

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2020

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 Surangel S. Whipps 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, 2020, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated April 24, 2023. Our report includes a reference to other auditors and emphasis-of-matters paragraphs regarding an uncertainty associated with the Civil Service Pension Trust Fund and the impact of COVID-19. Other auditors audited the financial statements of Palau International Coral Reef Center, Palau Community College, Palau National Communications Corporation, Belau Submarine Cable Corporation, and Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, National Development Bank of Palau, Palau Visitors Authority, Palau Public Utilities Corporation, and the Protected Areas Network Fund, 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 Palau International Coral Reef Center, Palau Community College, Palau National Communications Corporation, Belau Submarine Cable Corporation, and 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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2020-003 to be a material weakness.

Compliance and Other Matters

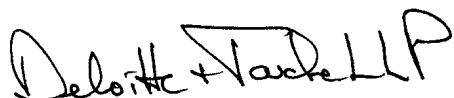
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2020-006.

The Republic's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



April 24, 2023

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 THE UNIFORM GUIDANCE

His Excellency Surangel S. Whipps 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 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, 2020. 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 3B 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 accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2020. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Republic's compliance.

Unmodified Opinion on Each Major Federal Programs

In our opinion, 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 identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2020-001, 2020-002 and 2020-004. Our opinion on each major federal program is not modified with respect to these matters.

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

The Republic is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Republic's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the Uniform Guidance, 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 have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *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 2020-001, 2020-002 and 2020-004 to be significant deficiencies.

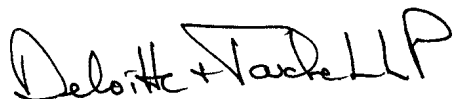
The Republic's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Republic's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express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

The Republic is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Republic's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2020, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated April 24, 2023, which contained unmodified opinions on those financial statements, and which report included a reference to other auditors and emphasis-of-matters paragraphs regarding an uncertainty associated with the Civil Service Pension Trust Fund and the impact of COVID-19. 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 the Uniform Guidance 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 basic 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.



April 24, 2023

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

| Federal Grantor/Pass-Through Grantor/Program Title | COVID-19 | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|----------|---------------------|--|---------------------------------|----------------------|
| U.S. Department of Agriculture: | | | | | |
| Direct Programs: | | | | | |
| Community Facilities Loans and Grants Cluster: | | | | | |
| Community Facilities Loans and Grants | | 10.766 | | \$ | <u>21,678</u> |
| Sub total Community Facilities Loans and Grants Cluster | | | | | <u>21,678</u> |
| Total U.S. Department of Agriculture | | | | \$ | <u>21,678</u> |
| U.S. Department of Commerce: | | | | | |
| Direct Program: | | | | | |
| Special Oceanic and Atmospheric Projects | | 11.460 | | \$ | <u>641,229</u> |
| Total U.S. Department of Commerce | | | | \$ | <u>641,229</u> |
| U. S. Department of Labor: | | | | | |
| Direct Programs: | | | | | |
| Pandemic Unemployment Assistance Administration | COVID-19 | 17.225 | | \$ | 9,628,295 |
| Apprenticeship USA Grants | | 17.285 | | | 19,158 |
| WIOA Cluster: | | | | | |
| WIA/WIOA Adult Program | | 17.258 | | | 68,181 |
| WIA/WIOA Youth Activities | | 17.259 | | | 57,826 |
| WIA/WIOA Dislocated Worker Formula Grants | | 17.278 | | | <u>106,372</u> |
| Sub-Total WIOA Cluster | | | | \$ | <u>232,379</u> |
| Total U.S. Department of Labor | | | | \$ | <u>9,879,832</u> |
| U.S. Department of Education: | | | | | |
| Direct Programs: | | | | | |
| Special Education Cluster (IDEA): | | | | | |
| Special Education Grants to States | | 84.027 | | \$ | <u>1,007,746</u> |
| Sub total Special Education Cluster (IDEA) | | | | \$ | <u>1,007,746</u> |
| Career and Technical Education-Basic Grants to States | | 84.048 | | \$ | 155,879 |
| Education Grant Program for the Freely Associated States | | 84.256B | | | <u>733,200</u> |
| Total U.S. Department of Education | | | | \$ | <u>1,896,825</u> |
| U.S. Department of Health and Human Services: | | | | | |
| Direct Programs: | | | | | |
| Public Health Emergency Preparedness | | 93.069 | | \$ | 303,780 |
| Affordable Care Act (ACA) Personal Responsibility Education Program | | 93.092 | | | 188,676 |
| Material and Child Health Federal Consolidated Programs | | 93.110AR | | | 28,861 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | | 93.116 | | | 325,981 |
| Emergency Medical Services for Children | | 93.127 | | | 38,941 |
| Family Planning Services | | 93.217 | | | 89,545 |
| Health Center Program Cluster: | | | | | |
| Health Center Program | | 93.224 | | | 1,264,447 |
| Health Center Program | COVID-19 | 93.224 | | | <u>419,658</u> |
| Sub total Health Center Program Cluster | | | | \$ | <u>1,684,105</u> |

