

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2013

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 Tommy E. Remengesau Jr.
President
Republic of Palau:

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated July 31, 2014. Our report includes a reference to other auditors who audited the financial statements of the National Development Bank of Palau, 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 our consideration of the results of the other auditors' testing of internal control over financial reporting and 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 Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, the National Development Bank of Palau, the Palau International Coral Reef Center, the Palau Visitors Authority, the Public Utilities Corporation, and the Protected Areas Network, 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 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 National Development Bank of Palau, 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

In planning and performing our audit of the financial statements, we considered the Republic's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Republic's internal control. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 2013-001, 2013-009 and 2013-022 to be material weaknesses.

A *significant deficiency* is a deficiency, or 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 2013-004 to be significant deficiencies.

Compliance and Other Matters

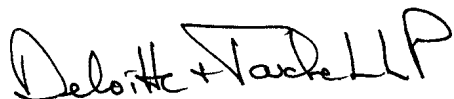
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Republic's Response to Findings

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



July 31, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

His Excellency Tommy E. Remengesau Jr.
President
Republic of Palau:

Report on Compliance for Each Major Federal Program

We have audited the Republic of Palau's (the Republic's) compliance with the types of compliance requirements described in the *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, 2013. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Republic's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Republic's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2013-002 to 2013-006, 2013-010 to 2013-013, and 2013-015 to 2013-020 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2013-020	15.875	Economic, Social and Political Developmnet of the Territories	Reporting
2013-010	20.106	Airport Improvement Program	Procurement and Suspension and Debarment
2013-011	20.106	Airport Improvement Program	Equipment and Real Property Management
2013-012	20.106	Airport Improvement Program	Reporting
2013-011	84.027/173	Special Education Cluster (IDEA)	Equipment and Real Property Management
2013-013	84.256	Territories and Freely Associated States Education Grant Prog	Allowable Costs/Cost Principles
2013-003	84.378	College Access Challenge Grant Program	Eligibility
2013-005	84.378	College Access Challenge Grant Program	Reporting
2013-006	84.378	College Access Challenge Grant Program	Special Tests and Provisions
2013-002	93.224	Consolidated Health Centers	Procurement and Suspension and Debarment
2013-011	93.224	Consolidated Health Centers	Equipment and Real Property Management
2013-015	93.224	Consolidated Health Centers	Allowable Costs/Cost Principles
2013-016	93.224	Consolidated Health Centers	Program Income
2013-017	93.224	Consolidated Health Centers	Reporting
2013-004	93.283	CDC and Prevention-Investigations and Technical Assistance	Allowable Costs/Cost Principles
2013-011	93.283	CDC and Prevention-Investigations and Technical Assistance	Equipment and Real Property Management
2013-018	93.283	CDC and Prevention-Investigations and Technical Assistance	Allowable Costs/Cost Principles
2013-019	93.283	CDC and Prevention-Investigations and Technical Assistance	Matching, Level of Effort, Earmarking

Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to each program.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Republic complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 2013-007, 2013-008, 2013-014 and 2013-021 regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program Name</i>	<i>Compliance Requirement</i>
2013-014	84.256	Territories and Freely Associated States Education Grant Prog	Period of Availability of Federal Funds
2013-007	84.378	College Access Challenge Grant Program	Activities Allowed or Unallowed
2013-007	84.378	College Access Challenge Grant Program	Allowable Costs/Cost Principles
2013-008	84.378	College Access Challenge Grant Program	Period of Availability of Federal Funds
2013-021	93.283	CDC and Prevention - Investigations and Technical Assistance	Period of Availability of Federal Funds

Our opinion on each major federal program is not modified with respect to these matters.

The Republic's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Republic's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 2013-002 to 2013-006, 2013-010 to 2013-013, and 2013-015 to 2013-020 to be material weaknesses.

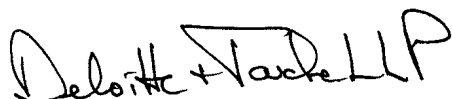
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 2013-007, 2013-008, 2013-014 and 2013-021 to be significant deficiencies.

The Republic's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated July 31, 2014, which contained unmodified opinions on those financial statements and which included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

July 31, 2014

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Grantor/ProgramTitle	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Grants for Agricultural Research, Special Research Grants	10.200	\$ 1,633
State Administrative Expenses for Child Nutrition	10.560	-
Cooperative Forestry Assistance	10.664	171,367
Community Facilities Loans and Grants	10.766	56,094
Total U.S. Department of Agriculture		<u>229,094</u>
U.S. Department of Commerce:		
Unallied Management Projects	11.454	-
Special Oceanic and Atmospheric Projects	11.460	286,560
NOAA Donation to IRC Meeting	11.UNKNOWN	-
Total U.S. Department of Commerce		<u>286,560</u>
U.S. Department of Housing and Urban Development:		
Emergency Solutions Grant Program	14.231	-
Total U.S. Department of Housing and Urban Development		<u>-</u>
U.S. Department of Justice:		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	-
State Justice Statistics Program for Statistical Analysis Centers	16.550	-
Total U.S. Department of Justice		<u>-</u>
U. S. Department of Labor:		
WIA Cluster:		
WIA Adult Program	17.258	73,397
WIA Youth Activities	17.259	96,912
Subtotal WIA Cluster		<u>170,309</u>
WIA Dislocated Workers	17.260	124,165
ARRA WIA Dislocated Workers	17.260	(170)
Total U.S. Department of Labor		<u>294,304</u>
U.S. Environmental Protection Agency:		
Construction Grants for Wastewater Treatment Works	66.418	-
Environmental Education Grants	66.951	-
Total U.S. Environmental Protection Agency		<u>-</u>
U.S. Department of Energy:		
State Energy Program	81.041	-
Total U.S. Department of Energy		<u>-</u>
U.S. Department of Education:		
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	1,026,417
Special Education - Preschool Grants	84.173A	-
Subtotal Special Education Cluster (IDEA)		<u>1,026,417</u>
Adult Education - Basic Grants to States	84.002	20,912
Career and Technical Education - Basic Grants to States	84.048	219,154
Byrd Honors Scholarships	84.185A	-
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187A	-
Bilingual Education Support Services	84.194Q	-
Territories and Freely Associated States Education Grant Program	84.256A	862,145
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	28,966
Vocational Education - Occupational and Employment Information State Grants	84.346A	-
College Access Challenge Grant Program	84.378A	1,516,481
Total U.S. Department of Education		<u>3,674,075</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services:		
Civil Rights and Privacy Rule Compliance Activities	93.001	600
Medical Reserve Corps Small Grant Program	93.008	3,976
Public Health Emergency Preparedness	93.069	257,522
Maternal and Child Health Federal Consolidated Programs	93.110AR	250,202
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	293,261
Emergency Medical Services for Children	93.127	8,994
Family Planning - Services	93.217	153,540
Consolidated Health Centers	93.224	974,750
Consolidated Knowledge Development and Application (KD&A) Program	93.230	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	104,677
Universal Newborn Hearing Screening	93.251	168,210
Immunization Cooperative Agreements	93.268	201,584
Drug Free Communities Support Program Grants	93.276	-
CDC and Prevention - Investigations and Technical Assistance	93.283	1,152,690
PPHF 2012 National Public Health Improvement Initiative	93.507	269,739
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems		
Capacity in ELC and EIP Cooperative Agreements; PPHF	93.521	72,544
ACA authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	58,614
ARRA Grants to Health Center Programs	93.703	-
PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	93.744	27,937
National Bioterrorism Hospital Preparedness Program	93.889	272,626
HIV Care Formula Grants	93.917	38,221
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	77,333
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	197,010
HIV/AIDS Surveillance	93.944	9,211
Block Grants for Community Mental Health Services	93.958	45,737
Block Grants for Prevention and Treatment of Substance Abuse	93.959	132,777
Preventive Health Services - STD Control Grants	93.977	26,458
Preventive Health and Health Services Block Grant	93.991	10,720
Maternal and Child Health Services Block Grant to the States	93.994	133,378
Total Department of Health and Human Services		<u>4,942,311</u>
U.S. Department of Homeland Security:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-
Total U.S. Department of Homeland Security		-
Total U.S. Federal Grants Fund (Fund 350100)		<u>\$ 9,426,344</u>
U.S. Department of the Interior:		
Social, Economic and Political Development of the Territories	15.875	\$ 291,729
Total U.S. Department of the Interior		<u>291,729</u>
U.S. Department of Transportation:		
Airport Improvement Program	20.106	3,516,887
Total U.S. Department of Transportation		<u>3,516,887</u>
Total OTIA Direct Grants Fund (Fund 350200)		<u>\$ 3,808,616</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875	Authorizations	Expenditures and Transfers
<u>211(a) & 215 Compact Current Account</u>		
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000
Compact Section 215	5,147,000	5,147,000
Total 211(a) & 215 Current Account	\$ 11,147,000	\$ 11,147,000
<u>211(f) Trust Fund</u>		
Executive Branch	\$ 5,000,000	\$ 5,000,000
Total 211(f) Trust Fund	\$ 5,000,000	\$ 5,000,000
<u>221(b)(1) & (2) Special Block Grant & Education Special Grant</u>		
Ministry of Education	\$ 2,000,000	\$ 2,000,000
Total 221(b) Special Block Grant	\$ 2,000,000	\$ 2,000,000
Total Compact of Free Association CFDA #15.875		\$ 18,147,000
Less Compact Section 211(a) Current Account		(6,000,000)
Less Compact Section 215 Current Account		(5,147,000)
Less Compact Section 211(f) Trust Fund Investment Earnings		(5,000,000)
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		\$ 2,000,000
Total Federal Awards		15,234,960

