

AUDIT REPORT
KAYANGEL STATE GOVERNMENT
REPUBLIC OF PALAU



PERFORMANCE AUDIT REPORT

FOR THE PERIOD FROM OCTOBER 1, 1999 TO SEPTEMBER 30, 2006

Prepared by the Office of the Public Auditor

KAY99-06P



REPUBLIC of PALAU

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June 6, 2008
Serial#: opa08-125au

Honorable Edwin Chokai
Governor
Kayangel State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Audit of Kayangel State Government for the period from October 1, 1999 through September 30, 2006.

Dear Governor Chokai:

This report presents the results of our audit of Kayangel State Government for the period from October 1, 1999 through September 30, 2006.

The Office of the Public Auditor (OPA) received your response to the draft audit report. Your response is published together with the final audit report.

The OPA has established an audit recommendation tracking system to keep track of the status of recommendations issued in this report. Accordingly, the OPA will conduct follow up inspections on your responses and corrective action measures to assess their implementation and operation. On a semi-annual basis, June 30 and December 31 each year, the OPA will report the status of the recommendations to the Office of the President and preceding officers of the Olbiil Era Kelulau for their information and disposition.

If you have any questions regarding matters of audit findings and recommendations, the OPA will be available to discuss such matters at your request.

Sincerely,

A handwritten signature in black ink, appearing to read "Satrunino Tewid", is written over a large, stylized, circular scribble.

Satrunino Tewid
Acting Public Auditor
Republic of Palau

KAYANGEL STATE GOVERNMENT REPUBLIC OF PALAU

Period from October 1, 1999 to September 30, 2006

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June 6, 2008

Honorable Edwin Chokai
Governor
Kayangel State Government

Dear Governor Chokai:

This audit report presents the result of our audit of Kayangel State Government for the seven (7)-year period ended September 30, 2006. Specifically, the audit covered the period from October 1, 1999 through September 30, 2006.

The objective of the audit was to determine whether (1) expenditures were incurred in accordance with National and State laws and regulations, (2) revenues/cash receipts were properly deposited into the State Treasury, (3) expenditures and cash receipts were supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were authorized and appropriated, and (5) the State has established proper internal controls to ensure the proper recording of its transactions and safeguarding of its properties.

As a result of our review, the Office of the Public Auditor (OPA) found a number of problems and deficiencies noted below relating to the administration of Kayangel State funds, which we believe should be brought to the attention of management for appropriate corrective action. We also propose recommendations, which we believe, if implemented, will correct these problems/deficiencies.

First, during the audit we identified \$33,143.48 of withdrawals from the State's savings and checking accounts for which no documentation (checks, invoices, or deposit slips) was provided to support their expenditure or deposit into other State accounts.

Second, based on our review of your response and supporting documents to Finding No. 2, TCD Unaccounted For, we determined the supporting documentation sufficient to resolve and remove this finding.

Third, we found that Kayangel State did not prepare and submit annual Performance Reports for fiscal years 2006, 2005, 2004, 2003, and 2002 pursuant to the requirements of the Budget Reform Act of 2001, (RPPL No. 6-11).

Fourth, a former Governor was disbursed and received \$60,843.39 in checks over a period of six (6) years from fiscal year 2001-2006 for representation funds, entertainment, transportation, official expenses, food items, travel, donations, and contingency expenses without proper supporting documents.

Fifth, during the period from fiscal year 2000-2006, State Legislators were disbursed and received an estimated \$151,980 of official expenses the nature of their official purpose we were unable to determine due to lack of supporting documents.

Sixth, the State did not issue cash receipts to evidence revenue collections.

Seventh, we identified a total of \$20,991.25 of expenditures in fiscal years 2002, 2004, 2005, and 2006 that lacked proper supporting documentation to justify the purpose of the expenditures.

Eighth, Kayangel State's open POL (petroleum, oil, and lubricant) account lacked adequate controls to ensure the proper authorization of fuel requests, persons and equipment receiving fuel are properly identified, and justification for the use of fuel is documented. Kayangel State expended \$22,291 in fiscal year 2006 on fuel without proper documentation.

Ninth, the State did not provide properly ratified appropriation budgets for fiscal years 2000, 2002, and 2006.

Tenth, Kayangel State did not perform monthly bank reconciliations on its bank accounts to demonstrate prudent management oversight and monitoring of these accounts. Consequently, the State incurred unnecessary bank overdraft charges resulting from issuing checks from an account with insufficient funds.

Eleventh, the Kayangel State did not maintain adequate documentation to account for the acquisition, inventory, and disposition of its fixed assets.

Twelfth, the Kayangel State did not follow competitive bidding requirements in the procurement of construction services and equipment.

Recommendations

To correct the above deficiencies, we recommend Kayangel State implement the following recommendations:

First, we recommend the Governor establish proper controls over the State's bank accounts to ensure that all withdrawals of funds are supported by adequate supporting documentation to substantiate their transfer and deposit to other State bank accounts. In addition, we recommend

the Office of the Attorney General or the Special Prosecutor further investigate the above withdrawals and to take appropriate action for any conduct determined to involve misuse, abuse, and misappropriation of public funds.

Second, as this finding was subsequently resolved by the State, no recommendation is offered.

Third, we recommend the Governor prepare and transmit a Performance Report to the Office of the President, Olbiil Era Kelulau, and the Office of the Public Auditor on an annual basis pursuant to the requirements of the RPPL No. 6-11, as amended.

Fourth, we recommend the Office of the Attorney General or the Office of the Special Prosecutor further investigate the \$60,843.39 of unsubstantiated disbursements to a former Governor and take corrective action for any misconduct involving State funds.

Fifth, we recommend the Office of the Attorney General or the Office of the Special Prosecutor further investigate the \$151,980 of official expenses disbursed to members of Kayangel State Legislature, which lacked supporting documents to justify their official purpose, and to take corrective action for any misconduct involving State funds.

Sixth, we recommend the Governor direct the State Treasurer to issue cash receipts to evidence revenue collections.

Seventh, we recommend the Governor strictly enforce controls over disbursement of State funds to ensure that all disbursements are substantiated with adequate supporting documentation (i.e. vendor invoices, receipts, contracts, etc.).

Eight, we recommend the Governor establish policies and procedures governing the operation of the open fuel charge account.

Ninth, we recommend the Governor maintain and retain copies of the State's annual appropriations laws (Budget) that are properly ratified pursuant to the State's Constitution and laws.

Tenth, we recommend the Governor direct the State Treasurer to perform monthly bank reconciliations of the State's bank accounts to enhance proper controls and oversight over the accounts and to ensure that disbursement of State funds is administered through an account with sufficient funds to avoid bank overdraft charges.

Eleventh, we recommend the Governor direct the State Treasurer to establish a system to account for the acquisition, inventory, and disposal of the State's fixed assets.

Twelfth, we recommend the Governor direct the State's Procurement Officer to adhere to and follow the Republic of Palau's Procurement Law and Regulations when procuring goods and services greater or equal to \$5,000.

The Office of the Public Auditor has established an audit recommendation tracking system. All audit recommendations contained herein will be included in the tracking system as open, resolved, or closed. An open recommendation is one where no action or plan of action has been made by the client (state, department or agency). A resolved recommendation is one which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame of action. A closed recommendation is one which the client has taken sufficient action to meet the intent of the recommendation or OPA has withdrawn it.

