audit regardless.

The ROP notes the “Recommendation” of the audit and is in fact working with the United States to further clarify the issue.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance - Procurement

Finding 2010-22

Criteria: It is the policy of the Republic that all purchase and procurement actions be executed in a manner that provides open and free competition and avoid purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical practical procurement. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file.

Purchases over \$10,000 require a formal bidding process. Public notice of the invitation for bids shall be announced on all radio or television stations and shall be made a reasonable time at least fifteen days prior to the date of the initial day of the bidding time. Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified. Procurement file should contain public notice, invitation for bids or request for proposal, notice to unsuccessful bidder or offeror, basis for cost or price and determination.

For emergency procurement, the President needs to determine the existence of a threat to public health, welfare, or safety. An emergency procurement shall be as competitive as practicable under the circumstances. A detailed and substantiated written determination describing the emergency, the extent of competition obtained if any, and the basis for selection of a particular contractor shall be prepared by the Procurement Officer concerned and made part of the contract file.

Condition: Of twelve hospital expenditures tested, totaling \$176,133, of a total population of \$1,264,125, the following exceptions were noted:

1. An award for procurement of pharmaceutical supplies, and medical laboratory supplies and reagents, was issued under one request for proposal (RFP no. 12-9) in which the following exceptions were noted:
  - a. Pharmaceutical supplies were not included in the public notice. It was represented as an oversight and that pharmaceutical supplies were included in the RFP specifications. Furthermore, the award was issued to four bidders despite the fact that no proposals were submitted, and there was no evidence of award amount determination:

Pharmaceutical Supplies

<u>Vendor no.</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
30196	\$ -	\$ 125,000
225	\$ -	\$ 325,000
3752	\$ -	\$ 200,000
2106	\$ -	\$ 20,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding 2010-22, Continued

Condition, Continued

- b. The award was issued on November 15, 2009 or eighty-two (82) days after the date of bid opening (August 25, 2009), and there was no explanation or indication that an extended time period was needed to process the award.
- c. The award for the purchase of medical laboratory supplies and reagents was also awarded to four bidders without documentation or comparative analysis to evidence the basis of selection and the basis for determining award amount:

<u>Medical Laboratory Supplies &amp; Reagents</u>		
<u>Vendor no.</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
30196	\$ 120,588	\$ 100,000
225	\$ 145,922	\$ 145,000
3752	\$ 96,120	\$ 96,000
2106	\$ 67,567	\$ 60,000

- d. There was no evidence of notice of award to unsuccessful bidders in the procurement file.
2. One disbursement with an amount exceeding \$10,000 did not go through bidding process. A memorandum from the Minister of Health to the Vice President/Minister of Finance stated that the failure of six of the eight hemodialysis machines constituted an unavoidable emergency; therefore, items were procured under emergency procurement. However, there was no evidence in file that the President of the Republic waived the procurement process, and there was no written determination describing the emergency, the extent of the competition obtained, and the basis for the selection of the contractor prepared by the Procurement Officer.

<u>P.O. no.</u>	<u>Description</u>	<u>P.O. Amount</u>
P00005	General Supplies	\$ 29,944

Cause: The cause of the above condition is weaknesses in controls over determining compliance with applicable procurement regulations. There was no comparative analysis or written documentation to determine that the basis of the award was the most economical practical procurement. There was no written determination for awarding more than one vendor and the amount awarded to each vendor. In addition, there was no written authorization by the President of the Republic or his designee in his absence, to apply emergency procurement procedures.

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

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding 2010-22, Continued

Condition, Continued

Recommendation: We recommend that the Republic strengthen controls on procurement procedures to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and be approved, and the reasons should be documented in procurement files.

Prior Year Status: Weakness in controls over procurement procedures was reported as a finding in the Single Audits of the Republic for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan:

- 2010-22(1a): ROP does not concur with this specific findings and auditor should refer to copies of vendor offer in file. MOH reviewed vendor offer but did not return them. List of pharmaceutical supplies was indeed included in bid specification but it was omitted from public notice.
- 2010-22(1b): Do not concur with specific audit finding: There is a document which explain why awarding was delayed.
- 2010-22(1c): Do not concur with this specific audit finding: There is document on file which shows that comparative analysis was carried out during evaluation process.
- 2010-22(1d): Concur with this specific finding: Corrective Action; Include this requirement in RFP Check List which act as reminder so it can be sent out.
- 2010-22(2): ROP concurs with this finding and ensures that management and appropriate staffs will work with the Ministries and Agencies to conform and adhere to the established procurement policies and procedures in place.

Full name of the person responsible for the corrective action plan:

- (2010-22(1a-d): MoF-BNT Director and Chief of Property & Supply  
(2010-22(2): MoF-BNT Director, Chief of Property & Supply with appropriate ministry staff.

When will the corrective action plan be implemented:

- (2010-22(1a-d): Was implemented in FY2011  
(2010-22(2): On-going reminders to all ministries and line agencies on the enforcement of procurement regulations.

Auditor Response: We appreciate the ability to examine documents related to Condition 1. a. thru c., however, such documents were not provided for examination therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No. : 2010-23  
Federal Agency: U.S. Department of Transportation  
CFDA Program: 20.106 Airport Improvement Program  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: NAT-1-4416-1-1-10, NAT-1-4416-1-1-11, NAT-1-4416-1-1-12, NAT-1-4416-1-1-13, NAT-1-4416-1-1-13, H027B03001-05  
Requirement: Cash Management  
Questioned Costs: \$0

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the payout of funds for program costs should be minimized.

Condition:

CFDA #20.106

For 11 (or 48%) of 23 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 1 to 26 days.

CFDA #84.027

For one expenditure of \$59,590 (JV# DF000064 / check # 72151519), Federal funds were received twice. We were informed that the related expenditure was erroneously recorded twice in the general ledger. Further, the amount received has not been returned or communicated to the grantor agency as of April 11, 2011. The projected interest liability from the time the funds were received to date is \$294. No questioned cost result as the duplicate entry was corrected through proposed audit adjustment, which transfers the duplicate Federal funds received from the affected grant award (cost center no. E63586), to a new grant award (cost center no. E93561), to reimburse expenditure of the new grant award.

Cause: The cause of the above condition is a lack of internal controls over cash management and a lack of an audit trail for requesting reimbursements.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. However, no questioned costs result from the condition as the resulting estimated interest liability is \$158.

Recommendation: We recommend that the Republic establish internal controls over cash management that require compliance with federal requirements. Cash drawdowns, related expenditures and other supporting documentation should be filed adequately and completely to improve audit trail. We further recommend that this matter be discussed with the applicable grantor officials and the Republic to perform a requisite analysis of its clearance patterns.

Prior Year Status: Lack of internal controls over cash management was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2009.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No. : 2010-23, Continued  
Federal Agency: U.S. Department of Transportation  
CFDA Program: 20.106 Airport Improvement Program  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: NAT-1-4416-1-1-10, NAT-1-4416-1-1-11, NAT-1-4416-1-1-12, NAT-1-4416-1-1-13, NAT-1-4416-1-1-13, H027B03001-05  
Requirement: Cash Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

CFDA #20.106

ROP acknowledge this finding. Although ROP does not have control over check clearing date once the checks are released or disbursed to vendor, ROP can only continue to encourage its vendors to make timely deposits, provide ROP/MOF with bank accounts for ACH transaction processing, or direct deposit information.

