

**NGATPANG STATE GOVERNMENT**  
**(A State of the Republic of Palau)**

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**Independent Auditors' Report on**  
**Internal Control and on Compliance**

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**Year Ended September 30, 2016**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF STATEMENT OF RECEIPTS AND DISBURSEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Francesca R. Otong  
Governor  
Ngatpang 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 Ngatpang 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 April 15, 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.

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 State's statement of receipts and disbursements 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 Findings 2016-01 and 2016-04 to be material weaknesses.

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 accompany Schedule of Findings and Responses as Findings 2016-02 and 2016-03 to be significant deficiencies.

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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 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 Findings 2016-01 and 2016-02.

## **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 style with a large initial 'B'.

April 15, 2020

**NGATPANG STATE GOVERNMENT**  
**(A State of the Republic of Palau)**

Schedule of Findings and Responses  
Year Ended September 30, 2016

**Finding: 2016-01**  
**Area: Procurement**

Criteria:

In accordance with 40 PNCA § 625 (b) requires that any purchase by the State Government greater or equal to \$5,000 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. 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. Further, when procuring supplies, materials and equipment off-island, a cost analysis should be conducted to compare local versus off-island procurements for proper justification.

Condition:

For two (2) of the 7 or 33% of disbursements greater than or equal to \$5,000 tested, the following was noted:

1. A 2004 Isuzu truck was purchased on-line from an off-island vendor via Bank of Guam on 10/08/15 with check #2706 for \$13,000 prior to formal bidding. The State issued RFP - NSG 2015-0912/04 on 12/18/15 with an Opening Bid date of 12/21/15. RFP announcement was on file but there was no documentation to evidence it was posted. A cost analysis was not conducted to justify the off-island procurement.
2. A 2003 Ranger Dumper 3.75-ton service truck was purchased from a local vendor on 12/4/15 with check #2737 for \$26,000 prior to the RFP announcement and formal bidding. A purchase requisition for the truck was obtained from the vendor with justification that the cost was cheaper; however, another vendor submitted a quotation of \$8,595. There was no documentation justifying why the higher price quotation was selected.
3. A 2003 Isuzu truck was purchased on-line from off-island vendor via Bank of Guam on 10/08/15 with check #2820 for \$5,100; however, there was no there was evidence that at least three quotation were obtained on that the vehicle was received. A cost analysis was not conducted to justify the off-island procurement.
4. A used Nissan Atlas 15,000-gallon service truck was purchased was locally purchased on 10/26/15 with check #2828 for \$8,145; however, there was no there was evidence that at least three quotation were obtained or justification of a sole source purchase and there was evidence that the vehicle was received.

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

**Finding: 2016-01, continued**  
**Area: Procurement**

Cause:

The State failed to adhere to the Republic Palau's procurement regulations. There is a lack of internal control over the State's procurement practices to ensure that it adheres to the Republic of Palau's procurement regulations.

Effect:

The State is noncompliance with established procurement regulations.

Recommendation:

The Governor should adhere to the policies and procedures of Republic of Palau's Procurement Law and Regulations when conducting procurements requiring competitive bidding. Internal control monitoring procedures should be established to ensure that procurement regulations are followed consistently. Procurement officers and other personnel involved in the procurement process should be develop and use a checklist to ensure that all procurement regulations are followed consistently and properly documented.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** We attached other documents from Procurement filling and please note the following:

1. Check #2706 – It was announced reference: NSGji 15-075 dated September 15, 2015 and was filed at Admin Office/Procurement Office in a file cabinet. However, the procurement was voided due to vendor's wrong information referenced as GL No. CDJ-FY16-01.
2. Check #2737 – Bid Evaluation form was filed at Admin Office/Procurement Office file cabinet. After the audit, we will make sure all necessary documents will be attached together not filed separately.
3. Check #2820 – The procurement was void due to vendor's wrong information referenced as GL #CDJ-FY2016-03.

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

**Finding: 2016-01, continued  
Area: Procurement**

Auditee Response and Corrective Action Plan: (continued)

4. Check #2828 – Bidding Participation Form was attached: 1) IR Motors, 2) Surangel & Son's Co., and 3) WCTC Ace Hardware. Vehicle was received referenced as invoice #3782 dated 10/27/2016.

