



**OFFICE OF THE PUBLIC AUDITOR**  
**REPUBLIC OF PALAU**

**PERFORMANCE AUDIT REPORT**

ON



**NGARCHELONG STATE GOVERNMENT**  
**REPUBLIC OF PALAU**

**PERIOD COVERED**

**OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2006**

**Performed by the Office of the Public Auditor**

**NGL01-06-P12**



## REPUBLIC of PALAU

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Office of the Public Auditor

April 28<sup>th</sup>, 2011  
Serial#: opa092au

Honorable Browny Salvador  
Governor  
Ngarchelong State Government  
Office of the Governor  
Ngerchelong, Republic of Palau

**Subject: Final Report on the Performance Audit of Ngarchelong State Government for the period from October 1, 2000 through September 30, 2006.**

Dear Governor Salvador:

This report presents the results of our performance audit of Ngarchelong State Government for the period from October 1, 2000 through 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 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 horizontal line.

Satrunino Tewid  
Acting Public Auditor  
Republic of Palau

# **Ngarchelong State Government**

## **Republic of Palau**

Period from October 1, 2000 to September 30, 2006

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Office of the Public Auditor

## EXECUTIVE SUMMARY

April 28<sup>th</sup>, 2011

Honorable Browny Salvador  
Governor  
Ngarchelong State Government  
Office of the Governor  
Koror, Republic of Palau

**Subject:** Final Report on Performance Audit of Ngarchelong State Government for the period from October 1, 2000 through September 30, 2006.

Dear Governor Salvador:

This report presents the results of the Office of the Public Auditor's (OPA) performance audit of Ngarchelong State Government for the period from October 1, 2000 through September 30, 2006.

The objective of the audit is to determine whether (1) expenditures were incurred in accordance with national and state government laws and regulations, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts are 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 safeguarding of its properties and transactions are properly recorded.

Discussed below is a synopsis of the deficiencies and issues the OPA found and the recommendations, which the OPA believes, if implemented, will correct these deficiencies:

### ***Finding 1: Time Certificate of Deposit (TCD)***

The State did not maintain proper documentation to evidence adequate monitoring and management of its TCD accounts.

### ***Recommendation***

Office of Public Auditor (OPA) recommends that documents supporting TCDs be maintained to facilitate proper review and monitoring of accounts.

***Finding 2: Accounts Payable***

The State lacked an accounting system with which to record and keep track of its liabilities.

***Recommendation***

The OPA recommends the State establish a recordkeeping system to record and keep track of its accounts payable and other obligations.

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***Finding 3: Accounts Receivable***

The State lacked a recordkeeping system to record and keeps track of monies owed to it.

***Recommendation***

The OPA recommends the Governor establish a recordkeeping system to record and keeps track of accounts receivable.

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***Finding 4: Cash Receipts (Revenues)***

The State has not established internal controls to ensure that cash receipts are reconciled (to deposits) and deposited in a timely manner.

***Recommendation***

The OPA recommends the Governor establish proper internal controls to ensure that cash receipts are reconciled and deposited in a timely manner.

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***Finding 5: Competitive Bidding***

The State did not follow competitive bidding procedures when procuring goods and services costing \$5,000 or more.

***Recommendation***

The OPA recommends the Governor establish controls to ensure that competitive bidding requirements are adhered to when procuring goods or services costing \$5,000 or more.

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***Finding 6: Expenditure of Funds Without Appropriation /Non-existent Projects***

The State expended over \$67,000 on purported projects and programs without proper appropriation by the State Legislature, and said projects and programs never materialized.

***Recommendation***

The OPA recommends the Governor submits funding requests for proposed projects and programs to the State legislature for appropriation, consultation, and conducts feasibility studies before undertaking

them.

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***Finding 7: State Farm***

The Governor and Treasurer spent \$5,346 on travel to the Philippines to recruit farmers supposedly to work on a State farm, which during an on-site visit the OPA found the farm non-existent.

***Recommendation***

The OPA recommends the Governor plan (including conducting feasibility studies) State projects and programs, to minimize the risk of failure, before investing State funds on non-existent projects.

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***Finding 8: Non-resident Government Worker***

As noted under Finding No.7, non-resident workers employees recruited to work for a purported State farm were allowed to provide general labor services for a fee in violation of Bureau of Immigration and Division of Labor Laws and regulations.

***Recommendation***

The OPA recommends the Governor of Ngarchelong State adhere to local immigration and labor laws and regulations when employing non-resident workers.

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***Finding 9: Open Fuel Charge Account***

The OPA found that the Ngarchelong State Government (NSG) used an “open” fuel charge account to charge \$12,394 worth of fuel purchases for what OPA suspects were non-State vehicles during the period from October 1, 2002 through September 30, 2006.

***Recommendation***

The OPA recommends the Governor direct the State Treasurer to implement controls on the use of “open” charge accounts to ensure they are strictly for official purposes and in the best interest of the State.

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***Finding 10: Off Island Procurement***

The Governor, State Treasurer, and two assembly members spent \$7,882.02 on travel (air fare and per diem) to the Philippines to purchase supplies and equipment worth \$5,307.54, which OPA believe the cost of purchasing locally would have been more economical.

***Recommendation***

The OPA recommends the Governor conducts a cost/benefit analysis when deciding whether to purchase goods or services locally or off-island. In conducting the analysis, the Governor should obtain price quotations from local vendors to support the analysis.

***Finding 11: Legal and Consulting Services Lacking Supporting Documents***

The audit revealed that the State procured legal services valued at \$13,000 without competitive bidding and without invoices or detailed billings describing the nature of services provided, time charges for services rendered, billing rate, etc. to justify payment of services.

***Recommendation***

The OPA recommends the Governor comply with the Republic of Palau's Procurement Law and Regulations by letting procurement of goods or services costing \$5,000 or more to competitive bidding. In addition, the Governor should not process payments for legal or consulting services until invoices or billings are received describing the nature of services provided, time charges for services rendered, billing rate, and etc.

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***Finding 12: Performance Reports***

The audit revealed that the Governor did not comply with RPPL No. 6-11 by failing to submit the required performance reports or submitting them after their due date.

***Recommendation***

The OPA recommends the Governor of Ngarchelong State complies with the reporting requirements of RPPL No. 6-11 and related amendments.

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***Finding 13: Procurement of Food, Drinks, Office Supplies and Materials on Account***

The State used an "open" charge account to purchase food, drinks, office supplies and materials without establishing controls essential to ensure the integrity of procurements and certification of funds availability.

***Recommendation***

The OPA recommends the Governor establish controls governing the use of "open" charge accounts to ensure the integrity of procurements and certification of funds availability.

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***Finding 14: Fixed Assets***

The State lacks a fixed asset accounting system to record the acquisition and disposal of fixed assets, including donated equipment.

***Recommendation***

The OPA recommends the Governor direct the State Treasurer to establish a system to account for, monitor, and conduct periodic inventory of the State's fixed assets.

***Finding 15: Local Noncompliance***

The Ngarchelong State Public Lands Authority (NSPLA) has not promulgated rules and regulations governing its operations in accordance with NSPL No. 06-17.