CFDA #84.027

ROP concurs with this finding. Ministry of Finance continues to ensure it is in compliance with applicable cash management requirements.

Full name of the person responsible for the corrective action plan: MoF/BNT Director, Chief of Finance & Accounting, Grant Management Coordinator, and appropriate Treasury staff.

When will the corrective action plan be implemented:

CFDA #20.106

On-going effort.

CFDA #84.027

MoF and Grantor Agency had communicated and had taken corrective action to resolve this finding. Additionally, MOF and its Work Plan 2012 Committee are at the final stage of its internal control policies and procedures; and draft manual will be presented to management for its review and approval shortly.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-24  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
 Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
 TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$0

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic

Condition: For three of forty-three expenditures tested, totaling \$566,917, of a total population of \$678,120, only two quotations were on file, while we are aware that there are at least three available vendors on island. While we noted that there appeared to be an attempt to obtain three price quotations, either the vendor did not reply or the requested item was out of stock. There was no evidence that effort was made to follow up with vendors who did not respond previously, and there was no written documentation that no other vendors qualified.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
292914	769423	\$ 8,495	E73877	1996 Pickup Truck
293206	769907	7,595	E73877	Isuzu flatbed truck
295612	775151	<u>5,000</u>	R93835	Printing and binding
		<u>\$ 21,090</u>		

Cause: The cause of the above condition is the Republic contacted at least three vendors on the island even though one may have not responded or did not have the requested item in stock. Procurement regulations do not specify whether the Procurement Officer shall obtain positive responses from at least three vendors.

Effect: The effect of the above condition is potential noncompliance with applicable procurement regulations. No questioned costs result as a determination appears necessary to clarify whether the procurement officer shall obtain three positive responses.

Recommendation: We recommend that the Republic obtain a determination as to whether the procurement procedures require three positive responses be obtained if that number of potential vendors is on island.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-24, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

Prior Year Status: Noncompliance with procurement regulations was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROPNG concurs with the finding. ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal control guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures.

Full name of the person responsible for the corrective action plan: Minister of Finance, Director of National Treasury, Chief of Property & Supply, Chief of Finance & Accounting, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented: Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-25  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories  
Grant Number: MOU-2008, MOU-2009, TA-ROP-FMS-2009-2, TA-ROP-EQPB-2008-4,  
TA-ROP-CSP-2008-3, OMIP-ROP-2007-2  
Requirement: Subrecipient Monitoring  
Questioned Costs: \$0

Criteria: Pursuant to 43 CFR Part 12.77, grantees shall (1) require that every subgrant includes a provision for compliance with this Part; (2) require that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations; and (3) require that subgrantees are aware of the requirements imposed by them by Federal statutes and regulations. Further, grantees must establish and implement subrecipient monitoring policies and procedures.

Condition: For one reimbursement made to a subrecipient, there is no documentation on file evidencing that the Republic performed subrecipient monitoring procedures to determine whether the subgrantee complied with applicable federal requirements.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Transaction Date</u>	<u>Cost Center</u>	<u>Amount</u>
297759	782466	8/5/2010	A83868	\$ 34,679

Cause: The Republic does not have policies and procedures in place regarding subrecipient monitoring.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements. No questioned costs result as the subrecipient is subject to an annual audit in which no questioned costs resulted from its 2010 audit. However, the 2010 audit was not performed in accordance with OMB Circular A-133, so the Republic should have monitored the subrecipient activities.

Recommendation: We recommend that the Republic implement policies and procedures on subrecipient monitoring.

Prior Year Status: Lack of documentation evidencing subrecipient monitoring was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Ministry of Finance will coordinate with Grants Office to make sure subrecipients are aware of the requirements imposed by them by both the Local policies and procedures, and Federal statutes and regulations. Ministry of Finance and Grants Office will work on the establishment of policies and procedures to address this finding.

Full name of the person responsible for the corrective action plan: MOF/BNT Director, Grant Management Coordinator and Grant & Budget Oversight Office.

When will the corrective action plan be implemented: FY 2012

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-26  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.027 Special Education – Grants to States  
 Grant Number: H027A090006A  
 Requirement: Procurement and Suspension and Debarment  
 Questioned Costs: \$30,420

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required for small purchases under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Additionally, the procurement law specifically provides that public notice of the invitation for bids shall be made for a reasonable time at least 15 days prior to the date of initial day of the bidding time and shall be furnished to all required public sites as enumerated in the law, be published in a newspaper of general circulation, and shall be announced on all radio and television stations within the Republic.

Condition: Of seventeen expenditures tested, totaling \$303,152, of a total population of \$478,272, the following exceptions were noted:

1. For one expenditure, the related procurement documents evidencing competitive procurement were not available as follows:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Grant no.</u>	<u>Description</u>
70199879	756565	\$ 12,882	E63586	H027B030001-05	Professional services

2. For five expenditures, there was no evidence on file that quotations were obtained from an adequate number of qualified sources. The same three vendors were solicited for each procurement action below even though additional vendors for these items exist in the Republic. In each case, only two positive responses were received.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Grant no.</u>	<u>Description</u>
285944	752020	\$ 9,845	E73561	H027A070006A	Printer
300079	787962	4,293	E93561	H027A090006A	Printing/ binding services
287930	757706	1,160	E83561	H027A080006A	Computer supplies
287930	757706	1,060	E83561	H027A080006A	Computer supplies
287930	757706	1,180	E83561	H027A080006A	Computer supplies
		<u>\$ 17,538</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-26, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A090006A  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$30,420

Cause: The cause of the above condition is potentially inadequate procurement documentation and inadequate compliance with laws. Also, procurement regulations are not clear as to whether the Procurement Officer shall obtain positive responses from at least three vendors.

Effect: The effect of the above condition is noncompliance with applicable federal and local procurement regulations and questioned costs of \$30,420 result.

Recommendation: We recommend that the Republic comply with the criteria. If exceptions are allowed by procurement regulations, they should be reviewed and approved, and the reasons should be documented in the procurement file. Also, the Republic should seek clarification as to whether the procurement officer shall obtain three positive responses.

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2009.

Auditee Response and Corrective Action Plan:

2010-30(1 &2): ROPNG concurs with the finding. ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal control guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures..

Full name of the person responsible for the corrective action plan: Minister of Finance, Director of National Treasury, BPSS Director, Chief of Property & Supply, Chief of Finance & Accounting, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented: Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-27  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 5U90TP921820-08, 3U90TP921820-08W1  
Requirement: Matching, Level of Effort, Earmarking  
Questioned Costs: \$16,484

Criteria: Non-federal financial participation in the form of cash or in-kind contributions (i.e., office space, equipment use, nurses, etc.) should be appropriately documented and valued to determine that the required match has been made in accordance with program requirements.

Condition: It appears that the local match of \$16,484 per the grant award notification is not otherwise documented, monitored or valued throughout the fiscal year or the grant period (cost center no. H93679).