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, 2013

(1) Scope of Audit

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

• Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents 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 Energy
- U.S. Department of Education
- 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

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Republic and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. 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, 2013 basic financial statements; except that the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, 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, 2013. The following component units incurred federal expenditures during the year ended September 30, 2013:

Republic of Palau Social Security Retirement Fund	\$ 51,051
Palau Community College	\$4,611,126
Public Utilities Corporation	\$ 345,258

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

d. Indirect Cost Allocation

The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2013. The approved rate was 6.61%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

e. CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the U.S. Department of the Interior, Office of the Inspector General (OIG) has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding has 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 OIG. The OIG took this position since there was no compliance requirement imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There is no compliance requirement 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, 2013

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|------------|
| 1. | Type of auditors' report issued: | Unmodified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified? | Yes |
| 4. | Noncompliance material to financial statements noted? | No |

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>
	Special Education Cluster (IDEA):
84.027	Special Education - Grants to States
84.173	Special Education – Pre-School Grants
84.256	Territories and Freely Associated States Education Grant Program
84.378	College Access Challenge Grant Program
93.224	Consolidated Health Centers
93.283	CDC and Prevention-Investigations and Technical Assistance
20.106	Airport Improvement Program
15.875	Economic, Social, and Political Development of the Territories

- | | | |
|-----|--|------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 457,049 |
| 11. | Auditee qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2013-001	Financial Reporting
2013-004	Allowable Costs/Cost Principles
2013-009	Revenues
2013-022	Revenues

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2013-020	15.875	Reporting	\$ -
2013-010	20.106	Procurement and Suspension and Debarment	-
2013-011	20.106	Equipment and Real Property Management	-
2013-012	20.106	Reporting	-
2013-011	84.027	Equipment and Real Property Management	-
2013-013	84.256	Allowable Costs/Cost Principles	-
2013-014	84.256	Period of Availability of Federal Funds	8,724
2013-003	84.378	Eligibility	13,166
2013-005	84.378	Reporting	-
2013-006	84.378	Special Tests and Provisions	-
2013-007	84.378	Activities Allowed or Unallowed	9,985
2013-007	84.378	Allowable Costs/Cost Principles	-
2013-008	84.378	Period of Availability of Federal Funds	2,123
2013-002	93.224	Procurement and Suspension and Debarment	81,052
2013-011	93.224	Equipment and Real Property Management	-
2013-015	93.224	Allowable Costs/Cost Principles	-
2013-016	93.224	Program Income	-
2013-017	93.224	Reporting	-
2013-004	93.283	Allowable Costs/Cost Principles	31,191
2013-011	93.283	Equipment and Real Property Management	-
2013-018	93.283	Allowable Costs/Cost Principles	-
2013-019	93.283	Matching, Level of Effort, Earmarking	-
2013-021	93.283	Period of Availability of Federal Funds	<u>36,765</u>
			\$ <u>183,006</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Financial Reporting

Finding No. 2013-001

Criteria: 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 (e.g., management, auditors, etc.) can readily understand the basis for the reconciling items. In addition, the Republic's Property Management Policies, and Procedures Manual (RPPM) 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.

Approved audit adjustments should be recorded, and the affected balance sheet accounts should be verified against audit reports to confirm proper recording.

Condition: Capital assets were not reconciled throughout the year ended September 30, 2013. As a result, 2013 capital asset activities were not recorded in the balance sheet, and related schedules were prepared in May and June 2014. Such schedules were further revised and corrected due to various inaccuracies.

The transfer of water and sewer infrastructure with a net book value of \$12,975,020 to the Public Utilities Corporation was not adjusted in the general ledger.

Federal and non-federal due from grantor agencies were reconciled during audit fieldwork. Changes and corrections were proposed to the schedules during the audit process.

A number of unreconciled general ledger account balances at September 30, 2013 indicated misstatements in the financial statements, as follows:

<u>Fund/Acct no.</u>	<u>Account Description</u>	<u>G/L Balance</u>	<u>Subledger balance</u>	<u>Variance</u>
100100/890	Fund Balance	\$ (57,490,092)	\$ (57,173,704)	\$ (316,388)
100200/890	Fund Balance	\$ 62,952,104	\$ 64,836,349	\$ (1,884,245)
350100/890	Fund Balance	\$ 398,769	\$ (34,696)	\$ 433,465
360100/890	Fund Balance	\$ 460,398	\$ -	\$ 460,398
440100/890	Fund Balance	\$ 589,491	\$ 11,014	\$ 578,477
100130/890	Fund Balance	\$ 276,820	\$ 255,422	\$ 21,398

Cause: There appears to be lack of resources dedicated to facilitating timely reconciliation of significant balance sheet accounts.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Financial Reporting, Continued

Finding No. 2013-001, Continued

Effect: The effect of the above condition is a material weakness in the financial reporting process and material misstatements of the financial statements prior to proposed audit adjustments.

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 concurs with the finding. MOF is currently recruiting qualified staff to assist with the work load. Evidently, the amount of work are getting more stringent and demanding that more people are needed to assist with the work load especially for reconciliation and other areas that needs improvement.

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

Caryn L. Koshiba, Chief, Finance & Accounting-MOF
Millan Isack, Chief, Property & Supply-MOF

Date the corrective action plan will be implemented:

July 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$81,052

Criteria: It is the policy of the Republic that all procurement and procurement actions be executed in a manner that provides open and free competition and avoids 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 bid 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 of unsuccessful bidder or offeror, basis for cost or price and determination.

Condition: Of twenty-five Program expenditures tested, totaling \$130,043, the following were noted:

1. There were four purchase orders issued under request for proposal (RFP) no. 17-11 for the purchase of pharmaceutical and medical supplies. It appears that the awards for procurement of pharmaceutical and medical supplies were awarded to four vendors without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award. Therefore, known questioned costs of \$80,702 results.

<u>Check no.</u>	<u>PO No.</u>	<u>Amount</u>	<u>Cost Center no.</u>
336417	G20034	\$ 1,110	H23690
339143	F30072	60,000	H23690
336417	G20037	7,192	H23690
344939	G30017	8,400	H33960
333563	S20507	4,000	H23690
		<u>\$80,702</u>	

It appears that there are additional potential questioned costs that similarly occurred during fiscal year 2013; however, the system is unable to capture expenditures recorded pursuant to a specific request for proposal.

2. There was no evidence on file that quotations were obtained from an adequate number of qualified sources for the following:

<u>Check no.</u>	<u>PO/TA no.</u>	<u>Amount</u>	<u>Cost Center no.</u>
349142	L31339	\$ 350	H33690

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-002, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$81,052

Cause: The cause of the above conditions 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.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations which resulted in questioned costs of \$81,052.

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

Prior Year Status: Weakness in internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program revenues and expenditures was reported as a finding in the Single Audits of the Republic for fiscal year 2012.

Auditee Response and Corrective Action Plan:

1. ROP concurs with the finding. All medical supplies and drugs go through proper bidding process. Prospective vendors are selected based on a series of factors to include price, payment arrangement, flexibility, etc. In addition, Chief of Procurement and supply and MOH employees were able to work together to come up with steps to support the recommended amount based on the comparative analysis. We utilized the usage of percentage and range of percentage as follows:
 1. Bid opening summary, we compared the proposals from the various vendors against the specifications;
 2. The score for each specification will be based on the specs, vendor history and the prequalification questionnaires;
 3. The score ranges from 1 to 5, 5 being the highest score;
 4. The total score for the three criteria total to 5,100.
 5. The total for each criteria are averaged against the total score to get the percentage amount which determines the total amount awarded based on the proposal.
2. For check #349142, required quotations were obtained please see attached documents on APV# 933143. Although, WCTC furniture Mart and WCTC west office supplies are both WCTC, they are considered to have two separate quotations because they both sell furniture for office use. We proposed that this should be removed based on supporting evidence.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$81,052

Auditor Response:

Regarding Condition 2, WCTC Furniture Mart and WCTC West Office Supply are considered one vendor and WCTC Furniture Mart mainly sells home furniture. Thus, the finding remains.

