

HATOHOBEL STATE GOVERNMENT
(A State of the Republic of Palau)

Independent Auditors' Report on
Internal Control and on Compliance

Year Ended September 30, 2019



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 Huana K. Nestor
Governor
Hatohobei 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 Hatohobei State Government (the State), of the Republic of Palau for the year ended September 30, 2019, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated June 8, 2021.

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 2019-01 and 2019-02 that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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.



Tamuning, Guam
June 8, 2021

HATOHOBEI STATE GOVERNMENT
(A State of the Republic of Palau)

Schedule of Findings and Responses
Year Ended September 30, 2019

Finding: 2019-01
Area: Cash Receipts

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 banked within 3 business days.

Condition:

Of the (4) four randomly selected cash receipts for testing, we found one transaction for which the deposit was not banked within 3 business days. Though the amount was nominal, cash receipt #3144 dated 4/30/19 was deposited 6/3/19 or 34 days late.

Cause:

There is a lack of internal control policies and procedures over the adherence of depositing cash receipts in a timely manner.

Effect:

The State is in noncompliance with its internal control policies and procedures for depositing cash receipts. The potential for fraud, theft and misappropriation exists and not be detected in timely manner.

Prior Year Status:

Lack of internal controls over cash receipt and deposits was cited as a finding in the audit of the State for fiscal year 2018.

Recommendation:

We recommend that the State enforce its existing internal control policies and procedures and monitor such procedures to ensure that cash receipts are deposited in a timely.

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Schedule of Findings and Responses
Year Ended September 30, 2019

Finding: 2019-01, Continued
Area: Cash Receipts

Auditee Response and Corrective Action Plan:

Name of Contact Person: Charlotte Y. Andy, State Accountant

Correction Action Taken: The State concurs to the Auditor's finding and ensure that corrective action is taken and recommendation will be strictly implemented.

Proposed Completion Date: September 30, 2021

HATOHOBEL STATE GOVERNMENT
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Schedule of Findings and Responses
Year Ended September 30, 2019

Finding: 2019-02

Area: Cash Disbursement

Criteria:

A sound financial management and system of internal control requires that all expenditures be adequately supported by underlying documentation to substantiate each transaction such as invoices, contracts, travel documents, receiving reports, etc. Such documentation is essential to evidence proper authorization, the purpose of the expenditures, the dates, costs and quantities of goods acquired, and services performed.

Condition:

On February 14, 2019, check #22967 in the amount of \$37,800 was issued to a boat charter company as full payment for State's boat charter scheduled for February 20-26, 2019. However, the charter was cancelled by the boat charter company due to bad weather conditions. The boat charter agreement signed by both parties' states that any cancellation due to bad weather, no cancellation fee will be assessed.

Hatohobei State Government received 50% of the \$37,800 or \$18,900 as a deduction on the invoice for the boat charter fee for September 24-30, 2019. The remaining 50% balance of \$18,900 has yet to be reimbursed by the boat charter company and has not been recorded by the State as an accounts receivable.

Cause:

The State failed to exercise the provision in the boat charter service agreement to recover its full payment.

Effect:

The State has an unrecorded accounts receivable in the amount of \$18,900 for the fiscal year ending September 30, 2019 and as of the date of this report.

Recommendation:

The State Government should record the outstanding amount of \$18,900 as a receivable due from the charter company and take necessary steps including legal action, if necessary, to collect the funds. Internal control procedures should be established and implemented to ensure that contractual agreements are properly reviewed and enforced accordingly.

**HATOHOBEL STATE GOVERNMENT
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Schedule of Findings and Responses
Year Ended September 30, 2019

Finding: 2019-02, Continued
Area: Cash Disbursement

Auditee Response and Corrective Action Plan:

Name of Contact Person: Charlotte Y. Andy, State Accountant

Correction Action Taken: The State concurs to the Auditor's finding and will ensure that corrective action will be taken and the recommendation will be strictly implemented.

The State consulted legal counsel immediately and has been advised to make collection efforts as much as possible prior to proceeding with legal actions. A collection letter was sent via electronic the manager of the boat charter company who is now in Tokyo, Japan. Moreover, the State held meeting with the company's local business partner to involve in the process. However, a concrete decision cannot be made until the Company's manager returns to Palau.

Proposed Completion Date: Exact date cannot be determined due to travel restrictions brought by COVID-19.

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Summary of Unresolved Prior Year Comments
Year Ended September 30, 2019

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