Cause: The cause of the above condition is a lack of records to support the non-federal participation.

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria, and questioned costs of \$16,484 result.

Recommendation: We recommend that management establish procedures to separately account for non-federal contributions.

Auditee Response and Corrective Action Plan: We concur with this finding. As there were no formal written process or procedure by which program could utilize in calculating local Match, program used their office space (as provided to them by the Ministry of Health free of charge) and a portion of the salary of the Minister of Health (as he is paid 100% by local government appropriations/funding and is the PHEP PI) as match. However, it has been discussed and decided (between program and health fiscal officer) that program will solicit and hire independent consultant to assess the Public Health Building and other buildings that program utilize free of charge for preparedness related activities so that an accurate monetary value can be placed on office space and Emergency Operations Center or EOC that the program can claim as Match.

Full name of the person responsible for the corrective action plan: Minister of Health, MoH Comptroller, Program Managers, and appropriate staff.

When will the corrective action plan be implemented: FY 2012

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-28  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 5U90TP921820-08  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$4,750

Criteria: A grantee must liquidate all obligations incurred under the award not later than ninety days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline at the request of the Grantee.

Condition: Of expenditures totaling \$42,985 which were liquidated after the end of the funding period, \$4,750 were liquidated after the funding period. Details are as follows:

<u>Description</u>	<u>Amount</u>
Printing cost	\$ 1,000
Professional fees	<u>3,750</u>
	\$ <u>4,750</u>

Cause: The cause of the above condition is ineffective controls over period of availability compliance. There are no records on file evidencing grantor approval of a grant/extension and/or liquidation, if any. There is no mechanism in place to freeze the accounts of expired grants.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$4,750 result since the projected questioned costs exceed \$10,000.

Recommendation: We recommend that management establish policies and procedures to prevent obligation or expenditure outside of the period of availability.

Auditee Response and Corrective Action Plan: Auditors did not indicate any reference numbers. ROP cannot respond as it does not know what check number or voucher the Auditors are referring to. ROP can only say that these might be liquidation of purchase orders and contracts that were obligated within the budget period. ROP does not concur with the questioned cost. These costs are necessary, reasonable, and allocable to program implementations.

Auditor Response: Since the issuance of the draft of this finding on March 29, 2012, there has been no inquiry by the entity for further details regarding this finding. The expenditures were incurred on 1/31/11 (\$3,750 - JV no. DF110022) and 11/24/10 (\$1,000 - voucher no 803195), under cost center no. H93679. Given the budget period of 8/10/09 - 8/09/10, the expenditures were expected to be liquidated no later than ninety days after the budget period or 11/09/10.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-29  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.069 Public Health Emergency Preparedness  
Grant Number: 5U90TP921820-08  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: Reports submitted to a grantor agency should include all activities of the reporting period, should be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements.

Condition: Our tests of financial status reports (FSR) noted that one report of two FSRs tested reflects variances when compared to general ledger (GL) expenditure details.

<u>Cost Center</u>	<u>Period</u>	<u>Per FSR</u>	<u>Per GL</u>	<u>Variance</u>
H93679	08/10/09 - 08/09/10	\$ 308,456	\$ 266,170	\$ 42,286

Cause: The cause of the above condition is the lack of internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program expenditures.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result because there are no excess federal funds drawn, as amount of draw down is based on recorded expenditures.

Recommendation: We recommend that management establish control procedures over adequate file maintenance requiring underlying records exist to support reported program revenues and expenditures.

Auditee Response and Corrective Action Plan: ROP concurs with reservations. Ministry of Finance and Ministry of Health has already revised the financial status report in collaboration with the grantor agency. Due to inconsistencies with budget amounts and carry over amounts, ROP received instructions from grantor agency to revise reports and resubmit. ROP has resubmitted corrected FSRs.

ROP consider this to be RESOLVED

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-30  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-00, 2H80CS0002467-24-00  
Requirement: Program Income  
Questioned Costs: \$0

Criteria: Non-grant funds (i.e., State, Local and other operational funding and fees, premiums, and third party reimbursements) which the program may reasonably be expected to receive, including any such funds in excess of those originally expected, shall be used as permitted under law and may be used for such other purposes as are not specifically prohibited under the law if such use further the objectives of the project.

Condition: The program does not perform its own billing and collection. Rather, the Ministry of Health performs this function. All fees collected are deposited and recorded in the Hospital Trust Fund Account under Special Revenue Fund. Additionally, there is no evidence available to prove that the program related fees collected are used to further the objective of the program.

Monitoring of collections started in July 2009 according to the Executive Director; however, the collections were still deposited to a Hospital Trust Fund Bank Account. As a result, fees collected are still commingled with nonfederal funds without evidence to prove that collections are being used to further the objective of the program.

Cause: The cause of the above condition is recording of program income to nonfederal funds and lack of evidence documenting use of program income to further program objectives.

Effect: The effect of the above condition is noncompliance with program requirements. No questioned costs from the above condition are presented as we were not able to determine the dollar amount of potential program income.

Recommendation: We recommend that the Republic establish procedures to require compliance with program income requirements.

Prior Year Status: The lack of compliance with the program income requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: The Program is not required to have its own billing and collection system. Based on the Memorandum of Agreement between Board and the Ministry of Health, the Ministry is in charge of all financial aspect of the Program, to include billing & collection activities. Billing & collection activities are embedded within the existing billing & collection system for the Ministry of Health. When fee for services are collected they are segregated based on different revenue sites before being deposited into the Hospital Trust Fund Account. Thru the integrated financing for medical supplies and drugs, three orders are placed each year to maintain required inventory of medical supplies and drugs to include essential medical supplies and drugs needed by the Community Health Centers. Evidence that collections are being used to further the objective of the program is available by reviewing the ordering process and by reviewing utilization report from Medical Supply and Pharmacy Department. These are the only two departments that dispense necessary medical supplies and drugs to Community Health Centers.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-30, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-00, 2H80CS0002467-24-00  
Requirement: Program Income  
Questioned Costs: \$0

Full name of the person responsible for the corrective action plan: MoH Comptroller, MoH Finance Director, and Program Managers

When will the corrective action plan be implemented: On-going

Auditor Response: While we appreciate the availability of evidence that collections are being used to further the objective of the program, such was not provided and there was no audit trail for program income given the fact that funds are commingled in the Hospital Trust Fund.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-31  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-25-00, 2H80CS02467-24-00  
Requirement: Special Tests and Provisions  
Questioned Costs: \$0

Criteria: Unless the requirement for a governing board is waived by HRSA, or the center is operated by an Indian tribe or tribal or Indian organization under the Indian Self-Determination Act or an urban Indian organization under the Indian Health Care Improvement Act, the health center must have a governing board that:

1. is composed of individuals, a majority of whom are being served by the center and who, as a group, represent the individuals being served by the center;
2. meets at least once a month;
3. selects the services to be provided by the center;
4. schedules the hours during which services will be provided by the center;
5. approves the center's annual budget;
6. approves the selection of a director for the center; and
7. except in the case of a public center, establishes general policies for the center (42 USC 254b(k)(3)(H)).

