

OFFICE OF THE PUBLIC AUDITOR
Republic of Palau

CALENDAR YEAR 2007 ANNUAL REPORT



Message from Acting Public Auditor

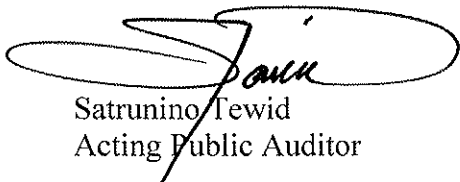
Fiscal Accountability and transparency builds public trust and confidence in our government. Public servants strive to provide services to the public and taxpayers demand that costs of such services be accounted for and reported. At the Office of the Public Auditor (OPA), we are committed to conducting audits, reviews, and evaluations to provide our citizens with accurate and objective information about how our government is run.

As the accountability profession has progressively evolved over the years, the OPA has to keep up with the changes in standards and technology to advance the skills of its staff. We do so by attending regional, cross-regional, and state-side (U.S.) training and seminars sponsored by professional audit organizations. The OPA is thankful to the U.S. Department of the Interior for providing training grants to the OPA and to the Office of the Inspector General of the U.S. Department of the Interior for availing its regional offices in the U.S. to provide on-the-job training for OPA staff auditors.

The quality of the work and independence of the OPA is of paramount importance to instill the trust and confidence of the public and governmental organizations that we audit. To ensure and maintain the quality of audits, the OPA undergoes an External Quality Control Review (Peer Review) every three (3) years. The training and Peer Review prepares the OPA to focus on its mission to conduct audits in an accurate, fair, impartial and objective manner and provide management with recommendations for improvement.

Accountability in government affects those charged with the responsibility of delivering services to the public and citizens (services recipients) whose tax dollars fund government operations. To that end, the OPA strives to conduct audits the product of which is a timely and accurate audit report that management can act upon to improve delivery of services. The success of our collective efforts to promote accountability and public trust hinges on our ability to work together.

We at the OPA will continue to report fraud, waste, abuse and public corruption. We will also work equally hard at building the trust of the people we serve by working with management officials to affect improvement in government operations while maintaining the highest standards of independence, integrity and professionalism.



Satrunino Tewid
Acting Public Auditor

January 11, 2008

Introduction

The Office of the Public Auditor (OPA) is established pursuant to Article XII, Section 2 of the Constitution of the Republic of Palau and the Public Auditing Act of 1985. The first Public Auditor, Thomas Bostwick, was appointed on or about November 1985 and resigned before serving his full six-year term. On October 15, 1990, Mr. James Kinchen was appointed as the second Public Auditor and served his full six-year term ending October 14, 1996. Mr. Saturnino Tewid, a Senior Auditor with the OPA then, was designated Acting Public Auditor until November 14, 1999 when Mr. Tewid was appointed Public Auditor. Mr. Tewid served as the Public Auditor until the end of his six-year term on November 17, 2005. Mr. Tewid was appointed Acting Public Auditor by the Chief Justice of the Palau Supreme Court pending the appointment of a Public Auditor.

Since 1998, the OPA has provided oversight of over 100 financial statement audits performed by Independent Certified Public Accounting firms, conducted and issued 36 performance audits, and 9 financial statement audits.

Mission Statement

The mission of the Office of the Public Auditor (OPA) is to conduct audits to institutionalize economy, efficiency, accountability, and transparency in government operations, programs, activities, and functions.

The OPA endeavors to fulfill this mission by providing management with tools (audit reports) to improve operations. This is accomplished by conducting audits in an objective, impartial and unbiased manner and providing management with findings and recommendations for improvement. The quality of audits the OPA performs is guided by Generally Accepted Government Auditing Standards (GAGAS) promulgated by the United States Government Accountability Office. In accordance with the Standards, the OPA undergoes an External Quality Control Review every three years to ensure the OPA is conducting its audits in accordance with GAGAS.