On April 28, 2008, the Office of the Public Auditor received a response from the Governor to the Draft Audit Report. The response essentially agrees with all the findings and recommendations in the report. Based on the response, with exception of Finding No. 2, Kayangel State has not provided a corrective action plan to resolve or correct Findings No. 1 to No. 12. The Office of the Public Auditor will conduct follow up procedures to obtain corrective action plans from the State and, thereafter, report on the status of the recommendations.

Finally, we would like to thank the staff and management of the Kayangel State Government for their professional courtesy and cooperation extended to us during the audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'Satrunino Tewid', written over a horizontal line.

Satrunino Tewid
Acting Public Auditor

Background

Kayangel State is one of the sixteenth states in the Republic of Palau. On September 13, 1983, Kayangel State Constitution was ratified creating Kayangel State Government. Pursuant to the State Constitution, the Chief Rdechor shall be the Head of State. The traditional council of Chiefs of the State of Kayangel shall continue to exercise authority over the State pursuant to the custom and tradition of the State of Kayangel. Chief Rdechor and Chief Obakrusong have supreme authority over Dims and Dilong districts comprising the State of Kayangel. Chiefs in the service of the Government of the State of Kayangel shall be compensated pursuant to law.

A Governor for the State of Kayangel shall be elected at large and shall be responsible to implement all governmental functions. The powers and responsibilities of the Governor include, but not limited to, the following:

- To introduce legislative measures in the Kayangel State Legislature,
- To execute and implement national and Kayangel State laws,
- To collect fair and equitable taxes,
- To prepare and submit an annual state budget for the State of Kayangel for submission to the Kayangel State Legislature.

Section 7 of the State Constitution states in part: ...“No bill shall become law without the approval of Chief Rdechor and Chief Obakrusong.

The legislative authority for the State of Kayangel shall be vested in the Kayangel State Legislature composed of 12 members to be popularly elected at large for a two (2)-year term. The powers and functions of the Kayangel State Legislature shall include the following:

- To amend or modify an annual state budget which shall be submitted by the Governor,
- To enact legislation governing the expenditure of public funds,
- To provide for the imposition and collection of taxes,
- Such other powers and functions prescribed under Article X, Section 3 of the State Constitution.

The members of the Kayangel State Legislature shall be compensated for their personal attendance in the legislative session. The rate of compensation of the members of the Legislature shall be established by law.

Article XIII of the State’s Constitution states: “There shall be a treasury of the State of Kayangel into which all public funds of the State of Kayangel shall be deposited. Kayangel State public funds may only be expended pursuant to law. No debts may be incurred on behalf of the State of Kayangel except pursuant to law, and no person may expend or use any Kayangel State public funds until the appropriate breakdown of their use has been made.

Objective, Scope and Methodology

The objective of the audit was to determine whether (1) expenditures were incurred in accordance with National and State laws and regulations, (2) revenues/cash receipts were properly deposited into the State Treasury, (3) expenditures and cash receipts were supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were authorized and appropriated, and (5) the State has established proper internal controls to ensure the proper recording of its transactions and safeguarding of its properties.

The scope of the audit covered the period beginning on October 1, 1999 to September 30, 2006. As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of the State or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor to specifically act to prevent fraud, waste, and abuse in the collection and expenditures of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste, and abuse of public funds.

To accomplish our audit objectives, we reviewed accounting records including cash receipts, expenditures, accounts receivable, accounts payable, fixed assets, and non-payroll and payroll expenditures. In performing the review, we conducted specific tests of transactions of the aforementioned components of the State's accounting system and procedures to assess the adequacy of the State's system of internal controls. The audit involved reviewing accounting records maintained by the State as well as records maintained at the Bureau of National Treasury. We also interviewed appropriate state officials.

Prior Audit Coverage

In the past six years, no financial or performance audit has been conducted on Kayangel State Government operations either by the Office of the Public Auditor or a private accounting firm.

Finding No. 1: Unaccounted Withdrawals of Funds

A sound system of internal control requires that all withdrawals of funds from the State’s savings and checking accounts should be deposited into a general checking account from which disbursements are made pursuant to the State’s appropriation budget. Similarly, all withdrawals should contain proper supporting documents (withdrawals and deposit slips) to substantiate the withdrawals and transfer (deposit) of these funds to other State bank accounts.

During the audit we found that funds were withdrawn from the State’s savings and checking accounts without documented evidence of corresponding deposit into the State’s checking or other accounts. The State was unable to provide supporting documentation to evidence deposit or expenditure of these funds. Table I below shows the date, amount, and the specific savings and checking account from which the withdrawals occurred:

Table I Schedule of State Withdrawal

Date	Withdrawal	Account name and number	Purpose?
8/24/2001	1,578.81	Kayangel HPG Checking-0700107922	?
5/1/2002	4,000.00	Kayangel Savings-100105477	?
5/9/2002	4,000.00	Kayangel Savings-100105477	?
4/4/2003	1,439.67	Kayangel Savings-100105477	?
8/9/2004	7,000.00	Kayangel HPG Checking-0700107922	?
10/24/2004	8,000.00	Kayangel HPG Checking-0700107922	?
9/15/2005	125.00	Kayangel Old Age Savings-100111587	?
9/19/2005	7,000.00	Kayangel Old Age Savings-100111587	?
Total Withdrawals	\$ 33,143.48		

Kayangel State Governor failed to establish and oversee the controls to safeguard the State’s bank accounts and to ensure that withdrawals of funds are properly evidenced with proper supporting documents.

As a result, \$33,143.48 of Kayangel State funds may have been withdrawn from the State’s bank accounts without proper supporting documents (deposit slips or checks) to show that the funds were deposited into other state bank accounts or expended for public purpose.

Recommendation: We recommend the Kayangel State Governor establish and enforce controls to safeguard the State’s bank accounts. At a minimum, all disbursements of State funds should be administered through a checking account and all withdrawals from the State’s savings account should contain proper supporting documents (withdrawal and deposit slips) to evidence the transfer of funds between bank accounts. In addition, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the above withdrawals and to take appropriate action towards any conduct determined to involve misuse, abuse, and misappropriation of public funds.

KSG's Response: Finding No.1: Withdrawal of Funds

**Account Number (100105477)-Pacific Savings Bank
Withdrawals on:**

<i>Date</i>	<i>Amount</i>	<i>Purpose</i>
1/12/2000	\$25,000.00	transfer to PSB Checking Acct. (General Operations)
5/1/2002	\$4,000.00	transfer to PSB Checking Acct. (General Operations)
5/9/2002	\$4,000.00	transfer to PSB Checking Acct. (General Operations)
4/4/2003	\$1,439.67	Still trying to identify this specific Transaction

OPA's Comments: Based on the Governor's initial response dated April 28, 2008, and additional supporting documents provided, we were able to trace and locate the \$25,000 transfer from the State's PSB Savings Account to Bank of Hawaii Checking Account. Therefore, the amount of \$25,000 is considered resolved and removed from the finding. However, the State was unable to substantiate the withdrawals of \$4,000 on 5/1/2002, \$4,000 on 5/9/2002, and \$1,439.67 on 4/4/2003. Thus, the above amounts remain unresolved.

KSG's Response: Account Number (0700107922) Housing Preservation Grant

<i>Date</i>	<i>Amount</i>	<i>Purpose</i>
8/24/2001	\$1,578.81	Still trying to identify this specific transaction
8/9/2004	\$7,000.00	Deposited to KSG Checking Acct. at BOH (#0037024244)
10/18/2004	\$8,000.00	purchase of mini-loader for our ring road stimulus project

OPA's Comments: The amount of \$1,578.81 and \$7,000 stay until sufficient documentation is provided to evidence the deposit or expenditure of the monies. The amount of \$8,000 stays until sufficient documentation is provided to evidence that competitive bidding was conducted in the procurement of the heavy equipment.

