

**SONSOROL STATE GOVERNMENT**  
**(A State of the Republic of Palau)**

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**Independent Auditors' Report on**  
**Internal Control and on Compliance**

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**Year Ended September 30, 2018**



**BURGER · COMER · MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

Honorable Nicholas Aquino  
Governor  
Sonsorol State Government:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of receipts and disbursements the Sonsorol State Government (the State), of the Republic of Palau for the year ended September 30, 2018, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated April 12, 2023.

**Internal Control over Financial Reporting**

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

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first preceding paragraph of this section 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. We did identify certain deficiencies in internal control as described in the accompanying Schedule of Findings and Responses as items 2018-01, 2018-03 and 2018-04 that we consider to be material weaknesses.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's statement of receipts and disbursements is 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 statement of receipts and disbursements 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standard* and is described in the accompanying Schedule of Findings and Responses as findings 2018-02 and 2018-03.

## **The State's Response to Findings**

The State's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The State's response was not subjected to the auditing procedures applied in the audit of the 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.

A handwritten signature in black ink that reads "Bruce Comer Magliola". The signature is written in a cursive style with a large initial "B".

April 12, 2023

**SONSOROL STATE GOVERNMENT**  
**(A State of the Republic of Palau)**

Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-01**

**Area: Cash Receipts – Untimely Deposits**

Criteria:

A system of internal control policies and procedures should be in place over the cash handling and deposit of cash receipts in a timely manner, usually within three (3) business working days. Additionally, the Republic of Palau Office of the Public Auditor requires the State to maintain internal control policies and procedures to properly document and account for all cash receipts and sales collections and deposits are deposited within 3 business days.

Condition:

Of the (16) sixteen cash receipts randomly selected for testing, we noted (5) five or 31% for which deposits were not deposited in the bank within 3 business days, as follows:

<u>Item #</u>	<u>Date</u>	<u>Official Receipt #</u>	<u>Amount Received</u>	<u>Bank Deposit Date</u>	<u>Deposit Receipt Batch Total</u>	<u>Days Lapsed</u>
1	04/19/2018	555009	\$ 250.00	05/03/2018	\$ 3,500.00	14
2	04/19/2018	555014	50.00	05/03/2018	11,669.43	14
3	04/19/2018	555018	100.00	05/03/2018	93,993.43	14
4	05/11/2018	555019	300.00	05/18/2018	93,993.25	7
5	07/26/2018	555028	30,880.00	08/03/2018	93,993.25	8
			<u>\$ 31,580.00</u>		<u>\$ 297,149.36</u>	

Cause:

There is a breakdown of internal control policies and procedures over the adherence of cash receipts being banked on a timely manner.

Effect:

The State is in noncompliance with its internal control policies and procedures for cash receipts. The potential exists for fraud to occur and not be detected in a timely manner.

Prior Year Status:

Lack of internal controls over untimely deposit of cash receipts was cited as a finding in the audit of the State for fiscal year 2017.

**SONSOROL STATE GOVERNMENT  
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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-01, Continued  
Area: Cash Receipts**

Recommendation:

We recommend that the State adhere to its internal control policies and procedures in place for depositing cash receipts on a timely manner.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** The State assigns every Friday for all deposits checks. The State will take note of the number of days that checks should be deposited to the bank. We will review all attachments and ensure that deposit slip signed by the appropriate personnel who prepares, review and approve all deposits. Rest assured there were no missing checks and all are deposited to the State bank account. Also, we are waiting for the Office of the Public Auditor's Standard Operating Procedures to be distributed for implementation by each ROP State.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-02**  
**Area: Procurement**

Criteria:

Republic of Palau Law No. 10-26, Section 8 Amended Procurement Law (40 PNC §625 (c)(3)), states that small purchases under \$2,500 may be made after receiving one (1) written quotation and that a record of the accepted price quotation shall be maintained in the purchase order file.

Condition:

For Four (4) or 6% of the sixty-seven (67) cash disbursements randomly selected for testing, there was no documentation or written record of the accepted price quotation obtained and on-file in the purchase order file for the following:

<u>No.</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
1	3/20/2018	3841	\$ 855.70
2	7/23/2018	4208	60.80
3	7/31/2018	4254	170.92
4	8/17/2018	4308	120.00
			<u>\$ 1,207.42</u>

Although the amount is immaterial, we identified check #4426 dated 9/26/44 in the amount of \$125 paid for legal and professional services which was not publicly advertised or put out for bid.

Cause:

There is a lack of internal control and monitoring procedures over the State's compliance with the procurement regulations.

Effect:

The State is in noncompliance with the Republic of Palau procurement regulations. The potential exists for fraud to occur and not be detected in a timely manner.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2017.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-02, Continued**  
**Area: Procurement**

Recommendation:

We recommend that the State strengthen its internal control policies and monitoring procedures to comply with the Republic of Palau procurement rules and regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** All the quotes are attached to the file.

For item #3 above, there were no quotations since it is emergency purchase and the ship was leaving so we need to purchase additional back support for stevedore use.

For item # 4 above, there were no quotations since it is emergency purchase to repair State's car. The car got stuck on the road and needed to be repair immediately so we called the mechanic.