Condition: During the test of special tests and provisions, we examined the board minutes from October 16, 2009 through January 14, 2011, and there was no evidence that the board approved the annual fiscal year 2010 budget;

Cause: The cause of the above condition is a lack of compliance with program requirements.

Effect: The effect of the above condition is noncompliance with special tests and provisions. We are unable to quantify questioned costs, if any, resulting from noncompliance.

Recommendation: We recommend that the Republic establish procedures to require compliance with special provisions of grant awards.

Prior Year Status: The above condition was reported as a finding in the Single Audits of the Republic for fiscal years 2008 and 2009.

Auditee Response and Corrective Action Plan: Board approval for annual fiscal year 2010 budget was not noted in actual terms; however, the members were well informed and part of decision making in regards to the budget allocations & expenditures according to minutes. All minutes & agenda's are reviewed at each meeting, approved and signed by chairman. Program will ensure that all future meetings, especially in regards to budget, Approval for fiscal year budget is well noted in the minutes.

Full name of the person responsible for the corrective action plan: MoH Comptroller and Program Manager

When will the corrective action plan be implemented: January 1, 2012

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-32  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
 1U58DP000776-02, 5UR3DD000416-02, 5U58DP001952-02,  
 1U58DP001952-01  
 Questioned Costs: \$20,638

Federal Agency: U.S. Department of Education  
 CFDA Program: 84.027 Special Education – Grants to States  
 Grant Number: H027B030001-05  
 Questioned Costs: \$0

Requirement: Allowable Costs/Cost Principles

Criteria: In accordance with applicable allowable costs/cost principles requirements, the following apply:

- An effective system of internal control includes policies and procedures requiring that expenditures be authorized, supported and approved prior to incurrence.
- Costs charged to the grant should have direct or indirect benefit to the grant. In addition, capital expenditures as defined by OMB Circular A-87, in excess of \$5,000, require prior approval of the grantor agency.
- If an employee works less than 100% on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.
- Where employees are expected to work solely on the program, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Condition:

CFDA #93.283

1. Of thirty-one expenditures tested, totaling \$184,999, we noted the following:
  - a. For two (or 6%), no receiving report or certificate of completion was on file from the Minister of Health or other authorized officer certifying that goods/services were received and/or completed:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost center</u>	<u>Amount</u>	<u>Description</u>
297781	782203	H93683	\$ 6,675	Lab Services
300747	791908	I93660	8,333	Behavioral Risk Factor Surveillance System Survey
			<u>\$15,008</u>	

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-32, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
1U58DP000776-02, 5UR3DD000416-02, 5U58DP001952-02,  
1U58DP001952-01  
Questioned Costs: \$20,638

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027B030001-05  
Questioned Costs: \$0

Requirement: Allowable Costs/Cost Principles

Condition, Continued:

- b. For one (or 3%), there was no apparent direct or indirect program benefit from the purchase of one equipment item, which was not specified in the grant award and for which prior grantor approval was not evident:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost Center</u>	<u>Description</u>
299390	787043	\$ 5,630	H03683	Bucky 800T Senographe

- 2. Of twenty-six employees tested, totaling \$21,477 of a total population of \$457,767, we noted the following:

- a. Not all personnel appear to work 100% on the National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal program. Salaries unrelated to the program could not be determined based on available evidence, and therefore, no questioned costs could be estimated for the programs (check nos. 1261844, 1266710, 1274017, 1297522, 1302441, 1304879, 1291173, and 1299983).
- b. For 17 (or 65%), the employee worked 100% on the program, but there was no evidence of periodic, or at least semiannual, certification (i.e., check nos. 1259472, 1264278, 1271573, 1276474, 1278915, 1281349, 1283798, 1286276, 1288729, 1293636, 1296083, 1308323, 1315676, 1318144, 1320621, 1320648, and 1315672).

CFDA #84.027

Of seventeen expenditures tested totaling \$303,152 of a total population of \$478,272, one expenditure was recorded twice in the general ledger and is not considered to be an allowable cost as of September 30, 2010.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Grant no.</u>	<u>Description</u>
72151519	719630	\$ 59,590	E63586	H027B030001-05	Professional services

No question cost result as this situation was corrected through proposed audit adjustment to reverse the duplicate entry.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-32, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
1U58DP000776-02, 5UR3DD000416-02, 5U58DP001952-02,  
1U58DP001952-01  
Questioned Costs: \$20,638

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027B030001-05  
Questioned Costs: \$0

Requirement: Allowable Costs/Cost Principles

Cause: The cause of the above conditions is lack of conformance with existing procedures that require adequate documentation be maintained to support program expenditures, lack of policy to maintain contemporaneous records documenting the time per applicable program, lack of an alternative system that has been developed and been approved by the grantor agency, and lack of policy to require periodic certifications from employees who work solely on the program.

Recommendation: We recommend that the Republic strengthen procedures to require adequate documentation supporting program expenditures be maintained on file, implement control procedures to prevent costs of local and/or other Federal grants from charging the grant, and establish control procedures to obtain periodic certifications from employees who work solely on the program.

Furthermore, we recommend that the Republic discuss Condition 2 with the funding agency and adopt an approved method of cost allocation; establish policies and procedures to prevent double recording of expenditures and ensure that costs charged to the federal fund is authorized.

Prior Year Status: The lack of supporting invoice and certificate of completion evidencing receipt of services was reported as a finding in fiscal year 2009.

Noncompliance with administrative costs was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Noncompliance with cost allocation principles requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2009.

Auditee Response and Corrective Action Plan:

CFDA #93.283

2010-32(1a-b): Receiving reports/certificate of completion/benefit to program

- a. Receiving reports/certificate of completion for lab services: Program was not aware that a certificate of completion is required for this particular contract as it is clearly stated in the contract that the termination date is June 29, end date for the grant period. Now that the Program is aware, it will ensure the attachment of a certificate of completion during close outs/liquidation periods.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-32, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
1U58DP000776-02, 5UR3DD000416-02, 5U58DP001952-02,  
1U58DP001952-01  
Questioned Costs: \$20,638

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027B030001-05  
Questioned Costs: \$0

Requirement: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

- b. Bucky 800T Senograph has direct benefit to program as it is an essential part of the mammography unit, used for breast cancer screening, one of the major components of the BCCEDP Cooperative Agreement. See attached supporting email between CDC and Program.
2. Employee time/salary certification or records
- a. It is difficult to determine FTEs related and unrelated to the program because there isn't a formula to follow. There is ongoing effort by the Ministry of Health to develop cost allocation plan for employees to address this issue of allocating and accounting for personnel and volunteer time spent for program activities. This will also address the issue of matching funds required for the cooperative agreement.
  - b. The issues of employee certification and time effort logs have been discussed extensively.

Semi-annual certifications for employees were prepared in prior years but the process was not sustainable and cost effective. We have re-evaluated the existing process and will be implementing a more cost-effective approach for employee certification, a process that will be less costly while still meeting this requirement. Forms are being developed which will consolidate verification and certification of employees who spent all or a fraction of their time on each program. To ensure sustainability of this reporting we are currently discussing to integrate with payroll or human resource business processes.