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020**

| Federal Grantor/Pass-Through Grantor/Program Title | COVID-19 | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|----------|------------------------|--|------------------------------------|-------------------------|
| U.S. Department of Health and Human Services: | | | | | |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | | 93.243 | | \$ | 313,210 |
| Universal Newborn Hearing Screening | | 93.251 | | | 201,830 |
| Scaling the National Diabetes Prevention Program to Priority Populations | | 93.261 | | | 22,296 |
| Immunization Cooperative Agreements | | 93.268 | | | 214,349 |
| ELC Program Cluster: | | | | | |
| Epidemiology and Laboratory Capacity for Infectious Disease (ELC) | | 93.323 | | | 418,727 |
| ELC Covid Response Activities | COVID-19 | 93.323 | | | <u>120,253</u> |
| Sub total ELC Program Cluster | | | | \$ | <u>538,980</u> |
| Behavioral Risk Factor Surveillance System | | 93.336 | | \$ | 18,202 |
| Public Health Emergency Response-PH Crisis Response | COVID-19 | 93.354 | | | 573,252 |
| State Targeted Response to the Opioid Crisis Grants | | 93.788 | | | 120,664 |
| National Bioterrorism Hospital Preparedness Program | | 93.889 | | | 162,809 |
| Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations | | 93.898 | | \$ 16,011 | 665,118 |
| HIV Care Formula Grants | | 93.917 | | | 23,318 |
| Assistance Programs for Chronic Disease Prevention and Control | | 93.945 | | | 168,762 |
| Block Grants for Community Mental Health Services | | 93.958 | | | 101,620 |
| Block Grants for Prevention and Treatment of Substance Abuse | | 93.959 | | | 256,184 |
| Preventive Health and Health Services Block Grant | | 93.991 | | | 27,018 |
| Maternal and Child Health Services Block Grant to the States | | 93.994 | | | <u>115,174</u> |
| Subtotal Direct Programs | | | | \$ | <u>6,182,675</u> |
| Pass Through From University of Hawaii: | | | | | |
| Center for Disease Control and Prevention Investigations and Technical Assistance (Palau Cancer Registry) | | | 99-6000354 | | |
| | | 93.283 | | \$ | 17,649 |
| Pass through From Association of State and Territorial Health Officials | | | | | |
| Building Capacity of the Public Health System to Improve Population Health through National, Nonprofit Organizations- financed in part by Prevention and Public Health Funds (PPHF) | | 93.524 | 35-1044487 | | <u>1,483</u> |
| Subtotal Pass-Through Programs | | | | \$ | <u>19,132</u> |
| Total U.S. Department of Health and Human Services | | | | \$ | <u>6,201,807</u> |
| U.S. Department of the Interior: | | | | | |
| Direct Program: | | | | | |
| Economic, Social, and Political Development of the Territories | | 15.875 | | \$ | 980,327 |
| Cares Act OIA Grant | COVID-19 | 15.875 | | | <u>866,913</u> |
| Total U.S. Department of the Interior | | | | \$ | <u>1,847,240</u> |
| Total U.S. Federal Grants Fund (Fund 3030) | | | | \$ | <u>20,488,611</u> |
| U.S. Department of Transportation: | | | | | |
| Direct Program: | | | | | |
| Airport Improvement Program | | 20.106 | | \$ | <u>599,050</u> |
| Total U.S. Department of Transportation | | | | \$ | <u>599,050</u> |
| Total Federal Grants Fund (Fund 4010) | | | | \$ | <u>599,050</u> |
| U.S. Department of Defense: | | | | | |
| Direct Program: | | | | | |
| Maritime Domain Awareness Radars | | | 12. Unknown | \$ | <u>200,000</u> |
| Total U.S. Department of Defense | | | | \$ | <u>200,000</u> |
| Total Federal Grants Fund (Fund 3000) | | | | \$ | <u>200,000</u> |
| Total Federal Grants Funds Expenditures | | | | \$ | <u>21,287,661</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, 2020

| Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875 | Authorizations | Passed Through to Subrecipients | Expenditures and Transfers |
|---|----------------------|------------------------------------|-------------------------------|
| <u>211(f) Trust Fund</u> | | | |
| Executive Branch | \$ 15,000,000 | \$ - | \$ 15,000,000 |
| Total 211(f) Trust Fund | <u>\$ 15,000,000</u> | <u>\$ -</u> | <u>\$ 15,000,000</u> |
| <u>COFA S432(2A) IMF Trust Fund</u> | | | |
| Infrastructure Maintenance Project | \$ 2,600,000 | \$ - | \$ 281,059 |
| Total COFA S432(2A) IMF Trust Fund | <u>\$ 2,600,000</u> | <u>\$ -</u> | <u>\$ 281,059</u> |
| <u>Infrastructure Projects S432 (5)</u> | | | |
| Ministry of Finance S432 (5) | \$ 3,285,610 | \$ - | \$ 1,587,404 |
| Koror Airai Road Project | 6,820,000 | - | 5,721,051 |
| Angaur Dock Improvement Project | 2,387,000 | - | 1,290,771 |
| Total Infrastructure Projects | <u>\$ 12,492,610</u> | <u>\$ -</u> | <u>\$ 8,599,226</u> |
| Total Compact of Free Association CFDA #15.875 | | | \$ 23,880,285 |
| Less Compact Section 211(f) Trust Fund Investment Earnings | | | <u>(15,000,000)</u> |
| Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing | | | <u>\$ 8,880,285</u> |
| Total Expenditures of Federal Awards | | <u>\$ -</u> | <u>\$ 30,167,946</u> |

The above awards are received in a direct capacity.

Reconciliation to financial statements:

| | |
|---|----------------------|
| Total Expenditures of Federal Awards | \$ 30,167,946 |
| Non-Federal Grants | 11,516,007 |
| Republic's share of expenditures under COFA S432(2A) IMF Trust Fund | <u>84,317</u> |
| Total Special Revenue Grants expenditures | <u>\$ 41,768,270</u> |

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, 2020

1. Scope of Audit

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Republic under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Republic, it is not intended to and does not present the financial positions or changes in financial positions of the Republic.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which the Republic maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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, 2020 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 presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2020.

