

ANGAUR STATE GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2016

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 Kennosuke A. Suzuki
Governor
Angaur 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 of the Angaur State Government (the State) as of and for the year ended September 30, 2016, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated March 30, 2020.

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 statement of receipts and disbursements 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 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, described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-003.

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.

Deloitte & Touche LLC

March 30, 2020

ANGAUR STATE GOVERNMENT
Schedule of Findings and Responses
Year Ended September 30, 2016

General Ledger

Finding No: 2016-001

Criteria: The propriety of cash receipts and disbursements are determined through the reconciliation of cash accounts. Bank reconciliations should be timely performed and reconciling items should be timely adjusted.

Condition: The General Fund cash account reflects a balance of \$26,149 while the supporting bank reconciliation indicates a negative balance of \$(263,060). Additionally, bank reconciliations do not indicate the preparer or evidence management review and approval.

Cause: The cause of the above condition is the lack of monitoring cash accounts.

Effect: The effect of the above condition is the possibility of misstated cash balances.

Recommendation: We recommend that the State prepare bank reconciliations for all cash accounts and that reconciling items be timely adjusted. We also recommend periodic review of the cash accounts and that bank reconciliations indicate the preparer and evidence management review and approval.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kennosuke A. Suzuki, Governor

Corrective Action: Yes, bank reconciliations were not properly implemented due to a lack of knowledge of the proper entry. It was self-taught by the Office Manager at a later time. The Office Manager will seek assistance from the Office of the Public Auditor for proper training on bank reconciliations.

Proposed Completion Date: Before September 30, 2020.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Disbursements

Finding No: 2016-002

Criteria: Disbursements should be adequately and properly supported.

Condition: Tests of disbursements noted the following:

- Twenty-six of thirty-six disbursements did not have a control number assigned to the check disbursement voucher;
- The State used a vendor quotation to support a \$2,167 disbursement for check # 3817 instead of an invoice or billing. Further, the check disbursement voucher did not indicate the date it was prepared;
- Representation was charged to the State for check # 3878 for \$563; however, support for the meeting purpose and those entertained was not documented;
- One disbursement for legal services (check # 3898 for \$8,650) was not verified by the State for accuracy of hours billed. Further, the description of work performed was not detailed to assure it related to State matters;
- Restaurant meals were charged that did not support why the lunch or dinner took place and who attended (check # 3743 for \$606);
- The State traded a vehicle with a value of \$5,000 to offset payment for services totaling \$16,000 for a Tugboat Charter (check # 3518 for \$11,000). Documentation was not provided to support the agreement for the trade-in between the vendor and the State, the value of the trade-in, and the whether it was officially received by the vendor;
- Check disbursement vouchers were not prepared for two checks (check #s 32 and 0117);
- A check was issued without an invoice, billing or other support from the vendor to substantiate payment (check # 3834 for \$140,500);
- A check was issued to cover stipend and accommodation for travel to the Philippines; however, a schedule or other documentation was not prepared to support how the amount was arrived at including the source of the stipend rates used. Further, a travel authorization was not prepared to document that travel was approved (check # 3809);
- Cash was disbursed totaling \$15,740 for travel to meet a vendor. The disbursement was only supported by two airline tickets totaling \$1,762; and
- Documentation was not provided supporting per diem for travel to the Philippines. Further, travel authorizations were not prepared that document travel was approved (check #s 3838 and 3941).

Cause: The cause of the above condition is the lack of policies and procedures to adequately and properly support disbursements.

Effect: The effect of the above condition is disbursements could be misstated and misuse of funds could occur.

ANGAUR STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No: 2016-002, Continued

Recommendation: We recommend that:

- Control numbers be assigned to all disbursements for accountability and completeness;
- The State use vendor-issued invoices or billings to support disbursements;
- Representation forms be used to justify meals;
- The State ascertain that billed hours are correct and the description of work performed relates to State matters;
- Disbursement vouchers be prepared for all disbursements; and
- Calculations of stipends and accommodations be prepared and attached to the check disbursement voucher and travel authorization forms be prepared to document approval.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kennosuke A. Suzuki, Governor

Corrective Action: Yes, we will properly correct our errors. Control numbers will be created and assigned for proper disbursements. Computation tallies will be practiced. Detailed representation forms supporting documents will accompany disbursements. All future disbursements will have proper supporting documents. Travel authorizations will be created and implemented.

Proposed Completion Date: Before September 30, 2020.

ANGAUR STATE GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Local Procurement

Finding No: 2016-003

Criteria: The State's procurement regulations state the following:

- Any procurement not exceeding \$10,000 may be made in accordance with the small purchase procedures to be established by regulations promulgated by the Minister of Administration. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Formal bidding is not required but is encouraged for procurement not exceeding \$10,000. Except that competitive bidding procedure shall be required on any items sought by the State governments of \$5,000 or more.

Further, an effective system of internal control includes policies and procedures to determine that transactions are adequately substantiated.

Condition: Of thirty-six disbursements tested, totaling \$471,532, we noted formal bidding was not utilized for the following.

<u>General Ledger Date</u>	<u>Check No.</u>	<u>Amount</u>	<u>Description</u>
11/25/15	3505	\$ 9,357	Purchase of boat parts, accessories and freight

Additionally, tests of disbursements for RFP#ANG02-16, for boat repair, found that the Request for Proposal's (RFP) timeline was extended but documentation was not provided to show the RFP was re-advertised in the newspaper of general circulation, that it was broadcast in the public radio stations, or that it was publicly posted. Moreover, we were not provided documentation to show that a bid summary was prepared and a bid evaluation was completed for the RFP. The total contract (contract dated July 8, 2016) amount, including two change orders, was \$429,740. We examined wire transfers for \$140,000 paid on 07/15/16; \$170,000 paid on 10/17/16; and \$76,766 paid on 10/26/16. The remaining \$42,974 was not paid as the State deemed the work unsatisfactory. No acknowledgment from the vendor was provided.

Cause: The cause of the above condition is the lack of adherence to procurement rules and regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations.

Recommendation: We recommend that the State strengthen procedures to comply with procurement regulations. We further recommend that the responsible personnel monitor compliance with applicable procurement regulations and review procurement files for completeness.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kennosuke A. Suzuki, Governor

Corrective Action: Yes, we will follow procurement policies for future RFPs that do not exceed \$10,000. Proper public notice ads through all media will be followed. We will comply with procurement regulations and will implement proper record keeping for all communications.

Proposed Completion Date: Before September 30, 2020.

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Unresolved Prior Year Comments
Year Ended September 30, 2016

There are no unresolved findings from prior year audits of the State.