KSG's Response: Account Number (100111587) Old Age Savings Account

Note: Kayangel State Government does not have any specific records of such account; nonetheless a building has been constructed in Kayangel. We are now trying to collect and compile what ever documents we can find in an effort to understand this specific project.

OPA's Comments: The amount of \$125 and \$7,000 stand until sufficient documentation is provided to evidence expenditure of the funds and to demonstrate that competitive bidding was followed in the construction of the Old Age Center.

Finding No. 2: TCD Unaccounted For

KSG's Response: Finding No. 2: TCD-this account was established at Pacific Savings Bank. Balances of all our account with Pacific Savings Bank left after closure of the bank have been disbursed and deposited to our general savings account at Bank of Hawaii on (3/22/07). This time we do not have any TCD account in anywhere.

OPA's Comments: Based on our review of your response and supporting documents, the documentation was sufficient to resolve and remove Finding No.2.

Finding No. 3: Performance Reports

The Republic of Palau's Budget Reform Act of 2001 (RPPL No. 6-11) requires State Government funded by appropriations by the National Government to prepare and submit a Performance Report to the President, Olbiil Era Kelulau, and the Office of the Public Auditor.

Kayangel State did not prepare and transmit Performance Reports for fiscal years 2002-2006 to the Office of the President, Olbiil Era Kelulau, and the Office of the Public Auditor as required by law.

The State may not have properly trained personnel to prepare Performance Reports.

As a result, Kayangel State may not have complied with the requirements of the RPPL No. 6-11 Subchapter IV, Section 371.

Recommendation: We recommend the Governor establish an accounting system with all the essential components to record and account for State revenues, expenditures, accounts receivable and payable, fixed assets, and leases with which to prepare Performance Reports. Moreover, State personnel in charge of the accounting system should receive adequate training to enable them to properly maintain the system and to prepare the required and other essential reports.

KSG's Response: *Finding No. 3: Performance Report*

Kayangel State does not have the annual "financial performance" report beginning on the year 2000. As much as possible, we did and have been trying to comply with the so-called "performance budgeting" format with guidance and assistance from the Ministry of Finance. This report is being formatted to accommodate our duties within our constitution.

OPA Comments: The OPA will conduct follow up inspections to ensure the State formulates a plan towards resolving this finding.

Finding No. 4: Unsupported Payments to Former Governor

Disbursement of State funds should be supported by adequate supporting documentation (invoices, receipts, contracts etc.) to account for and justify the official purpose of expenditures. In addition, the supporting documents are essential to support the recording and classification of expenditures pursuant to the State's appropriation laws.

We found that during the period from fiscal years 2001-2006, a former Governor of Kayangel State received \$60,843.39 in checks supposedly for representation, entertainment, transportation,

official expenses, food items, travel, donations, etc. without proper supporting documentation. Refer to Appendix I for further details of checks paid to the former Governor.

State officials responsible for disbursement of State funds failed to strictly enforce the proper controls to ensure that adequate supporting documentation was obtained to account for and justify the official purposes of the expenditures.

As a result, Kayangel State was unable to account for and justify payments totaling \$60,843.39 to the former Governor. In addition, we were unable to determine the proper classification of these expenditures without the benefit of proper supporting documents.

Recommendation: We recommend the Governor establish and strictly enforce controls requiring the expenditure of State funds be supported by adequate supporting documentation (invoices, receipts, contracts, etc.) to account for and justify the official nature of expenditures. In addition, we recommend the Office of the Attorney General or the Office of the Special Prosecutor further investigate these expenditures and take appropriate action for any misappropriation, misuse, and abuse of public funds.

KSG's Response: *Finding No. 4: Unsupported payment to the former Governor*

Most original documents of such expenditures are being obtained by the Special Prosecutors Office; "Case Pending". Existing State Laws in regards to the same expenditures mentioned within your findings are also being reviewed by the court. Our letter has been sent to the office of the special prosecutor asking for the return of our documents. To date we have not received any response.

OPA's Comments: This finding remains until adequate supporting documents are provided to the OPA for its review and resolution. In addition, the OPA will conduct follow up inspections to ensure the State formulates a plan for correcting this finding.

Finding No. 5: Unsupported Payments of Official Expenses to State Legislators

Kayangel State Public Law (KYPL) 6-96-25, Section 2, established a monthly official expense of \$170 to members of the Kayangel State Legislature. Section 2 of said Law establishes the requirements for disbursement of official expense as follows: "Such sum shall be disbursed on the first day of each calendar month to each Legislator upon written approval by the Speaker of an official expense allowance form completed and signed by each Legislator... The allowance shall be utilized by each Legislator for defraying expenses related to or arising from the discharge of his official duties. On August 19, 2003, KYPL 10-2003-68 amended KYPL 6-96-25 setting rules and procedures for the use of official expense allowance and documentation requirements, and for other related purposes. Section 4 of KYPL 10-2003-68 states: "Each Legislator shall, at the end of each month following the payment of official expense allowance, complete and submit to the Speaker a verified document entitled "REPORT & JUSTIFICATION FOR OFFICIAL EXPENSE ALLOWANCE" explaining how the amount was spent, including receipts or other records, if any, evidencing such expenditure. On September 24, 2004, KYPL 9-

2004-73 was adopted amending KYPL 10-2003-68 Section 4 and repealing Section 5. Section 1 of KYPL 9-2004-73 contains the amendment as follows: “The Kayangel State Legislature shall promulgate rules, procedures and policies regarding the use and reporting of official expense allowance within 30 days after this Act comes into effect.”

Our audit revealed that Kayangel State legislators did not complete and submit an official expense allowance form approved by the Speaker and related receipts to support the expenditure of official expenses as required under KYPL 6-96-25. In addition, subsequent to the amendment of KYPL 6-96-25 by KYPL 10-2003-68, State Legislators failed to complete and submit to the Speaker a verified document entitled “REPORT & JUSTIFICATION FOR OFFICIAL EXPENSE ALLOWANCE” explaining how the amount was spent, including receipts and other records evidencing the expenditure of official expenses. Moreover, pursuant to the Eleventh Kayangel State Legislature Resolution No. 11-06-55SS, adopted on November 11, 2004, promulgating Official Expense Policy and Procedures, State Legislators failed to comply with the reporting and documentation (receipts and other supporting documents) requirements set forth in said Resolution.

We were unable to determine the reasons for the State legislators’ failure to comply with KYPL 6-96-25, KYPL 10-2003-68, and Kayangel State legislature Resolution No. 11-06-55SS with respect to reporting and documentation requirements for the expenditure of official expense allowance.

As a result, during the period covering fiscal year 2000-2006, State Legislators were disbursed and received an estimated \$151,980 of official expense allowance the official purpose of their expenditures we were unable to determine due to lack of documentation. In addition, the official expense allowances were disbursed in violation of the procedures required by Kayangel State Laws and Regulations. Refer to Appendix II for details of payments of official expenses.