The following component units incurred federal expenditures during the year ended September 30, 2020:

| | |
|------------------------------------|--------------|
| Palau Community College | \$ 3,324,366 |
| Palau Public Utilities Corporation | \$ 45,000 |

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2020

3. Summary of Significant Accounting Policies, Continued

D. Indirect Cost Allocation

The Republic did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2020. The approved rate was 7.38%. 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 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 (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 for purposes of major program determinations.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs
Year Ended September 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|---|------------|
| Internal control over major federal programs: | |
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | |
| All major federal programs | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. Identification of major federal programs: | |

CFDA Numbers Name of Federal Program or Cluster

- | | |
|--------|--|
| 15.875 | Economic, Social, and Political Development of the Territories |
| 15.875 | Economic, Social, and Political Development of the Territories – Compact of Free Association Compact Sector Grants |
| 17.225 | Pandemic Unemployment Assistance Administration |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |
-
- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$905,038 |
| 11. Auditee qualified as low-risk auditee? | No |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Section II – Financial Statement Findings

| <u>Finding Number</u> | <u>Findings</u> |
|-----------------------|--------------------------------|
| 2020-003 | Financial Statements |
| 2020-005 | Hospital Sliding Fee Discounts |
| 2020-006 | Net Pension Liability |

Section III - Federal Award Findings and Questioned Costs

| <u>Finding Number</u> | <u>CFDA #</u> | <u>Findings</u> | <u>Questioned Costs</u> |
|-----------------------|---------------|--|-------------------------|
| 2020-001 | 15.875 | Procurement and Suspension and Debarment | \$ 250,000 |
| 2020-002 | 17.225 | Activities Allowed or Unallowed | - |
| 2020-004 | 17.225 | Allowable Costs/Cost Principles | - |
| | | | <u>\$ 250,000</u> |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2020

Finding No.: 2020-001
Federal Agency: U. S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D20AF00047
Area: Procurement and Suspension and Debarment
Questioned Costs: \$250,000

Criteria: In accordance with applicable procurement and suspension and debarment requirements, when procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. Republic of Palau procurement regulations, specify the following:

1. Invitations for bids shall contain a clear, complete, and accurate description of the goods or services to be procured and underlying procurement files will reflect details supporting the history of the procurement process.
2. Procurement Officers may negotiate an adjustment of the bid price including changes in the bid requirements with the lowest responsive and responsible bidder. The negotiation shall be documented in writing and be attached to the bidding documents.

Condition: Of 20 procurement transactions tested, aggregating \$7,383,379 of \$8,880,284 in total non-payroll program expenditures, we noted the following:

1. Documentation on file supporting the bid negotiations did not appear to be complete, which contravenes established Republic of Palau policy. In order to understand the transaction and the proceedings, various conversations had to occur with the Director of the Bureau of Public Works to better understand how the negotiations transpired and to obtain underlying documentation supporting the process (such as emails, etc).
2. Included within the contract is ROP's \$250,000 acquisition of equipment from the contractor. Based on supplemental information provided by the Director, which was not originally in file, we understand that the process requested quotations for the sale of road striping equipment at the conclusion of the contract. The acquisition of equipment did not appear to comply with ROP related acquisition procedures and was not substantiated by independent cost considerations if the equipment had been obtained direct from a supplier. Therefore, this matter results in a questioned cost. Additionally, the grant award was approved for construction and did not include the acquisition of equipment. We recommend that the Republic request and the grantor provide guidance to the Republic with respect to this practice and the manner in which such a transaction would be in compliance with grantor requirements.

Cause: Republic of Palau did not clearly enforce compliance with applicable procurement requirements and the procurement file was not maintained in accordance with policy.

Effect: The effect of the condition results in \$250,000 of questioned costs.

Recommendation: Procurement files should be maintained in accordance with policy and the Republic should communicate with the grantor agency with respect to the abovementioned matter.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-001, Continued
Federal Agency: U. S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D20AF00047
Area: Procurement and Suspension and Debarment
Questioned Costs: \$250,000

Views of Responsible Officials: The Republic agrees with the finding and provides details in its Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-002
 Federal Agency: U.S. Department of Labor
 CFDA Program: 17.225 Unemployment Insurance
 Federal Award No.: UI-34839-20-55-A-70
 Compliance Requirement: Activities Allowed or Unallowed
 Questioned Costs: \$0

Criteria: In accordance with applicable program requirements, funds may be used only for the payment of PUA benefits and for PUA-related state administrative costs.

