



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

PERFORMANCE AUDIT REPORT

ON



ANGAUR STATE GOVERNMENT
REPUBLIC OF PALAU

PERIOD COVERED

OCTOBER 1, 2001 THROUGH SEPTEMBER 30, 2006

Performed by the Office of the Public Auditor

ANG01-06-P03



REPUBLIC of PALAU

Office of the Public Auditor

P.O. BOX 850
KOROR, PALAU 96940
TEL: (680) 488-2889
FAX: (680) 488-2194
HOTLINE: (680) 488-5687
E-MAIL: palau.public.auditor@palaunet.com

June 30, 2009
Serial#: opa09-157au

Honorable Steven Salii
Governor
Angaur State Government
Office of the Governor
Koror, Republic of Palau

Subject: Final Report on the Audit of Angaur State Government for the period from October 1, 2001 to September 30, 2006.

Dear Governor Salii:

This report presents the results of our audit of Angaur State Government for the period from October 1, 2001 to September 30, 2006.

The Office of the Public Auditor (OPA) received your response to the draft audit report. The response (without the attachments) is published verbatim in the final 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 response 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 presiding 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 horizontal line.

Satrunino Tewid
Acting Public Auditor
Republic of Palau

Angaur State Government

Republic of Palau

Period from October 1, 2001 to September 30, 2006

Table of Contents

<u>Performance Audit Report on Angaur State Government</u>	<u>Page No.</u>
I. Executive Summary	1-4
II. Background	5
III. Objective, Scope and Methodology	5-6
IV. Prior Audit Coverage	6
V. Detailed Findings:	
1. Cash Management	7
2. Revenue/Receipts	7-8
3. Petty Cash	8-9
4. Cash Disbursements/APV	9
5. Accounts Payables	9-10
6. Accounts Receivable	10
7. Fixed Assets	11
8. Procurement	11-12
9. Expenditures Classification	12-13
10. Audit Documents	13-14
11. Governor's Compensation	14
12. Withholding Taxes	14-15
13. Payroll/Personnel Files	15-16
14. Prior Year Outstanding Loans	16
15. Expenditures/Disbursements	16-19



REPUBLIC of PALAU

Office of the Public Auditor

P.O. BOX 850
KOROR, PALAU 96940
TEL: (680) 488-2889
FAX: (680) 488-2194
HOTLINE: (680) 488-5687
E-MAIL: palau.public.auditor@palaunet.com

June 30, 2009

Honorable Steven Salii
Governor
Angaur State Government
Koror, Republic of Palau

Dear Governor Salii:

This report presents the results of our performance audit of the Angaur State's expenditures, cash receipts, earmarked CIP appropriations, and systems of internal controls. The Office of the Public Auditor performed the audit and prepared a report on its findings and recommendations as they relate to the financial operations of the State for fiscal years 2002 to 2006.

The objective of the audit was to determine whether: (1) expenditures were incurred in accordance with national and state government laws and regulations, including competitive bidding, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts were supported by adequate supporting documentation, (4) funds earmarked by the Olbiil Era Kelulau for specific CIPs or programs were expended for purposes for which they were appropriated and earmarked, and (5) the state had established proper internal controls to ensure proper safeguarding of its properties and transactions were properly recorded.

As a result of the review, the Office of the Public Auditor found a number of problems and deficiencies noted below relating to the administration of Angaur 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, our audit disclosed that the State did not perform monthly bank reconciliations of its bank accounts.

Second, the State did not issue cash receipts from fiscal year 2002 through 2006 to support revenue collections and their deposit into the State's bank accounts.

Third, the State was operating a petty cash fund without established policies and procedures.

Fourth, we found that disbursements of State funds were processed without prior authorization on “Cash/Check Received” forms used by the State to control disbursements.

Fifth, the State has not established a record keeping system to account for its obligations.

Sixth, the State has not established a record keeping system to account for its accounts receivables.

Seventh, the State has not established a record keeping system to account for its fixed assets.

Eighth, the State did not comply with RPPL No. 3-54, Procurement Law and Regulations, in the procurement of goods and services greater or equal to \$5,000.

Ninth, the State did not classify expenditures in accordance with the breakdown of the State’s appropriation budget, including expenditures for Capital Improvement Projects earmarked by the Olbiil Era Kelulau for specific purposes.

Tenth, the State was unable to locate and provide documentation to sustain an audit for years 1998 through 2001.