Recommendation: We recommend the Speaker of Kayangel State Legislature adhere to and enforce the requirements for disbursements of official expense allowance set forth in Kayangel State Public Laws. In addition, we recommend the Governor suspend further disbursements of official expense allowance to members of Kayangel State legislature until the reporting and documentation requirements are satisfied. Moreover, we recommend the Office of the Attorney General or the Office of the Special Prosecutor further investigate the above official expense allowances paid to members of Kayangel State legislature and take appropriate action for conduct involving misappropriation, misuse, or abuse of public funds.

KSG’s Response: *Finding No. 5: Unsupported Payments of Legislators Official Expenses Documents in relation to these expenses are also being retained by the Office of the Special Prosecutor; “Case Pending”. State Laws and Regulations in relation to these expenditures are yet to be determined by the court. Our offices continue collect any legitimate justification from recipient of such funds.*

OPA's Comments: This finding remains until adequate supporting documents are provided to the OPA for its review and resolution. In addition, the OPA will conduct follow up inspections to ensure the State formulates a plan for correcting this finding.

Finding No. 6: Cash Receipts

A sound system of internal control requires issuance of cash receipts to account for and evidence revenue collections and to support their classification (by source) on the financial statements.

The Kayangel State does not issue cash receipts to evidence revenue collections. For example, the State did not issue cash receipts for receipts of block grants, fishing rights fees, and local revenues.

The Governor has not established policies and procedures governing cash receipts.

As result, the State does not have in place proper internal controls to account for and safeguard its cash receipts and to support the classification of revenues on its financial statements.

Recommendation: We recommend the Governor promulgate and implement policies and procedures requiring the issuance of cash receipts to evidence revenue collections. Cash receipts are an essential component of the State's accounting system to account for revenues, facilitate reconciliation (to safeguard cash receipts), and to support the classification of revenues on the financial statements.

KSG's Response: *Finding No. 6: Cash Receipts.*

Collection of Revenues such as Block Grant, Fishing Right, and minimal Local Revenue are being evidenced by bank deposits to include copies of Block Grant and Fishing Right Checks. Today we have ordered a set of receipt book from WCTC to record any payment received. We are also now trying to design ways to record our minimal local revenue with the same receipt book. We do hope that this issue be resolved by this specific corrective measure. Further procedures in terms of coordination amongst our offices in Kayangel and Koror will be implemented somehow once we recognize duties and responsibilities of our existing staff to accommodate this specific issue.

OPA's Comments: The OPA will conduct follow up inspections to ensure the system is implemented and operating.

Finding No. 7: Purchases/Disbursements

A sound system of internal control dictates that disbursement of State funds should be supported by adequate supporting documentation (invoices, receipts, contracts etc.) to account for and justify the public purpose of expenditures. In addition, the supporting documents are essential to

support the recording and classification of expenditures pursuant to the State’s appropriation laws.

In our review, we found that expenditures shown below lacked adequate supporting documentation for each fiscal year noted:

Fiscal Year 2002	\$ 280.00
Fiscal Year 2004	\$ 3,782.69
Fiscal Year 2005	\$ 8,464.28
Fiscal Year 2006	\$ 8,464.28
Total	\$ 20,991.25

The above expenditures do not include those reported under Findings 4, 5, and 8. Refer to Appendix III for details of expenditures without supporting documents (Questioned Costs).

It appears the cause of the above condition is that the Governor failed to strictly enforce the proper controls to ensure that adequate supporting documentation were obtained to account for and justify the official purpose of expenditures.

As a result, we were unable to determine the propriety of expenditures totaling \$20,991.25 for fiscal years 2002, 2004, 2005 and 2006. In addition, due to lack of supporting documentation, we were unable to determine the accuracy of the recording and classification of these expenditures in each of the affected fiscal years noted above.

Recommendation: We recommend the Kayangel State Governor strictly enforce the controls requiring that expenditure of State funds be supported by adequate supporting documentation (invoices, receipts, contracts, etc.) to account for and justify the official nature of expenditures. In addition, supporting documents are essential evidence to support the recording and classification of expenditures in the State’s accounting system pursuant to the State’s appropriation laws.

KSG’s Response: *Finding No. 7: Purchases/Disbursements*

We need to review these specific disbursements of funds in order to justify its purpose and figure out any missing justification. We do purchase and disburse on a daily basis by way of quotation, invoice, receipts, statements, and purchase order. All justification should be attached to any check disbursed for filing purpose. Again, our office will definitely locate any and all justification in relation to the stated expenditures.

OPA’s Response: The OPA will conduct follow up inspections to ensure the Governor formulates a plan of action for resolving this finding.

Finding No. 8: Fuel Expenses Not Justified

A sound system of internal control dictates that open POL (Petroleum, oil and lubricants) accounts should contain policies and procedures to ensure that fuel requests are properly authorized, persons and equipment drawing fuel are identified, and justification of public purpose is documented.

Our audit revealed that an open POL account lacked the proper controls to ensure that the person drawing the fuel is properly authorized and identified, equipment is properly described, and justification of public purpose for the fuel usage is documented.

The Kayangel State did not establish policies and procedures governing the operation of the open fuel charge account to ensure that proper controls are in place and fuel usage are justified as to official purpose.

Due to lack of controls over the operation of the open fuel charge account, we were unable to determine the propriety of \$22,291 of fuel expenditures and the official purpose for which the fuel were used.

Recommendation: We recommend the Governor establish policies and procedures governing the operation of the open fuel charge account. At a minimum, a fuel request form should be used to initiate a request. The request form should bear the name and title of the official authorized to approve the request, vehicle or equipment receiving the fuel (including license plate #) is identified, person obtaining the fuel is authorized, and the justification as to the official purpose of the request is documented. Furthermore, we recommend the Attorney General and/or the Special Prosecutor further investigate the above fuel expenditures and take corrective action to recover any State resource that may have been misappropriated.

KSG's Response: *Finding No. 8: Fuel Expense*

All fuel expenses are being justified by its invoices and statements attached to each check being disbursed. Purpose for fuel expenses are being identified through our chart of account, under our annual budget. As recommended through this draft audit findings, we now have designed an additional process to state our purpose of fuel usage to be authorized by the Governor. About 90% of our fuel expenses are to fuel our state boats between Koror and Kayangel. The rest goes to vehicles in Koror and Kayangel. Others go to Road Maintenance and other ongoing infrastructure projects in Kayangel. We are now compiling all our expense transactions to include fuel expenses, but due to shortage of staffing and ongoing investigation of expenses by the office of the special prosecutor, it will take us months to complete our files and truly identify any and all necessary documents or justifications.

OPA's Comments: The OPA will conduct follow up inspections to ensure the Governor formulates a corrective action plan to resolve this finding.

Finding No. 9: Appropriation Budget

The Kayangel State Constitution under Article VII, Section 5 states that Governor shall prepare an annual budget of the state and shall submit the budget to the Kayangel State Legislature.

The State did not provide for our review a properly ratified appropriation budget for fiscal years 2000, 2002, and 2006.

The State may not be maintaining a filing system where records are properly filed, safeguarded, and can be easily retrieved for official use.

As a result, we were unable to determine if the Governor expended Kayangel State funds in accordance with the State Constitution and if appropriation budgets for the above-noted fiscal years were properly ratified.

Recommendation: We recommend the Kayangel State implement controls to ensure that state records are properly filed, safeguarded, and can be easily retrieved for official use.