***Recommendation***

The OPA recommends the NSPLA to promulgate rules and regulations governing its operations pursuant to NSPL No. 06-17, Section 8.

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***Finding 16: Bank Reconciliation***

Although the State performed bank reconciliation on a monthly basis, the reconciliations were not properly done to adjust State books to reflect reconciling items such as bank services charges and other items to agree the cash balance per book to bank balance.

***Recommendation***

The OPA recommends the Governor direct the State Treasurer to continue to perform bank reconciliation on a monthly basis. In doing so, the balance per the State's Cash Receipts and Disbursement Journal should agree to the balance per bank, which would require adjustment of State's books to reflect reconciling items such as bank service charges, errors and other items.

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***Finding 17: Ngarchelong State MultiPurpose Center Project***

The Governor did not prepare a formal plan for the construction of a multi-purpose center including the design, materials specifications, financing, and procurement of construction services.

***Recommendation***

The OPA recommends that, for major construction projects, the Governor prepare planning documents to include the design, material specifications, financing, and procurement of construction services to ensure the viability of the project.

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***Finding 18: Travel Policies and Procedures***

The governor failed to implement and enforce National Government's Executive Branch Travel Policies and Procedures.

***Recommendation***

The OPA recommends the Governor either adopt the National Government's Executive Branch Travel Policies and Procedures or establish separate travel policies and procedures for the State.

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***Finding 19: Excess Travel Funds not returned to State***

Travel advances issued to State Officials in excess of actual costs of travel were not returned to the

State and travelers failed to file the required travel vouchers.

***Recommendation***

The OPA recommends the Governor direct the State Treasurer to require travelers to file travel vouchers after completion of travel and, after filing of travel vouchers, any travel advances issued in excess of actual cost of travel should be returned to the State Treasury.

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***Finding 20: Representation Fund Expenses***

The Governor, Speaker of Ngarchelong State Assembly, and the State Treasurer spent \$2,180 for representations funds without supporting documents to substantiate the official nature of expenditures.

***Recommendation***

The OPA recommends the Governor establish policies and procedures requiring documentation of representation funds to ensure their use are properly documented as to official purpose.

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***Finding 21: Taiwan Trip Expenditures***

The Governor needlessly spent \$11,220 to send a delegation of eleven (11) state officials to attend an off-island diplomatic function which, we believe, the attendance of the Governor, Speaker of the Ngarchelong State Legislature and the High Chief would have sufficed the representation on behalf of the State.

***Recommendation***

The OPA recommends the Governor consider the financial condition of the State when making a decision to send a delegation of State officials to attend off-island functions. We believe a delegation consisting of the Governor, the Speaker, and High Chief would suffice the signing and exchange of treaties ceremony and save the \$11,220 for other State programs and activities.

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***Finding 22: Earmarked Capital Improvement Project (CIP)***

The Governor failed to prepare plans, design and materials specifications for a State Project (Diangel) which resulted in the needless purchase of materials that were never used on the project, and materials specifications changed during work-in-progress.

***Recommendation***

The OPA recommends the Governor prepare plans, design, and materials specifications for State projects to ensure that proper materials are purchased and used on projects and costly changes are not made during work-in-progress.

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***Finding 23: Local Noncompliance/Prior Year Funding***

Ngarchelong State failed to take corrective action to implement prior year audit findings and

recommendations of the Office of the Public Auditor.

***Recommendation***

The OPA recommends the Governor of Ngarchelong State take affirmative action by implementing audit findings and recommendations contained in audit reports of the Office of the Public Auditor in compliance with 5 PNCA §401.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Satrunino Tewid', with a large, sweeping flourish above the name.

Satrunino Tewid  
Acting Public Auditor

## **BACKGROUND**

Ngarchelong State is one of the sixteen (16) States of the Republic of Palau organized and structured under Article X1, Section 1 of the Republic of Palau (ROP) Constitution and the Constitution of Ngarchelong State.

The Ngarchelong State is composed of eight (8) municipalities, each municipality headed by a traditional leader as follows: Iebukel-Obak Ra Iebukel; Mengellakl-Uong Er Etei; Ngebei-Ngiraureked; Ngeiungel-Rimirch; Ngerbau-Obak Rebau; Ngermetong-Riungel; Ngriiil-Iechad Ra Butelbai; and Ollei-Tet. Uong Er Etei is the head of the eight (8) traditional chiefs of the State and shall hold the title of Head of State. His powers, duties, and responsibilities are derived from traditions and customs of the Ngarchelong State.

The Ngarchelong State Government (NSG) is structured and organized into three branches: the Legislative Branch, which is vested in the State Assembly consisting of one house, the Executive Branch, which is headed by the Governor and other officers appointed or elected as provided by law; and Judicial Branch, which shall be provided for within the Unified Court System of the Republic of Palau.

The Legislative Branch of the state government is vested in the Ngarchelong State Legislature; composed of eight (8) chiefs and one representative from each municipality elected at large by the voters of that municipality for a term of two (2) years. The legislature shall have the following powers and duties: to enact laws, to appropriate State funds, to levy and impose taxes, to promote economic development, to promote the general welfare of the people, and to exercise such other powers and duties permitted by the State constitution and laws of the Republic of Palau. The compensation of the members of the State Legislature shall be determined by law. No increase in the compensation shall apply to the members of the State Legislature during the term of enactment.

The Executive power of the state government is vested in the Governor who shall have the power to enforce the laws of the State, to spend money pursuant to laws, to collect taxes, to introduce bills in the State Assembly, and to propose and present the State's annual budget to the Assembly, among other duties and responsibilities. The Governor shall be elected in a statewide election for terms of four years and shall reside in the State throughout his entire term.

The Judicial system shall be provided for within the Unified Court System of the Republic of Palau.

Article XII, Section 1 of State's Constitution states in part: "There shall be established a State Treasury into which all public funds, raised or received, including taxes, shall be deposited. No funds shall be withdrawn from the State Treasury except by law."

### **Ngarchelong State Public Lands Authority**

The Ngarchelong State Government Public Law (NSGPL) No.06-17 repealed Municipal Ordinance No. 30-80 and created the Ngarchelong State Public Lands Authority (NSPLA). The Act further repeals and supersedes all previous laws pertaining to the structure and membership of the Authority. Pursuant to the

law, the NSPLA is governed by a Board of Trustees consisting of seven (7) members as follows: the Governor, Chief Uong Er Etei, and five (5) other members of which three (3) are appointed by the Governor and two (2) are appointed by Chief Uong Er Etei with the advice and consent of the State Assembly. Each member shall serve a term of four (4) years and compensation shall be at a rate of \$30 per meeting for members in attendance.

As of the time of audit fieldwork, the NSPLA has approved and awarded approximately twenty six (26) leases to various individuals in Ngarchelong State. All lease rental payments are payable to Ngarchelong State Government.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of the audit is to determine whether (1) expenditures were incurred in accordance with the national and state government laws and regulations, (2) cash receipts were properly deposited into the state treasury, (3) expenditures and cash receipts are supported by adequate supporting documentation, (4) earmarked CIP grants were expended for purposes for which they were appropriated and earmarked, and (5) the state has established proper internal controls to ensure the proper safeguarding of its properties and transactions are properly recorded.