Eleventh, we found that in fiscal year 2001, the Governor approved his own salary increase from \$450.00 to \$1,371.09 bi-weekly, an increase of 305%, without authorization from Olbiil Era Ngeaur.

Twelfth, for those employees paid by the State, we found the State was not withholding social security, pension plan, and income taxes from employees’ pay.

Thirteenth, we found the State has not established a payroll system for its employees.

Fourteenth, we found that in fiscal year 1997 the State obtained two (2) separate loans totaling \$31,559 without prior approval from the Olbiil Era Kelulau.

Fifteenth, in our testing of expenditures for the period covering fiscal year 2002 through 2006, we found \$154,705.39 of disbursements without adequate supporting documentation.

Recommendations

To correct the above deficiencies, we recommend the Governor of Angaur State implement the following recommendations:

First, we recommend the Governor perform monthly bank reconciliations of the State's bank accounts in order to effectively manage and monitor the State's cash activities.

Second, we recommend the State issue cash receipts to evidence revenue collections and to support the deposit of collections.

Third, we recommend the Governor establish policies and procedures for operating a petty cash fund, including the requirements for funding and replenishing the fund.

Fourth, we recommend the Governor implements the use of an Accounts Payable Voucher as a disbursement control document to evidence prior approval of disbursements, certification of funds availability, classification of the expenditures, etc.

Fifth, we recommend the Governor establish and implement a record keeping system to record and keep track of its obligations.

Sixth, we recommend the Governor establish and implement a record keeping system to record and keep track of its accounts receivables.

Seventh, we recommend the Governor establish a record keeping system to record and account for its fixed assets.

Eighth, we recommend the Governor complies with the requirements of RPPL No. 3-54; specifically, the requirement that any procurement of goods and or services costing \$5,000 or more be competitively bid.

Ninth, we recommend the Governor record and classify expenditures according to the breakdown of the State's appropriation budget, including CIPs earmarked by the Olbiil Era Kelulau for specific purposes.

Tenth, we recommend the Governor keeps proper records of all transaction and files, and to ensure the proper safekeeping of the same for audit and other related purposes.

Eleventh, we recommend the Governor complies with State laws when executing salary increases for State employees.

Twelfth, we recommend the Governor withhold from employees' pay social security, pension, and income taxes and remit them together with employers' contribution to the appropriate agency.

Thirteenth, we recommend the Governor establish a payroll system for State employees, which payroll system should include, but not limited to, personnel jackets containing personnel action forms, employee promotion and demotion documents, disciplinary actions, allotment deductions, etc.

Fourteenth, we recommend the Governor obtain prior approval from the OEK before negotiating any debt financing schemes.

Fifteenth, we recommend the Governor establish stricter requirements on disbursement of State funds to ensure that each and all expenditures are supported by adequate supporting documents (i.e. invoices, timesheets, contracts, etc.)

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*, *resolve*, 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 June 15, 2009 the Office of the Public Auditor received a response to the Draft Audit Report from the Governor of Angaur State. The response essentially agrees with all the findings and recommendations in the report. Based on the response, the Angaur State has provided an action plan to correct the findings and/or implement the audit recommendations. The Office of the Public Auditor will conduct follow up procedures to ensure that corrective actions are taken and/or audit recommendations are timely implemented.

Finally, the Office of the Public Auditor would like to thank the staff and management of the Angaur State Government for the professional courtesy and cooperation extended to us during the audit.

Sincerely,



Satrunino Tewid
Acting Public Auditor

Background

Angaur State is one of the sixteen States of the Republic of Palau organized and structured pursuant to Article XI, Section 1, of the Constitution of the Republic of Palau and Angaur State. The Angaur State Constitution was adopted and approved on October 8, 1982. Pursuant to its Constitution, the Angaur State is organized into three branches: namely, the Executive, Legislative, and the Judicial Branch.

Pursuant to Article IX, Section 1 of the Constitution, the executive power of the State of Angaur shall be vested in the chief executive who shall be called the Governor. The Governor shall serve a two (2)-year term. The Governor shall have power to appoint heads of the executive branch subject to advice and consent of Olbiil Era Ngeaur. The Governor shall submit the state annual budget to the Olbiil Era Ngeaur during its July regular session. The Olbiil Era Ngeaur may, by law, prescribe monetary compensation of the Governor.