Condition:

1. For 54 (or 90%) of 60 applicants tested, aggregating \$354,044 of \$10,985,026 in total program expenditures, local tax assessments, Social Security deductions, and Health Care Fund deductions were deducted from the total PUA and FPUC benefits deemed eligible by the applicant prior to disbursement of benefits:

| # | Claim ID | Date | Amount | PUA | FPUC | Tax Deducted | SS Deducted | HCF Deducted | Net | Amount Disbursed |
|----|----------|---------|----------|----------|----------|--------------|-------------|--------------|----------|------------------|
| 1 | 41199 | 6/24/20 | 8,585.32 | 5,161.00 | 5,400.00 | 1,147.33 | 739.27 | 267.09 | 8,407.31 | 8,801.27 |
| 2 | 41221 | 6/24/20 | 7,297.92 | 3,970.00 | 5,400.00 | 1,032.10 | 655.90 | 234.30 | 7,447.70 | 7,297.92 |
| 3 | 41244 | 6/24/20 | 7,297.92 | 3,573.00 | 5,400.00 | 822.60 | 628.11 | 224.37 | 7,297.92 | 7,297.92 |
| 4 | 41266 | 6/24/20 | 6,487.04 | 3,176.00 | 4,800.00 | 731.20 | 558.32 | 199.44 | 6,487.04 | 6,487.04 |
| 5 | 41287 | 6/24/20 | 8,585.32 | 5,161.00 | 5,400.00 | 972.32 | 739.27 | 264.09 | 8,585.32 | 8,585.32 |
| 6 | 41311 | 6/24/20 | 3,243.52 | 1,588.00 | 2,400.00 | 365.60 | 279.16 | 99.72 | 3,243.52 | 3,243.52 |
| 7 | 41343 | 6/25/20 | 4,313.40 | 3,143.00 | 2,100.00 | 564.55 | 367.01 | 131.11 | 4,180.33 | 4,313.40 |
| 8 | 41369 | 6/25/20 | 6,487.04 | 3,176.00 | 4,800.00 | 731.20 | 558.32 | 199.44 | 6,487.04 | 6,487.04 |
| 10 | 41417 | 6/25/20 | 6,487.04 | 3,176.00 | 4,800.00 | 731.20 | 558.32 | 199.44 | 6,487.04 | 6,487.04 |
| 11 | 41441 | 6/25/20 | 7,637.80 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 7,297.57 |
| 12 | 41467 | 6/25/20 | 8,309.60 | 4,753.88 | 5,400.00 | 879.60 | 710.78 | 253.90 | 8,309.60 | 8,309.60 |
| 13 | 41493 | 6/25/20 | 5,543.09 | 2,779.00 | 4,200.00 | 772.87 | 488.53 | 174.51 | 5,543.09 | 5,543.09 |
| 14 | 41518 | 6/25/20 | 6,650.58 | 2,748.40 | 5,400.00 | 723.71 | 570.39 | 203.71 | 6,650.58 | 6,650.58 |
| 15 | 41544 | 6/25/20 | 6,408.56 | 3,076.00 | 4,800.00 | 871.28 | 551.36 | 196.88 | 6,256.48 | 6,408.56 |
| 16 | 41564 | 6/28/20 | 9,872.72 | 6,749.00 | 5,400.00 | 1,300.97 | 850.43 | 303.81 | 9,693.79 | 9,872.72 |
| 17 | 41590 | 6/29/20 | 8,263.47 | 4,764.00 | 5,400.00 | 934.89 | 711.48 | 254.16 | 8,263.47 | 8,263.47 |
| 18 | 41607 | 6/29/20 | 3,823.86 | 1,691.30 | 3,000.00 | 516.78 | 328.39 | 117.28 | 3,728.85 | 3,823.86 |
| 19 | 41636 | 6/30/20 | 7,204.46 | 3,453.92 | 5,400.00 | 808.32 | 619.79 | 221.35 | 7,204.46 | 7,204.46 |
| 20 | 41663 | 6/30/20 | 6,487.04 | 3,176.00 | 4,800.00 | 731.20 | 558.32 | 199.44 | 6,487.04 | 6,487.04 |
| 21 | 41688 | 6/30/20 | 5,676.16 | 2,779.00 | 4,200.00 | 639.80 | 488.53 | 174.51 | 5,676.16 | 5,676.16 |
| 22 | 41714 | 6/30/20 | 6,487.04 | 3,176.00 | 4,800.00 | 883.28 | 558.32 | 199.44 | 6,334.96 | 6,487.04 |
| 23 | 41781 | 7/7/20 | 7,409.55 | 3,530.23 | 5,400.00 | 827.93 | 637.18 | 227.58 | 7,237.54 | 7,409.55 |
| 24 | 41805 | 7/7/20 | 7,297.92 | 3,573.00 | 5,400.00 | 993.69 | 628.11 | 224.37 | 7,126.83 | 7,297.92 |
| 25 | 41832 | 7/7/20 | 7,245.48 | 3,483.20 | 5,400.00 | 974.87 | 622.54 | 222.34 | 7,063.45 | 7,245.48 |
| 26 | 41860 | 7/7/20 | 8,585.32 | 5,161.00 | 5,400.00 | 972.32 | 739.27 | 264.09 | 8,585.32 | 8,585.32 |