Behavioral Risk Factor Surveillance System:

Each request for payment is made with an attached letter and report for the project completion as document in our records. If the finding is looking at certification beyond the project director/coordinator, future actions can be taken to ensure layered certifications of the project to include Minister of Health.

CFDA #84.027

ROP concurs with this finding. Ministry of Finance continues to ensure disbursement vouchers are verified and fully documented before entered into the system. Process has been fully implemented.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-32, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-03, 5U58DP000776-04, 1U58DP001952-01,  
1U58DP000776-02, 5UR3DD000416-02, 5U58DP001952-02,  
1U58DP001952-01

Questioned Costs: \$20,638

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027B030001-05  
Questioned Costs: \$0

Requirement: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

Full name of the person responsible for the corrective action plan: MOH Management, MOH Comptroller, and respective program managers, MoF/BNT Director, Chief of Finance & Accounting, Grant Management Coordinator.

When will the corrective action plan be implemented:

CFDA #93.283

October 2012

CFDA #84.027

MoF and Grantor Agency had communicated and had taken corrective action to resolve this finding. Additionally, MOF and its Work Plan 2012 Committee are at the final stage of its internal control policies and procedures; and draft manual will be presented to management for its review and approval shortly.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-33  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-04  
Requirement: Matching, Level of Effort, Earmarking  
Questioned Costs: \$20,500

Criteria: Non-federal financial participation in the form of in-kind contributions (i.e., office space, equipment use, nurses, etc.) which is provided on an on-going basis should be appropriately documented and valued to determine that the required match has been made in accordance with program requirements.

Condition: The determination of the in-kind contributions to meet the required match occurs solely during the grant application. It appears that the local match of \$20,500 per the grant award notification is not otherwise documented, monitored or valued throughout the fiscal year or the grant period (cost center no. H93683, H03683).

Cause: The cause of the above condition is a lack of records to support the in-kind non-federal participation.

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria. A questioned cost of \$20,500 results.

Recommendation: We recommend that management establish procedures to document and appropriately value in-kind non-federal contributions.

Prior Year Status: Lack of records to evidence compliance with matching requirement was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2009.

Auditee Response and Corrective Action Plan: Procedures have been implemented to begin corrective action. Program has made it a requirement to record events and amount of hours that partners, including Cancer Coalition members, put in as contribution to the Program. The Program will also work with MOH and MOF personnel to come up with a formula to put a value to these in kind hours and other contributions.

Full name of the person responsible for the corrective action plan: MOH Management, MOH Comptroller, and respective program managers

When will the corrective action plan be implemented: Ongoing effort

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-34  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: 5U58DP000776-02, 5U58DP000776-03, 5U3DD000416-02,  
 5U50CI923972-05,  
 Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and  
 Colorectal, Palau Early Hearing Detection & Intervention (EHDI) Tracking,  
 Surveillance & Integ, Epidemiology and Laboratory Capacity for Infectious  
 Diseases  
 Requirement: Period of Availability of Federal Funds  
 Questioned Costs: \$48,861

Criteria: A grantee must liquidate all obligations incurred under the award no later than ninety days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Condition: During our test of eight expenditures tested for period of availability of federal funds totaling \$22,091, we noted the following:

1. Eleven expenditures, totaling \$6,532, were charged to grant no. 1U58DP000776-02 (cost center no H83683/I83683) seven to twenty-three months after the grant budget period ended on June 29, 2009. There was no evidence that a grant period extension was obtained for the following:

<u>Cost Center</u>	<u>Description</u>	<u>Date</u>	<u>Voucher No.</u>	<u>Amount</u>
H83683	Building rental	1/14/2010	758344	\$ 700
H83683	Building rental	1/14/2010	758347	700
H83683	Building rental	1/14/2010	758346	700
H83683	Building rental	1/14/2010	758343	700
H83683	Building rental	1/14/2010	758345	700
H83683	Utilities	1/21/2010	759162	518
H83683	Printing agenda	1/25/2010	760264	1,200
I83683	Printing health materials	1/21/2010	760047	1,008
I83683	Communication	3/16/2011	816049	153
I83683	Communication	3/17/2011	816193	53
I83683	Communication	3/17/2011	816193	<u>100</u>
				<u>\$ 6,532</u>

2. Three expenditures, totaling \$10,609, were paid after the liquidation period:

<u>Grant no.</u>	<u>Cost Center</u>	<u>Description</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Last Day of Liquidation</u>
5U58DP000776-03	H93683	Medical Supplies	792680	\$ 3,750	306216	02/16/2011	9/30/2010
5U58DP000776-03	H93683	Medical Supplies	792677	3,750	303105	12/16/2010	9/30/2010
5UR3DD000416-02	H93682	Maintenance	787910	<u>3,109</u>	300216	10/05/2010	9/30/2010
				<u>\$ 10,609</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-34, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: 5U58DP000776-02, 5U58DP000776-03, 5U3DD000416-02,  
 5U50CI923972-05,  
 Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and  
 Colorectal, Palau Early Hearing Detection & Intervention (EHDI) Tracking,  
 Surveillance & Integ, Epidemiology and Laboratory Capacity for Infectious  
 Diseases  
 Requirement: Period of Availability of Federal Funds  
 Questioned Costs: \$48,861

Condition, Continued

3. Two FSRs submitted were not finalized on the last day of liquidation. It was represented that the final FSR is not finalized as long as there are outstanding unliquidated obligations after the liquidation period; therefore, the reports submitted were not final. The reports will be finalized when all unliquidated obligations are obligated; therefore, no extension was obtained. However, there was no such documentation from the grantor agency, and expenditures were liquidated later than ninety days after the end of the funding period. No questioned costs result in fiscal year 2010 as these expenditures were liquidated subsequent to September 30, 2010.

<u>Cost Center no.</u>	<u>Budget Period</u>	<u>Last Day of Liquidation</u>	<u>Expenditures liquidated after liquidation period</u>
H93682	07/01/09 - 06/30/10	9/30/2010	\$ 1,167
H93683/193683	06/30/09 - 06/29/10	9/29/2010	<u>3,688</u>
			\$ <u>4,855</u>

4. During our test of twenty-six payroll expenditures, totaling \$21,477 of a total population of \$457,767, we noted that payroll costs for ten pay periods aggregating \$31,720 were charged to grant no. 5U58DP000776-02 (cost center no. H83683) after the grant budget period ended on June 29, 2009. There was no evidence that a grant/cost extension was obtained. Detail is as follows:

<u>Bi-weekly Pay Period Ending</u>	<u>Payroll Expenditures</u>
10/10/09	\$ 4,666
10/24/09	6,795
11/07/09	6,501
11/21/09	5,796
12/05/09	4,746
12/19/09	1,702
01/02/10	377
01/16/10	377
01/30/10	377
02/13/10	383
	\$ <u>31,720</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-34, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-02, 5U58DP000776-03, 5U3DD000416-02,  
5U50CI923972-05,  
Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and  
Colorectal, Palau Early Hearing Detection & Intervention (EHDI) Tracking,  
Surveillance & Integ, Epidemiology and Laboratory Capacity for Infectious  
Diseases  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$48,861

Cause: The cause of the above condition is a lack of controls over period of availability compliance. There are no records on file evidencing grantor approval of a grant/extension and of liquidation, if any. There is no mechanism in place to freeze the accounts of expired grants.