The Legislative power of the State of Angaur shall be vested in the Legislative branch, which shall be called the “Olbiil Era Ngeaur”. The Olbiil Era Ngeaur shall consist of the four (4) high chiefs of the State of Angaur and five (5) other members who shall be elected at-large. Members of the Olbiil Era Ngeaur shall serve a two (2)-year term. Each Olbiil Era Ngeaur may, by law, prescribe monetary compensation of the members of the succeeding Olbiil Era Ngeaur; provided that no outgoing Olbiil Era Ngeaur shall decrease compensation of the incoming legislators. No sitting Olbiil Era Ngeaur shall increase the compensation of its own elected members.

The Judicial power of Angaur State shall be as prescribed under Article X of the Constitution of the Republic of Palau, provided the State of Angaur shall reserve the right to establish its own judicial system at the time which the state shall determine appropriate.

Budget and Finance

The State’s Constitution requires that the Governor submit to the State Legislature an annual budget for State operations. Article XI, Section 1, of the State’s Constitution states: “There shall be an Angaur State Treasury into which all revenues derived from taxes and other sources except Angaur Trust Funds shall be deposited. No funds shall be withdrawn from the Treasury except by law. In addition, Section 6 states: “No officer or employee of Angaur State Government shall obligate or expend money for any purpose in excess of the amount of funds for which they were appropriated.

Objective, Scope and Methodology

The objective of the audit was to determine whether: (1) expenditures were incurred in accordance with national and state government laws and regulations, including

competitive bidding, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts were supported by adequate supporting documentation, (4) funds earmarked by the Olbiil Era Kelulau for specific CIPs or programs were expended for purposes for which they were appropriated and earmarked, and (5) the state had established proper internal controls to ensure proper safeguarding of its properties and transactions were properly recorded.

The State was not able to provide documentation for fiscal year 1998 through fiscal year 2001. Consequently, we were unable to conduct audit procedures and report our findings and conclusions, if any, for the above fiscal years. The unavailability of records and documents limited the scope of the audit to cover only the period from October 1, 2001 through 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 account within those financial statements and therefore express no opinion on the financial statements.

We conducted this performance 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.

To accomplish our audit objective, we reviewed accounting records maintained at the office of Angaur State, including budgetary laws and other relevant laws and regulations. We also reviewed records maintained at the Bureau of National Treasury. In addition, we examined relevant sections of the Republic of Palau's (National Government) Unified Budget Acts and other applicable laws and regulations. Finally, we met and discussed these issues and related matters with the State officials as appropriate under the circumstances.

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.

Prior Audit Coverage

In the 1990's the Office of the Public Auditor (OPA) had been conducting financial statement audits of Angaur State. The most recent financial statement audit of the State was completed for fiscal year 1997. Since then, there have not been any audits conducted by the OPA or a private accounting firm on Angaur State.

Cash Management

Finding No. 1

Effective cash management dictates that monthly bank reconciliations be performed to establish a reliable and accurate system to account for and monitor the State's cash activities.

In our audit, we found that the State did not perform monthly bank reconciliations of its checking account balance with that of the bank.

Management did not give high priority to performing monthly bank reconciliation.

The state cannot effectively manage its bank accounts. Consequently, errors or other irregularities and bank charges may occur without timely detection by the State.

Recommendation: We recommend the State perform monthly bank reconciliations of its bank accounts. Doing so will enable the State to detect errors or other irregularities and record bank service charges in a timely manner.

Auditee Response: *Point well taken to ensure effectiveness and accountability. We have already started performing monthly bank reconciliations of our bank accounts to improve our cash management system.*

Revenue/ Receipts

Finding No. 2

Cash receipts evidence collections and support deposits into the State Treasury. Cash receipts also provide a basis for revenue classifications and, ultimately, preparation of financial statements.

From fiscal year 2002 through 2006, the State did not issue cash receipts to support revenue collections and their deposit. Hence, we were not able to assure ourselves as to the following:

- (1) Proper classification of revenues and their deposit
- (2) Agree total revenue collection to deposits
- (3) Timely deposit of collections

The Governor has not implemented a cash receipts accounting system to ensure the integrity of cash receipts.

As a result, \$430,986.74 of collections tested from fiscal year 2002 through 2006 were not supported with cash receipts. In addition, we were unable to assure ourselves as to the total revenue collections, their classification, and deposit.

Recommendation: We recommend the State establish a cash receipts accounting system with the following components:

- (1) Issue cash receipts in proper numerical sequence to evidence collections;
- (2) Cash receipts journal to record and classify revenues;
- (3) File cash receipts chronologically with the corresponding bank-validated deposit slips.

