

NIGWAL 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 Ellender Ngirameketii
Governor
Ngiwal 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 Ngiwal 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 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.

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 item 2016-01 that we consider to be a material weakness.

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.



Tamuning, Guam
June 15, 2020

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

Finding: 2016-01
Area: Procurement

Criteria:

The Republic of Palau Procurement Law and Regulations, 40 PNCA, provides:

- §614 Competitive sealed bidding and/or § 626 Competitive negotiated contracts to ensure fairness in awarding contracts and to maximize the purchasing value of public funds.
- §625 (b) requires that any purchase by State Government greater or equal to \$5000 shall be subject to competitive bidding and
- §625 (c) that three price quotations shall be required for procurements under \$5,000.

Condition:

The State maintains an open account with the gas station for the purchase of Petroleum, Oil and Lubricants (POL). We noted that the State did not conduct competitive bidding or solicitation or obtain three price quotations to provide such services. The State represented that a vendor made an on-site solicitation and it was accepted. The amount expended for POL expenditures in fiscal year 2016 totaled \$12,803.85 and the amounts included in our sample and tested are as follows:

<u>Item #</u>	<u>Date</u>	<u>Check no.</u>	<u>Amount</u>
1	11/30/2015	7425	\$ 1,680.51
2	12/18/2015	7468	45.00
3	05/02/2016	7950	1,679.56
4	05/02/2016	7950	1,679.56
			<u>\$ 5,084.63</u>

In addition, the State did not obtain three quotations for the following small purchases:

<u>Item #</u>	<u>Date</u>	<u>Check no.</u>	<u>Amount</u>
1	12/23/2015	7498	\$ 649.99
2	02/10/2016	7638	2,796.41
3	03/08/2016	7720	3,799.34
4	03/10/2016	7725	31.95
5	04/04/2016	7836	4,395.00
6	04/29/2016	7944	2,306.13
7	06/24/2016	8190	77.00
8	08/24/2016	14199	1,000.00
9	08/24/2016	14202	1,499.95
10	09/09/2016	14274	628.64
			<u>\$ 17,184.41</u>

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Schedule of Findings and Responses
Year Ended September 30, 2016

Finding: 2016-01, continued
Area: Procurement

Cause:

There is a lack of internal control policies and procedures over the adherence of procurement law and regulations.

Effect:

The State is in noncompliance with the Procurement Law.

Recommendation:

We recommend that the State establish internal control policies and procedures to ensure that it adheres to the Procurement Law.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Governor Ellender Ngirameketii

Correction Action Taken:

In 2016 to 2017, this administration just continued the existing credit facility in the Gas station. During December 2018, the State's existing supplier closed its business. In order to continue the credit line facility, the we obtained verbal and on-site solicitations from three other Gas stations. Among the three solicitations, Belechel Gas Station was chosen because it offered the cheapest price and had an organized billing process. Effective December 2, 2018, the State developed and implemented a Purchase Requisition Slip (PRS) that details the type of service or goods requested for purchase and for what purpose, vehicle license plate number, gas station signature and the Governor's approval. The State is currently practicing this procedure for the procurement of POL and implemented the following procedures:

1. The State maintains a PRS logbook which is kept by the State Treasurer.
2. The PRS are pre-numbered and are initialed by the State Treasurer.
3. The PRS must be filled up by the State authorized personnel and must include the name of the requester, license plate number, and purpose for what the fuel is to be used for in order to identify and charge the proper general ledger account. The Governor approves all PRS along with the number of gallons to be purchased. Please note that the Gas Station will not honor any PRS not signed/approved by the Governor.

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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:

Correction Action Taken: (continued)

4. Upon completion of the approved PRS, the State Treasurer records all relevant information into the PRS Logbook in numeric order.
5. At the end of each month, Gas Station will send a Statement of Account along with all invoices supported by the approved PRS. Prior to payment, the State Accountant will review and validate the invoices and compare them to each PRS and reconcile such information to the PRS Logbook to ensure that no alteration has been made.
6. Upon payment, the Gas Station will issue an official receipt. In sample documents tested, we adhere to three price quotations; however, in small other purchases only one quotation was obtained due to some limited vendor and lack of availability of the items. Sample tested documents are and will be kept intact at the Ngiwal State office for further review.

Proposed Completion Date: June 15, 2020

Auditor's Response:

The State should obtain and attach copies all solicitations to the purchase requisition form to properly document its adherence to the Procurement Law. Verbal solicitations should be documented indicating vendor name, date solicited, contact person and price quote provided; and the such documentation should be signed and dated to further evidence the State's adherence to the Republic of Palau Procurement Laws and Regulations.

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Unresolved Prior Year Comments
Year Ended September 30, 2016

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