The audit covered the period from October 1, 2000 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 accounts within those financial statements and therefore express no opinion on the financial statements.

The OPA 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.

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 the audit objective, the OPA reviewed accounting records maintained at the office of Ngarchelong State, including budgetary laws and other relevant laws and regulations, and as well as on-site inspection of the State's fixed assets and projects. In performing the review, the OPA also conducted expenditures testing of the State's accounting system and procedures to assess the adequacy of the State's system of internal controls. In addition, the OPA examined relevant sections of the Republic of Palau's Unified Budget Acts and other applicable laws and regulations. Lastly, the OPA also interviewed appropriate state officials and reviewed relevant accounting records maintained at the Bureau of National Treasury.

## **PRIOR AUDIT COVERAGE**

In the 1990's the Office of the Public Auditor had been conducting financial statement audits of Ngarchelong 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 private accounting firms over the operations of the state. And therefore, this will be the first performance audit of the State Government.

**Finding 1: Time Certificate of Deposit (TCD)**

Time Certificate of Deposit should contain the proper records with which to monitor and manage the activities of the account and make informative decisions regarding the financial operations of the State.

Our review of the State TCD account revealed that the State did not manage and monitor the account in a proper manner. The TCD lacked the proper records showing opening and closing date of the account and the transfer of funds to other State accounts.

It appears management did not monitor the State’s TCD to ensure that documents substantiating the TCD activities are properly maintained and filed.

As a result, the State was unable to provide documentation to substantiate the activities of its TCD account.

***Recommendation***

The Office of Public Auditor (OPA) recommends the Governor, in the future, direct the Treasurer to maintain and file documents supporting the State’s TCDs and other cash accounts. These documents are important as they enable the State to monitor the activities of accounts, i.e. verify interest income calculations, and make informative decisions.

*NSG’s Response: We agree with the auditor recommendation and I will direct our Treasury Office to follow the recommended system by maintaining proper records of TCD and other cash accounts.*

**Finding 2: Accounts Payable**

A sound system of internal control dictates that the State establishes a recordkeeping system to record and keep track of its accounts payable and other obligations.

The audit revealed that Ngarchelong State has not established a recordkeeping system to account for its obligations. According to the State Treasurer, the State is using cash basis method of accounting and therefore there is no need to record or keep track of obligations. Based on our testing of transactions, however, we found \$15,591.45 of unrecorded liabilities at fiscal year ended September 30, 2006. The accounts payables were incurred in fiscal years shown below:

FISCAL YEAR	AMOUNT
FY 2001	\$ 1,063.05
FY2002	2,377.82
FY2003	3,593.66
FY2004	3,381.93
FY2005	3,098.37
FY2006	2,076.62
TOTAL	<u>\$15,591.45</u>

It appears there is a misconception that a cash basis of accounting negates the need to establish a recordkeeping system to record and keep track of obligations. However, the State does not operate strictly on cash basis and, at times, procures goods and services on credit, and therefore needs to keep track of these obligations.

The effect of not recording and keeping track of accounts payable is the potential to understate obligations and related expenditures in the State’s financial statements. In addition, any unrecorded liabilities and related expenditures could potentially distort the State’s budget preparation process.

***Recommendation***

The OPA recommends the State establish a recordkeeping system to record and keep track of State’s accounts payable and related liabilities. Doing so will facilitate the preparation of accurate financial statements and annual unified budget of the State.

*NSG’s Response: We agree with the recommendation of Auditor, I will ensure that our recordkeeping system will accomplish that and we will work with Auditors Office to assist in the system development if our system is not compatible.*

**Finding 3: Accounts Receivable**

A sound system of internal control dictates that a recordkeeping system be established to account for and keep track of monies owed the State.

The audit revealed that State lacked an accounting system to record accounts receivable. For example, in our testing of transactions we found \$59,247.93 of unrecorded accounts receivable for the period ended September 30, 2006. The accounts receivables were incurred in fiscal years shown below:

<b><i>FISCAL YEAR</i></b>	<b><i>AMOUNT</i></b>
FY 2001	\$12,704.27
FY2002	4,867.25
FY2003	979.93
FY2004	17,894.36
FY2005	15,811.96
FY2006	<u>6,990.16</u>
<b>TOTAL</b>	<b><u>\$59,247.93</u></b>

It appears there is a misconception that a cash basis of accounting negates the need to maintain an accounting system to record and keep track of accounts receivable. However, since scarcity of resources is a constant concern, it would be in the best interest of the State to maintain accurate records of monies due the State to support their full collection.

The effect of not recording and keeping track of the State’s accounts receivable is the potential to understate accounts receivable and related revenues in the State’s financial statements. In addition, the

absence of an accounting system to keep track of accounts receivable creates conditions for potential oversight of revenue collections.

***Recommendation***

The OPA recommends the Governor establishes an accounting system to record and keep track of accounts receivable. The system would enable the State too accurately and effectively keep track of outstanding accounts owed the State and to follow up on their collection.

***NSG’s Response:*** *True, we agree with the recommendation. We will make sure our Treasury Office follow the recommendation to establish a good accounting system to do just that. I never knew we had not been following the standards of the accounting system.*

**Finding 4: Cash Receipts/Revenues**

A system of cash receipts should include a process to reconcile cash receipts to deposits and to ensure that deposits are made in a timely manner.

Our testing identified \$59,420.66 of collections that were not deposited in a timely manner as shown below:

<u>Fiscal Year</u>	<u>Revenue Source</u>	<u>Amount not Deposited In a Timely Manner</u>	<u>Days Lapsed</u>
2001	Local	\$ 5,281.95	Between 6 to 52 days
2002	Local	846.25	Between 6 to 30 days
2003	Local	4,828.98	Between 5 to 31 days
2004	Local, Block Grant, and Fishing Right Fees	27,559.78	Between 5 to 30 days
2005	Local	7,551.59	Between 4 to 25 days
2006	Local and Block Grant	13,212.11	Between 5 to 42 days
		<b><u>Total: \$ 59,420.66</u></b>	

The cause of the above condition is lack of policies and procedures governing the handling of cash receipts. Collections not deposited and held for an extended period of time become susceptible to misappropriation.

The effect of the above condition is the potential for misappropriation of collections.

***Recommendation***

The OPA recommends the Governor establishes policies and procedures governing the handling of cash receipts from the point of collection to deposit. The policies and procedures should include a process for reconciling cash receipts to deposits and ensuring that collections are deposited in a timely manner.