Auditee Response: *At this point, receipts are issued for cash/check received for all activities, except for fees paid by individuals for personal fare and cargo, unless invoices are required. Exceptions are listed on a separate form including amount received. This, we hope, improves our revenue collection efforts and verification thereof whether payment was received or if it is accounts receivable.*

*We are working on establishing an improved **cash receipts accounting system** to include the three (3) mentioned components.*

Petty Cash

Finding No. 3

A sound system of internal control requires that policies and procedures be established for operating a petty cash fund.

During the audit, we found that the State was operating a petty cash fund without essential policies and procedures to control its operation.

The State had not established policies and procedures for operating the petty cash fund to ensure that expenses are accounted for and supporting documents are maintained to support disbursements.

As a result, the State had overdrawn the petty cash fund by \$143.23 as of July 17, 2003. In addition, disbursements were not properly accounted for and lacked proper supporting documents.

Recommendation: We recommend that all revenue collections be deposited into the State Treasury. If the State requires the use of petty cash, then the Governor should establish a Petty Cash Fund together with the essential policies and procedures for operating the fund. At a minimum, the policies and procedures should establish the maximum amount (limit) of the Petty Cash Fund, nature of items to be purchased with petty cash, replenishment process, filing of supporting documents, etc. The Petty Cash Fund should only be established and replenished by drawing a check from the General Fund to the petty cash fund for a specified amount. At any time, the sum of all invoices and receipts plus the balance of the petty cash fund should equal the established limit.

Any discrepancies should be investigated and brought to the attention of the Governor for proper disposition.

Auditee Response: *We are working on establishing a **petty cash fund system** and that will have requirements that insures accountability and validity.*

Cash Disbursements/APV

Finding No. 4

A sound system of internal control involves the use of a disbursement control form to evidence prior approval of disbursements, certification of funds availability, identification of account to be charged, etc.

During the audit, we found that the State was utilizing a disbursement control form titled “Cash/Check Received for Payment”. Although the form contained the essential disbursement control elements (i.e. payee, approval, certification, etc.), it lacked a line item for identifying the account to be charged. In addition, the control element called “certification” does not specify what is being certified.

It appears the State does not understand the importance and purpose of the disbursement control form and, as such, has not acted to modify the form to accomplish its purpose.

As a result, the existing disbursement control form used by the State is inadequate and is not accomplishing the level of control to ensure the integrity of the disbursement process.

Recommendation: We recommend the Governor implements the use of an Accounts Payable Voucher as a disbursement control document to evidence prior approval of disbursement, certification of funds availability, identification of account to be charged for the expenditure, etc. The APV is used by a majority of state governments.

Auditee Response: *We are working on establishing **accounts payable voucher form** to be used for **cash disbursements**. It is proper process to document certification of funds availability, account identification and prior approval before cash disbursement is made.*

Accounts Payables

Finding No. 5

A sound system of internal control dictates that accounts payable be recorded into the State’s financial records to facilitate monitoring and timely payment of obligations.

The State was unable to provide a detailed schedule of its accounts payable.

The State has not established a system to record and keep track of its accounts payable.

As a result, State obligations may be understated in its financial records. In addition, without up to date records of accounts payable, the process of conducting cash flow analysis and prioritizing payment of obligations becomes difficult. Moreover, if outstanding obligations are charged interests, it would be difficult for the State to reconcile or verify the accuracy of outstanding accounts claimed by vendors as being owed by the State.

Recommendation: We recommend the state establish and implement a record keeping system to record and keep track of its accounts payable. Once implemented and maintained, it would enable the State to keep up-to-date records of its accounts payable. This would facilitate performance of cash flow analysis and prioritizing payment of obligations. The process will also facilitate reconciliation and verification, especially when vendors charge interests for outstanding accounts, to ensure the accuracy of balances claimed by vendors to be owed by the State.

Auditee Response: *We are working on establishing our **accounts payable record keeping** system. As you said, this will help us keep our records updated and help us in our cash flow analysis and prioritizing payment of obligations.*

Accounts Receivable

Finding No. 6

A sound system of internal control requires that all accounts receivable be recorded into the State's financial records to facilitate monitoring and collection.

The State was unable to provide a detailed schedule of its accounts receivable.

The State has not established a record keeping system to record and keep track of its accounts receivable.