Personnel

At present, the Office of the Public Auditor's personnel is comprised of an Acting Public Auditor, 3 Senior Auditors, 1 Semi-Senior Auditor, 2 Junior Auditors, 1 Investigator, and 2 Administrative support staff. Since 1995, the OPA has experienced only three (3) turnovers of staff involving three auditors; one leaving to take a position as a Chief Financial Officer for a semi-autonomous government agency, another as Director of Finance for a State Government, and an Audit Manager who was terminated for insubordination and conduct contrary to Government Auditing Standards and her contract. In addition, due to funding constraints, the OPA has not hired additional auditors, which is essential in order to achieve its mandate, but hired two (2) Junior Auditors to replace the two who left. At present, the OPA is in desperate need to hire an Audit Manager whose responsibilities include reviewing the work of staff auditors, drafting audit reports, training, and other duties as assigned by the Public Auditor.



Acting Public Auditor and Staff

Budget

In terms of operating budget, the Office of the Public Auditor has been funded by the Olbiil Era Kelulau (Palau National Congress) at levels shown below since fiscal year 2000:

FY2000	\$344,000
FY2001	\$350,000
FY2002	\$320,000
FY2003	\$320,000
FY2004	\$320,000
FY2005	\$315,000
FY2006	\$350,000
FY2007	\$375,000

External Quality Control Review

In accordance with Generally Accepted Government Auditing Standards (GAGAS), the OPA undergoes an External Quality Control Review (Peer Review) every three (3) years. The first Peer Review was conducted in February 1998, which the OPA received a Qualified Opinion report, but otherwise in compliance with GAGAS. The second Peer Review was conducted in October 2002. The OPA received an opinion report which states that the office was conducting its audits in accordance with GAGAS. The most recent Peer Review was conducted in July 2005 and, again, the OPA received an opinion report stating that it was in compliance with GAGAS. Please refer to Appendix I for illustration of said report. In all of these Peer Reviews, copies of the reports were provided to the President of the Republic, the President of the Senate (Olbiil Era Kelulau, Palau National Congress), and the Speaker of the House of Delegates. The next round of Peer Review is scheduled for July 2008.

Training

In accordance with Generally Accepted Government Auditing Standards, auditors who perform government audits must comply with Continuing Professional Education (CPE) requirements. GAGAS require a minimum of 80 hours of CPE every two (2) years, 20 hours of which must be acquired in any one year. The OPA audit staff acquires most of its CPE through the Association of Pacific Islands Public Auditors (APIPA) annual conferences, Pacific Islands Training Institute (PITI), and training grants from the U.S. Department of the Interior. In 2007, the APIPA conference was hosted by the Territorial Auditor of the U.S. Territory of American Samoa. Because of the cost, the OPA was able to afford sending only three auditors to the conference. The next annual (2008) APIPA conference/training will be hosted by the CNMI Public Auditor's office. In addition, the OPA also obtains CPE via the South Pacific Association of Supreme Audit Institutions (SPASAI) and other regional conferences sponsored by regional audit and accounting professional bodies.



16th Annual APIPA Conference, hosted by OPA Palau in 2005



PITI sponsored training, Palau, March 2007

U.S. Chargé Bezner awarded certificates to training participants from Tax Office, Social Security and OPA

Anti-Corruption Action plan

In June of 2004, the Republic of Palau became an endorsing member to the Asian Development Bank (ADB)/Organization for Economic Cooperation and Development (OECD)-sponsored Initiative on Anti-Corruption Action Plan for Asia and the Pacific. In 2007, the OPA sent a representative to a meeting in Bali, Indonesia. As an endorsing member, the Palau OPA prepares and submits stocktaking reports identifying the measures (Pillars) taken to combat corruption. The ADB/OECD follows up on these stocktaking reports and, during meetings, representatives of the respective endorsing member countries report progress of implementation of anti-corruption measures.



**ADB/OECD Anti-Corruption Initiative for Asia and the Pacific
6th Steering Group Meeting Vietnam, April 2005**

OPA Senior Staff, Jowas Wasisang and Adair Sumang attended the above Meeting.