| 27 | 41928 | 7/23/20 | 4,450.96 | 3,176.00 | 2,400.00 | 595.28 | 390.32 | 139.44 | 4,450.96 | 4,450.96 |
| 28 | 41971 | 7/23/20 | 6,329.36 | 3,168.86 | 4,800.00 | 882.42 | 557.82 | 199.26 | 6,329.36 | 6,329.36 |
| 29 | 42000 | 7/23/20 | 6,334.96 | 3,176.00 | 4,800.00 | 883.28 | 558.32 | 199.44 | 6,334.96 | 6,334.96 |
| 30 | 42026 | 7/24/20 | 6,136.32 | 2,922.88 | 4,800.00 | 852.88 | 540.60 | 193.08 | 6,136.32 | 6,136.32 |
| 32 | 42083 | 7/27/20 | 2,566.96 | 3,176.00 | - | 304.80 | 222.32 | 79.44 | 2,566.96 | 2,566.96 |
| 34 | 42228 | 7/29/20 | 1,283.48 | 1,588.00 | - | 153.64 | 111.16 | 39.72 | 1,283.48 | 1,283.48 |
| 35 | 42283 | 7/31/20 | 6,319.54 | 3,156.30 | 4,800.00 | 880.90 | 556.94 | 198.92 | 6,319.54 | 6,319.54 |
| 36 | 42353 | 7/31/20 | 7,443.48 | 3,964.62 | 5,400.00 | 1,031.46 | 655.52 | 234.16 | 7,443.48 | 7,443.48 |
| 37 | 42410 | 8/5/20 | 1,282.98 | 410.86 | 1,200.00 | 174.84 | 112.76 | 40.28 | 1,282.98 | 1,282.98 |
| 38 | 42456 | 8/7/20 | 6,807.18 | 3,231.82 | 5,400.00 | 977.60 | 624.14 | 222.90 | 6,807.18 | 6,807.18 |
| 39 | 42560 | 8/19/20 | 6,412.96 | 3,967.48 | 4,800.00 | 950.55 | 613.75 | 219.22 | 6,983.96 | 6,412.96 |
| 42 | 42650 | 8/19/20 | 6,949.61 | 4,323.80 | 4,800.00 | 993.33 | 638.67 | 228.15 | 7,263.65 | 6,949.61 |
| 43 | 42675 | 8/20/20 | 6,926.48 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 6,926.48 |
| 45 | 42724 | 8/20/20 | 6,897.57 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 6,897.57 |
| 46 | 42754 | 8/21/20 | 7,118.64 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 7,118.64 |
| 47 | 42780 | 8/21/20 | 5,963.87 | 3,176.00 | 4,800.00 | 883.28 | 558.32 | 199.44 | 6,334.96 | 5,963.87 |
| 48 | 42807 | 8/21/20 | 6,306.78 | 1,282.27 | 4,800.00 | 868.32 | 554.95 | 198.22 | 6,306.78 | 6,306.78 |
| 49 | 42836 | 8/24/20 | 6,964.51 | 4,367.00 | 4,800.00 | 960.10 | 613.90 | 219.30 | 7,373.70 | 6,964.51 |
| 50 | 42860 | 8/24/20 | 6,983.57 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 6,983.57 |
| 51 | 42885 | 8/24/20 | 7,757.37 | 3,970.00 | 6,000.00 | 1,099.78 | 695.38 | 248.40 | 7,926.44 | 7,757.37 |
| 52 | 42913 | 8/24/20 | 6,063.87 | 3,176.00 | 4,800.00 | 883.28 | 558.32 | 199.44 | 6,234.96 | 6,063.87 |
| 53 | 42940 | 8/26/20 | 4,520.01 | 2,779.00 | 3,600.00 | 700.87 | 446.53 | 159.51 | 5,072.09 | 4,520.01 |
| 54 | 43011 | 9/1/20 | 7,126.48 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 7,126.48 |
| 55 | 43039 | 9/1/20 | 5,706.17 | 3,721.00 | 3,600.00 | 786.22 | 512.50 | 183.04 | 5,839.24 | 5,706.17 |
| 56 | 43075 | 9/2/20 | 6,278.17 | 3,103.61 | 4,800.00 | 874.58 | 553.26 | 197.60 | 6,278.17 | 6,278.17 |
| 57 | 43114 | 9/4/20 | 2,816.67 | 3,640.00 | - | 344.50 | 254.80 | 91.02 | 2,949.68 | 2,816.67 |
| 58 | 43153 | 9/8/20 | 5,882.62 | 3,970.00 | 3,600.00 | 816.10 | 529.90 | 189.30 | 6,034.70 | 5,882.62 |
| 59 | 43252 | 9/14/20 | 1,583.74 | 794.00 | 1,200.00 | 220.82 | 139.58 | 49.86 | 1,583.74 | 1,583.74 |
| 60 | 43300 | 9/16/20 | 2,772.34 | 1,278.32 | 2,400.00 | 404.48 | 257.48 | 91.96 | 2,924.40 | 2,772.34 |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-002, Continued
 Federal Agency: U.S. Department of Labor
 CFDA Program: 17.225 Unemployment Insurance
 Federal Award No.: UI-34839-20-55-A-70
 Compliance Requirement: Activities Allowed or Unallowed
 Questioned Costs: \$0