*NSG's Response: We fully agree with the recommendation and trust that this will not be handled as previously as we will change that immediately.*

**Finding 5: Competitive Bidding**

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

The State did not follow competitive bidding requirements when procuring an automobile, supplies and materials for State projects, services for the construction of Legislative Chamber, a consultant for State Mutual Self-Help Housing Program, and services for construction of a Multi-Purpose Center Project. The schedule below shows the expenditures for each fiscal year the procurements occurred:

FISCAL YEAR	AMOUNT INCURRED
FY 2001	\$ 8,325.00
FY2002	8,952.95
FY2004	11,584.44
FY2005	21,428.00
FY2006	15,000.00
TOTAL	<u>\$65,290.39</u>

The cause of the above condition is lack of adequate controls in place to ensure compliance with Procurement Law and Regulations.

Due to lack of competitive bidding, we were unable to provide assurance that the State obtained the lowest prices and best quality product possible for the money it paid for the goods and services. As a result, we question the entire \$65,290.39.

***Recommendation***

The OPA recommends the Governor implements procedures to ensure Ngarchelong State Government's procurements are conducted in accordance with the requirements of RPPL No. 3-54. Specifically, any procurement of goods or services costing \$5,000 or more should be competitively bid. Furthermore, bid documents should be retained and filed, which should include, at a minimum, the following documents: evidence of public notice including request for bids or proposals, summary of bids or proposals received, bid specifications, bid evaluations, criteria for bid evaluations, bid award, and contract agreement.

*NSG's Response: We agree with the recommendation, we should adhere with the requirements of law on procurement of goods and have in fact began immediately after receiving the report to use Purchase Order and to revise the existing one to assure our compliance of with the law.*

*On item #1 - \$8,325 we lacked 3 quotes from vendors but PTC was the only company that sold gravels and sand and was able to deliver to Ngarchelong at the low prices. However, we will comply with the procurement law RPPL Nos. 3-54 from now on.*

*Item #2 - \$8, 952.95 we failed to bid the materials for the road. The road project was also under “force Account” but it is clear that the amount exceeds \$5,000 and we will take immediate corrective action to assure future compliance of the law.*

*Item #3 - \$5,800.00 for Purchase Terrano vehicle we only took quotations, as we originally thought it was sufficient and we did not put it on bid. Again, this will be corrected and further Purchase exceeding \$5,000 will go on bid.*

*Under this item, there was a total of \$5,784.44 used to purchase materials for the road project “force account” and we did not get quote from 3 vendors or bid the materials. Both of these problems will be corrected. Recommend actions will be taken.*

*Item #4 - \$21,428.00 part of stimulus grant for Rehabilitation of Roads in Ngarchelong State by paving the road to Desbedall. The project was on a “Force Account” and was done by state employees. This was the beginning of a series of rehabilitation project to try to complete roads of the state. There were three sections of the road that were done under “Force Account” and afterwards the project was given to private contractors. We should have been able to get quote from vendors but did not. My administration during this term makes sure we will follow the requirements under the law and take corrective actions to cure the deficiencies.*

*Item #5 – The state did appropriate funds for the project are used as matching funds for the project. The initial \$10,000.00 spent on the initial stage of project was part of grant from Australia in the amount \$11,000 for elder’s center which has already been accommodated in the multi-purpose building.*

**Finding 6: Expenditure of Funds without Appropriation /Non-existent Projects**

Ngarchelong State Constitution Article XII, Section 1 (b), states in part: “no funds shall be withdrawn from the State Treasury except by law.” In addition, State Projects require meticulous studies and planning, which includes financing arrangements, to ensure the viability and success of the project and, which upon completion, provides benefit to the State and its citizens.

The audit revealed that the State invested and expended significant sums of money into the following projects during the periods shown below.

	<u>Fiscal Year</u>	<u>Expenditures Item</u>	<u>Number of Travelers</u>	<u>Amount</u>
(1)	2006	Mud Crab Project	6	\$11,979.10
(2)	2006	Mutual Self-Help Housing Program	5	29,905.90
	2005	Mutual Self Help Housing Program	2	4,737.36

(3)	2005	Visit and Conduct Aquaculture and Cottages	17	11,423.21
(4)	2004	Attend 4 <sup>th</sup> International Food Processing/ Packaging Food Production Exhibition	11	<u>9,791.62</u>
<b>Total Funds Expended without appropriation</b>				<b><u>\$67,837.19</u></b>

The OPA found that all the above projects and related expenditures lacked appropriations by the State Legislature.

For the Mud Grab Project, we found that an entourage of six (6) State officials headed by the Governor went on a one (1)-week fact-finding mission to the Philippines to visit a Mud Crab Farm. The State spent \$6,954 on per diem, \$4,455 on air fare, \$350 for ground transportation, and \$220.10 on representation fund. As part of the audit, the OPA conducted an on-site visit to the proposed Mud Grab project and found that there was no farm or project. The OPA questions the entire \$11,979.10 due to lack of authorization and appropriation by the State Legislature and the apparent lack of public benefit derived from the expenditures.

For the Mutual Self-help Housing Program, the State prematurely incurred a total of \$34,643.26 (\$29,905.90 for FY 2006 and \$4,737.36 for FY 2005) of expenditures prior to approval of its grant application to the USDA for Self-help Housing Program. We found that \$10,853.93 of the amount was spent in fiscal year 2006 on travel to the Philippines and other destinations on fact-finding missions to explore best construction methods and materials for the housing project. The schedule below shows a breakdown of the \$34,643.26 expenditures:

DESCRIPTION	FISCAL YEAR 2006 EXPENDITURES	FISCAL YEAR 2005 EXPENDITURES	TOTAL
Air and Land Transportation	\$ 10,853.93	\$ 1,051.36	\$ 11,905.29
Per Diem	6,924.50	666.00	5,590.50
Consultant	7,889.30	3,020.00	10,909.30
Consultant	3,000.00	-	3,000.00
Food and Beverages and Others	1,238.17	-	1,238.17
TOTAL	<u>\$ 29,905.90</u>	<u>\$ 4,737.36</u>	<u>\$ 34,643.26</u>

However, on-site visit to the State to inspect development projects of similar nature, the OPA found no such projects. Consequently, we questioned the entire \$34,643.26 due to lack of appropriation and absence of public benefit derived from the expenditures.

The Aquaculture and Cottage Project incurred expenditures of \$11,423.21 (\$8,501.96 for air fare, \$2,620 for per diem and \$301.25 for Equipments and Parts) for travel to the Philippines on a fact-finding mission to explore aquaculture and cottage projects that may be suitable to the State. A group of sixteen (16) State officials and Road and Ground crews led by the Governor went on the mission. On a site visit to the State to inspect development projects of similar nature, we found no such projects, therefore; the OPA questions the entire \$11,423.21 due to lack of appropriation and apparent lack of public benefit derived from the expenditures.

The International Food Processing/Packaging and Food Production involved sending an entourage of eleven (11) officials to the Philippines to attend the event. The State spent \$9,791.62 (\$5,370 on air fare and \$4,421.62 on per diem) of public funds for its participation. We questioned the entire \$9,791.62 due to lack of authorization and appropriation by the State Legislature and the apparent lack of public benefit derived from the expenditures.

Furthermore, an on-site visit to the State to conduct fixed asset inspection found no projects in-progress or completed.