Pacific Regional Audit Initiative (PRAI)

Under the overall coordination of the Pacific Island Forum Secretariat, with support from the Asian Development Bank (ADB) and Australian Agency for International Development (AusAID), the Pacific Regional Audit Initiative is being developed with overarching objective of raising Pacific public auditing to uniformly high standards. In turn, uniformly high public auditing standards are expected to contribute to good governance through improved transparency, accountability, and efficiency in managing and using public resources. The major counterpart in this initiative is the 23-member South Pacific Association of Supreme Audit Institutions (SPASAI). The initiative involves each Public Auditor's or Auditor General's office of the SPASAI to undergo diagnostic assessment by a team of consultants to assess the structure, audits, standards used, and overall operation of the office. In August of 2007, the consultants visited Palau to conduct their assessment of the Palau Public Auditor's Office.

Annual Meeting with Inspector General

The Association of Pacific Islands Public Auditors holds annual meetings with the Office of the Inspector General of the U.S. Department of the Interior to discuss the work of the Public Auditors Offices, to coordinate the efforts of our offices, identify and discuss areas where each audit office needs improvement or strengthening, and training, among other capacity-building mechanisms. In early December of 2007, the Public Auditors met with the Inspector General in Honolulu, Hawaii for the fifth annual meeting.



Acting Public Auditor and Staff, Kazuo Uraizi and Jowas Wasising, attended the Annual Meeting with OIG in Honolulu, December 2007

Audit Reports Issued by Independent CPA firms in Fiscal Year 2007

The Office of the Public Auditor, via Compact of Free Association between the Republic of Palau and the United States of America, receives annual grants from the U.S. Department of the Interior to conduct Single Audits of the National Government and its Component Units and other agencies. The OPA out-sources these financial statement audits to Independent Certified Public Accounting Firms but still maintain its oversight responsibilities over the conduct of the audits. Please refer to Appendix II for listing of financial statement audits issued in fiscal year 2007. At the time of drafting of this report, all the required single audits of the National Government and its Component Units and agencies for fiscal year 2007 are either ongoing or underway and should be completed by June 30, 2008.

Performance Audits Issued by the Office of the Public Auditor in 2006 and 2007

The outsourcing of the required financial statement audits of the National Government and component units to CPA firms frees the Office of the Public Auditor to conduct Performance Audits (Economy and Efficiency, Program effectiveness and Results audits, and Compliance audits). During calendar year 2006 and 2007, the OPA completed and issued the following Performance Audits:

<u>Agency</u>	<u>No. of Findings</u>
Melekeok State Government	12
Ngatpang State Government	7
Division of Revenue and Taxation	8
Ngiwal State Government	7
Public Utilities Corporation	8
Koror State Public Lands Authority	15
Division of Labor and Job Placement	14
Bureau of Marine Resource	4
Sonsorol State Government	10

Synopsis of Audits Issued by Office of the Public Auditor

Melekeok State Government

The audit of Melekeok State covered the period from October 1, 1999 through September 30, 2005. The audit report contained a total of 12 Findings, including \$416,937.44 of Questioned Costs. The breakdown of Questioned is as follows:

Unsupported payments to State Employee	\$ 48,903.50
Unsupported payments of Contingency Funds to State Officials	98,750.81
Expenditures without supporting documents	42,515.32
Withdrawals from Savings Account without supporting Documents	<u>226,767.81</u>
Total	<u>\$ 416,937.44</u>

Majority of the findings contained in the report concerned expenditure of State funds without proper supporting documents (Questioned Costs). As shown above, some of these expenditures involved payments of funds to a State employee and officials without supporting documents to justify their official purpose. In addition, the Questioned Costs included withdrawals of funds from the State's savings account without supporting documents (deposit slips) to show that the money was deposited to other State bank account(s). Other Findings included non-compliance with the Republic of Palau's Procurement Law and Regulations, lack of Bank Reconciliation, violations of the Code of Ethics Act, to name few.

