

NGARCHELONG 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 Richard Ngiratang
Governor
Ngarchelong 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 Ngarchelong State (the State), a State Government 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 February 10, 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 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 through 2016-03 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 Standard* and is described in the accompanying Schedule of Findings and Responses as Finding 2016-01.

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 Magliari". The signature is written in a cursive, flowing style.

February 10, 2021

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-01
Area: Procurement

Criteria:

In accordance with RPPL 3-54, procurement regulations § 625 for small purchases require:

- (a) any purchase not exceeding \$10,000 may be made in accordance with the small purchase procedures established by regulation promulgated by the Minister of Finance. Procurement requirements shall not be artificially divided as to constitute a small purchase;
- (b) formal bidding is not required but is encourage for all items not exceeding \$10,000. Except that the competitive bidding procedure shall be required on any items sought by the State Governments greater or equal to \$5,000;
- (c) price quotations should be obtained for small purchases;
- (d) for small purchased over \$2,000, and for the purchase of event hosting services over \$5,000;
- (e) shall be subject to competitive bidding. In addition, 40 PNCA § 626 (a) states, in part, when the Procurement Officer determines in a substantiated writing that the use of competitive sealed bidding is either not practical or not advantageous to the government, contracts may be awarded by competitive negotiation, in other words, requests for proposal; and
- (f) Further, § 626 (h) states: Awards shall be made to the responsible offerer whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals. The contract file shall contain a detailed description of the findings and the basis on which the award is made.

Condition:

Of the one hundred eleven (111) disbursement tested, noted that the State did not adhere to procurements for small purchases and competitive bidding. The following was were noted:

- Payments were made to two separate vendors in the amount of \$19,500 and \$27,073 or \$46,573 in total for concrete cement mix and there was no evidence of compliance with competitive bidding and appears that the procurement were artificially divided to constitute small purchases as follows:

Item #	Check Date	Check #	APV #	Check	
				Amount	Description
1	08/23/16	3555	16D0706	\$ 7,440.00	Ready mix cement
2	08/25/16	3650	16D0708	6,510.00	Ready mix cement
3	09/08/16	3808	16D0748	5,600.00	Ready mix cement
				<u>\$ 19,550.00</u>	

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Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-01, continued
Area: Procurement

Criteria: (continued)

Item #	Check Date	Check #	APV #	Check	
				Amount	Description
1	07/15/16	9039	16D0604	\$ 9,487.00	Ready mix cement
2	07/15/16	9040	16D0605	6,320.00	Ready mix cement
3	08/01/16	9071	16D0636	5,056.00	Ready mix cement
4	09/21/16	9225	16D0789	6,160.00	Construction materials
				<u>\$ 27,023.00</u>	

In addition, we noted the following:

- Two quotation were obtained for the purchase of vehicle in the amount of \$4,500 with check #21931 dated 5/24/16; however, the lowest quotation of \$3,850 was selected. There was no written documentation on file justifying why the higher price quotation was chosen.
- For seven disbursements, travel claim vouchers we noted the following:

Item #	Date	Check #	TA #	Check	
				Amount	Description
1	11/30/2015	21555	TA16D020	\$ 2,000.00	Travel Claim Voucher not dated
2	01/28/2016	21667	TA16D030	800.00	Travel Claim Voucher not dated
3	03/14/2016	21764	TA16D033	100.00	Travel Claim Voucher not submitted or attached to APV
4	06/20/2016	21990	TA16D035	400.00	Travel Claim Voucher not submitted or attached to APV
5	08/05/2016	9102	TA16D039-044	6,383.08	Travel Claim Voucher not attached to APV
6	09/29/2016	9236	TA16D046	800.00	Travel Claim Voucher not dated
7	09/29/2016	9237	TA16D047	800.00	Travel Claim Voucher not dated
				<u>\$ 11,283.08</u>	

- Billings were not attached for the payment of cell phone services for the following:

Item #	Date	Check #	Amount
1	12/16/2015	21570	151.10
2	01/18/2016	21637	160.20
3	08/15/2016	9126	170.82

Cause:

There is a lack of internal control over the disbursements and compliance with procurement regulations.

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Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-01, continued
Area: Procurement

Effect:

The State is not in compliance with procurement regulations and the potential exists for fraud, theft and misappropriation to occur and not be detected in timely manner.