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

Darnelle Decherong, Executive Director, CHC
Cindy Fritz, Budget Officer, MOH
Tasya Worswick, Procurement Officer, MOH
Millan Isack, Chief Procurement & Supply
Caryn L. Koshiba, Chief, Finance & Accounting

Date the corrective action plan will be implemented:

Item 2: April, 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057; P378A130057
Requirement: Eligibility
Questioned Costs: \$13,166

Criteria: In accordance with US Code Title 20, Chapter 28, subchapter IV, part F, section 1091, a student to be eligible to receive a grant aid must:

1. File a statement as part of the original financial aid application process, a certification, which need not be notarized, but which shall include—
 - (a) a statement of educational purpose stating that the money attributable to such grant, loan, or loan guarantee will be used solely for expenses related to attendance or continued attendance at such institution; and
 - (b) such student's social security number;
2. Be enrolled or accepted for enrollment in a degree, certificate, or other program (including a program of study abroad approved for credit by the eligible institution at which such student is enrolled) leading to a recognized educational credential at an institution of higher education that is an eligible institution and not be enrolled in an elementary or secondary school.

Condition: Of twenty-three grant-aid expenditures tested aggregating \$31,666 of a population of \$517,266, the following were noted:

1. For twenty-three grant aids, the Program did not require students to certify that the grant aid will be used solely for educational purposes.
2. The following grant aid to supplement tuition fees and other educational expenses were issued to high school students:

<u>Check no.</u>	<u>Check date</u>	<u>Voucher no.</u>	<u>Amount</u>
343783	6/13/13	924157	\$ 3,836
343785	6/13/13	924158	3,121
343784	6/13/13	924156	3,123
343782	6/13/13	924159	<u>3,086</u>
	Total		\$ <u>13,166</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057; P378A130057
Requirement: Eligibility
Questioned Costs: \$13,166

Condition, Continued:

3. Checks charged in fiscal year 2013 were at the Program Office after nine months from the check date and pertain to grants that were ascertained to be eligible at the time of application; however, the students either have not furnished the required enrollment verification documents, or have dropped out of school since issuance of the checks. Checks were not properly cancelled, and expenditures were not reversed for the following:

<u>No.</u>	<u>Check no.</u>	<u>Check date</u>	<u>Check Amount</u>
1	347683	9/05/2013	\$1,067
2	347745	9/05/2013	1,310
3	347677	9/05/2013	1,221
4	347703	9/05/2013	1,557
5	347875	9/05/2013	1,438
6	347750	9/05/2013	1,370
7	347726	9/05/2013	1,587
8	347885	9/05/2013	1,343
9	347778	9/05/2013	1,391
10	347853	9/05/2013	1,370
11	347891	9/05/2013	1,607
12	347692	9/05/2013	1,297
13	347836	9/05/2013	1,370
14	347394	8/30/2013	500
15	347421	8/30/2013	500
16	347446	8/30/2013	500
17	347447	8/30/2013	500
18	347462	8/30/2013	500
19	347478	8/30/2013	500
20	347495	8/30/2013	500
21	347507	8/30/2013	500
22	347520	8/30/2013	500
23	347389	8/30/2013	500
24	347541	8/30/2013	500
25	347547	8/30/2013	500
	Total		\$ <u>23,928</u>

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

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-003, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057; P378A130057
Requirement: Eligibility
Questioned Costs: \$13,166

Effect: The effect of the above condition is questioned costs of \$13,166 for Condition 2. No questioned cost is presented for Condition 1, as student file documents show that participants met the eligibility requirements. Further, no questioned costs are presented for Condition 3, as the specified checks were subsequently cancelled and the related expenditures were subsequently reversed in FY 2014 by program management to correct the stated deficiency.

Recommendation: We recommend that the Program comply with eligibility requirements in US Code Title 20, Chapter 28, subchapter IV, part F, section 1091.

Auditee Response and Corrective Action Plan:

Item: 1

Prior practice had two tiers of certification. First, at application, an official of the institution must certify student need on page 2 of the application form. Second, after award but prior to and as a condition of receiving funds, the student must certify that the scholarship award will be used towards a college degree at his/her institution.

We concur with this item because, due to turnover, new program staff did not implement the 2nd tier certification in FY2013.

Mitigation is already under way under the 2012 audit corrective action plan. For this specific case, staff roles and responsibilities are being clarified and improved to ensure that eligibility certification is an explicit work process with accountability implications. This includes establishment of documented and approved workflows and adjustment of job descriptions as appropriate.

Item: 2

This expense is for a college tour/exposure activity specifically targeting high school students. College tours/exposures are one of the tools to achieve a main goal of the CACG, which is to prepare high school students so that they are better able to stay and succeed in college.

We do not concur with this item because high school students are the appropriate targets/recipients of a college tour/exposure activity.

Item: 3

Program staff who are under direction to assist applicants stay in and succeed in college, took too long to close certain cases.

We concur with this item.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057; P378A130057
Requirement: Eligibility
Questioned Costs: \$13,166

Auditee Response and Corrective Action Plan, Continued:

Mitigation is already under way under the 2012 audit corrective action plan. For this specific case, control and compliance is addressed by ensuring all CACG financial transactions go through the MOE budget office, which is best equipped to monitor and enforce compliance. This will be done through establishment of and training on proper workflow, and integration of the appropriate duties and responsibilities into job descriptions.

Auditor Response:

Regarding Condition 2, since grant funds served as supplemental grant for the education and scholarship (lodging, tuition fees, etc.) of students, they are considered as grant aid, subject to eligibility requirements under US Code Title 20, Chapter 28, subchapter IV, part F. Thus, the finding remains.

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

Andrew Tabelual, Director, Bureau of Education Administration (and CACG Project Coordinator).

Date the corrective action plan will be implemented: August 15, 2014.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 5U58SO000023-02, 1U58DP003939-01, 5U58DP003939-02
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$31,191

Criteria: In accordance with applicable allowable costs/cost principles,

- 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 program should have direct or indirect benefit to the grant. In addition, capital expenditures as defined by OMB A-87, in excess of \$5,000, require prior approval of the grantor agency.

Condition: Of twenty-five nonpayroll expenditures tested totaling \$115,186, we noted the following:

1. No certification of completion was on file from the Minister of Health certifying that services were received and/or completed. This instance details payment for contracted services for reading mammography x-ray results for patients in the Cancer Prevention and Control Program (Cancer Program).

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center</u>	<u>Amount</u>	<u>Description</u>
349008	935068	H33683	\$7,500	Belau Medical Clinic

2. Promotional items (350 t-shirts) were incurred and charged to the Cancer Prevention and Control Program which are not allowed as stated in the grant award notification.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center</u>	<u>Amount</u>	<u>Description</u>
336090	905951	H23683	\$1,400	KSAU's Imaging Solutions

3. No receiving report was attached to the accounts payable voucher to show evidence that the items purchased were received.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center</u>	<u>Amount</u>	<u>Description</u>
340349	914659	H23683	\$4,050	Purchase of medical supplies

4. There is lack of evidence that indicates appropriate use of funds for the subscription of 9 landlines, 20 DSL accounts, 1 direct dial account and 3 dial up Internet accounts and that such costs directly relate to the operation of the Cancer Program.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Cost Center no.</u>	<u>Amount</u>	<u>Description</u>
348687	934327	H33683	\$ 5,396	Communications
350171	939826	H33683	5,068	Communications
348151	932968	H33683	5,267	Communications
350171	939840	H33683	<u>5,306</u>	Communications
		Total:	\$ 21,037	
		Less estimated 2013 CDC communications costs	<u>2,796</u>	(\$932/mo. x 3 months)
		Questioned costs	\$ <u>18,241</u>	

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-004, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 5U58SO000023-02, 1U58DP003939-01, 5U58DP003939-02
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$31,191

Cause: The cause of the above condition is lack of conformance with existing procedures that require adequate documentation be maintained to support program expenditures and lack of an alternative system that has been developed and been approved by the grantor agency.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles, and questioned costs of \$31,191 exist.

Recommendation: We recommend that the Republic strengthen procedures to require adequate documentation supporting program expenditures be maintained on file and implement control procedures to prevent cost of local and/or other Federal grants from charging the grant.

Auditee Response and Corrective Action Plan:

Item 1: Program concurs with the finding with reservations. Grantee followed existing procedures in that a letter was written to request this final payment; however, for this particular instance, grantee failed to indicate in the letter that “all services have been rendered” as well as attached the report provided from vendor. However, Services were rendered based on the attached report “BMCreports”. We propose that Questioned cost should be omitted as the services were completed. In addition, Grantee will make sure to submit letter of certification from Minister of Health or Director of Public Health and attach final report of services as has been practiced all along. All Program personnel are receiving ongoing training on such matters to prevent future oversight.

Item 2: Grantee concurs with reservation. Such “items” were not intended to promote the program/activity or incentivize participants; items were solely intended to communicate or educate the audience on particular health topics, and therefore considered educational materials. Grantee, however, understands the potentially confusing definitions between “educational” and “promotional” items and will in the future always get grantor approval for such items.

Item 3: The program concurs with reservations. Although receiving reports were not signed, invoices and packing slip attached to the APV, indicate that items was received and were stamped received and dated by a person who was and is still employed at MOH supply office. Therefore questioned cost should not be an issue but a receiving report.

Item 4: The program and MOF concurs with the finding. Program and MOF will work closely together to get the appropriate landlines, DSL accounts, and all that is stated on the above condition, and make adjustments and corrections.