Condition, Continued:

2. For 17 (or 28%) of 60 applicants tested, aggregating \$354,044 of \$10,985,026 in total program expenditures, payments in excess of the eligible amount were made to the claimant:

| # | Claim ID | Date | Amount | PUA | FPUC | Tax Deducted | SS Deducted | HDF Deducted | Net | Amount Disbursed | Excess |
|----|----------|---------|----------|----------|----------|--------------|-------------|--------------|----------|------------------|----------|
| 2 | 41221 | 6/24/20 | 7,297.92 | 3,970.00 | 5,400.00 | 1,032.10 | 655.90 | 234.30 | 7,447.70 | 7,297.92 | (149.78) |
| 39 | 42560 | 8/19/20 | 6,412.96 | 3,967.48 | 4,800.00 | 950.55 | 613.75 | 219.22 | 6,983.96 | 6,412.96 | (571.00) |
| 42 | 42650 | 8/19/20 | 6,949.61 | 4,323.80 | 4,800.00 | 993.33 | 638.67 | 228.15 | 7,263.65 | 6,949.61 | (314.04) |
| 43 | 42675 | 8/20/20 | 6,926.48 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 6,926.48 | (371.09) |
| 45 | 42724 | 8/20/20 | 6,897.57 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 6,897.57 | (400.00) |
| 46 | 42754 | 8/21/20 | 7,118.64 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 7,118.64 | (178.93) |
| 47 | 42780 | 8/21/20 | 5,963.87 | 3,176.00 | 4,800.00 | 883.28 | 558.32 | 199.44 | 6,334.96 | 5,963.87 | (371.09) |
| 49 | 42836 | 8/24/20 | 6,964.51 | 4,367.00 | 4,800.00 | 960.10 | 613.90 | 219.30 | 7,373.70 | 6,964.51 | (409.19) |
| 50 | 42860 | 8/24/20 | 6,983.57 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 6,983.57 | (314.00) |
| 51 | 42885 | 8/24/20 | 7,757.37 | 3,970.00 | 6,000.00 | 1,099.78 | 695.38 | 248.40 | 7,926.44 | 7,757.37 | (169.07) |
| 52 | 42913 | 8/24/20 | 6,063.87 | 3,176.00 | 4,800.00 | 883.28 | 558.32 | 199.44 | 6,234.96 | 6,063.87 | (171.09) |
| 53 | 42940 | 8/26/20 | 4,520.01 | 2,779.00 | 3,600.00 | 700.87 | 446.53 | 159.51 | 5,072.09 | 4,520.01 | (552.08) |
| 54 | 43011 | 9/1/20 | 7,126.48 | 4,367.00 | 4,800.00 | 998.51 | 641.69 | 229.23 | 7,297.57 | 7,126.48 | (171.09) |
| 55 | 43039 | 9/1/20 | 5,706.17 | 3,721.00 | 3,600.00 | 786.22 | 512.50 | 183.04 | 5,839.24 | 5,706.17 | (133.07) |
| 57 | 43114 | 9/4/20 | 2,816.67 | 3,640.00 | - | 344.50 | 254.80 | 91.02 | 2,949.68 | 2,816.67 | (133.01) |
| 58 | 43153 | 9/8/20 | 5,882.62 | 3,970.00 | 3,600.00 | 816.10 | 529.90 | 189.30 | 6,034.70 | 5,882.62 | (152.08) |
| 60 | 43300 | 9/16/20 | 2,772.34 | 1,278.32 | 2,400.00 | 404.48 | 257.48 | 91.96 | 2,924.40 | 2,772.34 | (152.06) |

Cause: The Government did not follow the requirements for allowable activities to be paid under the program and withheld amounts that were to be remitted in full to eligible applicants.

Effect:

Condition 1: The Government is in noncompliance with applicable activities allowed or unallowed requirements. No questioned costs are raised as the associated deductions were paid in FY21.

Condition 2: The Government is in noncompliance with applicable activities allowed or unallowed requirements for overpayments/underpayments, however, no questioned costs are presented as such were offset in subsequent eligible weeks covered within FY20.

Recommendation: Responsible personnel should obtain an understanding of allowed activities and the objectives of the program to determine what costs can be paid using program funding.

Views of Responsible Officials: The Republic agrees with the finding and provides details in its Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2020

Finding No.: 2020-003
Area: Financial Statements

Criteria: The annual financial statements of the Republic should be prepared in conformity with generally accepted accounting principles (GAAP). A reconciliation process should occur on a monthly to 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. Such verification should be evidenced on the schedules. Reconciling items should be adequately explained and documented so that persons other than the preparer (i.e., management, auditors, etc.) can readily understand the basis for reconciling items.

Condition: The 2020 preliminary unaudited financial reports provided to the auditors in August 2021 were not fully reconciled. Final and revised financial reports were provided in November 2021 after corrections were made. A total of 51 adjustments, of which 43 represent actual audit adjustments and 8 represent reclassification entries, were proposed to correct misstatements as a result of ongoing reconciliations during audit fieldwork.

The Republic launched a new accounting system in March 2020 and transferred prior transactions into the new system. However, certain transactions were moved to different funds in the transfer process without documentation or journal entries. Much time was spent reconciling transferred amounts to enable the auditors to perform test procedures.

There was no indication of an adequate reconciliation process taking place in the Division of Grants. Federal and non-federal due from grantor agencies were reconciled during audit fieldwork. Changes and corrections were proposed to the supporting schedules to arrive at valid and complete schedules to enable auditors to perform test procedures. Eleven audit adjustments were proposed to correct overstatement of over \$4,000,000 in federal due from grantor agencies, understatement of over \$700,000 in federal due from grantor agencies, and understatement of over \$4,000,000 in unearned revenues.

Judiciary cash of over \$3,000,000 at September 30, 2020 was not reconciled. WIOA cash of over \$2,000,000 was reconciled during audit fieldwork.

An investment in Other Funds was understated by \$154,615 at September 30, 2020 and was corrected through proposed audit adjustment.

Substantial modifications were proposed to correct the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget to Actual.

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

This is the first time the current management in the Division of Finance and Accounting dealt with launching a new accounting system. Movement of transactions among funds and from old to new accounting system were not documented.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-003, Continued
Area: Financial Statements

Cause, Continued:

The WIOA office is treated as a separate governmental entity; however, such office is not legally separate from the national government and its accounts should be included in the reconciliation process.

There is no indication that the Director of the Budget and Planning Office examines the budgetary statement for completeness and accuracy.

Effect: The effect of the above condition is material weaknesses in the financial reporting processes and material misstatements in 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 is adhered to.