We will make sure that one (1) quote is obtained for all small purchases and double check that it's attached to the P.O.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-03**  
**Area: Procurement**

Criteria:

Republic of Palau Law No. 10-26, Section 8 (b) Amended Procurement Law (40 PNC §625), requires that any procurement not exceeding \$20,000 may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Finance. However, procurement requirements shall not be artificially divided so as to constitute a small purchase. Formal bidding is not required, but it is encouraged for all items not exceeding \$20,000, except that the competitive bidding procedures shall be required on any item sought by State governments of \$10,000 or more. For small purchased over \$5,000 but less than \$20,000, the procurement officer shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time, preferential treatment of locally produced goods and local services, and other relevant factors. A written documentation of the three quotes, the vendors submitting the quotes, and the basis for selection shall be maintained in the purchase order file.

Condition:

Of the ten (10) cash disbursements selected for procurement compliance testing, there was no documentation on-file to evidence that the State complied with competitive bidding. There was no written documentation of vendor quotes or determination of the basis for selection documented in the purchase order file for the following:

<u>No.</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
1	10/09/17	3425	\$ 17,250.00
2	11/22/17	3537	27,000.00
3	12/04/17	3568	7,250.00
4	12/20/17	3601	18,150.00
5	01/09/18	3658	18,150.00
6	01/10/18	3663	7,250.00
7	05/29/18	4064	27,000.00
8	05/30/18	4069	7,089.00
9	07/16/18	4183	2,500.00 *
10	07/30/18	4240	27,000.00
			<u>\$ 158,639.00</u>

Further, one transaction (\*) above is below procurement law amount; however, it involves a contract with individuals are related parties to State's Governor.



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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-03, Continued**  
**Area: Procurement**

Cause:

There is a lack of internal controls and related monitoring procedures to ensure the State's compliance with the Republic of Palau procurement regulations.

Effect:

The State is in noncompliance with Republic of Palau procurement regulations. The potential exists for fraud to occur and not be detected in a timely manner.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2017.

Recommendation:

We recommend that the State strengthen its internal control policies and monitoring procedures to comply with the Republic of Palau procurement rules and regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** As per 10 selected cash disbursements itemized above, that was no documentation on file to evidence that the State put them out for bid. During March 2022, we did some renovations in the office. Each worker has their own responsibility of files assigned to them for safekeeping. Unfortunately, the worker in-charge of the said documents misplaced the files due to the office renovation. Only the vendor's quotes are missing, but the public bidding announcements are attached to the check voucher files, especially the bidding announcement for the boat charter. As part of the corrective action taken, the State will make sure the accountant has the copy of all the bid documents for backup in case they are misplaced again.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

**SONSOROL STATE GOVERNMENT  
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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-04**

**Area: Payroll**

Criteria:

Employee timesheets should be properly reviewed, approved and maintained on-file prior to processing and disbursement of funds. Additionally, employee personnel action forms should be properly maintained reflecting all employee salary increments and annual salaries approved by the Governor.

Condition:

Of the (15) fifteen payroll cash disbursements selected for testing; we noted the following:

For one employee, the Personnel Action Form was not approved by the sitting Municipal Magistrate and only signed by Municipal Treasurer for Huana S. Pedro under check number 3686 dated 2/27/2018 in the amount of \$177.45.

Additionally, an approved Personnel Action Form reflecting the current salary was not on file for inspection for seven (7) employees, as follows:

<u>No.</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
1	11/9/2017	3502	\$ 162.75
2	1/31/2018	3720	164.85
3	3/13/2018	3815	459.62
4	3/16/2018	3828	219.80
5	3/29/2018	3859	164.85
6	3/29/2018	3864	164.85
7	7/10/2018	4172	268.96
			<u>\$ 1,605.68</u>

Cause:

There is a breakdown of internal control policies and procedures over the processing of payroll disbursements.

Effect:

The State is in noncompliance with its internal control policies and procedures over its payroll processing system and related file maintenance.

**SONSOROL STATE GOVERNMENT**  
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Schedule of Findings and Responses  
Year Ended September 30, 2018

**Finding: 2018-04, Continued**  
**Area: Payroll**

Recommendation:

The State should adhere to its internal control policies and procedures for processing payroll disbursements. Employee personnel action forms reflecting the current annual salary approved by the appropriate level of authority should be filed and maintained in employee personnel folders.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Alena Matias, State Accountant and Lucy Pedro, Lt. Governor

**Correction Action Taken:** The State renovated the office and some of the files were misplaced. The person in-charge was not able to double check and verify if all of her files were complete for each employee. Correction action taken is to ensure that aside from the hard copies maintained, the State will retain soft copies of personal action files for all employees.

When it comes to the Procedure and Policy for payroll processing, we will continue to improve while waiting for the Office of the Public Auditor to release the Standard Operating Procedures for each ROP State to implement.

**Proposed Completion Date:** The State will make sure that correction action is completed before the closing of the fiscal year ending September 30, 2023.

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Unresolved Prior Year Comments  
Year Ended September 30, 2018

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report.