As a result, the State may not know the balance of its accounts receivable.

Recommendation: We recommend that the State establish and implement a record keeping system to record and keep track of its accounts receivable. Once the system is implemented, the State should continue to maintain and monitor the system to improve and strengthen collections on outstanding receivables.

Auditee Response: *We are working on establishing our **accounts receivable record keeping system** that will help us keep track of due payments and to strengthen our collections efforts to increase the revenue of the State and keep our accounts receivable at a minimal level.*

Fixed Assets

Finding No. 7

A fixed asset accounting system is essential to properly account for the acquisition and disposing of fixed assets. Furthermore, policies and procedures are essential to identify State properties and to safeguard the same against unauthorized use or disposition.

The State's fixed asset accounting system was inadequate. Although the State produced a listing of fixed assets, the listing did not provide vital information such as date of acquisition, check #., name of vendor, location of asset, etc. In addition, a list of fixed assets disposed or retired during the past years was not provided.

The State has not placed high priority on establishing a fixed asset accounting system.

The State is unable to account for, monitor, and safeguard its fixed assets. Furthermore, fixed assets may be overstated or understated within the State's financial records.

Recommendation: We recommend the Governor establish a fixed asset accounting system to record acquisitions, disposals, and perform periodic inventory of the State's fixed assets. The fixed asset accounting system should include the following:

1. Procedures to record fixed asset acquisitions, which include the acquisition date, description, acquisition cost, vendor, location and condition;
2. Procedure for conducting periodic physical inventory, surveying of condition, location, and retirement of fixed assets.

Auditee Response: *We are working on improving our **fixed asset accounting system** to ensure that all purchased and disposed assets are properly accounted for and documented, including performance of periodic inventory.*

Procurement

Finding No. 8

The Republic of Palau Public Law No. 3-54, Procurement Law and Regulations, Section 25, requires that any procurement by the state government of \$5,000 or more shall be competitively bid.

From fiscal year 2002 through 2006, the State did not follow competitive bidding procedures when procuring goods and services such as a speed boat, boat repair/overhaul and parts, services for a waterline project, and Angaur State dock project.

The State procurement officer lacked understanding of the requirements of RPPL No. 3-54 as it applies to State procurement activities, particularly procurements greater or equal to \$5,000.

As a result, in particular to the above-noted procurements, the procurement process used was in violation of RPPL No. 3-54. In addition, due to lack of competitive bidding, we were unable to assure ourselves that the State received the lowest price and best product quality for the money it paid for the goods or services. Moreover, due to lack of competitive bidding, Questioned Costs in amount of \$130,192.14 exist.

Recommendation: We recommend the Governor conduct the State’s procurement activities in accordance with the requirements of the Republic of Palau’s Procurement Law and Regulations. Specifically, any procurement of goods or services costing \$5,000 or more should be subject to competitive bidding. Furthermore, the State’s procurement officer should consult with the National Government’s Procurement Officer for goods and services as to the applicability of RPPL No. 3-54 on the State’s procurement activities.

Auditee Response: *It is the intent of this State of Angaur, under my administration, to follow applicable national procurement law as in RPPL 3-54, Section 25, relating to bid requirements for \$5,000 or more.*

Expenditures Classification

Finding No. 9

Article XI, Section 1, of Angaur State Constitution states in part: ...No funds shall be withdrawn from the State Treasury except by law. In addition, Article XI, Section 6, further declares: “No officer or employee of the Angaur State Government shall obligate or expend money for any purpose in excess of the amount of funds for which they were appropriated”. Moreover, expenditures relating to earmarked block grants for specific programs or capital improvement projects (CIP) should be recorded separately to account for the costs of each project or program.

During the audit, we found that State expenditures were not classified according to the line items in the State’s appropriation budget. Likewise, expenditures related to earmarked block grants (i.e. CIPs) were not classified to keep track of and to account for the costs of the projects or programs.

The cause of the above condition is an inadequate accounting system that does not facilitate the proper recording and classification of expenditures to parallel the line item format in the State’s appropriation budget.

As a result, the methodology used by the State to record and account for its expenditures does not foster monitoring and enforcement of Article XI, Section 1 and Section 6 of the

State's Constitution. Furthermore, the system does not accurately account for the costs of CIPs.