Auditor Response:

1. No certificate of completion of service or equivalent was on file to support the final payment. Thus, the finding remains.
2. T-shirts are considered promotional items. Thus, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 5U58SO000023-02, 1U58DP003939-01, 5U58DP003939-02
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$31,191

Auditor Response, Continued:

3. There was no documented reasoning for the Program not using the standardized receiving report of the Republic. The invoice was stamped received however; it was not clear whether both invoice and physical supplies were received and there was no identity of the receiving person documented on the stamped invoice. Thus, the finding remains.

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

Cindy Fritz, MOH Budget Officer-MOH
Edolem Ikerdeu, Program Manager, CDC-MOH
Everlynn Temengil, Chief, Division of Behavioral Health-MOH

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-005
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.378A College Access Challenge Grant Program
 Grant Number: P378A110057; P378A120057
 Requirement: Reporting
 Questioned Costs: \$0

Criteria: US Code Title 20, Chapter 28, subchapter VII, part e, section 1141 (h) requires the Program to prepare and submit an annual report to the Secretary on the activities and services carried out under this section, and on the implementation of such activities and services which include (2) the cost of providing each activity or service; (4) the total contributions from private organizations included in the grantee's non-Federal share for the fiscal year. An effective system of internal control includes policies and procedures so that transactions reported as Federally funded costs and local match are substantiated by accounting records.

Condition: The Program does not have policies and procedures in place that require costs reported on the annual performance report (APR) be substantiated by accounting records.

1. Federal cost of activities and services that were reported in the APR were overstated compared with expenditures outlined in the general ledger.

Grant Award No.	APR submission date	Period covered by our testing	Federal Expenditures		
			Per general ledger	Per APR	Variance
P378A110057	5/14/2013	9/02/11-4/15/13	\$1,383,334	\$1,429,714	\$(46,380)
P378A120057	5/09/2014	8/14/12-4/15/14	\$1,378,102	\$1,434,675	\$(56,573)

2. The reported local match for grant award P378A110057 and P378A120057 scholarship grant aid is understated by \$516,952 and \$481,982, when compared against underlying accounting records for reports submitted on May 14, 2013 and May 9, 2014, respectively.
3. Local matching expenditures of \$37,500 and \$37,000 are not supported by detailed schedules or invoices or billings for reports submitted on May 14, 2013 and May 9, 2014, respectively.

Cause: The cause of the above condition is the lack of conformance with existing procedures that require adequate documentation to support annual performance reports.

Effect: The effect of the above condition is noncompliance with applicable requirements. No questioned cost result as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that the Program strengthen procedures to maintain adequate accounting records.

Auditee Response and Corrective Action Plan:

Item: 1

The APR amounts were calculated to include transactions already in the Ministry of Education (MOE) pipeline but probably not yet in the Ministry of Finance (MOF) accounting system.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-005, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057
Requirement: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued

Item: 2

First, the APR amounts were based on data from the implementing agency. Second, the APR amounts show the expenditure at the reporting date, which is 2nd semester award. The implementing agency has one more award which happens in the fall, about three months after the APR is completed.

We concur with items 1 and 2 primarily because of the fact that the report has been based on MOE and other implementing agency rather than MOF records.

Item: 3

The MOE has been working hard to integrate program activities, as required by the grant, such that efforts initiated during the funding period are sustained post-grant. This has resulted in an acceptance of the CACG program as a regular operation of the MOE in terms of access to resources. Because of that, CACG use of MOE resources are frequently considered routine and therefore not routed through an approval process which would differentiate CACG vs. MOE use.

We concur with this item because of the resulting difficulty in separating the substantial use of MOE resources by the CACG program.

The MOE is implementing policy, procedures and appropriate workflow to ensure that all CACG financial matters are routed through the MOE budget office, and require CACG program staff to seek and comply with that office's guidance. First, such routing will ensure that CACG financial records are reconciled with, and match official records from the MOF. Second, workflow (and resulting job description adjustments and staff training) will ensure that the required conformance to policy is achieved and accountability is maintained.

The MOE is also implementing procedures and job description adjustments as necessary to ensure that (1) program staff are routed through an approval process in order to access MOE resources, and (2) MOE front office and support staff recognize the separation between the CACG and the MOE for this purpose, and require CACG staff to go through an approval process to access MOE resources. This will ensure that local match is clearly identified and documented.

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

Andrew Tabelual, Director, Bureau of Education Administration (and CACG Project Coordinator).

Date the corrective action plan will be implemented:

August 15, 2014.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-006
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057; P378A130057
Area: Special Tests and Provisions
Questioned Costs: \$0

Criteria: US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 (G) (2) requires a grantee receiving a grant payment under this section shall, in carrying out any activity or service described in subsection (f)(1) with the grant funds, prioritize students and families who are living below the poverty line applicable to the individual's family size (as determined under section 9902(2) of title 42).

Condition: The College Access Challenge program is made available to qualified students regardless of income level or student financial need. No evidence of a waiver of this requirement from the Grantor Agency was available.

Cause: The cause of the above condition is a lack of controls over the requirement. It was represented that qualified students and families are all provided an opportunity to participate in program activities and services as program funding is sufficient to provide for all qualified applicants.

Effect: The effect of the above condition is potential noncompliance with the above criteria. No questioned cost is presented due to our inability to assess students and families income level.

Prior Year Status: Noncompliance with the above criteria was reported as a finding in the Single Audit of the Republic for fiscal year 2012.

Recommendation: We recommend that the Program establish policies and procedures to document that students and families who are living below the poverty line are given priority for grant funds.

Auditee Response and Corrective Action Plan: Current staff depended on an existing assumption that Palau students were eligible as a group under low income classification. Program staff did not review this assumption upon coming onboard.

We concur with this finding as upon search, we are unable to come up with a clear determination of poverty determination for Palau students as a group.

In the 2012 audit, the issue was identified which drove the program to implement a poverty measure for this year's scholarships. This measure will utilize the existing W2 form, and possibly student interviews/certified reporting of family size and income, and contracted review and determination based on the captured data, to certify income level. These determinations become eligibility factors in the supplemental scholarship selection process.

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

Andrew Tabelual, Director, Bureau of Education Administration (and CACG Project Coordinator).

Date the corrective action plan will be implemented:

August 15, 2014.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-007
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057
Area: Activities Allowed or Unallowed
Questioned Costs: \$9,985
Area: Allowable Cost/Costs Principles
Questioned Costs: \$0

Criteria: The Program may use grant funds only for activities and services outlined in US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 (F) (1).

Further, in accordance with applicable allowable costs/cost principles requirements, semi-annual employee certifications are required from employees working for solely one federal program.

Condition:

1. Of twenty-four nonpayroll expenditures tested aggregating \$679,534 of a population of \$952,360, the contractual services for the design and layout of a book under voucher #905841 dated 1/10/13 paid with check # 336071 dated 1/15/13 for \$9,985 is not within the activities allowed in the legislative provision above.
2. For three payroll activities tested aggregating \$1,286 of a population of \$46,854, required semi-annual certifications are not obtained for employees working full-time on one federal program. Although employees are signing off on timesheets evidencing hours worked on a federal program, the sign off does not indicate if the employee actually performed activities solely for the federal program.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above condition is questioned costs of \$9,985 as the projected questioned cost exceeded \$10,000. No questioned cost is presented for condition 2 due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Program comply with applicable federal requirements.

Auditee Response and Corrective Action Plan:

Item :1

We do not concur with this item. The Bai Book was considered a curriculum resource material and a legitimate expenditure, similar to purchase of hands-on kits, parent training materials, etc. The effort was to provide relevant (to the career cluster such as construction and carpentry, to student background such as being Palauans) resources to strengthen the career guidance program at Palau High School, which is the pathway to enabling students to be better prepared to enter into and succeed in college.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-007, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A110057; P378A120057
Area: Activities Allowed or Unallowed
Questioned Costs: \$9,985
Area: Allowable Cost/Costs Principles
Questioned Costs: 0

Auditee Response and Corrective Action Plan, Continued

Item :2

ROP does not concur with this finding. Based on personnel action form it shows that they are hundred percent under this grant and employee should perform activities solely for the federal program. The requirement states semi-annual certifications signed by employee or supervisory official having first had knowledge of the work performed by the employee. ROP's process requires employees to sign on a bi-weekly basis which is more stringent than Federal Requirements.

Auditor Response:

1. We were unable to determine how the cost for design of an English version textbook entitled "How to Build a Bai Belau" relate to allowable activities and services outlined in US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 (F) (1). Thus, the finding remains.
2. There were no semi-annual or bi-weekly employee certifications provided for employees working full-time on one federal program. Thus, the finding remains.

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

Andrew Tabelual, Director, Bureau of Education Administration (and CACG Project Coordinator).