Effect: The effect of the above condition is noncompliance with period of availability requirements, and questioned costs of \$48,861 result.

Recommendation: We recommend that management establish policies and procedures to comply with period of availability requirements.

Prior Year Status: Lack of controls over period of availability requirements was reported as a finding in the Single Audits of the Republic for fiscal year 2006 through 2009.

Auditee Response and Corrective Action Plan:

- (1) ROP does not concur with this finding. Space rental cost were obligated within the budget period. ROP sent a financial status report to grantor containing unliquidated obligations. ROP also sent the final financial status report to grantor and informed grantor that some obligations were liquidated beyond the liquidation period. ROP does not concur with the questioned cost. These costs were necessary, reasonable, and allocable to the grant.
- (2) ROP does not concur with this finding. Grant no. 5U58DP000776-03, a financial status report was sent to grantor agency indicating outstanding obligations and also stated that a final financial status report will be submitted as soon as the outstanding obligations are liquidated. Final financial status report sent to grantor indicated that liquidation took longer than the normal 90 days period. ROP does not consider this as a new obligation. ROP does not concur with the questioned cost. These costs were necessary, reasonable, and allocable to the grant.
- (3) ROP does not concur with this finding. Due to outstanding obligations that took longer than the allotted liquidation period to clear, these costs were recorded after the liquidation period. ROP communicated with grantor regarding unliquidated obligations and submitted final reports when all the obligations were cleared.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-34, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58DP000776-02, 5U58DP000776-03, 5U3DD000416-02,  
5U50CI923972-05,  
Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and  
Colorectal, Palau Early Hearing Detection & Intervention (EHDI) Tracking,  
Surveillance & Integ, Epidemiology and Laboratory Capacity for Infectious  
Diseases  
Requirement: Period of Availability of Federal Funds  
Questioned Costs: \$48,861

Auditee Response and Corrective Action Plan, Continued:

- (4) ROP concurs with reservations. In this case, Ministry of Health did not submit their change of account form to Ministry of Finance in order to move their payroll from old grant to new grant. ROP has set up the FMS to flag all transactions beyond expiration dates to make sure this does not happen again. ROP will communicate to grantor regarding this finding because all the Financial Status Reports, Drawdowns, and Carry-over of funds are finalized, any adjustment to the final amounts would mean revising all the above mentioned reports. . ROP does not concur with the questioned cost. These costs were necessary, reasonable, and allocable to the grant.

Full name of the person responsible for the corrective action plan: MoF Grant Management Coordinator, MoH Financial Officer, and Program Managers with appropriate staff.

When will the corrective action plan be implemented: On-going effort

Auditor Response: 1., 2., 3.,: As the requirement being tested is the period of availability of federal funds and the above expenditures were liquidated after ninety days of the funding periods, and grantor approval of such timing was not evident, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Fixed Assets

Finding No. 2010-35

Criteria: The RPPM Chapter IV stipulates the following:

- Sections 203.7: Accountable officers will maintain complete property management records, and a physical inventory must take place annually;
- Section 207.3: Accountable officers will submit a Property Requested for Survey Action form when property is unserviceable (the property is no longer useable for the purpose for which it was required or it is not cost-effective to repair).

Condition: Our test of fixed assets noted the following:

1. There was no evidence to indicate annual physical inventory performance by an accountable officer for the fiscal year ended September 30, 2010; thus, reconciliation with property records is also not evident;
2. Four assets were not operable as of September 30, 2010. However, there has been no official report of survey documented.

<u>Tag No.</u>	<u>Purchase date</u>	<u>Cost</u>
RP-2826	02/21/2001	\$ 23,875
RP-3633	10/10/2006	51,000
RP-3488	11/15/2004	5,748
RP-3662	01/09/2007	<u>5,225</u>
		\$ <u>85,848</u>

Cause: The cause of the above condition is a lack of control over fixed assets.

Effect: The effect of the above condition is noncompliance with the above criteria.

Recommendation: We recommend that the Republic comply with property management policies and procedures.

Prior Year Status: Noncompliance with property management policies and procedures was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal controls guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures. MOF management is currently communicating with the FMS provider, namely CDC Software, Inc. on the possibility of utilizing the Fixed Asset module for recording and maintenance of ROPNG fixed assets records.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Fixed Assets, Continued

Finding No. 2010-35

Full name of the person responsible for the corrective action plan: Minister of Finance, Director of National Treasury, Chief of Property & Supply, Chief of Finance & Accounting, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented: Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance - Procurement

Finding No. 2010-36

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. Purchases over \$10,000 require a formal bidding process. A public notice of the invitation for bids shall be made a reasonable time at least fifteen (15) days prior to the date of the initial day of the bidding time. The notice shall be furnished to all state governments and to all persons who have requested to be included in bidders mailing lists within the previous 12 months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government; and shall be publicly posted for at least fifteen (15) days at the office of the Procurement Officer concerned, the post office building, the Courthouse, the Bureau of Domestic Affairs office, and announced on all radio and television stations within the Republic. The contract must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified.

For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the procurement officer concerned or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required for small purchases under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

For emergency procurement, the President shall determine the existence of a threat to public health, welfare, or safety. An emergency procurement shall be as competitive as practicable under the circumstances. A detailed and substantiated written determination describing the emergency, the extent of competition obtained if any, and the basis for selection of a particular contractor shall be prepared by the Procurement Officer concerned and made part of the contract file.

Condition: Our tests of expenditures noted the following exceptions:

1. For two disbursements, the request for proposal and related public notice were advertised in two radio stations, television, two newspapers and posted at the required sites. Thus, there was lack of evidence that it was adequately advertised and publicized as required by the aforementioned regulations.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
291566	766523	\$ 38,900
293217	770140	68,500
		<u>\$ 107,400</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding No. 2010-36, Continued

Condition, Continued

2. For five disbursements, the public notice was advertised in a radio station, newspaper, and television. However, documentation that it was posted in all required sites is not evident.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
304013	790162	\$ 30,000
284356	750291	12,320
286395	753538	13,570
292899	767695	20,000
75978631	DF000120	<u>130,507</u>
		\$ <u>206,397</u>

3. For one disbursement, the request for proposal and public notice was advertised only in one radio station and newspaper. There was no evidence that it was publicized in a television and posted in all required sites.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
304013	790143	\$ 65,000

4. For the following, request for proposal and public notice were advertised in one newspaper and one radio station. A price quotation was attached for television advertisement but the related invoice supporting the advertisement was not provided. Further, there was a lack of evidence that the request for proposal and public notice were posted at all required sites.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
300476	790934	\$ 30,000

5. For the following, written certification of completion of work was signed by a person other than the authorized person stated in the contract. There was no evidence that delegation of authority was given to the person who signed the certification.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
304013	790162	\$ 30,000
304013	790151	10,500
304013	790143	<u>65,000</u>
		\$ <u>105,500</u>

6. For the following, award letter was not provided. The related request for proposal and public notice were advertised in one radio station, two newspapers, and television. However, documentation that it was posted in all required sites was not evident.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
304013	790151	\$ 10,500