Ngatpang State Government

The audit of Ngatpang State covered the period from October 1, 1999 through September 30, 2004. The audit report contained a total of seven (7) Findings. Majority of the findings contained in the report involved the construction of a concrete road system in the State for which the State entered into multiple agreements conveying a total of 1,521,899 sq. meters of public lands, in lieu of monetary payments, to a contractor for constructing the road. In addition, the State also paid \$50,000 to the contractor. The gist of the findings relating to the construction of the road system is that the State had initially entered into an agreement to convey certain portions of public land to the contractor to construct a concrete road system of prescribed dimensions but

then subsequently enters into similar agreements conveying additional public lands to the contractor to construct the same road. Other Findings contained in the report include non-compliance with competitive bidding, use of representation funds to pay for luncheon and dinner meetings, and failure to remit the required 25% of the proceeds from sale of public land to National Treasury.

Division of Revenue and Taxation

The audit of Division of Revenue and Taxation covered calendar years 2004 and 2005. Some of the key findings in the report include failure of certain businesses to maintain and retain records of business transactions, \$1,380,796 of delinquent taxes assessed by the Division of Revenue and Taxation for the tax years 1998 through 2005 that have not been paid, not including penalties and interest, and the Division of Revenue and Taxation seldom exercising its authority to suspend, revoke, or fine businesses that fail to file a tax return, maintain records of business transactions, pay taxes, or otherwise comply with the Unified Tax Act. Other findings included lack of documentation on informal hearings, lack of or ineffective follow up on businesses who have been issued a notice of tax assessment but fail to pay taxes owed, use of interest and penalty assessments as a negotiation tactic (compromise) to induce the taxpayer to pay taxes owed (principal) rather than as a deterrence to tax evasion, and the Bureau of Revenue, Customs and Taxation was operating without a Director, to name a few.

Division of Labor and Job Placement

The audit of the Division of Labor and Job Placement covered the period from May 1, 2002 through December 31, 2004. The audit report contained 14 findings. Some of the key findings included the Division of Labor (DOL) processing and issuing work permits without going through the required 30-day vacancy announcement period, the DOL processed and issued work permits for transfers despite incomplete applications and after the effective date of the no-transfer law, the DOL failed to control and account for Labor Citation Forms (LCF) and maintain files to support LCFs issued, and files containing supporting documents for citations issued were not consistently maintained and followed up on. In addition, the DOL did not formulate a strategic plan for the implementation and administration of the Apprentice Training Program, the DOL did not design, structure, and maintain a properly organized filing system to support its law enforcement activities, and 103 non-resident workers overstayed their work permit, besides other findings.

Palau Public Utilities Corporation (PPUC)

The scope of the audit covered the period from March 01, 2005 to February 29, 2006. The audit of the PPUC contained nine (9) findings. Some of the highlights of the report included the following findings: The Board of Directors approved the use of a corporate debit card by the General Manager and the Comptroller who charged a total of \$223,643 of expenditures against the card, four (4) employees received salary advances totaling \$25,000, the PPUC did not adhere to its procurement policies by awarding contracts for medical insurance and construction services without competitive bidding, and the PPUC failed to secure a performance bond from a

contractor awarded the contract for the construction of the PPUC's headquarters, among other findings.

Ngiwal State Government

The audit of Ngiwal State covered the period from October 01, 2005 to May 31, 2006. The report contained seven (7) findings including the following: \$14,622.39 of expenditures lacked adequate supporting documentation to justify their official nature, \$5,102.70 of Petroleum, Oil & Lubricant (POL) expenditures lacked adequate supporting documentation to justify their official purpose, \$3,510 of expenditures for food and refreshments lacked supporting documentation to justify their public purpose, the State paid \$3,500 for legal services without supporting documents to justify the official nature of the services, the National Treasury disbursed \$33,000 to Ngiwal State for the construction of a Public Works Center, which at the time of the audit, the project had not commenced and the funds had been exhausted, and the State incurred bank overdraft charges totaling \$8,980.

Koror State Public Lands Authority (KSPLA)

This audit was commissioned by the Koror State Legislature (KSL). The examination, per the request by the KSL, focused on particular leases to determine compliance with Koror State laws and KSPLA's rules and regulations. Pursuant to Government Auditing Standards, the distribution of the report was only to those individuals or agencies having responsibilities over matters discussed in the report. The report contained numerous and pervasive non-compliance with KSPLA's rules and regulations by leaseholders.