Date the corrective action plan will be implemented:

August 15, 2014.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-008
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.378A College Access Challenge Grant Program
 Grant Number: P378A100057; P378A110057
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$2,123

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than ninety days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of ten expenditures tested aggregating to \$10,628, of a population of \$229,656, we noted the following:

1. Three expenditures (or 30%) were incurred after the grant expired. We were not provided grant extensions for the following grants:

<u>Cost Center no.</u>	<u>Grant Award No.</u>	<u>Grant expiration Date</u>	<u>Voucher no.</u>	<u>Obligation Date</u>	<u>Questioned Costs</u>
E03597	P378A100057	08/13/12	M2001901	10/16-17/12	\$ 210
E13597	P378A110057	08/13/13	T2077602	9/14/13-9/24/13	1,769
E13597	P378A110057	08/13/13	U3007501	10/1/2013	144
				Total	\$ <u>2,123</u>

2. For voucher # U3007501 paid by check #350804, the expenditure was liquidated after ninety days from the grant expiration date (11/26/2013). We were not provided a grant extension. Questioned costs were not raised as this item was raised as a questioned cost in Condition 1.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above condition is questioned costs of \$2,123 as the projected questioned costs exceed \$10,000.

Recommendation: We recommend that the Program comply with applicable federal requirements.

Auditee Response and Corrective Action Plan:

Item 1 and 2: ROP does not concur with this finding. Under CFR §76.709(a) If a State or a subgrantee does not obligate all of its grant or subgrant funds by the end of the fiscal year for which Congress appropriated the funds, it may obligate the remaining funds during a carryover period of one additional fiscal year. Moreover, a letter from USDOE Office of Inspector General states “Appropriation law limits the amount of time that Federal funds are available to grantees to the 5th fiscal year after the period of availability. After the 5th year, the U.S. Treasury automatically withdraws funds from use. As a result of the Tydings Amendment and appropriation law, grantees have up to 24 or 27 months to obligate grant funds (depending on the program and timing of awards), and five years to use obligated funds for approved purposes (i.e., obligations incurred during the Tydings period).”

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-008, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378A College Access Challenge Grant Program
Grant Number: P378A100057; P378A110057
Area: Period of Availability of Federal Funds
Questioned Costs: \$2,123

Auditor Response:

The expenditures were obligated after a carryover period of one additional fiscal year. Thus, the finding remains.

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

Gandhi Ngirmidol-Grant Manager, MOF

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Revenues

Finding No.: 2013-009

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

Condition: Cash receipts are not issued in sequential order. Tests of General Fund revenues collected on sixty different days noted that the total receipts per the daily cash receipt report did not agree with total receipts per the series range in the daily cash receipt transmittal form. Exceptions in the sequential order were not documented or approved by a supervisor.

We also noted voided receipts without explanation as to why they were voided and no supervisory approval was evident

<u>Date</u>	<u>Receipt no.</u>
10/22/2012	1319122
12/19/2012	1329103
12/28/2012	1330724
1/14/2013	1333991
1/29/2013	1337569
1/30/2013	1337764
1/31/2013	1337883
1/31/2013	1338153
02/01/13	1338403
2/13/2013	1340737
3/22/2013	1348539
2/25/2013	1342835
3/14/2013	1346947
2/21/2013	1342311
4/1/2013	1349865
4/10/2013	1352252
4/22/2013	1354247
4/30/2013	1355702
5/10/2013	1350200
6/21/2013	1366131
7/14/2013	1316056
7/19/2013	1371365
7/25/2013	1372229
7/29/2013	1372655
7/30/2013	1372941
7/30/2013	1373016
8/22/2013	1377855
9/5/2013	1386620
9/11/2013	1381863
9/24/2013	1384224

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Revenues, Continued

Finding No.: 2013-009, Continued

Cause: There were no procedures in place to determine that exceptions in sequential orders 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.

Auditee Response: We concur with the finding with the following explanation: Prior to October 1, 2013, daily cut off time was 3:00pm. A cashier closed and balanced her collection while the other one opened with the following working day date to be continued the next day until 3:00 pm. Daily collection included tax revenues that were collected in a different system. At end of day the tax collection was balanced and entered into the cash receipt system. This resulted in daily receipts not in sequence as next day collection had begun. Although daily receipts were not in sequence, we are able to print reports sorted by receipt numbers and were able to explain when numbers were missing.

Beginning October 1, 2013, procedures changed to night deposits. All daily cash collections are now balanced and deposited at end of day. Procedures now require supervisor to check missing receipt numbers and approve with cashier justification. Void numbers are approved by the supervisor with explanation.

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

Noria Manahane, Chief of Treasury Division

Date the corrective action plan will be implemented:

October 1, 2013

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-010
Federal Agency: Federal Aviation Administration
CFDA Program: 20.106 Airport Improvement Program
Grant Number: NAT- I-4416-1-1-15
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria: Chapter 3 of the ROP Procurement Manual, Section 626 “Competitive Negotiated Contracts, subsection (a) states, “When the Procurement Officer determines in a substantiated writing that the use of competitive sealed bidding is either not practical or not advantageous to the government, contracts may be awarded by competitive negotiation.”

Section 624 “Awards”, subsection (a) states, “The contract must be awarded in accordance with this chapter 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 and this chapter. Unsuccessful bidders also shall be promptly notified.”

Condition: Of 13 Airport Improvement Program expenditures tested, totaling \$2,325,419, the following were noted:

1. One contract no. 13-023, issued under competitive negotiated contract, did not have a substantiated writing that the use of competitive sealed bidding was either not practical or not advantageous to the government.

<u>General Ledger Account no.</u>	<u>Cost Center No</u>	<u>General Ledger Date</u>	<u>Voucher No.</u>	<u>Amount</u>
1540	T2APR1	05/21/13	921997	\$ 80,000
1540	T2APR1	07/01/13	925922	80,000
1540	T2APR1	08/01/13	928948	80,000
1540	T2APR1	09/30/13	940695	<u>80,000</u>
				\$ <u>320,000</u>

2. For one contract, 13-023, the bidding was closed on 12/28/12. The notice of award was dated 2/28/13.

Cause: The cause of the above condition is weaknesses in controls over determining compliance with applicable procurement regulation. 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.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations. No questioned costs arise as we were able to determine that competition occurred, but technical compliance with the criteria did not occur.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-010, Continued
Federal Agency: Federal Aviation Administration
CFDA Program: 20.106 Airport Improvement Program
Grant Number: NAT- I-4416-1-1-15
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$ 0

Recommendation: We recommend that the Republic strengthen controls on procurement procedures to maximize competition while maintaining the best interest 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 file.

Auditee Response and Corrective Action Plan:

Procurement Method - While I agree that a determination should be made when competitive bidding is impractical or not advantageous to the Government, this is not the reason why CIP procured this consulting contract via “competitively negotiated contracts”. FAA Honolulu Airports District Office (ADO) requires that the CIP Office procure consulting contracts thru “competitively negotiated contracts”. This can be verified with Mr. Gordon Wong (Gordon.Wong@faa.gov) at the Honolulu ADO.

Award – This is a similar finding to that of FY2012. CIP concurs with this finding. It should be noted that during the FY2012 audit, this project was already awarded with the same practice cited in FY2012 audit. Corrective actions started for FY 2014 projects.

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

Brian Melairei

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No: 2013-011
CFDA Program: DOT 20.106 Airport Improvement Program, 84.027 Special Education – Grants to States
CFDA Program: ED 84.027 Special Education – Grants to States
CFDA Program: HHS 93.224 Community Health Centers Program
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number.: NAT- I-4416-1-1-14, NAT- I-4416-1-1-15, H027A100006A, H027A11006-11A, 6H80CS02467-27-01, 2H80CS02467-28-00, 5U58DP000776-05, 1U58DP003939-01, 5U58DP003939-02
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: In accordance with applicable equipment and real property management requirements, procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to confirm adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

Condition: For four programs (CFDA nos 20.106, 84.027, 93.224, 93.283), the Republic represents that it performed a physical inventory of its fixed assets during fiscal year 2013. However, we were not provided with evidence that the represented inventory count was reconciled with the fixed assets register.

#84.027

1. There is no documentation that a complete physical inventory of equipment and property and reconciliation with fixed asset records was performed over the last two fiscal years.
2. Of sixteen fixed assets listed as program equipment totaling \$349,729 acquired between 1996 and 2013, thirteen (or 81%), totaling \$326,734 were tested for verification, and one of the sixteen (Tag No. BUS, LP-1277) was in the shop for repair, but it was located outside in a substandard area which appeared to be inflicting additional asset deterioration.

#93.283

1. There is no documentation that a complete physical inventory of equipment and property and reconciliation with fixed asset records was performed over the last two fiscal years.
2. There is no evidence of an effective maintenance procedure for the program.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No: 2013-011, Continued
 CFDA Program: DOT 20.106 Airport Improvement Program, 84.027 Special Education – Grants to States
 CFDA Program: ED 84.027 Special Education – Grants to States
 CFDA Program: HHS 93.224 Community Health Centers Program
 CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number.: NAT- I-4416-1-1-14, NAT- I-4416-1-1-15, H027A100006A, H027A11006-11A, 6H80CS02467-27-01, 2H80CS02467-28-00, 5U58DP000776-05, 1U58DP003939-01, 5U58DP003939-02
 Area: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued

3. Of twelve fixed assets listed as program equipment totaling \$305,855 acquired between 2004 and 2012, nine (or 75%), totaling \$282,837 were tested for verification. Two of the nine assets (Tag No. RP-3598) and (RP-3492) could not be located. It was noted in the prior year that RP-3492 had been surveyed; however, to date, an official survey report was not filed to support the disposal.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-3598	04/10/2006	MAMMO BUCKY FOR GE800T SYSTEM	\$ 6,000
RP-3492	12/15/2004	Mammography Processor, AGFA	\$25,250

Cause: The cause of the above condition is the lack of evidence to confirm compliance with equipment management requirements and failure to reconcile property records.

