

**NGIWAL 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, 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 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, 2017, 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 2017-01 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 2017-01.

## **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, 2017

**Finding: 2017-01**  
**Area: Procurement**

Criteria:

The Republic of Palau (ROP) 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.

In addition, 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.

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 amount expended for POL expenditures in fiscal year 2017 totaled \$11,879.04 and of the amounts tested, there was no supporting documentation for the following:

<u>DATE</u>	<u>Check #</u>	<u>Purpose</u>	<u>Amount</u>	<u>Discrepancy</u>
09/02/2016	11430	POL for June, 2017	\$ 1,314.72	No purchase requestion form and fuel receipts
08/04/2016	11393	POL for October, 2016	2,380.92	No purchase requestion form and fuel receipts
			<u>\$ 3,695.64</u>	

Cause:

There is a lack of internal control policies and procedures over the adherence of procurement law and regulations. Additionally, there is a lack of internal policies and procedures over POL requisition process to ensure that authorized purchased are for official use, properly approved and accounted for.

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Schedule of Findings and Responses  
Year Ended September 30, 2017

**Finding: 2017-01, continued**

**Area: Procurement**

Effect:

The State is in noncompliance with the Procurement Law.

Prior Year Status:

Lack of internal controls over procurement was cited as a finding in the audit of the State for fiscal year 2016.

Recommendation:

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

We also recommend that the State establish internal control policies and procedures over its POL acquisition process to ensure that such expenditures incurred are duly authorized and approved, for official use and properly documented and accounted for.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Governor Ellender Ngirameketii

**Correction Action Taken:** The State agrees with this finding to adhere to the Procurement Law. As mentioned in the Finding 2016-01 regarding the competitive bidding or solicitation, the State only obtained verbal and on-site inquiries from three (3) gas station vendors regarding their procedures and services in providing customer credit.

The State's plan of action to procure POL on a competitive bidding basis in the future is to follow and implement the ROP Procurement Law and Regulations, the competitive sealed bidding and/or competitive negotiated contract through Request for Proposal (RFP), publish in the newspaper, radio announcement, posting on the Bulletin Board in the National and State government offices.

For the abovementioned items tested, the supporting documents such as Purchase Requisition Slip (PRS) was duly signed and approved by the Governor, invoices were matched to the PRS, the vendor statement of account and official receipt were attached to the payment.

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

**Finding: 2017-01, continued**  
**Area: Procurement**

Auditee Response and Corrective Action Plan, continued:

**Correction Action Taken: (continued)**

The State is currently practicing the following procedures for its POL procurements:

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.
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 vendor 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 vendor will issue an official receipt.

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

Auditor's Response:

The State was not able to provide the supporting documentation for abovementioned expenditures tested during our audit or at the completion of our audit fieldwork. Such documentation should be properly filed in systematic manner for timely retrieval and inspection.

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, 2017

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