**Proposed Completion Date:** April 15, 2020

Auditors' Response:

The requested procurement documentation was not made available during the time of our inspection and course the of our audit.

**NGATPANG STATE GOVERNMENT**  
**(A State of the Republic of Palau)**

Schedule of Findings and Responses  
Year Ended September 30, 2016

**Finding No.: 2016-02**

**Area: Procurement**

Criteria:

The State should maintain a procurement policy and procedures manual to govern its procurement activities to provide a framework outlining the procurement laws, policies, practices, procedures and the sourcing, evaluation, award approval and contract management. The procurement policy and procedures manual should also set forth the State's control objectives and activities.

In accordance with 40 PNCA § 625, small purchases under five thousand dollars (\$5,000) but over two thousand five hundred dollars (\$2,500) may be made after obtaining two (2) written price quotations, with the exception that for event hosting services, only one (1) price quotation may be required, provided that reasonable justification exists. A written documentation of the quote(s), the vendor(s) submitting the quote(s), and the basis for selection shall be maintained in the purchase order file. Small purchases under two thousand five hundred dollars (\$2,500) may be made after receiving one (1) written price quotation. A record of the accepted price quotation shall be maintained in the purchase order file.

Condition:

For two (2) of 56 or 4% of cash disbursement tested, price quotations were not obtained or properly documented for the following:

1. Check #3266 dated 9/20/16 in the amount of \$1,441.85 for labor cost for the completion of Phase I – Youth Center and Library extension.
2. Check #3287 dated 9/30/16 in the amount of \$1,441.85 for labor cost for the completion of Phase I – Youth Center and Library extension.

Cause:

The State failed to adhere to the Republic Palau's procurement regulations. There is a lack of internal control over the State's procurement practices to ensure that it adheres to the Republic of Palau's procurement regulations.

Effect:

The State is noncompliance with established procurement regulations.

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

**Finding No.: 2016-02, continued**  
**Area: Procurement Policy and Procedures**

Recommendation:

The Governor should adhere to the policies and procedures of Republic of Palau's Procurement Law and Regulations when conducting procurements requiring competitive bidding. Internal control monitoring procedures should be established to ensure that procurement regulations are followed consistently. Procurement officers and other personnel involved in the procurement process should develop and use a checklist to ensure that all procurement regulations are followed consistently and properly documented. All price quotes solicited from vendors should be documented.

The State should consider developing a checklist to describe the systematic manner of obtaining and filing of the retention of all required procurement documentation and institute a sign-off signature on the control form signifying the completeness of the procurement file.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** Attached other documents from Procurement filling and please note the following:

1. Check#3266- Phone Quote with the justification was attached.
2. Check#3287- Phone Quote with the justification was attached.

**Proposed Completion Date:** April 15, 2020

Auditors' Response:

The requested procurement documentation was not available during the time of our inspection or made available during the course the of our audit.



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

**Finding No.: 2016-03**

**Area: Travel Authorizations/Travel Voucher**

Criteria:

Pursuant to the State's travel policies and procedures manual in summary; travel authorizations should be properly authorized and approved; travel vouchers are properly supported (such are approved original travel authorization, ticket stubs, and boarding passes, all items requiring receipts, written statement explaining lost of receipts, if any, and a trip report as may be required), accurate, complete and timely submitted that is within 30 days after the completion of official travel. Furthermore, an Application and Account for Advance of Funds must be signed by the traveler before an advance is granted, thus, if required submission not complied in 30 days, collection of the amount advance will be made through payroll deduction.

Condition:

For two (2) or 40% of the 5 travel authorizations selected for testing, Travel Authorization Forms and Trip Reports were not prepared or properly documented for the following:

<u>Check date</u>	<u>Check #</u>	<u>Amount</u>	<u>Destination</u>
03/11/2016	2996	\$ 923.78	Manila, PI
06/09/2016	3090	794.66	Manila, PI
		<u>\$1,718.44</u>	

Cause:

There is a lack of internal control over the monitoring of the State's travel policies. The State did not ensure that travel policies are consistently adhered.

Effect:

The State is not in compliance with its travel policies. Fraud and abuse might exist and not be detected in timely manner.

