

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

Independent Auditors' Report on
Internal Control and on Compliance

Year Ended September 30, 2017

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, 2017, 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 opinions 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.

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 Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Responses as Finding 2017-01 to a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Finding 2017-02 to be a significant deficiency.

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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 disbursement 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 are 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 25, 2020

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

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-01
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, expenditures were not properly approved and documented for the following expenditures:

Item #	DATE	Check #	Purpose	Amount	Discrepancy
1	2/23/2017	11203	Travel expense travel to Yap for Yap Day	\$ 2,510.00	"Representation Request form was not properly signed for approval.
2	4/11/2017	11335	Oil change and maintenance for 38FT State Boat	165.40	Purchase voucher was not signed by preparer and certifying officer.
3	9/26/2017	11776	Honorarium	125.00	The check request form was not signed by preparer and certifying officer.
				<u>\$ 2,800.40</u>	

Cause:

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

Effect:

The potential exits for unauthorized expenditures to be incurred, for fraud, theft and misappropriation to occur and not be detected in 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 2016.

KAYANGEL STATE GOVERNMENT
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Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-01, continued

Area: Disbursements

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:

Corrective Action Plan: We agree with this finding. The document was overlooked and was not properly double-checked that all signatures required had been done. For now, we are all doing our best and rest assured that all documents will be double checked and it has been properly approved by the designated signatories. We plan to always double check disbursements to ensure that everything must be approved by designated signatories prior to disbursement of funds.

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

Proposed Completion Date: June 2020

KAYANGEL STATE GOVERNMENT
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Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-02

Area: Cash Receipts - Bank Deposits

Criteria:

A sound system of internal control over the State's cash receipts and deposits should include the proper controls to ensure that cash is accounted, deposited in a timely manner and properly documented with validated deposit slips received from the bank. The information recorded on the receipt includes the date and time, the amount deposited, and the account into which the funds were deposited and should be used to reconcile bank accounts on a monthly basis.

Condition:

Of the thirty-six (36) cash receipts tested, although we were able to verify the bank deposits through alternative audit procedures, the State was unable to locate and provide the validated bank deposit for the following deposits:

<u>Item #</u>	<u>Receipt #</u>	<u>Receipt Date</u>	<u>Particulars of Cash Receipt</u>	<u>Deposit Amount</u>	<u>Deposit Date</u>
1	4023	09/01/16	PAN reimbursement for 3rd QTR FY16	\$ 20,175.83	09/01/16
2	4631	09/30/16	Oil & gas exploration payments	10,975.00	09/30/16
				<u>\$ 31,150.83</u>	

Cause:

There is a lack of internal control policies and procedures over the control and administration of the State's system of cash receipts to ensure that all monies received are properly documented and accounted for.

Effect:

The potential exists for fraud, theft and misappropriation to occur and not be detected in a timely manner.

Recommendation:

We recommend that the State adhere or establish internal control policies and procedures over the cash receipts to ensure that all bank deposits are properly documented and accounted for. A validated bank deposit slip is useful as part of the system of internal controls related to the processing of cash. When a deposit receipt is returned from the bank, it should be compared to the total amount of cash recorded in the cash receipts journal for that day and used to reconcile bank accounts on a monthly basis.

**KAYANGEL STATE GOVERNMENT
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Schedule of Findings and Responses
Year Ended September 30, 2017

Finding: 2017-02, continued

Area: Cash Receipts - Bank Deposits

Auditee Response and Corrective Action Plan:

Corrective Action Plan: We agree with the finding. The deposit slip for official receipt #4023 in the amount \$20,175.83 may have been misplaced or filed together with the printout for the receivables. We will try our best to ensure that all deposit slips are intact together with the sales report.

For official receipt #4631, the Company makes wire transfers for the payment for the oil and gas exploration. The State's accountant failed to obtain all necessary bank remittance documentation for this cash receipt and only requested an email from the Company to verify if they deposited their monthly payments. We will ensure that deposit slips or bank remittance advised are properly attached to the sales report and proper documentation of wire transfers are filed. Rest assured that all future direct payments received via wire transfer will be properly documented and filed all for deposits.

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

Proposed Completion Date: June 2020

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Unresolved Prior Year Comments
Year Ended September 30, 2017

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