Effect: The effect of the above condition is noncompliance with equipment and real property management requirements. No questioned cost is presented as the fixed assets that are specifically identified above have reached their estimated useful life and are considered inoperable.

Recommendation: We recommend that ROP maintain complete records of property and equipment acquired with grant funds, perform physical inventories at least once every two year, and comply with applicable property management policies and procedures.

Prior Year Status: Lack of compliance with equipment and real property management requirements was reported as a finding in the Single Audit of ROP for fiscal year 1988 through 2012.

Auditee Response and Corrective Action Plan:

#CFDA 20.106: ROP concurs with the finding. Based on the condition stated above, reconciliation of fixed assets is on-going as of June 2014 for all fixed assets procured with grant funds. However, physical inventory of fixed assets and equipment were conducted and completed on October 2013.

#93.283

Item 1: ROP concurs with reservations. Required bi-annual inventory was conducted and reconciled with RPPM Property and Supply inventory records.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No: 2013-011, Continued
CFDA Program: DOT 20.106 Airport Improvement Program, 84.027 Special Education – Grants to States
CFDA Program: ED 84.027 Special Education – Grants to States
CFDA Program: HHS 93.224 Community Health Centers Program
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number.: NAT- I-4416-1-1-14, NAT- I-4416-1-1-15, H027A100006A, H027A11006-11A, 6H80CS02467-27-01, 2H80CS02467-28-00, 5U58DP000776-05, 1U58DP003939-01, 5U58DP003939-02
Area: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued

Item 2: ROP concur with this finding. RP-3598, this asset is physically no longer in MOH inventory. Based on attached document, the equipment was sent to Guam for repair but it could not be repair so a replacement was sent back to Palau. For RP -3492, this asset is physically no longer in MOH inventory. Based on attached copy of attached email, MOH personnel did confirm that it has been disposed.

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

Millan Isack, Chief, Property and Supply Div.
Janice Mathew, Administrator, Health Administrative and Support Services

Date the corrective action plan will be implemented:

Item 1: Physical Inventory completed

Item 2: Chief of Property & Supply will work with MOH Accountable Officer to ensure MOH comply with RPPM Policy. MOH Accountable Officer will process required Survey Document and submit to Chief of Property and Supply Division for Survey Board appropriate action.

Date of corrective action plan is July 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No: 2013-012
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.106 Airport Improvement Program
 Grant Number.: NAT- I-4416-1-1-14, NAT- I-4416-1-1-15
 Area: Reporting
 Questioned Costs: \$0

Criteria: Federal Financial Report SF-425 is required for submission to the grantor agency. 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: For the testing of SF-425 report and SF-271 reports, the following were noted:

1. No SF-425 reports were submitted for fiscal year 2013.
2. For all SF-271 reports submitted in fiscal year 2013, differences were noted between the amount reported and amount recorded per general ledger.

<u>Grant No.</u>	<u>Request no.</u>	<u>Period Covered</u>	<u>Amount per SF 271</u>	<u>Amount per General Ledger</u>	<u>Difference</u>
3-70-0001-14	12	09/29/12 - 12/31/12	\$ 431,798	\$ 4,325	\$ 427,473
3-70-0001-15	4	10/01/12 - 12/31/12	133,737	561,210	(427,473)
3-70-0001-15	6	03/19/13 - 05/13/13	192,068	73,309	118,759
3-70-0001-15	7	05/14/13 - 07/30/13	659,765	474,509	185,256
3-70-0001-15	8	07/31/13 - 09/12/13	79,458		
3-70-0001-15	8	07/31/13 - 09/30/13	<u>81,587</u>	<u>432,534</u>	<u>(271,489)</u>
			<u>\$ 1,578,413</u>	<u>\$ 1,545,887</u>	<u>\$ 32,526</u>

Cause: The cause of the above condition is the lack of a waiver for the submission of the SF-425 report and 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 as only the recorded expenditures were reimbursed by the grantor agency.

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

Auditee Response and Corrective Action Plan:

1. ROP Concurs with this finding. ROP was not aware of this requirement as it was not in the Grant Agreement. ROP asked Grantor and received instructions on this requirement recently. ROP has submitted all the required reports to Grantor immediately after learning about this requirement.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No: 2013-012, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Grant Number.: NAT- I-4416-1-1-14, NAT- I-4416-1-1-15
Area: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

2. The amount \$427,473 was transferred from 3-70-0001-15 to 3-70-0001-14. This amount was transferred so that Phase III of the project grant can be properly closed before ROP begins to use funds from the next phase grant. This is a timing issue and ROP will make sure to record transfers on a timely manner.

The amount \$118,759 represents accrued expense being reversed from Fiscal Year 2013 and recorded in Fiscal Year 2012 based on the performance period of the request for payment. To not report it on the SF271 would understate cumulative expenditures.

ROP does not agree with the amount \$432,534. Please ask auditors to provide detail for this amount.

Auditor Response: The amount of \$432,534 is per the general ledger for the periods as stated above. Thus, the finding remains.

Name of the Person responsible for the Corrective Action Plan:

Gandhi Ngirmidol, Grants Manager-MOF

Date the Corrective Action Plan will be implemented:

Implemented

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No: 2013-013
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant Program
Grant Number: S256A090006, S256A090006-11
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria: In accordance with OMB Circular A-87 semi-annual employee certifications are required from employees working for solely one federal program.

Condition: For five payroll activities tested aggregating \$3,138 of a population of \$96,602, required semi-annual certifications were not obtained for employees working full-time on one federal program. Although employees are signing off on timesheets evidencing hours worked on a federal program, the sign off does not indicate if the employee actually performed activities solely for the federal program.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above condition is noncompliance with the applicable federal requirements. No questioned cost is presented due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Program comply with applicable federal requirements.

Auditee Response and Corrective Action Plan: MOE concurs with the finding. We have implemented form for time certifications for employees working full-time on federal program, evidencing time performed are for federal program.

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

Debbie Sbal, Director, Bureau of Curriculum and Instruction-MOE

Date the corrective action plan will be implemented:

Implemented January 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No: 2013-014
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant Program
Grant Number: S256A090006-10
Area: Period of Availability of Federal Funds
Questioned Costs: \$8,724

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than ninety days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of three expenditures tested aggregating \$8,724, of a population of \$24,665, we noted the following:

1. Two expenditures (or 67%) were incurred after the grant expired. We were not provided grant extensions for the following grants:

<u>Cost Center No.</u>	<u>Grant Award</u>	<u>Grant exp. date</u>	<u>Voucher No.</u>	<u>Obligation Date</u>	<u>Questioned Costs</u>
E03595	S256A090006-10	9/30/2012	903525	12/05/12	\$2,500
E03595	S256A090006-10	9/30/2012	900694	10/17/12	<u>2,750</u>
				Total	<u>\$5,250</u>

2. For voucher #906462 paid by wire transfer 70153358 of \$3,474, the expenditure was liquidated after ninety days from the grant expiration date (2/14/2013). We were not provided a grant extension.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above condition is questioned costs of \$8,724 as the projected questioned costs exceed \$10,000.

Recommendation: We recommend that the Program comply with applicable federal requirements.

Auditee Response and Corrective Action Plan: We do not concur with the finding. Please see attached grant extension letter dated September 28, 2012. The attached grant award notification of the no-cost extension for the Palau Ministry of Education's (PMOE) grant S256A090006, under Territories and Freely Associated States Education Grant (T&FASEG) program, is to extend E9, E0, and E13595 to September 30, 2013. Because these three cost centers are on a 3 years cycle, the extension extends grant no. S256A090006 to 9/30/2013.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No: 2013-014, Continued
Federal Agency: U.S. Department of Education
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A090006-10
Area: Period of Availability of Federal Funds
Questioned Costs: \$8,724

Auditor Response: While auditee response makes sense, the USDOE grant extension letter dated September 28, 2012 did not specifically indicate that such extension covers grant award no. S256AO90006-10 or cost center no. EO3595. Instead, grant award notification with no. S256AO90006-11 or cost center no. E13595 was attached to the letter. Thus, the finding remains.

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

Gandhi Ngirmidol, Grants Manager, MOF
Debbie Sbal, Director, Bureau of Curriculum and Instruction-MOE

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-015
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

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

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 one program, charges for their salaries and wage 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 and the supervisory official having firsthand knowledge of the work performed by the employee.

Condition: Of 10 employees tested, totaling \$3,324, of a total population of \$583,416, we noted that for 8 employees (80%), the employee charged 100% of their time to the program, but there was no evidence of a semiannual certification.

Cause: The cause of the above condition is lack of conformance with existing procedures that require adequate documentation be maintained to support program expenditures.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles. No questioned costs result because amounts not relating to program activities could not be determined.

Recommendation: We recommend that the Republic strengthen procedures over the maintenance of adequate documentation to support program expenditures.