KSG's Response: *Finding No. 9: Appropriation Budget*

Our office does have files of appropriation budget. Annual Budget Act is probably the most important piece of Legislation being enacted annually in order for us to be able to operate our government. Our original budget bills to include other legislations have been moved many times. First to Law Office of Gerald Marruk for the purpose of printing or encoding state laws, then to other print shop for the purpose of printing our own laws, then the office of the special prosecutor, lastly our latest movement from our previous office in Dngeronger to Meyuns. With all this, we still have to locate any missing budget bills and retrieve for appropriate filing within our office.

OPA's Comments: The OPA will conduct follow up inspections to ensure a record keeping and filing system is in place and operating.

Finding No. 10: Bank Reconciliation

Bank reconciliation is an essential function of the State's cash management system in detecting errors or irregularities in the cash receipts (deposits) and disbursements that if not timely detected can cause cash balance to go out of balance with that of the bank.

The Kayangel State did not perform monthly bank reconciliations of its checking and savings accounts in fiscal years 2000 through 2006. We found that the State did not file and maintain bank statements with which to perform bank reconciliations. Consequently, upon our request for copies of bank statements, the State had to request the documents from the bank.

As a result, errors and irregularities may occur without timely detection by the State. And because the State's checking account was not reconciled and regularly monitored, the State continued to disburse checks from an account with insufficient funds incurring bank overdraft charges.

The State did not perform monthly bank reconciliations and continued to issue checks from an account with insufficient funds.

Recommendation: We recommend the Governor direct the State Treasurer to perform monthly bank reconciliations of its bank accounts. Bank reconciliation is an essential function of the State's cash management system to ensure that errors or irregularities are detected and corrected in a timely manner and the cash balance is sufficient to absorb the checks drawn against the account to avoid bank overdraft charges.

KSG's Response: *Finding No. 10: Bank Reconciliation*

We do admit that we have not been up to date on our reconciliation of bank statement. As recommended, we shall comply.

OPA's Comments: The OPA will conduct follow up inspections to ensure that bank reconciliations are performed on a monthly basis

Finding No. 11: Fixed Assets

Kayangel State should maintain property records sufficient to support the description, cost, acquisition date, and estimated useful life of fixed assets. Such records should agree to balances recorded within the State's comprehensive financial statements. Additionally, periodic physical inventories of fixed assets should be conducted to determine their condition, ensure that all assets are properly accounted for and safeguarded.

Kayangel State was unable to provide a fixed asset listing for fiscal years 2000 through 2006. In addition, the State lacked property records with which to account (description of fixed asset, acquisition cost, date, and estimated useful life, etc.) for fixed assets. Moreover, there was no evidence that the state conducted periodic inventory of fixed assets to determine their condition and location.

The cause of the above condition is lack of policies and procedures requiring maintenance of property records and conduct of periodic physical inventories of fixed assets.

The state may not be able to exercise control over fixed assets and does not maintain sufficient property records with which to support the accounting of the same.

Recommendation: We recommend the Governor direct the State Treasurer to establish policies and procedures to record and account for the State's fixed assets. At a minimum, the State should retain property records to support the recording of fixed assets including the description of asset, acquisition cost, acquisition date, estimated useful life, etc. In addition, the State should conduct periodic inventory of fixed assets to determine their condition and location.

KSG's Response: *Kayangel State did not respond to this particular finding.*

Finding No. 12: Procurement

The Republic of Palau Public Law No.3-54, Procurement Law and Regulations, as amended, require that all goods and services be procured in a manner that provides free and open competition. The law further stipulates that all procurements of goods or services by state governments greater or equal to \$5,000 shall be performed by competitive bidding.

Based on our testing, we noted that Kayangel State purchased a boat engine in amount of \$16,928.56 without competitive bidding.

We were unable to determine why the State did not follow competitive bidding procedures in the purchase of a boat engine.

As a result, the State may have violated RPPL No. 3-54 in the conduct of its procurements. In addition, questioned cost of \$16,928.56 exists.

Recommendation: We recommend the Governor adhere to the provisions of RPPL 3-54 when procuring goods or services greater or equal to \$5,000.

KSG's Response: *Finding No. 12: Procurement*

For urgent need of our state in terms of transportation between Babaeldaod and Kayangel, we did collect outboard engine quotation from known local vendors and decided to purchase from Neco Yamaha. This decision came about due to proven reliability of their boat engines based on our past experience with the same product. Product prices were also reasonable. As everyone knows, we do have only one speed boat traveling between Kayangel and Koror to accommodate our citizens, especially on medical emergency situation. Our action was not to avoid existing procurement law, but accommodate urgent need our citizens due to breakdown of our previous boat engines. We will retrieve and provide any and all available justification of such expenditure within our possession.

OPA's Response: Kayangel State did not provide a specific action plan for resolving this finding. The OPA will conduct follow up procedures to obtain from the Governor a plan of action to remedy this finding.

APPENDIX III

Office of the Public Auditor

Unsupported Payments to the Former Governor

<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
10/20/2000	2414	300.00	Representation Fund	No documents
11/02/2000	2444	350.00	Representation Fund	No documents
11/18/2000	2461	300.00	Representation Fund	No documents
11/22/2000	2466	200.00	Representation Fund	No documents
11/24/2000	2467	500.00	Representation Fund	No documents
01/11/2001	2552	500.00	Rep. Fund - KS New Year's C. Party	No invoice
02/08/2001	2619	350.00	Rep. Fund	No documents
02/18/2001	2623	250.00	Rep. Fund	No documents
02/21/2001	2633	500.00	Rep. Fund/misc. exp. JFK student PE Day	No documents
02/28/2001	2649	350.00	Rep. Fund/Contribution-Funeral Father of Ngaraard Governor	No documents
03/09/2001	2663	300.00	Representation Fund	No documents
03/20/2001	2680	500.00	Rep. Fund-JFK students E.A.W in ROR	No documents
03/28/2001	2684	300.00	Rep. Fund	No documents
04/04/2001	2702	250.00	Rep. Fund	No documents
04/16/2001	2723	250.00	Road Maintenance Workers Food & Beverages	no invoice
04/20/2001	2734	350.00	Rep. for Leadership mtng. w/PNC	no invoice or documents
04/30/2001	2757	30.75	Reimbursement for boat supplies	no invoice or documents
05/03/2001	2779	350.00	Rep. Fund	No documents
05/11/2001	2784	500.00	Rep. Fund/KSG C.Chiefs, Gov.,ST. Minister & Pres. gathering meeting	no invoice
05/17/2001	2806	350.00	Representation Fund	No documents
05/22/2001	2808	488.00	(4) days Per-Diem to P.I. to A.D.B. meeting (re: Oil Drill)	no invoice or documents
05/22/2001	2809	500.00	Official Expense (Meeting with A.D.B.) in P.I.	no invoice or documents
06/13/2001	2858	250.00	Rep. Fund	No documents
06/21/2001	2864	250.00	Expenses of Chiefs meeting with the Governor & Guests	no invoice
06/27/2001	2868	350.00	Rep. Fund	No documents