It appears the cause of the above conditions is lack of planning and consultations by the Governor, State Legislature, and the community. In addition, it appears the above projects were not funded via the State's appropriation budget, furthering the concern for lack of planning. It seems the State just haphazardly expended public funds on ventures for which no basic feasibility studies or analysis were undertaken. Moreover, the State is funding trips for too many State officials with no expertise on any particular development projects.

As a result, Ngarchelong State Government expended State funds without proper authorization and appropriation in violation of the State Constitution. Further, the Governor spent a total of \$67,837.19 of public funds for fact-finding missions, mostly to the Philippines, supposedly to explore various development projects; however, on-site visits to the State showed the projects to be non-existent.

### ***Recommendation***

The OPA recommends the Governor conducts feasibility studies and analysis on development projects prior to expending public funds (fact-finding missions) on such projects. In addition, the Governor should consult with the State Legislature and formulate budgets for these projects for proper authorization and appropriation in accordance with the State Constitution. The Governor should also consult with the local community hosting the project to ensure local support for the project. Finally, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the aforementioned projects and to prosecute conduct amounting to illegal use, misuse, and abuse of public funds.

***NSG's Response:*** *Item #1 – Mud Crab Project. Mud Crab farming at he time was not only a new business opportunity for Palauans but also was very promising one that after our consultation with experts working for Ngatpang State, Speaker Wasisang and I decided to hold public meeting in Ngarchelong on this kind of project and also noni project. Our ideas was to encourage people in the state to try to venture into these and other meaningful and viable projects that we hope will benefit not only those who will engage on these business but also help develop private businesses to boast our state economy. We actually held 2 meetings we also invited the National Development Bank (President/Staff) to meet with us in the state on one of the meetings.*

*Opportunities of loans to participate in these kinds of business were discussed and assurance of bank to provide assistance to interested individuals was noted. We confirmed interest of people in the community and decided to further investigate possibilities of establishing a source of purchasing crab links that will be dependable and reliable so that we can order crab links without any problem. We took other Assembly Members with us to visit Philippines and we visited many places and met the*

government officials who helped us make the arrangements on preparation for shipment of crab links and outsourcing of supplies. Actually one project on crab farming was being established in Ollei, Ngarchelong which I wrote a letter to Minister Koshiha seeking his assistance on the project.

The reason for brining Assembly Members to go with us was the fact that we hoped to educate the officials on the same so when they return they may be able to support the programs we propose to Assembly relating to the projects. The funds we used were those appropriated travel funds for the Assembly members came from the Speaker's budget and those for the Governor and the Treasurer came out of their respective budget. One thing I noticed that might have been the cause of frustration of people who had shown interest on such projects was the fact that they all had meager income and were afraid to try to loan even on the smallest amount provided to new farms amounting to \$2,500 when in fact there was a provision of a grace period offered by the bank.

Item #2 and #3 – Mutual Self Help Housing Program. Sometimes in 2004 USDA Delegation made up of State Director from Hawaii and staff from Main Office in Hilo, Honolulu and Guam, Area Director met all governors. While in Palau they indicated that there was going to be a meeting in Guam on this Self-Help Housing Program. I took the opportunity to go and attend the meeting and from then on I decided to have the State join the program. It was a new program which could address the needs of most of our low-income families. We were advised and assisted by RCAC to process an application a Pre-Application Grant to help us on Grant Application for the Self-Help Housing Program. We did that and it was approved. I sent two staff to go training on Guam so that they may be able to help in preparation of Grant Application. When they returned, we started working on the financial part of the application and did process application for applicants and to qualify them. We then hired a consultant to work on the application using the \$10,000 grant to pay his services on the application. I took trip to Hawaii and Mainland USA to attend conference on Self-Help to appraise myself on the program by meeting several program recipients and to learn from them on how to run the program. The consultant we hired had worked with the Marshalls and gets their project approved and is ongoing and he is also an architect and a builder. After many meetings and consultation we agreed on the idea that we should take a trip together to Malaysia to meet our contacts in Housing business and select materials and approve of a design for them to pre-cut units for the Housing Projects. The reason for that was the fact Iron wood and other lumber they sell are strong and cheap so we can try to bring down costs of units and also lower the mortgage of each applicant for the Housing Units.

Item #4 – Visit and Conduct Aquaculture and Cottages. The reason for this trip was to explore and experience the operation and management of Milkfish and fish bait farms and also to see and acquire knowledge of the various types of cottages that may be cheaper to build and suitable for our place. The idea is not for the state to build but to encourage members of the community who have lands to build. Ideas on these have been shared especially on cottages as we urged people to follow recommendation in the JICA reports. The trips funding on airfare and per diem were from the Speakers and the Governor's budget.

Item #5 – For attending the International Food Processing/Packaging. The invitation we received was shared with the Speaker and members for the Assembly. The Speaker may be chosen those he believes were the appropriate ones to attend the Exhibition. Executive branch did send ones that would benefit most as they are in those areas and would be able to share their knowledge to their group in the market. The budget for travel to attend such exhibition was from travel budget of both.

**OPA's Comments:** The fact that no line item appropriation was provided in the State's budget for each of the above project is an indication that there was no consultation between the Governor's Office and the legislature to form a unified support for the projects, the required planning, financing, and public support. Hence, none of the projects succeeded despite expenditure of \$67,000 of public funds.

**Finding 7: State Farm**

State projects and programs should be carefully planned and executed to ensure that scarce resources are wisely invested to provide programs and services to the public.

During the audit, the OPA noted that the Governor and Treasurer spent \$5,346 on travel to the Philippines in November 2002 to purchase various supplies (i.e. State Flags, license plates, car stickers, etc.) and to recruit farmers supposedly to work on a State farm. During an on-site visit to the State, however, we found the State did not have a farm. Furthermore, we found that although the recruits were state employees, they were often deployed to provide general labor services to citizens for a fee. These fees are paid to the State and, in return, the State pays their salaries supplemented with State funds.

The OPA was unable to determine why the State spent \$5,346 to travel to the Philippines to recruit laborers to work on a State farm that does not exist.

As a result, the \$5,346 could have been put to better use. In addition, if the State is supplementing the salaries and wages of these foreign workers, without receiving equivalent value of services in return, then the loss is compounded.

***Recommendation***

The OPA recommends the Governor plan and execute State programs and projects more effectively in order to maximize intended benefits to the citizens of the State. In addition, if the employees are not providing meaningful service to the State, then the Governor should consider other work arrangements to increase their productivity and earning their pay.