Views of Responsible Officials: The Republic agrees with the finding and provides details in its Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-04
Federal Agency: U.S. Department of Labor
CFDA Program: 17.225 Unemployment Insurance
Area: Allowable Costs/Cost Principles
Questioned Cost: \$0

Criteria: The U.S. Department of Labor has determined that the Social Security tax and the Health Care Fund deductions on Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) benefits are not allowable costs.

Condition: The Social Security Administration (SSA) subsequently reimbursed the Republic for Health Care Fund deductions from PUA and FPUC benefits except for \$198,583.

Cause: SSA represents that the PUA and FPUC beneficiaries substantially used their insurance share of approximately \$198,583 and therefore, no subsequent grant funds need to be returned.

Effect: The effect of the above condition is potential noncompliance with allowable costs requirements.

Recommendation: We recommend that the Republic obtain evidence of proof from SSA to substantiate that the \$198,583 was received by the applicable PUA/FPUC beneficiaries. The proof may consist of an audit of this funding by SSA's independent auditors, an audit of these funds by the Republic's Public Auditor or an audit of the funding by the Ministry of Finance. No questioned costs are raised at this time, pending completion of the required audit and assessment of findings.

Views of Responsible Officials: The Republic agrees with the finding and provides details in its Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2020

Finding No.: 2020-005
Area: Hospital Sliding Fee

Criteria: In accordance with applicable special tests and provisions requirements for sliding fee discounts, health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.

Condition: Family income and size are not determining factors when outpatient and health centers services patient services are received. Discounts are applied and determined based on whether the patient is a resident or a nonresident, tourist or non-tourist or senior citizen or behavioral health patient.

Cause: Republic of Palau Public Law (RPPL) 7-13 Section 19, which amends RPPL 5-7, requires Palauan citizens and their spouses to be charged hospital fees at a subsidized rate compared to non-Palauans. Accordingly, the Ministry of Health implemented its sliding fee schedule policy in 2006 in accordance with RPPL 7-13.

The community health centers program adopted its fee schedule policy that is based on income and size. However, such cannot be implemented without the support of the Olbiil era Kelulau (National Congress).

Effect: The Republic is in noncompliance with applicable special tests and provisions requirements for sliding fee discounts. No questioned costs are presented as we are unable to quantify the extent of noncompliance related to the sliding fee discounts.

Recommendation: We recommend that the Republic implement policies relative to the sliding fee discount based on family income and size.

Views of Responsible Officials: The Republic agrees with the finding and provides details in its Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-006
Area: Net Pension Liability

Criteria: The Republic should assess contingent liabilities as to their potential impact on the financial statements.

Condition: The Republic of Palau Civil Service Pension Trust Fund's (CSPP's) actuarial valuation has determined that the Fund has a net pension liability of \$308,480,463. Republic of Palau Public Law 10-12 appropriated \$150,000 to fund the CSPP Reform Options Actuarial Study to determine viable options toward a comprehensive reform that will ensure long-term financial viability of CSPP. The funding plan and recommendations from the actuarial study have not yet been implemented.

Cause: The net pension liability would cause the Fund's fiduciary net position to become negative in 2023.

Effect: The Fund is potentially at risk of failure to provide future benefits and the Republic's actuary has determined that cash flow may be impacted by the Fund's net pension liability by 2024.

Identification as a Repeat Finding: 2019-007

Recommendation: The Republic should identify measures to address the net pension liability and the potential impact of this matter on the General Fund.

Views of Responsible Officials: The Republic agrees with the finding and provides details in its Corrective Action Plan.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2020

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, 2020:

| | <u>Total</u> |
|---|-------------------|
| Questioned costs of the Republic as previously reported: | |
| Fiscal year 2015 Single Audit | \$ 217,480 |
| Fiscal year 2016 Single Audit | 44,949 |
| Fiscal year 2019 Single Audit | <u>44,448</u> |
| | <u>306,877</u> |
| Less questioned costs resolved in fiscal year 2020: | |
| Questioned costs of fiscal year 2019 Single Audit reported in Finding 2019-002 (1) | (44,448) |
| Questioned costs of fiscal year 2020 Single Audit | <u>250,000</u> |
| Unresolved questioned costs of the Republic at September 30, 2020 | \$ <u>512,429</u> |

- (1) Questioned cost considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated August 18, 2021.



REPUBLIC OF PALAU
Ministry of Finance
Bureau of National Treasury
P.O. BOX 6011 • KOROR • REPUBLIC OF PALAU 96940
Phone : (680) 488-2566/5965 Fax : (680) 488-5973



CORRECTIVE ACTION PLAN, CONTINUED
2 CFR § 200.511(c)
Year Ended September 30, 2020

| FINDING NO. | CORRECTIVE ACTION PLAN | PROPOSED COMPLETION DATE | NAME AND CONTACT OF RESPONSIBLE PERSON |
|--------------------|--|---------------------------------|--|
| 2020-001 | 15.875 - D20AF00047 ROP concurs with reservation. MOF and BPW will discuss this further with Grantor agency to get guidance. | May 2023 | Brian Melairei Director Bureau of Public Works Ministry of Public Infrastructure & Industries Contact: 680-488-2410 Email: melairei@gmail.com |
| 2020-002 | 17.225 - UI-34839-20-55-A-70 ROP concurs with reservation. Palau WIOA has hired new Executive Director and Fiscal Officer to ensure that the program activities and objectives are met. | Resolved | Glendalynn T. Ngirmeriil Executive Director Palau WIOA Office Contact: 680-488-2513 Email: gngirmeriil.wioa@gmail.com Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org |
| 2020-003 | Financial Statements ROP concurs with the finding. MOF management are looking for proper reconciliation training for all staff involved with balance sheet accounts. | September 2023 | Darla Babauta Chief Division of Finance and Accounting Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: darlab@palaugov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org |
| 2020-004 | 17.225 Unemployment Insurance ROP concurs with the finding. MOF will work with SSA and HCF on resolving this issue. | September 2023 | Glendalynn T. Ngirmeriil Executive Director Palau WIOA Office Contact: 680-488-2513 Email: gngirmeriil.wioa@gmail.com Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact: 680-767-2561 Email: gailr@palaugov.org |