APPENDIX III

Office of the Public Auditor

<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
07/06/2001	2895	350.00	Rep. Fund	No documents
07/10/2001	2899	250.00	Rep. Fund	No documents
07/19/2001	2915	300.00	Rep. Fund	No documents
08/03/2001	2946	250.00	Rep. Fund	No documents
08/09/2001	2961	250.00	Rep. Fund	No documents
08/21/2001	2965	100.00	Lunch meeting with Pacific Savings Bank	no invoice
08/24/2001	2977	350.00	Rep. Fund APV # 2777	No documents
08/30/2001	2993	50.00	Re-Emburement for gas, inv. # 72138	no documents or invoice
08/31/2001	2994	500.00	Inv. #7866, 1 set Y. Propeller sold to KState for boat parts	no documents
09/07/2001	3012	350.00	Rep. Fund/APV # 2812	no documents
09/20/2001	3029	350.00	Rep. Fund/APV # 2829	no documents
09/28/2001	3040	350.00	Micellaneous	no documents
10/02/2001	3042	235.40	Inv. # 1586, BBQ dinner with Governors/Fishing Trainees/APV # 2842	no documents
10/05/2001	3067	350.00	KS2001-2867, Rep. Fund	no documents
10/10/2001	3075	250.00	KS2001-2875 Rep. Fund	no documents
10/17/2001	3093	350.00	KS2001-2893 Rep. Fund	no documents
10/25/2001	3098	250.00	KS2001-2898, Rep. for Meeting expenses (New Dock Project)	no invoice
10/31/2001	3102	500.00	KS2001-2902 banana boat for KState	no invoice
11/02/2001	3131	350.00	KS2001-2930 rep. fund	no documents
11/14/2001	3146	350.00	KS2001-2946 rep. fund	no documents
11/28/2001	3172	350.00	KS2001-2972 rep. fund	no documents
12/12/2001	3203	350.00	KS2001-3003 rep. fund	no documents
12/17/2001	3211	62.65	Inv. #438151	no documents
12/21/2001	3247	300.00	KS2001-3047, State -X-Mas Program	no invoice
12/28/2001	3252	430.45	Inv. #39 & 7	no documents
12/31/2001	3254	600.00	Inv. #39 & 7	no documents
01/08/2002	3272	200.00	KS2001-3072, Rep. Fund for Association Function	no documents

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<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
01/16/2002	3286	350.00	KS2001-3086, Rep. Fund ffor Staff N. Year's dinner - I.A.	no invoice
01/25/2002	3311	250.00	KS2001-3111 Rep. Fund - Airai State Governor Fund. Raising	no documents
02/11/2002	3339	350.00	K2002-3139 Rep. Fund	no documents
02/22/2002	3361	400.00	K2002-3161 Rep. Fund	no documents
03/07/2002	3400	250.00	K2002-3200 For Jica Group Farewell Dinner	no invoice
03/21/2002	3422	350.00	K2002-3222 rep. fund.	no documents
04/05/2002	3454	250.00	K2002-3254, For Governor & Legislature Metting Expenses	no invoice
04/12/2002	3459	300.00	K2002-3259, Rep. Fund (last sess. for Legis.)	no documents or invoice
04/19/2002	3474	350.00	K2002-3274, Rep. Fund Exp. Senate Oversight Hearing	no documents
05/01/2002	3499	350.00	K2002-3299, Senior Citizens Day Exp.	no invoice
05/09/2002	112	350.00	KS2002-Rep. Fund	no documents
05/16/2002	126	350.00	KS2002-Rep. Fund	no documents
05/28/2002	3507	350.00	K2002-3307,rep. fund	no documents
06/13/2002	3549	350.00	K2002-3349 ,rep. fund	no documents
06/28/2002	3571	500.00	K2002-3371 ,rep. fund	no documents
07/05/2002	3595	350.00	KS2002-3395 rep. fund	no documents
07/11/2002	3614	48.14	inv. # 52305	no documents
07/18/2002	3619	350.00	KS2002-3419 For Micellaneous Expenses (Inauguration Ceremony)	no documents or invoice
08/16/2002	3684	350.00	KS2002-3484For Micellaneous Expenses (Miss Kayangel)	no documents or invoice
08/23/2002	3708	250.00	KS2002-3508 rep. fund	no documents
09/13/2002	3745	350.00	KS2002-3545 rep. fund	no documents
09/19/2002	3757	250.00	KS2002-3557 rep. fund	no documents
09/27/2002	3761	450.00	KS2002-3561 rep. fund	no documents
10/11/2002	3788	350.00	KS2002-3588 rep. fund	no documents
10/18/2002	3805	250.00	KS2002-3605 rep. fund	no documents
10/25/2002	3810	350.00	KS2002-3610 rep. fund for Olechotel belau fair	no documents or invoice
11/08/2002	3840	350.00	KS2002-3640 rep. fund	no documents

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<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
11/14/2002	3856	350.00	KS2002-3656 rep. fund for Ngerchelongs Inauguration on 11/15/02	no documents or invoice
11/22/2002	3865	250.00	KS2002-3665 rep. fund for PVA 20th anniv. on 11/22/02 - Palasia Hotel	no documents or invoice
11/27/2002	3880	350.00	KS2002-3680 rep. fund for thanksgiving luncheon supplies	no invoice
12/11/2002	3909	350.00	KS2002-3709 rep. fund	no documents
12/23/2002	3934	350.00	KS2002-3734 rep. fund	no documents
01/08/2003	3982	350.00	KS2003-3782 rep. fund	no documents
01/22/2003	3990	350.00	KS2003-3790 rep. fund	no documents
02/06/2003	4028	350.00	KS2003-3828 rep. fund	no documents
02/13/2003	4037	350.00	KS2003-3837 rep. fund	no documents
02/21/2003	4053	350.00	KS2003-3853 rep. fund	no documents
02/27/2003	4068	350.00	KS2003-3868 rep. fund	no documents
03/06/2003	4083	375.00	KS2003-3883 rep. fund	no documents
03/18/2003	4094	375.00	KS2003-3894 rep. fund	no documents
03/28/2003	4110	350.00	KS2003-3910 rep. fund	no documents
04/03/2003	4140	500.00	KS cut.rib.cerem. dtd. 4/7/03 btelulachang	no documents or invoice
04/11/2003	4146	350.00	KS2003-3946 rep. fund	no documents
04/18/2003	4169	350.00	KS2003-3969 rep. fund	no documents
04/30/2003	4174	400.00	rep. fund for ks old age party(sen.citizen day) 5/4-5/03	no documents or invoice
05/09/2003	4208	250.00	KS2003-4008 rep.	no documents
05/14/2003	4223	350.00	KS2003-4023 rep.fund	no documents
05/23/2003	4234	400.00	KS baseball major league party	no documents or invoice
05/29/2003	4254	350.00	KS jetty port celebraton, dtd. 5/31/03	no documents or invoice
06/13/2003	4287	500.00	ks police academy grads. 6/13/03 contributions fr: state office and	no documents or invoice
06/26/2003	4307	350.00	official mtng.	no invoice
07/08/2003	4340	350.00	mtng. beluu, dtd. 7/8/03 IA	no invoice
07/18/2003	4351	350.00	mtng.official mtng. dtd., 7/18/03	no invoice
08/13/2003	4401	250.00	mtng.official legislature s.sess., & kabekl crews supplies	no invoice