Recommendation: We recommend the Governor record and classify expenditures according to the line item format contained in the State's appropriation budget. Such an accounting system would facilitate monitoring of expenditures and enforcement of Article XI, Section 1 and Section 6 of the State's Constitution. In addition, the system would enable the State to keep track of and maintain accurate and up-to-date information on costs of CIPs and other earmarked block grant programs. Lastly, classification of expenditures would provide historical information with which the State can use to prepare State budgets.

Auditee Response: *The office shall record and classify expenditures respective to the line items format in the State's appropriation budget. Doing this will help monitor expenditures, maintain accurate cost of CIPs, including earmarked block grants while enforce the State's Constitution.*

Audit Documents

Finding No. 10

A sound system of internal control dictates that all transactions underlying the financial activities of the State, including the records and documents that support those transactions, be maintained and retained to enhance accountability and transparency in the use of public resources. In addition, 40 PNCA, Section 280(a), states: "All agencies shall enter into their public records sufficient information for a proper audit, and shall make the same available to the Public Auditor at his request".

During the audit, we found the State was unable to provide records and documents to facilitate an audit for the period covering October 1, 1997 through September 30, 2001.

It appears that the Governor during this time period did not maintain and retain records and documents to support the financial activities of the State and to facilitate an audit.

The State is unable to substantiate its financial activities during the above period. In addition, the inability of the State to produce the records and documents to enable the Office of the Public Auditor to conduct an audit violated 40 PNCA, Section 280(a).

Recommendation: We recommend the Governor maintains and retains proper records to support the underlying financial transactions of the State. Such records should be kept and filed in an orderly manner for use by the State and for audit purposes upon request by the Public Auditor.

Auditee Response: *This administration was unable to find records and/or documents for 01 October 1997 to 30 September 2001. It is the intent of this Governor to ensure that **this office maintain and retains proper records in a systematic manner** to support financial transactions of the State.*

Governor's Compensation

Finding No. 11

Article IX, Section 8, of the Angaur State Constitution states: “The first Governor of the State of Angaur shall receive annual monetary compensation, the amount of which shall be set by an ordinance by the Angaur Minicipal Council. Thereafter, the Olbiil Era Ngeaur may, by law, prescribe monetary compensations of the succeeding Governors; provided, however, that no Governor shall receive compensation less than the amount received by the one immediately preceding him, except as a result of a general salary adjustment affecting government employees.”

During the audit, we found that in fiscal year 2001 the Governor's compensation increased from \$450.00 to \$1,371.09 bi-weekly, a 305% increase, without proper authorization from the Olbiil Era Ngeaur. In addition, this particular Governor signed his own compensation increase.

It appears the Governor exercised unilateral authority to increase his compensation without authorization by Olbiil Era Ngeaur as required by the Angaur State Constitution.

The Governor did not comply with Article IX, Section 8 of the State's Constitution.

Recommendation: We recommend the Governor complies with Article IX, Section 8 of the State's Constitution when executing an increase in his compensation.

Auditee Response: *Point well taken relating to **Governor's compensation** requiring compliance with Article IX, Section 8 of the State's Constitution.*

Withholding Taxes

Finding No. 12

The Angaur State should comply with the Republic of Palau laws pertaining to the withholding of Social Security, Pension Plan, and Income Taxes from State employees' pay and remitting them together with the employer's contributions to the appropriate government agency.

Angaur State failed to withhold Social Security, Pension Plan, and Income Taxes from employees paid directly by the State. In addition, we found no evidence to show that the State paid the employer's contribution for these employees.

We were unable to determine the cause of the above condition.

Due to the above actions, the State may have violated RPPL No. 3-21, Section 1 and 2; PNC Title 40, Section 1102; Title 33, Section 2030; and Title 41, Section 743 and 744.

Recommendation: We recommend Angaur State deduct and withhold from employees' pay taxes for Social Security, Pension Plan, and Income Tax and remitting the withholding taxes together with the appropriate employer's contributions to the appropriate government agency.

Auditee Response: *We are working toward to establish a accurate and systematic way to deduct and withhold from employees' pay taxes and Social Security, Pension Plan, and Income Tax from the employees and to remit the same to appropriate government agency. This applies to employees who are paid with checks from the State.*

Payroll/Personnel Files

Finding No.13

The State should establish a payroll system with adequate controls to ensure that employees are paid only for actual hours worked as evidenced by timesheets, at rate of pay authorized by a personnel action form, and that all personnel actions are properly documented and maintained in an employee personnel file.