Prior Year Status: Noncompliance with allowable costs/cost principles requirements was reported as a finding in the Single Audits of the Republic for fiscal year 2010 as item 2010-12 and fiscal year 2012 as item 2012-11.

Auditee Response and Corrective Action Plan: Program concurs with this finding. We have corrected this finding as of January 2014 and we have implemented the time certification for all employees who are funded by CHC grants. Please see attached time certification and memo from Director of Public Health requiring employees who are fully or partially funded by federal grants to use the time certification evidencing their work performed for the program.

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

Darnelle Decherong, Executive Director, CHC

Date the corrective action plan will be implemented:

Implemented on January 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-016
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
Requirement: Program Income
Questioned Costs: \$0

Criteria: In accordance with standard operating procedures, 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 furthers 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, which is a Special Revenue Fund. There is no evidence available that program-related fees collected are used to further the objective of the program. The Executive Director has represented that the program monitors collections; however, the collections are comingled 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 the current fee structure and collections that are centralized at the Ministry of Health, and the lack of control over the tracking of program income.

Effect: The effect of the above condition is potential noncompliance with program requirements. No questioned costs result as we were unable to determine dollar amounts of the potential program income.

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

Prior Year Status: Noncompliance with program income requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2008 through 2010 as items 2008-22, 2009-41 and 2010-30 and 2012 as 2012-14.

Auditee Response and Corrective Action Plan: Ministry of Finance created 2180 org account for Community Health Center (CHC) for collected fees particularly for CHC. Ministry of Health (MOH) has recently started recording collected fees to this org during February 2014. MOH and CHC have established a process of which billing and collections are tracked and recorded to the org account. Please see attached Flow chart for this process.

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

Darnelle Decherong, Executive Director, CHC
Rose Maidesil, Budget/Fiscal Manager, Billing & Collections, MOH

Date the corrective action plan will be implemented:

Implemented on February 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-017
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Consolidated Health Centers
 Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
 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 2013 universal data system (UDS) report due on February 15, 2014 reported program revenues and expenditures. The Program provided various reports utilized to prepare the UDS report. We examined the reports and traced the amounts to the general ledger (DILOG System) noting the following:

1. The total accrued cost reported in the UDS report totaling \$1,398,077 is comprised of the total medical care, other clinical services, other services and total facility and other non-clinical services including personnel costs aggregating \$592,943. However, the underlying records provided indicated personnel costs of \$583,416 resulting in a variance of \$9,527.

Personnel Cost per <u>UDS report</u> \$ 592,943	Personnel Cost per <u>General Ledger</u> \$ 583,416	<u>Variance</u> \$ 9,527
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We further noted medical and pharmaceutical supplies aggregating \$830,433 of which only \$96,045 could be agreed to the general ledger.

<u>Description</u>	<u>Per UDS Report 2013</u>	<u>Per General Ledger</u>	<u>Difference</u>
Non-Pharmaceuticals	\$ 560,184	\$ 45,592	\$ 514,592
Pharmaceuticals	<u>270,249</u>	<u>50,453</u>	<u>219,796</u>
Total	\$ <u>830,433</u>	\$ <u>96,045</u>	\$ <u>734,388</u>

2. The Program also reported donated facility and services totaling \$693,473, where there were no underlying accounting records provided to support the amount.
3. There was no underlying accounting record for revenues reported which represents self-pay totaling \$4,451,812. It was represented that the amount is the difference between the full charges of the service less than the sliding discount. It was also represented that the full charge amount comes from all encounter forms (form that record services performed to the patient) during the fiscal year which are maintained in a separate database which keeps track of all encounter forms during the year. There was no report provided to support the amount.

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.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2013

Finding No.: 2013-017, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00
Requirement: Reporting
Questioned Costs: \$0

Effect: The effect of the above condition is noncompliance with above criteria. No questioned cost results 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 exists to support reported program revenues and expenditures.

Prior Year Status: Weakness in controls over internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program revenues and expenditures was reported as a findings in the Single Audits of the Republic for fiscal year 2010 and 2012.

Auditee Response and Corrective Action Plan:

Item 1: Program concurs with the finding. MOH will work to improve their system to have underlying records to support the amounts.

Item 2: Program concurs with the finding. Program will manage to hire a professional to do the required work and document them.

Item 3: Program concurs with the finding. MOH will work to improve their system to have underlying records to support the revenues.

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

Darnelle Decherong, Executive Director, CHC

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-018
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 5U58SO000023-02, 5U58SO000023-03, 5U50CK000219-02,
1U58DP003939-01, 5U58DP003939-02, 5U58DP001952-04,
5U58DP001952-05, 5UR3DD000809-02
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria: In accordance with applicable allowable costs/cost principles requirements, if an employee is expected to work solely on a Federal program, the employee and/or supervisory official having first-hand knowledge of the work performed by the employee is required to prepare, at least semi-annually, a certification that the employee worked solely on that program for the period covered by the certification.

Condition: Of forty-two payroll expense items tested totaling \$26,895, of a population of \$711,718, the bi-annual certifications for the forty two employees (or 100%) were not available.

Cause: The cause of the above condition is the lack of controls to maintain required bi-annual certifications.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements. No questioned cost is presented due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Republic require certification from employees biannually.

Auditee Response and Corrective Action Plan: Program concurs with the finding. We have implemented a time certification for employees fully funded on federal funds, evidencing that work performed are solely for the program.

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

Edolem Ikerdeu, Program Manager, CDC-MOH
Cindy Fritz, Budget Officer-MOH

Date the corrective action plan will be implemented:

January 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-019
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 1U58DP003939-01
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$0

Criteria: Under the Cancer Prevention and Control Programs for State, Territorial and Tribal Organization, the State is required to maintain its maintenance of effort or MOE. The MOE is used as an indicator on non-federal support for public health security before the infusion of federal funds. These expenditures are calculated by the grantee without reference to any Federal funding that also may have contributed to such programmatic activities in the past. Awardees must stipulate the total dollar amount in their cooperative agreement applications.

Condition: The calculated MOE based on the grant award was \$1,383,643. No records were provided to indicate that this requirement was met.

Cause: The cause of the above condition is the lack of established policies and procedures to determine compliance with the maintenance of effort requirement.

Effect: The effect of the above condition is noncompliance with maintenance of effort requirement. No questioned cost is presented as we were not able to assess the overall cumulative monetary value of deficiencies for FY 2013.

Recommendation: We recommend that the Republic seek guidance from the grantor and comply with the maintenance of effort requirement.

Auditee Response and Corrective Action Plan: Grantee does not concur. On page 7 of 18, NOTE 8 in the NOA in question, it states that “maintenance of effort represents an applicant/grantee historical level of contributions related to Federal programmatic activities which have been made prior to the receipt of Federal funds expenditures” which means that it’s whatever amount of dollars that grantee reported to CDC as previously used for the same efforts. First of all, the amount stated above (taken from this same page 7 of the NOA) \$1,383, 643 is an “example of MOE” provided by CDC and not an actual amount that Palau declared. We are currently getting this clarification/confirmation from grantor and will provide a letter from principal investigator to further indicate to grantor and for file that Palau has MOE of \$0.

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

Cindy Fritz, MOH Budget Officer
Edolem Ikerdeu, Program Manager

Date the corrective action plan will be implemented:

October 2014

Auditor Response: There were no records to indicate the level of MOE or that the MOE requirement was waived by the grantor agency therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-020
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, Section 211(a) and 211(f)
Requirement: Reporting
Questioned Costs: \$0

Criteria: Per the Compact of Free Association, Section 211 (a) and 211 (f), a minimum annual distribution of \$5 million from the trust fund for operations and maintenance purposes is allowed.

Condition: The Republic withdrew \$9,500,000 or \$4,500,000 in excess of the minimum allowed in fiscal year 2013; and the Republic returned the \$4,500,000 to the Trust during fiscal year 2013.

Cause: The cause of the above condition is due to cash shortage.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result as the \$4,500,000 was reimbursed to the Trust within the year ended September 30, 2013.

Prior Year Status: The Republic withdrew \$7,000,000 or \$2,000,000 in excess of the minimum allowed in 2012 and 2011 and subsequently reimbursed the trust fund.

Recommendation: We recommend that the Republic comply with the above criteria.

Auditee Response and Corrective Action Plan: The Republic of Palau management acknowledges the finding and management has been complying with the above criteria beginning FY2014. We have a process in place where we comply with 40 PNCA § 409 (a) (2) where the directors of the Bureau of Budget and Planning and the Bureau of National Treasury have to certify under penalty of perjury, that they have reviewed the draw down request, that they have reviewed the Unified National budget laws currently in effect, any amendments thereto, and any other authorization and appropriation law currently in effect, that they have knowledge of all previous drawdowns of invested public funds made pursuant to the authorization and appropriations law(s) currently in effect, and that the withdrawal, distribution, release, transfer or removal has been lawfully authorized and appropriated by the Olbiil Era Kelulau. Minister of Finance then writes letters pursuant to 40 PNCA § 409 (a) (3) informing the presiding officers of both Houses of the Legislature of the intention to request approval from the President for the drawdown of funds from Compact Trust Fund.