REPUBLIC OF PALAU
Ministry of Finance
Bureau of National Treasury
P.O. BOX 6011•KOROR•REPUBLIC OF PALAU 96940
Phone : (680) 488-2566/5965 Fax : (680) 488-5973



CORRECTIVE ACTION PLAN, CONTINUED
2 CFR § 200.511(c)
Year Ended September 30, 2020

| FINDING NO. | CORRECTIVE ACTION PLAN | PROPOSED COMPLETION DATE | NAME AND CONTACT OF RESPONSIBLE PERSON |
|-------------|--|--------------------------|--|
| 2020-005 | <p>Hospital Sliding Fee</p> <p>We concur with the finding. MOF will work closely with MOH on resolving this issue</p> | | <p>Darnelle Worswick Director Bureau of Health Administration and Support Services Ministry of Health Contact: 680-488-2552 Email: darnelle.worswick@palahealth.org</p> <p>Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contact:680-767-2561 Email: gailr@palaugov.org</p> |
| 2020-006 | <p>MOF management are aware of this and are working with the policy makers to find the best solution to resolve the issue.</p> | | <p>Kaleb Udui Jr. Minister Ministry of Finance PH: 680-767-2561 Email: kalebu@palaugov.org</p> <p>Casmir Remengesau Director Bureau of Budget, Planning and Statistics Ministry of Finance PH: 680-767-2561 Email: casmirer@palaugov.org</p> <p>Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contacts: 680-767-2561 Email: gailr@palaugov.org</p> |



REPUBLIC OF PALAU

Ministry of Finance

Bureau of National Treasury

P.O. BOX 6011 • KOROR • REPUBLIC OF PALAU 96940

Phone : (680) 488-2566/5965 Fax : (680) 488-5973



Summary Schedule of Prior Audit Findings Year Ended September 30, 2020

| Finding No. | Program Area | Brief Description | Status of Finding | Comments |
|-------------|--|--|--|--|
| 2019-001 | 12. Unknown - Special tests and provisions | Potential noncompliance with applicable tests and provisions requirements. | The Ministry of Finance have requested the needed documents to no avail. | MOF management and leadership are working to resolve this issue. |
| 2019-002 | Allowable costs/Cost Principles | Non-compliance with applicable allowable costs/cost principles | Resolved | HRSA letter dated August 18, 2021 |
| 2019-003 | Receivables | Timely reconciliation of Receivables | Management working to resolve this finding. | MOF Management working to resolve this issue. |
| 2019-004 | Allowable costs/Cost Principles | Non-compliance with applicable allowable costs/cost principles | Management working to resolve this finding. | MOF has established a receivable account where all advance payments are entered, reconciled, and monitored |
| 2019-005 | Unearned Revenues | Establish a centralized filing system for all Advanced Funds | Management working to resolve this finding. | MOF management are working with all the implementing offices to make sure that all grant documents be submitted to the Division of Grants under the Ministry of Finance for appropriate record keeping and filing. |



REPUBLIC OF PALAU

Ministry of Finance

Bureau of National Treasury

P.O. BOX 6011 • KOROR • REPUBLIC OF PALAU 96940

Phone : (680) 488-2566/5965 Fax : (680) 488-5973



Summary Schedule of Prior Audit Findings Year Ended September 30, 2020

| Finding No. | Program Area | Brief Description | Status of Finding | Comments |
|--|--|---|---|--|
| 2019-006 2018-005 2017-012 2016-012 | Local noncompliance - Procurement regulations | Potential noncompliance with applicable procurement regulations | Management working to resolve this issue. | MOF will ensure to document procurement processes to meet requirements. |
| 2019-007 2018-006 2017-013 2016-013 | Net Pension Liability | Net pension liability would cause the fund's fiduciary net position to become a deficit in 2019. | Management working to resolve this issue. | Management working with policy makers to resolve this issue. |
| 2018-004 2017-011 | Financial Statements | Lack of resources to committed to periodically maintaining reconciliations of accounts | Management working to resolve this issue. | MOF management working to train and hire capable staff to maintain reconciliations. |
| 2016-009 | 93.243- Procurement and Suspension and Debarment | Lack of adherence to established policies and procedures regarding compliance with procurement requirements | Management working to resolve this finding. | Program Manager and MOF management continues to work cohesively ensuring that all procurement requirements are being adhered to. |
| 2015-001 | 93.243 - Period of performance and availability of funds | Incurred expenditures after grant expiration date and liquidated after liquidation period | Questioned Cost cleared. Management working to resolve the non-monetary component | SAMHSA MD letter received dated April 14, 2023 |
| 2015-003 | 93.243 - Procurement and Suspension and Debarment | Lack of adherence to established policies and procedures regarding compliance with procurement requirements | Questioned Cost cleared. Management working to resolve the non-monetary component | SAMHSA MD letter received dated April 14, 2023 |