Bureau of Marine Resources (Declaration Fees)

This audit was inspired by a newspaper article reporting allegations of improprieties pertaining to the administration of proceeds from sale of Giant Clams. During the course of the audit, we discovered that the above allegation was referred to the Office of the Special Prosecutor. Hence, the Office of the Public Auditor focused its audit on declaration fees. In reviewing declaration fees, we found that the Bureau of Marine Resources has not established policies and procedures for the administration and enforcement of declaration fees for the export of marine life. Stemming from this problem was the inability of the Bureau to account for 336 cash receipts the value of which we estimated to be in the range of \$336 to \$3,360.

Sonsorol State Government

The audit of Sonsorol State Government covered the fiscal years from October 1, 1998 through September 30, 2005. The audit report contained ten (10) findings including the following: refund of employees' pension plan contributions totaling \$4,205 without proper authorization and supporting documentation, processing and implementing pay increments and retroactive pay for employees without proper supporting documents, purchase of two passenger/cargo boats, one in fiscal year 1995 for \$100,000 and the other in fiscal year 1999 for \$140,000, spent \$13,356 and \$51,527 respectively to repair the boats and subsequently sold both boats for \$1,500 on October 2002, did not perform periodic bank reconciliation on its bank accounts, executed a contract

with a vendor after services had been rendered and paid, failing to provide adequate supporting documents for expenditures resulting in questioned costs totaling \$87,945 for the 7-year period.

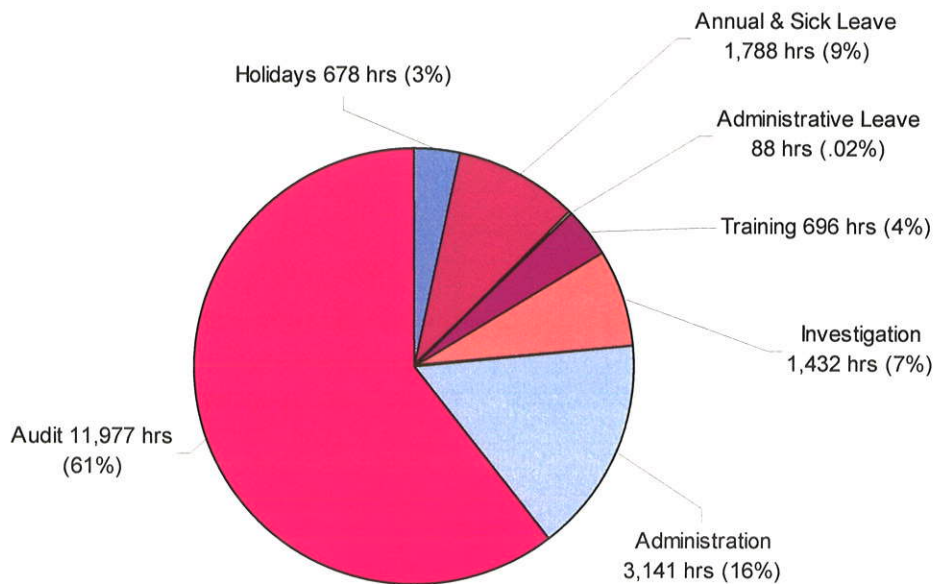
Performance Audits On-going in 2007

In addition, the OPA commenced the following performance audits in fiscal year 2007:

- Aimeliik State
- Airai State
- Angaur State
- Hatohobei State
- Kayangel State
- Ngaraard State
- Ngarchelong State
- Ngardmau State
- Ngaremlengui State
- Ngchesar State
- Peleliu State
- Bureau of National Treasury, Missing Receipts

OPA Staff Hour Distribution – 2007

As previously mentioned, the Office of the Public Auditor has a total of 10 staff, including the Acting Public Auditor, who account for a total of 19,800 hours in fiscal year 2007. Illustrated below is a chart showing the distribution of staff hours:



Audit Follow-Up System

In fiscal year 2007 the Office of the Public Auditor (OPA) implemented an audit follow up system. Semi-annually (June 30 and December 31), calendar year basis, the Office of the Public Auditor issues follow up letters to agencies with outstanding audit recommendations to determine the status of the recommendations. All recommendations issued by the OPA upon release of final audit report should be classified as either *Open*, *Resolved*, or *Closed*. An *Open* recommendation is one where no action has been made or no time frame for the plan of action has been provided by the auditee. A *Resolved* recommendation is one in which OPA is satisfied that the auditee cannot take immediate action, but has established a reasonable plan and time frame for action. A *Closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or the OPA has withdrawn it. *Open* and *Resolved* recommendations are classified as either *Active* or *Delinquent* status in the Audit Recommendation Tracking System. A recommendation should be classified to *Active* status if the OPA was informed or updated within the last 180 days or 6 months from the date of the agency's last response on actions taken to implement OPA's recommendations. On the other hand, a recommendation is classified as in *Delinquent* status if the OPA was not informed or updated within the last 180 days or 6 months from the date of the agency's last response on actions taken to implement OPA's recommendations. The OPA prepares a report of the status of audit recommendations to the President and the Presiding Officers of the Olbiil Era Kelulau apprising them of agencies efforts to implement OPA's audit recommendations. December 31, 2007 will be the maiden year for launching the audit recommendation tracking system.

Appendices

Appendix I - Opinion of 2005 Peer Review

Appendix II - Schedule of Financial Audits Issued in 2007



ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

Appendix I

July 6, 2005

Mr. Satrunino Tewid, Public Auditor
Office of the Public Auditor
Republic of Palau
P. O. Box 850
Koror, Palau 96940

Dear Mr. Tewid:

We have completed an external quality control review of the Office of the Public Auditor, Republic of Palau for audits issued during the period October 1, 2001 through May 31, 2005. In conducting our review, we followed the standards and guidelines contained in the *APIPA Quality Control Review Guide* published in September 1995 by the Association of Pacific Island Public Auditors (APIPA).

As prescribed by the *APIPA Guide*, we reviewed the internal quality control system of your audit organization and tested a sample of audits conducted by your office for compliance with government auditing standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

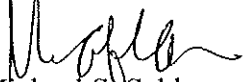
We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.


In our opinion, the Office of the Public Auditor, Republic of Palau was in compliance with government auditing standards during the period October 1, 2001 through May 31, 2005.


We have also prepared a separate letter to management, which offers suggestions for further strengthening your internal quality control system. The management letter should be considered an integral part of this report.

It is recommended that this report, and the accompanying management letter, should be made available to the public.

Respectfully Submitted,


Mr. Michael S. Sablan
Public Auditor, Commonwealth
of the Northern Mariana Islands
Team Leader


Ms. Jean M. Tonyokwe
Auditor General, Republic of
the Marshall Islands
Team Member


Mr. Charles W. Hester
APIPA Peer Review
Technical Consultant

Appendix II

Schedule of Financial Audits issued in 2007

<u>Agency</u>	<u>Report Year</u>	<u>Auditing Firm</u>
Civil Service Pension Plan	FY 2006	Deloitte & Touché
National Development Bank of Palau	FY 2006	Deloitte & Touché
Palau Community Action Agency	FY 2006	Deloitte & Touché
Palau Community College	FY 2006	Scott Magliari & Co.
Palau Housing Authority	FY 2006	Scott Magliari & Co.
Palau International Coral Reef Center	FY 2006	Deloitte & Touché
Palau National Communications Corporation	FY 2006	Deloitte & Touché
Public Utilities Corporation	FY 2006	Deloitte & Touché
Palau Visitor's Authority	FY 2006	Deloitte & Touché
Social Security Administration	FY 2006	Deloitte & Touché
Republic of Palau	FY 2006	Deloitte & Touché

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO:**

**OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU
P. O. BOX 850
KOROR, REPUBLIC OF PALAU 96940**

**TELEPHONE NOS: (680) 488-2889/5687
FACSIMILE NO: (680) 488-2194
E-MAIL ADDRESS: palau.public.auditor@palaunet.com**

**MONDAY THRU FRIDAY
7:30 a.m. - 4:30 p.m.**