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

Ruth Subris Wong, Director, Bureau of National Treasury-MOF

Date the corrective action plan will be implemented:

Implemented on October 2013

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-021
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 5U58SO000023-02, 1U50CK000219-01, 5U58DP000776-05,
 1U58DP003939-01, 5U58DP001952-04, 5UR3DD000809-02
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$36,765

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. A grantee must liquidate all obligations incurred under the grant 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 Federal Financial Report (SF – 425). Further, time extensions should be approved by the grantor.

Condition: We noted the following matters:

1. Expenditures totaling \$25,355 occurred after the grant expiration. There was no evidence that a grant period extension was obtained. Details of expenditures are as follows:

<u>Cost Center_no</u>	<u>Grant Award No.</u>	<u>End of Grant Period</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13683	5U58DP000776-05	6/29/12	1011	Salaries & Wages	\$ 3,537
H13683	5U58DP000776-05	6/29/12	1019	Social Security	301
H13683	5U58DP000776-05	6/29/12	1080	Other Employee Benefits	125
H13683	5U58DP000776-05	6/29/12	1321	Communications	668
H13683	5U58DP000776-05	6/29/12	1325	Travel & transportation	162
H13683	5U58DP000776-05	6/29/12	1619	Freight	<u>553</u>
				Subtotal	\$ <u>5,346</u>
H/123683	5U58DP003939-01	06/29/13	1321	Communications	\$ 710
H/123683	5U58DP003939-01	06/29/13	1322	Advertising	2,550
H/123683	5U58DP003939-01	06/29/13	1623	Compensation	<u>550</u>
				Subtotal	\$ <u>3,810</u>
H23682	5UR3DD000809-02	6/30/13	1011	Salaries & Wage	\$10,098
H23682	5UR3DD000809-02	6/30/13	1019	Social Security	590
H23682	5UR3DD000809-02	6/30/13	1020	Medical Savings Fund	145
H23682	5UR3DD000809-02	6/30/13	1080	Other Employee Benefits	<u>99</u>
				Subtotal	\$ <u>10,932</u>
H33683	5U58DP003939-02	6/29/17	1321	Communications prior to grant budget period	\$ <u>5,267</u>
				Total expenditures	\$ <u>25,355</u>
				Cost Center H13683 expenditures subsequently reversed	(5,346)
				Less costs already questioned at 2013-004 for H33683, check # 348151	(4,568)
				Total questioned costs presented at this finding	\$ <u>15,441</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-021, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 5U58SO000023-02, 1U50CK000219-01, 5U58DP000776-05,
 1U58DP003939-01, 5U58DP001952-04, 5UR3DD000809-02
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$36,765

Condition, Continued

2. Various expenditures totaling \$21,324 were liquidated after ninety days from the grant expiration date. Details of expenditures are as follows:

<u>Cost Center no</u>	<u>Grant Award Ref</u>	<u>Liquidation Period</u>	<u>Voucher #</u>	<u>Check #</u>	<u>Clearance date</u>	<u>Amount</u>
H28652	1U50CK000219-01 R	3/31/2013	T3005802	341010	4/19/2013	\$ 225
H23683	5U58DP003939-01	9/27/2013	940806/7	354607	02/11/2014	349
H23683	5U58DP003939-01	9/27/2013	933970	349263	10/18/2013	209
H23683	5U58DP003939-01	9/27/2013	933968	349263	10/18/2013	177
H23683	5U58DP003939-01	9/27/2013	933972	349263	10/18/2013	177
H23683	5U58DP003939-01	9/27/2013	935829	349252	10/09/2013	90
H23683	5U58DP003939-01	9/27/2013	935829	349252	10/09/2013	389
H23683	5U58DP003939-01	9/27/2013	935828	349229	10/09/2013	1,498
H23683	5U58DP003939-01	9/27/2013	937266	349250	10/09/2013	205
H23683	5U58DP003939-01	9/27/2013	937266	349250	10/09/2013	20
H23683	5U58DP003939-01	9/27/2013	940502	350327	11/26/2013	420
H23668	5U58SO000023-02-R	6/26/2013	916876	345459	07/30/2013	3,746
H23668	5U58SO000023-02-R	6/26/2013	916900	345459	07/30/2013	3,225
H23668	5U58SO000023-02-R	6/26/2013	916897	345459	07/30/2013	3,415
H23668	5U58SO000023-02-R	6/26/2013	916899	345459	07/30/2013	3,570
H23668	5U58SO000023-02-R	6/26/2013	922477	344259	07/30/2013	984
H23668	5U58SO000023-02-R	6/26/2013	923097	343960	07/11/2013	1,267
H23668	5U58SO000023-02-R	6/26/2013	924573	344606	07/04/2013	<u>1,358</u>
					Total	\$ <u>21,324</u>

Cause: The cause of the above condition is a lack of controls over period of availability compliance. There is also no mechanism in place to lock expired grant accounts to prevent their usage.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$36,765. No questioned cost is presented in condition 1 under cost center no. H13683 as the specified expenditures were subsequently reversed; and recorded in the local fund in fiscal year 2014 (\$5,346).

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 2010 and 2012.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-021, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 5U58SO000023-02, 1U50CK000219-01, 5U58DP000776-05,
1U58DP003939-01, 5U58DP001952-04, 5UR3DD000809-02
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$36,765

Auditee Response and Corrective Action Plan:

Item 2.

ROP Concur with reservations. These expenses were obligated prior to expiration date of the grant award and liquidated (received invoices, entered into the financial management system, and recorded the expenses prior to end of liquidation period). ROP concurs that checks cleared the bank after the liquidation period. ROP does not concur with the questioned cost because they meet all the factors for determining allowability under 2CFR §200.403. The clearance date of the checks are not that far off from the last day of liquidation. Sometimes invoices come in on the last day of the liquidation period. ROP will work with Grant Managers to make sure all required documents are submitted to the Ministry of Finance on a timely manner so that drawdowns and payments can be made within liquidation period.

Auditor Response:

2. The days lapsed between last day of liquidation and check clearance dates ranged between 7 and 137 days. Thus, questioned cost remains.

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

Gandhi Ngirmidol

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Revenues

Finding 2013-022

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, billing/statements of account (SOA) should be sent to customers in a timely manner.

Condition: Of \$3,271,251 hospital revenues, seventy-five receipts totaling \$2,062,938 were tested. For two receipts, invoices documenting service dates, types of services rendered and rates charged could not be provided. In addition, the amounts included in accounts receivable could not be determined.

<u>#</u>	<u>Date</u>	<u>Receipt no.</u>	<u>Amount</u>
1	3/02/2013	279767	\$ 4,526
2	4/20/2013	237240	\$ 65,618

Cause: The Ministry of Health does not have a process to determine that an audit trail exists for National Government cash receipts. In addition, there is a lack of evidence that patient outstanding balances are monitored and that collection attempts occur.

Effect: The effect of the above condition is potential misstatements of National Hospital revenues and lack of collections.

Recommendation: We recommend that the Ministry of Health establish a systematic method of filing and maintaining invoices and relevant documents. We also recommend that statements of account and collection notices be timely sent.

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 years 2012, 2010 and 2009.

Auditee Response and Corrective Action Plan:

We concur with the finding. Payments were received and deposited. However, due to the crashing of the old HIS we are unable to provide detailed billings (actual invoices/statements). We are currently reconciling and posting adjustments.

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

Analee Rose Maidesil

Date the corrective action plan will be implemented:

Ongoing

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2013

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2013:

	Questioned Costs		Total
	Republic	Subrecipient	
Questioned costs of the Republic as previously reported:			
Fiscal year 2010 Single Audit	\$ 1,668,099	\$ -	\$ 1,668,099
Fiscal year 2011 Single Audit	322,851	-	322,851
Fiscal year 2012 Single Audit	<u>763,348</u>	<u>-</u>	<u>763,348</u>
	<u>2,754,298</u>	<u>-</u>	<u>2,754,298</u>
Less questioned costs resolved in fiscal year 2013:			
Questioned costs of fiscal year 2010 Single Audit reported in:			
Finding No. 2010-14 (1)	<u>(36,000)</u>	<u>-</u>	<u>(36,000)</u>
Questioned costs of fiscal year 2011 Single Audit reported in:			
Finding No. 2011-06 (2)	(11,040)	-	(11,040)
Finding No. 2011-08 (2)	<u>(106,088)</u>	<u>-</u>	<u>(106,088)</u>
	<u>(117,128)</u>	<u>-</u>	<u>(117,128)</u>
Questioned costs of fiscal year 2012 Single Audit reported in:			
Finding No. 2012-10 (3)	<u>(94,013)</u>	<u>-</u>	<u>(94,013)</u>
	2,507,157	-	2,507,157
Questioned costs of fiscal year 2013 Single Audit	<u>183,006</u>	<u>-</u>	<u>183,006</u>
Unresolved questioned costs of the Republic at September 30, 2013	\$ <u>2,690,163</u>	\$ <u>-</u>	\$ <u>2,690,163</u>

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs, Continued Year Ended September 30, 2013

- (1) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated May 2, 2014.
- (2) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated November 27, 2013.
- (3) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated March 21, 2014.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 55).