Recommendation:

We recommend that the State comply with existing procurement regulations and travel claim policies and procedures and consider creating a checklist to be used as a guide to ensure compliance requirements are met and properly documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Skaruno April or Bheng Mendoza

Correction Action Taken: We understand the concern as stated in the finding under this area and more specifically, the payments made to Hawaiian Belau Rock to purchase the ready-mix concrete for our Todai Road Project. We have similar cases in the past which audits indicated and we have tried to carefully and strictly follow the audit recommendations and through various training conducted the office we have come to better understanding of the procurement law and regulations provided by the Minister of Finance. However, on this particular undertaking, we did as from two companies namely, Surangel & Sons and Hawaiian Belau Rock but Surangel & Sons told us at the time that they had no ready-mix concrete and will would be able to assist us. We then asked the latter company and they would provide us the ready-mix concrete so we sent them a pro-forma invoice and finally arranged for delivery the job site. It is our understanding now that the requirement under the procurement regulations state that we had to ask Surangel & Sons Company to give us a note saying that they could not provide the materials. Actually, there was only a sole provider of these materials we needed here in Palau at the time. The same situation may still be true today. We have started to comply and will continue doing so in the coming years.

With regard to travel vouchers, once a trip report is submitted to the State Treasurer, the Treasurer will certify all travel documents including the travel voucher and date all his signatures. The State has established a travel policy but it has deficiencies and we will recommend for a more comprehensive policy to fully comply with National travel requirements. We agree to create a checklist to be used to ensure that compliance requirements are met.

We acknowledge that billings were not attached for payments of cell phone services. The State does not have an internal control policy on these so the oversight is part of it and the lack of policy to follow is also part of our failure. We have caught up and are now in compliance.

Proposed Completion Date: February 2, 2021

NGARCHELONG STATE GOVERNMENT
Republic of Palau

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-02
Area: Payroll

Criteria:

A sound system of internal control over the payroll process should include various functions such as inputting data in the system, accessing the general ledger, handling physical files, authorization of reporting time, and distributing payment checks. To the extent possible, different individuals should perform these duties, which will help to reduce the risk of too much control in one hand. In small entities where there are fewer employees, at least one separate person should be appointed to review and authorize the payroll.

Condition:

Of the twenty payroll disbursements tested, we noted that 19 or 95% lacked documentation for approved pay rates, evidence that employee timesheets were independently reviewed and approved by an immediate supervisor and lacked evidence to indicate that the employee signed for and received their payroll check for the following:

<u>Item #</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Personnel Action Form (PAF) Missing or Incomplete</u>
1	11/27/2015	21541	\$ 239.40	No PAF on-file for current pay rate.
2	02/17/2016	21706	641.25	
3	02/19/2016	21714	213.75	
4	03/01/2016	21737	641.25	
5	03/04/2016	21744	102.60	PAF dated 12/15/13 for bi-weekly gross pay of \$220. Employee paid \$120 for 40 hrs.
6	03/18/2016	21772	641.25	
7	03/18/2016	21785	85.50	No PAF on-file for current pay rate.
8	04/29/2016	21883	641.25	
9	05/13/2016	21903	102.60	PAF dated 12/15/13 for bi-weekly gross pay of \$220. Employee paid \$120 for 40 hrs.
10	05/17/2016	21915	616.25	
11	05/27/2016	21941	102.60	PAF dated 12/15/13 for bi-weekly gross pay of \$220. Employee paid \$120 for 40 hrs.
12	06/30/2016	9014	616.25	
13	07/08/2016	9025	222.30	PAF on-file but not dated.
14	08/05/2016	9092	249.66	
15	08/05/2016	9098	222.30	
16	08/19/2016	9135	299.25	
17	08/19/2016	9136	222.30	PAF on-file but not dated.
18	09/02/2016	9166	222.30	No PAF on-file for current pay rate.
19	09/16/2016	9211	222.30	No PAF on-file for current pay rate.
			<u>\$ 6,304.36</u>	

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Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-02, continued
Area: Payroll

Cause:

There is a lack of internal control over the payroll process.

Effect:

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

Recommendation:

We recommend that the State adhere or establish internal control policies and procedures over the payroll process to ensure that personnel action forms are properly completed and documented, employee timesheets are independently reviewed, signed and dated by the appropriate level of management prior to payroll processing. Employees should sign and date a payroll distribution listing to evidence receipt of check.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Skaruno April or Bheng Mendoza

Correction Action Taken: This is one of weaknesses of our Treasury staff not regularly reviewing and making sure that personnel files are updated and contain all necessary employee information. We will review our personnel records to ensure that they contain the appropriate employment records to include where appropriate:

1. Employment application;
2. Personnel Action Form;
3. Performance evaluation and disciplinary action documents;
4. Documentation pertaining to accumulation of annual/sick leave;
5. Documentation of any pay increases or decreases;
6. Other pertinent employment documents; and
7. Employees sign and date a payroll distribution listing to acknowledge receipt.

Proposed Completion Date: February 2, 2021

NGARCHELONG STATE GOVERNMENT
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Unresolved Prior Year Comments
Year Ended September 30, 2016

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