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding No. 2010-36, Continued

Condition, Continued

7. Of seventeen expenditures tested, totaling \$303,152, of a total population of \$478,272, there were invoices on file to support advertisement on two radio stations and on TV for three purchases; however, the invoices did not document or specify the related request for proposal number or project name. Thus, we could not verify if such advertising invoices related to the purchase tested. Further, there was a lack of evidence that the request for proposal and public notice was posted at all required sites.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
292497	768157	\$ 6,977	Professional services
292497	768155	6,471	Professional services
292497	768158	<u>6,471</u>	Professional services
		<u>\$ 19,919</u>	

8. Of fifty nine General Fund non-payroll disbursements tested, totaling \$2,516,941, the following were noted:

- a. Lack of evidence of competitive bidding process was noted for one disbursement:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Description</u>
776576	301062	\$ 28,915	Medical Supplies

- b. There was no evidence of price quotations for four disbursements as follows:

<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
DF000033	\$ 8,067	Limo Services
DF000101	9,982	Limo Services
DF000156	7,464	Limo Services
771974	<u>1,228</u>	Food
	<u>\$ 26,741</u>	

- c. For an emergency procurement, there is no documentation to substantiate the basis for the selection of the vendor noted as set forth in the above criteria for the following:

<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
DF000080	\$ 230,000	School buses

- d. One disbursement in the amount of \$28,601 did not go through the formal procurement process (Check no. 292649). It was represented that the service was procured through emergency procurement. There were two price quotations obtained, and a third vendor declined to submit its proposal due to shortage of man power. Although price quotations were obtained, there was no evidence that the President of the Republic determined the existence of a threat to public health, welfare, or safety and waived procurement process for emergency purposes. Furthermore, there was no evidence of a written determination by the procurement officer.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding No. 2010-36, Continued

Condition, Continued

9. Of twenty seven fixed asset additions tested, totaling \$16,703,509, of a total population of \$17,768,178, the following were noted:

a. The public notice of the request for proposal was advertised less than 15 days. There was no evidence in file that the lesser time period was reasonable. Furthermore, there was no evidence in file that public notice was announced on all radio and television stations within the Republic. Although public notice of the request for proposal was not in compliance with procurement regulations, there were more than one vendor who submitted a proposal for the following contracts:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C90029	Koksai-Ngchesar Rd. to Compact Rd. Phse I	\$ 4,500,000
C00001	Melekeok Main Rd Rehab. Phase V. - Package A	\$ 820,000
C00002	Light Up Palau Project (LED)	\$ 716,660
C90031	Ngaremlengui-Ngarmeskang Culvert Rd.	\$ 600,000
C00011	Koksai-Ngchesar Rd. to Compact Rd. Phse 2	\$ 2,700,000
C00010	Ngchesar Road Paving - Phase V	\$ 540,000

b. The contract was awarded after thirty (30) days for the following:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C90029	Koksai-Ngchesar Rd. to Compact Rd. Phse I	\$ 4,500,000
C00026	Light Up Palau Project (LED)	\$ 716,660
C90027	Ngarchelong -Mengellang-Ngriil Rd Rehab-Pckg. A	\$ 327,710
C90026	Ngarchelong Pkg. B - Ollei Road Rehab	\$ 293,783
C90028	Ngarchelong-50K Gal Concr Water Storage Tank Pckg C	\$ 138,600

c. Three disbursements with amounts exceeding \$10,000 did not go through the bidding process. A memorandum by the President of the Republic approved a waiver of the regular procurement procedures for emergency purchase. It would appear that an attempt to apply emergency procurement method was utilized; however, the memorandum did not discuss the existence of a threat to public health, welfare, or safety. Moreover, the procurement file did not contain evidence of any competition, which would have been practicable under the circumstances. Furthermore, there was no written determination describing the emergency, the extent of the competition obtained and the basis for the selection of the contractor prepared by the Procurement Officer in file.

<u>P.O. no.</u>	<u>Description</u>	<u>Amount</u>
N00012	School Bus, LP#1147, 2010 Hyundai County	\$ 56,000
N00012	School Bus, LP#1148, 2010 Hyundai	\$115,000
N00012	School Bus, LP#1149, 2010 Hyundai	\$115,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding No. 2010-36, Continued

Condition, Continued

- d. One disbursement with an amount exceeding \$10,000 did not go through the formal bidding process. A memorandum dated 10/6/09 from the Republic of Palau, Office of the President, authorized to make emergency procurement provisions for the purpose of the Ministry of Health's 2009 mass Vaccination Campaign. It would appear that an attempt to apply emergency procurement methods was utilized; however the memorandum did not discuss the existence of a threat to public health, welfare, or safety. Per examination of the purchase summary sheet; we noted that four quotations were obtained for purchase of two vehicles. The vendor who had the lowest bid was the one selected. However, further examination of the purchase summary sheet noted that the amount proposed by the vendor selected is not the lowest proposal. There was a vendor who provided quotation for \$19,995 compared to \$23,499, which was \$3,504 less and a vendor who provided quotes for \$3,978 compared to \$6,100, which was \$2,122 less cost. Furthermore, there was no written determination describing the emergency, the extent of the competition obtained and the basis for the selection of the contractor prepared by the Procurement Officer in file.

<u>P.O. no.</u>	<u>Description</u>	<u>Amount</u>
L00501	SUV, LP#1139, 2008 Suzuki	\$ 22,743

- e. One contract with an amount exceeding \$10,000 did not go through the formal bidding process. It was represented that the contract was an addendum number 2 to an existing contract (contract no. C90027). The addendum was distributed to eight contractors who attended a project information conference.

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C90028	Ngarchelong-50K Gal ConcrWater Storage Tank_Package C	\$ <u>138,600</u>

- f. The five criteria noted on the proposal evaluation form could not be substantiated as a request for proposal was not provided for examination for one contract.

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C90031	Ngaremlengui-Ngarmeskang Culvert Rd.	\$ <u>600,000</u>

- g. A request for proposal for one contract was not prepared. It was represented that an addendum number 2 distributed to contractors who attended the project information conference requires the contractor to include the project stated in the addendum to their proposals.

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C90028	Ngarchelong-50K Gal Concr Water Storage Tank Package C	\$ <u>138,600</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding No. 2010-36, Continued

Condition, Continued

10. Our examination of expenditures under fund 440100 noted the following:

- a. Three individual contracts with amounts exceeding \$10,000 which were awarded to three state governments did not go through the formal bidding process. It was represented that the contracts were awarded through a force account agreement and therefore there was no bidding process.

<u>Contract No.</u>	<u>Project Description</u>	<u>Amount</u>
C90025	Sonsorol State Various Community Improv Project	\$ 52,215
C00003	Angaur State Boat repair	35,000
D50072	Peleliu State Camp Beck Channel Dredging Project	45,000
		<u>\$ 132,215</u>

- b. There was no evidence of public notice, request for proposal, bid opening summary and evaluation in the contract file for one contract.