The payroll system for employees paid directly by the State was inadequate. Detailed bi-weekly timesheets showing hours worked were not provided by the State. In addition, the State did not provide personnel action forms showing rate of pay for employees.

The State has not established a payroll system for employees paid directly by the State.

Due to inadequacies in the payroll system, employees are being paid without timesheets showing actual hours worked and personnel action forms evidencing authorized rate of pay.

Recommendation: We recommend the State establish a payroll system that ensures employees are paid based on daily attendance reports (timesheets). In addition, each employee should have a personnel jacket which contains, among other things, a personnel action form, employee position, promotions, allotment deductions, etc.

Auditee Response: *We are working to establish a **payroll and personnel file system** for payroll to reflect on accurate timesheets and maintaining a relevant file on each employee.*

Prior Year Outstanding Loans

Finding No. 14

A sound system of internal control dictates that the State accounts for its long-term debt, structures a payment plan for its repayment, and complies with legal requirements for entering into such debt arrangements.

In fiscal year 1997, the State obtained two separate loans totaling \$31,559 from a local financial institution without prior approval from the Olbiil Era Kelulau. In addition, the State has not structured a payment plan for the repayment of the loan and has not discussed with the receiver (former bank is presently under receivership) regarding the status of the outstanding loan and accumulated interests.

The cause of the above condition is unknown.

As a result, the State violated the Republic of Palau Constitution by obtaining a loan without prior approval from the Olbiil Era Kelulau. In addition, we were unable to determine the status of the loan (whether it's in default) due to lack of documentation and the fact that the former bank is presently in bankruptcy.

Recommendation: We recommend the Governor discuss the status of the loan (principal and interests) with the receiver for the bank to determine the responsibility of the State, negotiate for the restructuring of the loan, suspension of interest charges, and payment plan. In addition, in the future, we recommend the Governor obtain prior approval from the Olbiil Era Kelulau before negotiating any debt financing schemes.

Auditee Response: *This Governor will look into this **prior year outstanding loan** with a financial institution presently under receivership.*

Expenditures/Disbursements

Finding No. 15

A sound system of internal control requires that all expenditures be supported by adequate documentation (invoices, contracts, travel documents, competitive bidding, etc.) to justify the propriety of expenditures.

During our audit we found the following disbursements were made without adequate supporting documentation:

Fiscal Year	Date	Check No.	Amount	Reason	No Bidding Documents
2002	10/5/2001	4746	\$ 400.00	No supporting documents	
2002	10/12/2001	4757	71.32	No supporting documents	
2002	10/15/2001	2	1,500.00	No supporting documents	
2002	10/15/2001	4759	1,123.93	No supporting documents	
2002	10/18/2001	4772	500.00	Cash/No supporting documents	
2002	11/15/2001	1001	2,805.00	No bidding documents	\$ 2,805.00
2002	11/16/2001	1008	3,500.00	No bidding documents	3,500.00
2002	11/23/2001	4808	1,030.00	No supporting documents	
2002	12/14/2001	1010	1,411.40	No supporting documents	
2002	1/15/2002	1333	300.00	No supporting documents	
2002	1/31/2002	1341	250.00	No supporting documents	
2002	2/18/2002	4874	35.00	No supporting documents	
2002	3/5/2002	4883	247.20	No supporting documents	
2002	3/26/2002	4897	237.80	No supporting documents	
2002	4/1/2002	1	34,806.05	No bidding documents	34,806.05
2002	5/7/2002	1375	460.57	No supporting documents	
2002	7/16/2002	1428	150.00	No supporting documents	
2002	7/31/2002	5	2,500.00	No bidding documents	2,500.00
2002	8/6/2002	6	300.00	No supporting documents	
2002	8/16/2002	1441	250.00	No supporting documents	
2002	8/20/2002	22	400.00	No supporting documents	
2002	9/6/2002	34	539.97	No supporting documents	
2002	9/6/2002	1447	176.00	No supporting documents	
subtotal			\$ 52,994.24		\$ 43,611.05
2003	10/1/2002	1484	\$ 176.00	No supporting documents	
2003	11/9/2002	12	164.76	Cash/No supporting documents	
2003	1/13//2003	62	50.00	Cash/No supporting documents	
2003	1/20/2003	1	2,500.00	No bidding documents	\$ 2,500.00
2003	4/18/2003	110	200.00	No supporting documents	
2003	5/13/2003	1001	1,000.00	No supporting documents	
2003	4/21/2003	113	242.45	No supporting documents	
2003	4/21/2003	1023	8,038.36	No bidding documents	8,038.36
2003	5/15/2003	5077	150.00	No supporting documents	
2003	6/3/2003	134	60.00	No supporting documents	
2003	6/3/2003	135	60.00	No supporting documents	
2003	6/3/2003	1024	17,225.04	No bidding documents	17,225.04
2003	6/4/2003	104	3.25	No supporting documents	
2003	6/5/2003	105	30.00	Cash/No supporting documents	
2003	6/9/2003	142	60.00	No supporting documents	
2003	6/10/2003	183756	5,800.00	No bidding documents	5,800.00
2003	6/13/2003	1002	1,500.00	No supporting documents	
2003	6/20/2003	5109	210.00	No supporting documents	
2003	9/22/2003	206	49.80	No supporting documents	
subtotal			\$ 37,519.66		\$ 33,563.40
2004	12/10/2003	5236	250.00	No supporting documents	
2004	12/19/2003	5248	500.00	No supporting documents	
2004	12/23/2003	5254	1,534.40	No supporting documents	