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<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
08/19/2003	4422	350.00	rep.fund/ictv installation cutting rib. ceremony, dtd.,8/22/03 thur.	no documents or invoice
08/29/2003	4439	350.00	official mtng.w/chiefs and legislators	no documents or invoice
09/16/2003	4473	250.00	official mtng.w/chiefs and lmtng. el beluu	no documents or invoice
09/26/2003	4491	200.00	Housing for Kannan Ramasamy	no documents or invoice
09/30/2003	4494	350.00	Numerous Expenses for Kayangel State	no documents or invoice
10/17/2003	4501	300.00	ROP President,Meeting	no documents or invoice
10/22/2003	4506	500.00	ks mechas old ages for olechotel belau fair	no documents or invoice
10/29/2003	4515	250.00	rep.fund for trade show	no documents or invoice
11/11/2003	4557	350.00	rep. fund	no documents
11/21/2003	4561	300.00	rep. fund	no documents
12/03/2003	4593	350.00	rep. fund	no documents
12/11/2003	4618	350.00	rep. fund	no documents
12/19/2003	4626	500.00	JFK x-mas holiday	no documents or invoice
12/30/2003	4645	500.00	New year for Kayangel	no documents or invoice
01/05/2004	4657	150.00	rep. fund	no documents
01/09/2004	4677	250.00	Meeting exp. in Kayangel	no documents or invoice
01/15/2004	4684	250.00	for Ngerchelongs new year party	no documents or invoice
01/23/2004	4708	350.00	KS2004- for Kayangel Athletes	no invoice
02/05/2004	4742	350.00	dinner at Palaysia 2/5/04	no invoice
02/13/2004	4755	350.00	KSmeeting exp	no documents or invoice
02/17/2004	4774	500.00	Flag	no invoice
02/17/2004	4774	1,000.00	state flag & license plate	no documents or invoice
02/25/2004	4779	250.00	rep. fund mtng. in KS	no documents or invoice
03/05/2004	4806	250.00	rep. fund mtng/festival of arts	no documents or invoice
03/12/2004	4810	250.00	KS2004- rep.fund	no documents
03/19/2004	4824	350.00	governor & advisors mtng	no documents or invoice
03/30/2004	4847	350.00	rep. fund	no documents

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<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
04/09/2004	4867	1,548.00	Per-Diem	no documents
04/27/2004	4891	350.00	Gov/Pres	no documents or invoice
04/29/2004	4912	500.00	Cont.	no documents or invoice
05/04/2004	4913	500.00	JFK students insentive awards	no documents
05/12/2004	4949	400.00	fund	no documents
05/20/2004	4955	350.00	rep. fund	no documents
05/28/2004	4975	350.00	rep. fund	no documents
06/04/2004	4989	250.00	statesman fundraising	no documents or invoice
06/11/2004	5009	350.00	rep. fund	no documents
06/18/2004	5011	250.00	rep. fund	no documents
06/25/2004	5036	350.00	rep. fund	no documents
06/30/2004	5057	500.00	for 11th inauguration & 20th anniv.	no documents or invoice
07/16/2004	5092	350.00	rep. fund for festival of arts preperation	no documents or invoice
07/20/2004	5108	500.00	rep. fund for festival of arts preperation	no documents or invoice
07/23/2004	5113	500.00	rep. fund for festival of arts	no documents or invoice
07/29/2004	5115	500.00	rep. fund for festival of arts	no documents or invoice
08/06/2004	5154	150.00	rep. fund state meeting	no documents or invoice
08/13/2004	5163	250.00	ks volunteers-9th festival-dinner on 8/14/04	no documents or invoice
08/18/2004	5179	250.00	rep. fund	no documents
08/27/2004	5183	350.00	rep. fund	no documents
09/09/2004	5221	350.00	rep. fund	no documents
09/30/2004	5267	500.00	for independence day celebratoion 10/1/04	no documents or invoice
10/27/2004	5293	600.00	Perdiem	no documents or invoice
11/12/2004	5345	250.00	PCC Fund Raising	no documents
11/24/2004	5397	300.00	Kayangel Meeting & Clean Up Expenses	no documents or invoice
12/17/2004	5426	250.00	Kayangel Meeting	no documents or invoice
12/22/2004	1001	250.00	For Governors Association Christmas Program	no documents or invoice

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<i>Date</i>	<i>Number</i>	<i>Amount</i>	<i>Memo</i>	<i>Notes/Comments</i>
12/30/2004	1005	350.00	KS2005 For New Year's Activity	no documents or invoice
01/14/2005	1046	350.00	KS2005 Rep Fund	no documents
01/20/2005	1065	350.00	For Kayangel Old Age Fundraising & State Visit to Airai	no documents or invoice
02/04/2005	1102	350.00	For: Rep	no documents
02/24/2005	1125	250.00	KS2005 Rep Fund	no documents
03/14/2005	1162	250.00	For Boat Parts & Others	no documents or invoice
03/14/2005	1162	375.00	For Boat Parts & Others	no documents or invoice
03/14/2005	1162	625.00	For Boat Parts & Others	no documents or invoice
03/14/2005	1162	750.00	For Boat Parts & Others	no documents or invoice
08/22/2005	1365	150.00	KS2005-Rep-Fund	no documents
12/23/2005	1588	500.00	KS2005-Rep-Fund	no documents
02/02/2006	1667	250.00	KS2005- Rep-Fund	no documents
03/10/2006	1711	300.00	KS2005- Rep-Fund	no documents
		\$ 60,843.39		

Office of the Public Auditor

Payments of Official Expenses to State Legislators

Years in Office	Total Official Expenses	Comments
11/99-5/02	\$ 5,440.00	No documents or invoice
11/99-5/00	\$ 1,360.00	No documents or invoice
7/02-9/06	\$ 4,420.00	No documents or invoice
11/99-9/06	\$ 12,920.00	No documents or invoice
11/99-8/06	\$ 12,920.00	No documents or invoice
11/99-9/06	\$ 9,180.00	No documents or invoice
9/04-6/06	\$ 3,230.00	No documents or invoice
11/99-9/06	\$ 13,260.00	No documents or invoice
11/99-5/02	\$ 5,440.00	No documents or invoice
11/99-6/06	\$ 12,750.00	No documents or invoice
7/02-6/04	\$ 3,740.00	No documents or invoice
7/00-9/06	\$ 11,900.00	No documents or invoice
8/04-9/06	\$ 3,570.00	No documents or invoice
6/04-9/06	\$ 4,080.00	No documents or invoice
7/00-9/06	\$ 10,370.00	No documents or invoice
11/99-9/06	\$ 13,260.00	No documents or invoice
8/04-6/06	\$ 3,400.00	No documents or invoice
11/99-5/00	\$ 1,360.00	No documents or invoice
11/99-5/02	\$ 5,440.00	No documents or invoice
7/06-9/06	\$ 510.00	No documents or invoice
7/00-6/06	\$ 11,220.00	No documents or invoice
7/06-9/06	\$ 510.00	No documents or invoice
7/02-4/03	\$ 1,700.00	No documents or invoice
	\$ 151,980.00	

Office of the Public Auditor

Questioned Costs

Date	Check Number	Account	Amount	Note/Comments
11/16/2001	3151	1620 · Representation & Entertainment	130.00	No documents or invoice
02/22/2002	3362	1620 · Representation & Entertainment	150.00	No documents or invoice
12/18/2003	4625	1620 · Representation & Entertainment	100.00	No documents or invoice
05/12/2004	4942	1625 · Honorarium	50.00	No documents or invoice
05/14/2004	4953	1311 · Petroleum, Oil & Lubrication	1,013.39	No documents or invoice
06/09/2004	4995	1625 · Honorarium	50.00	No documents or invoice
06/30/2004	5047	1621 · Official Expenses Allowance	110.00	No documents or invoice
07/12/2004	5084	1311 · Petroleum, Oil & Lubrication	1,069.20	No documents or invoice
08/11/2004	5161	1910 · Electric Charge	312.40	No documents or invoice
09/03/2004	5215	1311 · Petroleum, Oil & Lubrication	74.50	No documents or invoice
09/20/2004	5245	1311 · Petroleum, Oil & Lubrication	1,003.20	No documents or invoice
04/22/2005	1205	1st payment for State Boat Engine	8,464.28	No bidding documents
12/06/2005	1554	Final Payment for Brand New 200HP Yamaha Engine	8,464.28	No bidding documents
		Total Expenses	\$ 20,991.25	



