

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

Independent Auditors' Report 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 Midas Ngiracheluolu
Governor
Kayangel 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 Kayangel State Government (the State), of the Republic of Palau 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 June 25, 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 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 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. We did identify certain deficiencies in internal control as described in the accompanying Schedule of Findings and Response as items 2016-01 and 2016-02 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 no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standard*.

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 25, 2020

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

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-01

Area: Disbursements

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. In addition, management controls should be in place to ensure that requisitions and purchase orders are properly approved by the Governor and certified by the Treasurer relative to funds availability prior to obligation of State funds.

Condition:

Of the seventy-one (71) disbursements tested, disbursements were not properly approved and documented for the following expenditures:

- There was lack of supporting documentation for expenditures incurred totaling \$7,499.09 (check #11378 dated 7/21/2016). Although there was a resolution passed and a letter from the Governor justifying and approving the expenditure(s), we unable to determine if the amount was single purchase or multiple purchases. There were no purchase requisitions for quotations or purchase orders available for inspection.
- For 4 disbursements, the expenditures were not properly approved for the following:

<u>Item #</u>	<u>DATE</u>	<u>Check #</u>	<u>Amount</u>	<u>Discrepancy</u>
1	10/06/2015	10801	\$ 750.00	TA lacked signature for approval.
2	10/07/2015	10810	750.00	TA lacked signature for approval.
3	05/11/2016	11241	3,000.00	Advance request form was left blank and not completed.
4	06/28/2016	11325	425.00	Purchase requisition was not signed for approval.
			<u>\$ 4,925.00</u>	

Cause:

There is a lack of internal control over the approval and disbursements of State funds.

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

Finding: 2016-01, continued

Area: Disbursements

Effect:

The potential exits for unauthorized expenditures to be incurred, for fraud, theft and misappropriation to occur and not be detected in timely manner.

Recommendation:

We recommend that the State establish internal control policies and procedures to ensure that expenditures are properly approved prior to disbursement of State funds.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Governor Midas Ngiracheluolu and Jane R. Gentapan

Correction Action Taken: In connection to the disbursements with check #11378, we were able to retrieve the photocopies of the receipts occurred for the inauguration expense amounting to \$7,499.09, which was reimbursed to Legislator Richard Ngiraked our Chairman of Ways and Means. Furthermore, since we could not retrieve the actual accounts payable voucher (APV) and purchase order (PO) for the said expenditure, it was listed in my excel monitoring sheet that the APV #01672 with PO #5061 was specially intended for Richard Ngiraked as reimbursement. The State hereby acknowledge that we overlooked that the file voucher and its original attachments were not on-file. It was most likely detached and borrowed for the purpose of verification and was not properly refiled. Rest assured we will not commit the same issue next time.

In regards to items #1 and #2 listed in the Condition, the Governor may have overlooked the Travel Authorization (TA) that is why he wasn't able to sign the TA and the Accountant wasn't able to recheck if it was signed or approved. For now, we are really trying our best to ensure that all documents are being properly approved prior to disbursement. During this time period, only one person was assigned in the Accounting Department to prepare all documents, purchase requisitions and purchase orders requiring approval and disbursing.

Regarding items #3 and #4 for checks #11241 and 11325, respectively, the above finding says that the advance request was not completed and the purchase requisition was not signed for approval; however, all documents were complete and signed by the signatories. We will be sending a scanned copy to support for this.

Proposed Completion Date: June 2020

Auditors' Response:

In response to items #3 and #4, these items were not properly completed during the time of our inspection.

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

Finding: 2016-02

Area: Disbursements - Open Fuel Charge Account

Criteria:

A sound system of internal control over the State's "open" POL (Petroleum, oil and lubricants) charge account should contain the proper controls to ensure fuel requisitions are properly authorized, justified for official business, and certified for funds availability. Additionally, government personnel and equipment/vehicle drawing fuel should be specifically identified, and proper supporting documents should be maintained to support all POL acquisitions.

Condition:

The State maintains an open account with the gas station for the purchase of POL. We noted that certain fuel requisitions were lacked proper authorization and evidence of prior approval of fuel requisition forms, identification persons acquiring the fuel and for which vehicle or equipment, and lacked adequate justification for official use for the following:

Item #	DATE	Check #	Amount	Discrepancy
1	03/17/2016	11129	\$ 3,904.13	Fuel requisition forms were not attached to the gas station fuel receipt for 5 fuel requests.
2	09/02/2016	11430	5,919.82	Fuel requisition forms were not attached for 4 fuel receipts from gas station; 3 fuel requisition forms were not signed by State personnel; and 3 fuel requisition forms were not signed by State personnel and the gas station attendant.
3	08/04/2016	11393	5,306.78	8 fuel requisition forms were not signed by gas station attendant; 5 gas station fuel receipts had no fuel requisition forms.
4	09/02/2016	11430	5,919.82	4 fuel receipts from gas station had no fuel requisition forms; 3 fuel requisition Forms were not signed by State personnel; and 3 fuel requisition forms was not signed by State personnel & gas station attendant.
5	08/04/2016	11393	<u>5,306.78</u>	8 fuel requisition forms were not signed by gas station attendant; 5 gas station fuel receipts had no fuel requisition forms.
			<u>\$ 26,357.33</u>	

Cause:

There is a lack of internal control policies and procedures over the control and administration of the State's POL purchasing system. The State Government did not establish or adhere to its policies and procedures governing the administration of the open fuel charge account to ensure that proper controls are in place.

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Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-02, continued

Area: Disbursements - Open Fuel Charge Account

Effect:

The potential exists for waste, fraud, abuse of public funds to occur and not be detected in timely manner.

Recommendation:

The State should establish internal control policies and procedures over its POL acquisition process to ensure that all expenditures incurred are duly authorized and approved, for official use and properly documented and accounted for. Fuel requisition forms should be completed for all POL purchases prior to acquisition.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Governor Midas Ngiracheluolu

Correction Action Taken: The Governor is assigned a fleet card and the majority of the fuel requests for his vehicle. We did not require him to complete the fuel request form because the Governor approves all fuel requisition forms. To correct this, starting this June 2020, all request of fuel must have a request form and is properly approved and we will ensure that the request forms are signed by all the assigned signatories.

For now, we are really trying to secure all necessary signatures for approval before getting fuel at the gas station and ensure that gas attendants sign the request forms.

Proposed Completion Date: June 2020

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Unresolved Prior Year Comments
Year Ended September 30, 2016

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