***NSG's Response:*** *The program was established during the first year of my administration. It was in the plan and was mentioned during my first campaign as part of my programs for the state once I get elected. I knew that members of the community were going to Koror to market their produce and for many years I noticed very few goods they bring to Koror to Blue House to sell and the price they pay to bring their few produce to Koror did not match the income they earned. At the time only boats were used as means of transportation. So when I came to office, the road was almost done and cars could be used to send market to Koror. I then immediately met the groups in the two market and offered assistance on vehicles to help bring their market to Koror and they will be in charge of the fuel so that became the case. I then decided to initiate the program right away by going to recruit the farmers which I promised the community to bring and they will help the farmers in their farms so that they may increase the volume of produce to Market in Koror. We then took the trip to the Philippines to recruit and at the same time buy supplies for the state. The farmers we recruited were to work with individual farmers to restore, clean, maintain, plow and do other farm works. We called community meeting for all farmers to inform them on the workers arrival and decided on best use of the workers. Workers were to work with farmers and the state got compensated for per day's work of employees. The funding for*

*the workers is included in the budget on every fiscal year. The money spend on travel for their recruitment was taken out of the travel budget for Governor and Treasurer. And the program was very successful but only during the recent past we stopped when our staff started allowing credits and we had to collect from farmers who owed before resuming. Furthermore, the up-keeping of Todai and Badrulchau on farms and maintenance of areas is so demanding now that they have no more time to help the community farmers and presently we have only one left. It my also be noted here that the non-resident workers mentioned under Finding #8 are the state farmers working for community farmers and they do not get compensation but the state gets compensated on days these employees work for community farmers based on set rate. Community members would schedule work on their farms at State Office and state employees (farmers) would follow the schedule and go to work.*

**OPA’s Comments:** The non-resident workers’ employment contracts stipulate that the employees accept employment as farmers for the State. The Employment Contracts do not stipulate that employees will be assigned to provide farming services to State farmers for a fee, which, as cited in Finding 8, may be illegal.

**Finding 8: Non-resident Government Worker**

A non-resident government worker issued a work permit by Bureau of Immigration shall only be employed by the employer for which he or she has been approved employment upon conditions of employment imposed by the Division of Labor as stated under the Immigration Rules and Regulations Part 7, section 7.4.

As noted under Finding No.7, non-resident employees recruited to work for the State were allowed to provide general labor services for a fee in violation of Bureau of Immigration and Division of Labor Laws and regulations.

It appears the cause of the above condition is that the State Farm Project did not materialize and the State lacked the resources to pay the salaries of the non-resident workers pursuant to their employment contracts.

As a result, the State violated local Immigration and labor laws and regulations.

***Recommendation***

The OPA recommends the Governor of Ngarchelong State adhere to local immigration and labor laws and regulations when employing non-resident workers.

**Finding 9: Open Fuel Charge Account**

The use of an “open” fuel charge account should contain proper controls to ensure that fuel requisitions are properly authorized, for official business, justified, the person and equipment receiving the fuel are properly identified, and invoices are signed by the person receiving fuel. In addition, certification of funds availability should be executed prior to operation of the account.

During the audit the OPA found that the Ngarchelong State Government (NSG) operated an “open” fuel charge account to purchase fuel for the State. And because the State did not consistently use the “Fuel Requisition” form or impose other control measures, we found numerous problems with the charge account including: lack of approval for obtaining fuel, no justification of official purpose, no identification of equipment or persons getting fuel, etc. In addition, there was no evidence of certification of funds availability prior to the operation of the account. These weaknesses led to widespread abuses of the charge account including \$12,394 worth of fuel purchases for what we suspect were non-State vehicles during the period from October 1, 2002 through September 30, 2006.

In addition, we noted one particular purchase of fuel for \$900 from a foreign worker who alleges to work for Daewoo Corporation for which we were unable to determine where the fuel went to.

It appears the cause of the above condition is the State failed to establish and enforce controls over the use of the Open fuel charge account. In addition, the State lacked controls to account for its fuel purchases.

The effect of the above condition is that fuel may have been charged to the State’s open fuel charge account for unofficial purposes. In addition, without the necessary controls in place, abuse over the use of the charge account may continue undeterred. Finally, operating an open fuel charge account without first obtaining certification of funds availability may potentially lead to illegal expenditures.

### ***Recommendation***

The OPA recommends the Governor direct the State Treasurer to process documented evidence of certification of funds availability prior to creating and operating an open fuel charge account. We further recommend the Governor direct the State Treasurer to implement and enforce the use of “Fuel Requisition” forms. Each and every fuel purchase should be accompanied by Fuel Requisition form approved by an authorized official (e.g. Governor), justified as to official purpose, identifies the equipment (plate #) and person receiving fuel, and the person receiving fuel should sign the invoice. In addition, the Governor should direct the State Treasurer to be more attentive in reviewing the charge account billings to ensure that only those charges properly authorized, justified, and documented are processed and paid. Finally, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the suspect fuel purchases for non-State Vehicles and other irregular fuel purchases and take appropriate action for conduct involving misuse and abuse of State properties.

***NSG’s Response:*** *We do agree that the purchase of fuel should be well documented to indicate the purpose of fuel use and the equipment using fuel. We have in the recent years started using the form for getting fuel for vehicles, but only in the last year and half or two I did require our Treasurer to add section on “Remarks” so that we may know the purpose of taking fuel and the person taking the fuel. However, we failed to require the plate number of the car and we have begun to require the number plates for cars getting fuel. We admit that in the past years before we had this form in place we only visited Sermong Gas Station and asked her if we could get fuel from her and pay at the end of each month. Each time a person gets fuel he is either authorized by the Speaker, Governor or Treasurer and that person may go and get fuel and sign the invoice form provided by the Gas Station but that has stopped. We will revise our current form of Purchase Order to indicate certification for availability of funds. But my full understanding of the use of fuel by cars (private cars) was all authorized by the*

*Governor, Treasurer or Speaker. There were numerous times that we had state functions and activities and because we did not have state cars to use or allow individuals to use in performing their assigned duties to help the state government we had no choice but to authorize them to get fuel.*

*I believe it is hard for anyone to just go to the station and get fuel for his car without any authorization. I also understand that Speaker has begun using the same fuel form we use but in the past years they did use the same by just authorizing members for the State Assembly to get fuel for their private cars when they come to attend sessions either in Koror or in Ngarchelong.*

*There was also a short period of time I used my private cars to commute between Koror and Ngarchelong on my official business as there were no state cars to use at that time.*

*As mentioned in this finding, there were fuels purchased from a foreign worker (Daewoo Employee) worth \$900 and that is true because it was very cheap and I believe there were supporting documents on those and the diesel and oil we bought were all used by our heavy equipments using diesel fuel and this could be confirmed by our personnel who brought the fuel to the shop.*

**OPA Comments:** “Open charge accounts for fuel or otherwise require constant monitoring and scrutiny to ensure only authorized employees have access to the account, charges are properly authorized, and goods and services obtained are for official purposes only. The OPA will conduct a follow up to ensure the proper controls and forms are properly implemented.

**Finding 10: Off Island Procurement**

A cost/benefit analysis should be conducted to compare options of purchasing goods on-island verses off-island in order to choose an option that is most economical and beneficial to the State.