2004	1/21/2004	317	125.00	No supporting documents	
2004	1/28/2004	5279	50.00	No supporting documents	
2004	2/3/2004	328	80.24	No supporting documents	
2004	2/6/2004	5288	132.00	No supporting documents	
2004	2/25/2004	351	35.00	No supporting documents	
2004	3/12/2004	5313	180.00	Cash/No supporting documents	
2004	3/30/2004	377	300.00	No supporting documents	
2004	5/7/2004	1036	5,000.00	No bidding documents	5,000.00
2004	5/17/2004	5364	100.00	No supporting documents	
2004	5/31/2004	411	2,501.30	No supporting documents	
2004	6/11/2004	425	120.00	No supporting documents	
2004	7/12/2004	1045	6,117.10	No bidding documents	6,117.10
2004	8/7/2004	5400	150.00	No supporting documents	
2004	8/13/2004	1046	3,124.20	No bidding documents	3,124.20
2004	9/29/2004	1047	<u>12,423.71</u>	No bidding documents	<u>12,423.71</u>
subtotal			\$ 32,722.95		\$ 26,665.01
2005	12/20/2004	1057	3,105.93	No bidding documents	3,105.93
2005	1/5/2005	563	132.00	No supporting documents	
2005	4/6/2005	612	1,395.70	No supporting documents	
2005	5/23/2005	5535	660.66	No supporting documents	
2005	8/24/2005	700	300.00	No supporting documents	
2005	9/2/2005	1067	<u>255.00</u>	No supporting documents	
subtotal			\$ 5,849.29		\$ 3,105.93
2006	10/12/2005	1070	2,976.17	No bidding documents	2,976.17
2006	11/17/2005	15	120.00	Cash/No supporting documents	
2006	12/30/2005	53	1,297.50	Cash/No supporting documents	
2006	3/17/2006	5607	150.00	No supporting documents	
2006	3/31/2006	1078	7,820.58	No bidding documents	7,820.58
2006	4/12/2006	5634	500.00	No supporting documents	
2006	5/2/2006	1080	3,000.00	No bidding documents	3,000.00
2006	5/4/2006	5680	55.00	No supporting documents	
2006	5/4/2006	5678	250.00	No supporting documents	
2006	6/6/2006	1085	3,450.00	No bidding documents	3,450.00
2006	6/27/2006	1090	<u>6,000.00</u>	No bidding documents	<u>6,000.00</u>
subtotal			\$ 25,619.25		\$ 23,246.75
Total			\$ 154,705.39		130,192.14

The State may not have followed proper bidding and record keeping procedures.

As a result, questioned costs of \$154,705.39 exist. In addition, we were unable to determine if the State obtained the lowest price or best quality of goods and services procured.

Recommendation: We recommend the Governor ensure all cash disbursements are properly supported. Additionally, the State should ensure that it complies with the competitive bidding requirements when procuring goods or services costing \$5,000 or more. Lastly, we recommend the Governor locate and provide to the Office of the Public Auditor supporting documents for each of the above questioned costs for its review and resolution to avoid possible suspension of the State's block grant for each unresolved questioned costs.

Auditee Response: *This Governor will ensure that all cash disbursements are properly supported and bidding (if needed) requirements are complied with.*

**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**

**Ground Floor
Orakiruu Professional Building
Madalaii, Koror, Palau**

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

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

(Closed on Legal Holidays)