Office of the Governor
Kayangel State Government

P.O. Box 1046
Koror, Republic of Palau 96940
Tel. No.: (680) 488-2766 • Fax: (680) 488-6238
Email: Kayangel@palaunet.com

April 28, 2008

To: Mr. Saturnino Tewid
Acting Public Auditor
Office of the Public Auditor
Republic of Palau 96940

Office of the Public Auditor Received	
Date: 5/1/08	Time: 2:33 pm
Received By: meilak	
No. OPA: 08-078	

Dear Mr. Tewid:

Enclosed herein is our explanation towards our draft audit report. Our staffs are now doing their best amongst their daily duties to seek any appropriate justifications for these specific audit findings. In order for us to truly identify all justifications, we do need to re-organize our files beginning at least six year back ward and continue to date. We do humbly ask for your good office to consider the attached explanation and let us organize everything in an effort to truly resolve all findings in all accuracy.

This humble request is very important in order for us to articulate our system the same time identify our weakness in terms of record keeping and procurement procedures. Previous files and its documentations in an orderly arrangement should be able to guide us towards improvement of any system of documentation, filing, record keeping, etc..

Once again, we do thank you in advance for your understanding and good cooperation. As usual we do continue to work with you in all effort to resolve and align anything for the betterment of state and its operations.

Sincerely,

Edwin T. Chokai
Governor

C.c Kayangel Council of Chiefs
Speakers 12th Kayangel Legislature

/f/

Audit Finding

Finding No. 1: Withdrawal of Funds

Account Number (100105477) – Pacific Savings Bank

Withdrawals on:

Date	Amount	Purpose
1/12/2000	\$25,000.00	transfer to PSB Checking Acct. (General Operations)
5/1/2002	\$4,000.00	transfer to PSB Checking Acct. (General Operations)
5/9/2002	\$4,000.00	transfer to PSB Checking Acct. (General Operations)
4/4/2003	\$1,439.67	Still trying to identify this specific Transaction

Account Number (0700107922) Housing Preservation Grant

Date	Amount	Purpose
8/24/2001	\$1,578.81	Still trying to identify this specific transaction
8/9/2004	\$7,000.00	Deposited to KSG Checking Acct. at BOH (#0037024244)
10/18/2004	\$8,000.00	purchase of mini-loader for our ring road stimulus project

Account Number (100111587) Old Age Savings Account

Note: Kayangel State Government does not have any specific records of such account; nonetheless a building has been constructed in Kayangel. We are now trying to collect and compile what ever documents we can find in an effort to understand this specific project.

Finding No. 2: TCD- This account was established at Pacific Savings Bank. Balances of all our account with Pacific Savings Bank left after closure of the bank have been disbursed and deposited to our general savings account at Bank of Hawaii on (3/22/07). This time we do not have any TCD account in anywhere.

Finding No. 3: Performance Report

Kayangel State does have the annual “**financial performance**” report beginning on the year 2000. As much as possible, we did and have been trying to comply with the so-called “performance budgeting” format with guidance and assistance from the Ministry of Finance. This report is being formatted to accommodate our duties within our constitution.

Finding No. 4: Unsupported payment to the former Governor

Most original documents of such expenditures are being obtained by the Special Prosecutors Office; “Case Pending”. Existing State Laws in regards to the same expenditures mentioned within your findings are also being reviewed by the court. Our letter has been sent to the office of the special prosecutor asking for the return of our documents. To date we have not received any response.

Finding No. 5: Unsupported Payment of Legislators Official Expenses

Documents in relation to these expenses are also being retained by the Office of the Special Prosecutor; “Case Pending”. State Laws and Regulations in relation to these expenditures are yet to be determined by the court. Our offices continue collect any legitimate justification from recipient of such funds.

Finding No. 6: Cash Receipts.

Collection of Revenues such as Block Grant, Fishing Right, and minimal Local Revenue are being evidenced by bank deposits to include copies of Block Grant and Fishing Right Checks. Today we have ordered a set of receipt book from WCTC to record any payment received. We are also now trying to design ways to record our minimal local revenue with the same receipt book. We do hope that this issue be resolved by this specific corrective measure. Further

procedures in terms of coordination amongst our offices in Kayangel and Koror will be implemented somehow once we reorganize duties and responsibilities of our existing staff to accommodate this specific issue.

Finding No. 7: Purchase/ Disbursement

We need to review these specific disbursements of funds in order to justify its purpose and figure out any missing justification. We do purchase and disburse on a daily basis by way of quotation, invoice, receipts, statements, and purchase order. All justification should be attached to any check disbursed for filing purpose. Again, our office will definitely locate any and all justification in relation to the stated expenditures.

Finding No. 8: Fuel Expense

All fuel expenses are being justified by its invoices and statements attached to each check being disbursed. Purpose for fuel expenses are being identified through our chart of account, under our annual budget. As recommended through this draft audit findings, we now have designed an additional process to state our purpose of fuel usage to be authorized by the Governor. About 90% of our fuel expenses are to fuel our state boats between Koror and Kayangel. The rest goes to vehicles in Koror and Kayangel. Others go to Road Maintenance and other ongoing infrastructure projects in Kayangel. We are now compiling all our expense transactions to include fuel expenses, but due to shortage of staffing and ongoing investigation of expenses by the office of the special prosecutor, it will take us months to complete our files and truly identify any and all necessary documents or justifications.

Finding No. 9: Appropriation Budget

Our office does have files of appropriation budget. Annual Budget Act is probably the most important peace of Legislation being enacted annually in order for us to be able to operate our government. Our original budget bills to include other legislations have been moved many times. First to Law Office of Gerald Marruk for the purpose of printing or encoding state laws, then to other print shop for the purpose of printing our own laws, then the office of the special prosecutor, lastly our latest movement from our previous office in Dngeronger to Meyns. With all this, we still have to locate any missing budget bills, and retrieve for appropriate filing within our office

Finding No. 10 Bank Reconciliation

We do admit that we have not been up to date on our reconciliation of bank statement. As recommended, we shall comply.

Finding No. 12: Procurement

For urgent need of our state in terms of transportation between Babaeldaob and Kayangel, we did collect outboard engine quotation from known local vendors and decided to purchase from Neco Yamaha. This decision came about due to proven reliability of their boat engines based on our past experience with the same product. Product prices were also reasonable. As everyone knows, we do have only one speed boat traveling between Kayangel and Koror to accommodate our citizens, especially on medical emergency situation. Our action was not to avoid existing procurement law, but accommodate urgent need our citizens due to breakdown of our previous boat engines. We will retrieve and provide any and all available justification of such expenditure within our possession.

Important Note: *With the above explanation, we do humbly ask that we continue to work together to resolve these findings. We do admit that our filing system needs major improvement in order for us to really locate appropriate files and justify the above, especially over a span of some years. Justifications above do reflect some of our files found, to include recollection of information. This time we still continue to collect documentation stored in old files, boxes, and folders in Kayangel and Koror Office. Other effort is to work with the former Governor to gather information and understanding of previous record keeping. We do ask that this draft report remain as is while we continue to collect and provide legitimate and necessary documentation, which we do believe we have but scattered amongst our offices and disorganized files...*