State officials spent \$7,882.02 on travel (air fare and per diem) to the Philippines to purchase supplies and equipment worth \$5,307.54. If State officials had factored in the cost of airfare, per diem, and ground transportation to the cost of supplies and equipment, we believe the cost of purchasing locally would have been more economical. Scheduled below are the costs of supplies and equipment and associated travel cost to the Philippines:

<u>Fiscal Year</u>	<u>Item</u>	<u>Supplies/Equipment Cost</u>	<u>Travel Cost</u>
2002	State Flags and Car Stickers	\$ 500.00	\$ 854.00
2004	Supplies and Equipment Parts	1,961.11	3,331.00
2005	PA system, Equipment Parts, Supplies	1,794.37	1,524.00
2006	2 Window-type Air Conditioners	1,071.86	2,173.02
<b>Total</b>		<b><u>\$ 5,307.54</u></b>	<b><u>\$ 7,882.02</u></b>

In addition, upon inspection of State fixed assets, we found that the PA system has not worked since it was purchased because of missing parts.

The cause of the above condition appears to be that the State did not conduct a cost/benefit analysis of the two options to either purchase the supplies and equipment locally or off-island. This is evident in that management did not obtain at least three (3) price quotations from local vendors as required under the Republic's Procurement Laws and Regulations.

As a result, State could have saved money purchasing locally rather than incurring additional costs of airfare, per diem, and ground transportation by sending State officials to purchase the goods in Philippines. In addition, because of the distance and costs issues, availability of off-island vendors to service equipment becomes a problem, as was the case with the PA system.

### ***Recommendation***

The OPA recommends the Governor conduct a cost/benefit analysis when deciding whether to purchase goods or services locally or off-island. In conducting the analysis, the Governor should obtain price quotations from local vendors to support the analysis. In addition, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the above procurements and take appropriate action for conduct amounting to waste and abuse of public funds.

***NSG's Response:*** *State Flags, Car Stickers and Equipment parts procured from the Philippines were those not available in Palau. The PA system that was procured along with other equipment parts could be purchased through local vendors from off island sources at a much higher cost. We had to look for good PA system for Assembly so that they may be able to record all deliberations during all sessions with clarity. PA systems found in local stores are not of the same quality and not made for that purpose. The system is on hand and transferred to Assembly. But we believe an Assembly member had been assigned to acquire these electrical supplies needed in order for the system to be operational. We need surge protector and electrical wiring to correct problem. It is our belief that we should expeditiously acquire urgently needed parts of equipments so that equipment could be fixed and continue to do necessary projects for the state instead of just one cheap part or few parts broken and all works on important state projects stop.*

*The window type Air Conditions we brought from Manila was a misunderstanding between our office and the state officials who went and purchased the items. Actually we had asked them to purchased two sets of split type air Conditions as we found in our prior trips to Manila that prices were very low as we compared with Hanpa, S&S Video and Ace Hardware. They could have bought our split type units worth of paying for but instead they bought the window type cheaper but very noisy also did not serve the Assembly well. We agree that the purchase was not a good one due to miscommunication or misunderstanding. But all funds used came from the appropriated state budget.*

**OPA's Comments:** In times of scarce resources, sending State officials off-island to purchase goods and services would be cost-prohibitive. With today's communications technology, goods and services can be purchased without having to go off-island. In addition, I'm quite certain that there are local businesses that can arrange the purchase of supplies and equipment that the State desires. Moreover, these manners of expenditures of public funds would not look favorably for the State in times of budget hearings.

**Finding 11: Legal and Consulting Services Lacking Supporting Documents**

Republic of Palau Procurement Law and Regulations require that any procurement of goods or services costing \$5,000 or more shall be let to competitive bidding. Furthermore, goods and services qualifying as small purchases (costing less than \$5,000) requires a minimum of three (3) price quotations. In addition, payments for legal and consulting services should be supported by invoices or detailed billings describing the nature of services provided, time charges for services rendered, billing rate, and etc.

The audit revealed that the State procured legal services the cost of which exceeded \$5,000 without competitive bidding. In addition, the OPA noted that for services costing less than \$5,000, there was no documented evidence to show that the State obtained the required three (3) price quotations prior to making its selection of vendors. Moreover, payments for legal and consulting services lacked invoices or detailed billings describing the nature of services provided, time charges for services rendered, billing rate, etc.

The cause of the above condition is lack of internal controls to ensure compliance with the Republic of Palau Procurement Law and Regulations. Furthermore, there also appears to be lax in internal controls over disbursements to ensure that disbursements contain adequate supporting documents (invoices or detailed billings).

As a result, of the total expenditures of \$27,295.50 for legal and consulting services, the OPA reports questioned costs totaling \$13,000 due to lack of detailed billings and invoices justifying the nature of services received, time charges for the services, and billing rate of services.

***Recommendation***

The OPA recommends the Governor comply with the Republic of Palau's Procurement Law and Regulations by subjecting procurements of goods or services costing \$5,000 or more to competitive bidding. In addition, the Governor should direct the State Treasurer to obtain at least three price quotations or document on file that there were fewer than three suppliers for items sought. Moreover, the Governor should require from the State's legal counsel or consultant billings or invoices detailing the nature of services rendered; time charges for services rendered, billing rate for services, etc. to justify payments for services.

*NSG's Response: We have sent letters to all attorneys who provided legal services to the state government during those years to provide the detail of their services. We in fact signed a new legal service agreement with our attorney which requires detail of services on each billing. Our attorneys are chosen based on credibility and costs. We concur the auditor's recommendation with the Republic of Palau's Procurement Law and Regulations and will obtain at least three price quotation from three different vendors.*

**Finding 12: Performance Reports**

The Republic of Palau Public Law (RPPL) 6-11, Section 371 requires each agency to submit performance reports no later than April 1<sup>st</sup> of each year. On May 18, 2005, RPPL 7-7 amended RPPL 6-

11, Section 371, by requiring that performance reports from each agency shall be submitted no later than April 15<sup>th</sup> of each year.

The audit revealed that the Governor failed to comply with RPPL No. 6-11 by submitting reports after their due date and not submitting reports as follows:

<i>Fiscal Year</i>	<i>Required Submission Date</i>	<i>State's Report Date of Submission</i>
2001	-	-
2002	04/01/02	07/18/02
2003	04/01/03	No Report
2004	04/01/04	04/19/04
2005	04/01/05	08/11/06
2006	04/15/06	06/14/07

The OPA was unable to determine why the State submitted reports late and failed to submit performance reports for one (1) fiscal year.

The effect of the above condition is non-compliance with the RPPL No. 6-11 and related amendments.

***Recommendation***

The OPA recommends the Governor of Ngarchelong State complies with the reporting requirements of RPPL No. 6-11 and related amendments.

***NSG's Response:*** *Yes, we agree and will ensure submission of Performance Report on a timely manner.*

**Finding 13: Procurement of Food, Drinks, Office Supplies and Materials**

All charges for food, drinks, and office supplies and materials on “Open” account should be properly authorized, documented, and justified as to official purpose and only authorized employees should have access to the account. In addition, any and all purchases on credit (including “open” accounts) should require prior certification of funds availability before obligation of funds.