<u>Contract No.</u>	<u>Project Description</u>	<u>Amount</u>
C90022	Ngiwal State Water Improvement Project	\$ <u>155,000</u>

Cause: The cause of the above condition is inadequate procurement documentation. It was also represented that if a state government is capable to perform the scope of work required within the budget appropriated, and has the requisite skills and qualifications to accomplish the work desired by the Republic, then the contract is awarded to the state.

Effect: The effect of the above condition is noncompliance with local procurement regulations.

Recommendation: We recommend that the Republic strengthen procedures to confirm compliance with local procurement regulations. We also recommend that any exceptions to procurement regulations be documented in the contract file. If the Republic determines that the cost of compliance with the existing procurement policies is excessive, amendments to the applicable procurement laws should be considered.

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audit of the Republic for fiscal year 2009.

Auditee Response and Corrective Action Plan: ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal controls guidelines and procedures to address these deficiencies within Finance & Accounting and Property & Supplies divisions, including Bureau of CIP/Public Works in relation to its oversight and management on the ROPNG infrastructures. MOF management is currently communicating with the FMS provider, namely CDC Software, Inc. on the possibility of utilizing the Fixed Asset module for recording and maintenance of ROPNG fixed assets records.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance, Continued

Finding No. 2010-36, Continued

Auditee Response and Corrective Action Plan, Continued

Full name of the person responsible for the corrective action plan: Minister of Finance, Director of National Treasury, Chief of Property & Supply, Chief of Finance & Accounting, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented: Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Local Noncompliance - Borrowing

Finding No. 2010-37

Criteria: Per Title 40, Chapter 5, § 504 of the Palau National Code, the National Government Private Borrowing Authority Act, the Republic, by and through the President, shall have the authority to borrow money or goods and incur long-term obligations and repay the same with interest, from any private persons. In addition, the annual unified budget shall reflect all private borrowings, obligations and issuances of securities and bonds of the Republic in detail, for every year such borrowing is in effect.

Condition: On June 28, 2002, the Republic's Washington Embassy entered into a bank loan of \$160,000. Although the loan was due on May 30, 2004, inclusive of interest at 7.00% per annum, \$198,142 remains outstanding at September 30, 2010.

Cause: The cause of the above condition is the lack of authorized loan repayments.

Effect: The effect of the above condition is noncompliance with the National Government Private Borrowing Authority Act.

Recommendation: We recommend that the Republic address the Republic's Washington Embassy loan.

Prior Year Status: The lack of authorized loan payments was reported as a finding in the Single Audits of the Republic for fiscal years 2002 through 2009.

Auditee Response and Corrective Action Plan: As of this date, nothing definite has been taken by the administration to address this finding.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-38  
 Federal Agency: U.S. Department of Education.  
 CFDA Program: 84.027 Special Education - Grants to States  
 Grant Number: H027A090006A; H027A080006A  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$1,935

Criteria: The Republic's Public Service System Rules and Regulations (1997) Part 2.2 subsection (e) indicates that appropriate management officials shall develop and establish a time keeping system for employees within their respective branches or departments. Exceptions to this policy should be authorized and documented.

Condition: Of thirty-three payroll expenditures tested, totaling \$14,303, of a total population of \$640,817, the following were noted:

1. Variances between hours per timecards and approved timesheets existed for eleven employees.

<u>Cost Center No.</u>	<u>Grant No.</u>	<u>Check No.</u>	<u>Payroll Period Ended</u>	<u>Regular Hours in Excess of Timecard</u>	<u>Excess Payment</u>
E83561	H027A080006A	1259309	10/10/09	40	\$ 243
E83561	H027A080006A	1259311	10/10/09	23	237
E83561	H027A080006A	1266608	11/21/09	56	492
E83561	H027A080006A	1266609	11/21/09	8	64
E83561	H027A080006A	1269032	12/05/09	8	24
E83561	H027A080006A	1269033	12/05/09	22	88
E83561	H027A080006A	1276372	01/16/10	32	229
E83561	H027A080006A	1278811	01/30/10	8	40
E93561	H027A090006A	1293542	04/24/10	7	62
E93561	H027A090006A	1313143	08/14/10	20	135
E93561	H027A090006A	1315640	08/28/10	38	267
					<u>\$ 1,881</u>

2. For one disbursement, annual leave hours indicated in the employees' timecard were not supported by approved leave forms.

<u>Cost Center No.</u>	<u>Grant No.</u>	<u>Check No.</u>	<u>Payroll Period Ended</u>	<u>Unapproved hours</u>	<u>Amount</u>
E93561	H027A090006A	1313143	08/14/10	8	\$ 54

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-38, Continued  
Federal Agency: U.S. Department of Education.  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A090006A; H027A080006A  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$1,935

Condition, Continued

3. For one disbursement (Check no. 1273916), we noted that approved annual leave hours were charged as regular hours in the applicable timesheet summary and payroll register. No questioned cost was raised as leave hours were authorized as evidenced by the approved leave form.

Cause: The cause of the above condition is noncompliance with the criteria.

Effect: The effect of the above condition is questioned costs of \$1,935 result since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that the Republic ensure that hours recorded on approved timesheets represent actual time worked.

Auditee Response and Corrective Action Plan: ROPNG concurs with the finding. ROPNG will continue to work closely with the appropriate line ministries and agencies to correct these deficiencies. MOF management has initiated the process of establishing internal guidelines and procedures to address internal control deficiencies. The committee began its work in November 2011 in establishments, developments, and enhancements on internal controls guidelines and procedures to address these deficiencies.

Full name of the person responsible for the corrective action plan: Director of National Treasury, Chief of Finance & Accounting, Grant Management Coordinator, Work Plan 2012 committee members, and appropriate management & staff from the line ministries and agencies.

When will the corrective action plan be implemented:

Establishment and development of the guidelines and procedures to be completed by the end of September 2012, with training and implementation to follow thereafter.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2010

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments which were unresolved at September 30, 2010:

	<u>Unresolved</u>	<u>Resolved in current year</u>	<u>Total</u>
Questioned Cost 2001	\$ 111,526	\$ -	\$ 111,526
Questioned Cost 2002	111,464	-	111,464
Questioned Cost 2003	48,618	-	48,618
Questioned Cost 2004	79,208	-	79,208
Questioned Cost 2005	312,798	-	312,798
Questioned Cost 2006	74,388	-	74,388
Questioned Cost 2007	63,691	-	63,691
Questioned Cost 2008	577,977	-	577,977
Questioned Cost 2009	<u>967,990</u>	<u>557,949</u>	<u>410,041</u>
	<u>\$ 2,347,660</u>	<u>\$ 557,949</u>	1,789,711
2010 Questioned Costs			<u>1,668,099</u>
Total Questioned Costs, September 30, 2010			<u>\$ 3,457,810</u>

Resolved prior year questioned costs:

<u>CFDA no.</u>	<u>Finding no.</u>	<u>Responding Grantor Agency</u>	<u>Resolved Costs</u>
20.106	2009-24	FAA Honolulu Office, August 19, 2011	\$ 339,548
84.256	2009-36	U.S. DOE, June 28, 2011	142,640
	2009-		
84.027	18,19,29,37	U.S. DOE, March 28, 2012	<u>75,761</u>
			<u>\$ 557,949</u>

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 13 through 121).