Recommendation:

The State should enforce compliance with its existing policies and procedures and ensure adherence and consistent application.

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Schedule of Findings and Responses  
Year Ended September 30, 2016

**Finding No.: 2016-03, continued**

**Area: Travel Authorizations/Travel Voucher**

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** Attached other documents from Procurement filling and please note the following:

1. Check #2996 – Attached travel voucher.
  - a.) Mnl-Ilo-Mnl airline ticket for \$100 and airline ticket #0792167176488 for ₱5096.00.
  - b.) Travel tax ROP-Mnl – Green fee receipt.
  - c.) Travel tax Manila- airline ticket #0792167176488 for ₱827.00.
  - d.) FY2016-06-Trip report by: Uchel Tmetuchl with complete receipt of expenses.
  
2. Check #3090 – Attached travel voucher
  - a.) Ticket Rop-Mnl-ROP: check#3090 with United Airlines.
  - b.) Hotel accommodation expense-check#3094 and #3095 for Neco Marine Dive Shop arrangements.
  - c.) Travel tax expense – check #3114, attached Green fee receipts.
  - d.) Transportation expense – check #3132 to Elin Rebluud that was authorized.
  - e.) Travel report was attached with United Airlines check #3090.

**Proposed Completion Date:** April 15, 2020

Auditors' Response:

The requested travel documentation was not available during the time of our inspection or made available during the course the of our audit.

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

**Finding No.: 2016-04**

**Area: Untimely Deposits**

Criteria:

A system of internal on 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.

Condition:

For sixteen (16) or 34% of the 47 cash receipt travel authorizations selected for testing, cash receipts totaling \$125,343.99 were not deposited in a timely as follows:

Item #	Invoice or Receipt Date	Official Receipt #	Amount Received	BANK DEPOSIT		Days Lapsed
				DATE	Revenue Source	
1	11/25/15	10524	\$ 11,071.71	12/01/2015	Fishing Rights Fees	8 days
2	01/15/16	10555	10.00	1/28/2016	Local Revenues	18 days
3	01/22/16	10560	10.00	1/28/2016	Local Revenues	12 days
4	02/15/16	10577	2,500.00	2/19/2016	Local Revenues	4 days
5	02/15/16	10578	1,000.00	2/19/2016	Local Revenues	4 days
6	02/15/16	10579	1,000.00	2/19/2016	Local Revenues	4 days
7	03/04/16	10598	1,000.00	3/29/2016	Local Revenues	13 days
8	03/14/16	10613	9,590.80	3/29/2016	Fishing Rights Fees	15 days
9	04/05/16	10625	6,000.00	4/19/2016	AQUA Rental Fee	14 days
10	06/10/16	10684	2,000.00	6/30/2016	Local Revenues	20 days
11	06/23/16	10704	45,689.20	6/30/2016	Local Revenues	7 days
12	06/23/16	10703	25,462.28	6/30/2016	Fishing Rights Fees	7 days
13	08/02/16	10735	1,000.00	8/19/2016	Fish Stock Fee	17 days
14	08/09/16	10741	18,000.00	8/19/2016	ROP Block Grant	17 days
15	09/01/16	10758	1,000.00	9/9/2016	Fish Stock Fee	8 days
16	09/19/16	10775	10.00	9/27/2016	Local Revenues	8 days
			<u>\$ 125,343.99</u>			

Cause:

There is a lack of internal control policies and procedures over cash receipts to ensure that cash receipts are deposited in a timely manner.

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

**Finding No.: 2016-04, continued**  
**Area: Untimely Deposits**

Effect:

The potential for fraud, theft and misappropriation exist and not be detected in timely manner.

Recommendation:

The State should establish internal control policies and procedures to ensure that cash receipts are deposited in a timely and monitored for adherence with such procedures.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Francesca R. Otong

**Correction Action Taken:** Sometimes we receive checks post-dated from Ngerdubech and National Government. After the audit of FY 2016, our auditors informed us that all monies received should be deposited within 3 business days. We have started making deposits every Wednesday and Friday.

**Proposed Completion Date:** April 15, 2020

**NGATPANG STATE GOVERNMENT**  
**Republic of Palau**

Unresolved Prior Year Comments  
Year Ended September 30, 2016

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