Ngarchelong State Government maintained an “Open” charge account for food, drinks, office supplies and materials for State projects and programs. The State established an open charge account at a local business establishment with access to grocery, department, and hardware stores. The State charged the following expenditures on the open credit account for each fiscal year shown below:

FISCAL YEAR	AMOUNT
FY 2001	\$ 6,705.14
FY2002	3,029.03
FY2003	16,397.06
FY2004	27,335.76
FY2005	24,461.73
FY2006	<u>12,974.37</u>
TOTAL	<u>\$ 90,903.09</u>

Of the \$90,903.09 expenditures charged to the account, we reviewed \$37,070.45, or 41%, of the charges and found the following deficiencies:

- 1) Lack of evidence of proper approval of purchases
- 2) Lack of justification of purchases as to official purpose
- 3) No evidence of certification of funds availability prior to purchases
- 4) Weak control with respect to access to charge account
- 5) Lack of competitive bidding and price quotations

And although the State used a “Purchase Order Invoice” form, the form was processed and approved after the goods were invoiced and obtained from the store. Furthermore, we were told that only the Governor and State Treasurer were authorized to use the account, however, we found that other State employees obtained goods on the account. And because of loose controls, goods were obtained without proper approval and lacking evidence as to their official purpose.

The State lacks adequate controls over the operation of an “open” charge account. In addition, the State may not have been aware that certification of funds availability has to be executed prior to obligation of State funds.

Without prior certification of funds availability, the State may have operated the open charge account in violation of State laws. In addition, absent the necessary controls over the account, abuse (taking goods for personal use) of the account may occur without timely detection.

***Recommendation***

The OPA recommends the Governor direct the State Treasurer to use the Purchase Order (PO) when purchasing goods on credit of the State. The PO should list all items proposed for purchasing, the quantities and cost of each item, certified as to funds availability, and approved by the Governor. The PO is then presented to the store, goods are obtained and invoiced, and the goods and invoices are returned to the State whereupon the Treasurer matches the goods to the invoices and PO and signs the invoices upon satisfaction that all invoiced items were received. Finally, we recommend the office of the Special Prosecutor further investigate the open charge account purchases and take appropriate action for any conduct involving misuse or abuse of State property.

***NSG’s Response:*** *Staff at our Treasury Office and Governor did use PO on some purchases but failed to do justification on PO. We admit that PO system was not established in our office for many years and*

*we came to follow same problem due also to the fact that we never really thoroughly studied or reviewed the 1997 Audit Report which may have spelled out the same thing so then we would have corrected. However, we had begun in the recent past to use PO used in procuring anything for the state and we will have to do revisions for additional spaces for certification of funds. The treasurer had been careful and always checking on our purchases to make sure we had fund available. We agree that additional controls should be in place to protect the open account from abuse.*

#### **Finding 14: Fixed Assets**

The State should establish a fixed asset accounting system to account for, monitor, and safeguard its fixed assets. A detailed fixed asset accounting system is essential to properly account for the acquisition and disposal of fixed assets. Furthermore, policies and procedures are necessary to identify State properties, conduct periodic physical inventory, and to safeguard them against unauthorized use or disposition.

The State lacks a fixed asset accounting system to account for the acquisition and disposal of fixed assets, including donated equipment. In addition, it lacks policies and procedures governing periodic inventory of fixed assets to determine their condition and location.

The State has not established a fixed asset accounting system.

The State is unable to effectively account for, monitor, and safeguard its fixed assets. Information such as equipment cost, years of service, location, and condition is not readily available for management's decision making.

#### **Recommendation**

The OPA recommends the Governor direct the State Treasurer to establish a system to keep track of State's fixed assets. The fixed asset accounting system should include the following:

- Procedures to record fixed asset acquisitions, which includes the acquisition date, description, cost, vendor, etc;
- Procedure to record disposal of fixed assets;
- Procedures to identify, monitor, and conduct annual inventory of fixed assets to determine their condition and location.

*NSG's Response: OPA recommendation is gladly accepted and State Treasurer and staff will immediately begin the process of establishing the system to keep track of fixed assets. Treasurer kept the records on all purchases in his file and computer and we will surely develop that system.*

#### **Finding 15: Local Noncompliance**

Ngarchelong State Public Lands Authority pursuant to NSPL No. 06-17, Section 8 states in part: "the authority shall promulgate its rules and regulations for proper carrying out its duties and responsibilities

under this act and other acts or executive orders of the Governor, or those responsibilities to be assigned by National Government.

Based on records submitted by the State Government, it seems the State Public Lands Authority has not promulgated the rules and regulations governing its operations in accordance with NSPL No. 06-17. In addition, the Authority claims to follow Palau Public Land Authority's (PPLA) rules and regulations, however; no records were on file to show the formal adoption of these rules and regulations by the State Public Lands Authority.

Ngarchelong State Public Lands Authority did not place high priority to promulgate rules and regulations governing its operations pursuant to NSPL No. 06-17, Section 8.

Ngarchelong State Public Lands Authority failed to comply with NSPL No. 06-17. In addition, the effectiveness and efficiency by which the State Public Lands Authority carries out its responsibilities depends on the promulgation and adoption of these rules and regulations.

### ***Recommendation***

The OPA recommends the State Public Lands Authority promulgate rules and regulations governing the discharge of its duties and responsibilities in accordance to NSPL No. 06-17.

*NSG's Response: New members of State Public Lands Authority will be up for approval during this regular session so that once they get approved we will work with them to promulgate new rules and regulations for NSPLA. Actually the Board had agreed to use the National PPLA rules and regulations as a guide to transacting businesses of the NSPLA. But we will certainly comply with the requirements of law once we have the full Board in place.*

### **Finding 16: Bank Reconciliation**

Bank Reconciliation is a critical function of the State's internal control system to ensure that bank service charges, errors, and other reconciling items are detected and recorded to agree the cash balance per book to bank balance.

The audit revealed that although the State performed bank reconciliations, the reconciliations were not properly done to adjust State books to reflect reconciling items such as bank service charges and other items.

It appears that State employees responsible for performing bank reconciliations do not understand the concept of bank reconciliation as the State Cash Receipts and Disbursement Journal was consistently out of balance with the balance per bank.

As a result, the State was unable to balance its Cash Receipts and Disbursement Journal to the balance per bank.

## ***Recommendation***

The OPA recommends the Governor direct the State Treasurer to continue to perform bank reconciliation on a monthly basis. The balance per the State's Cash Receipts and Disbursement Journal should agree to the balance per bank and, as such, should include reconciling items such as bank charges, errors, and other reconciling items.

***NSG's Response:*** *Ngarchelong State Treasury never had overdrawn the Ngarchelong account. The service fee that Bank charged to Ngarchelong account were the service fees that were deposits and/or checks paid per month in excess of 50 transactions per month. We concur with the auditor's recommendation to perform bank reconciliation on a monthly basis to avoid charges of such fees and we will put that in place as we know it is very important to make sure your account balance agree with that of the bank balance.*

## **Finding 17: Ngarchelong State Multipurpose Center Project**

State construction projects anticipated to be funded by grants should not be advertised for bid, not be awarded a construction contract, and not commence construction work until the grant has been approved and the money received. In addition, State officials responsible for the grant application should adhere to the terms and conditions of the grant application process to augment the likelihood of grant approval and accelerate the approval process. Moreover, expenditures of State funds for projects require appropriation by the State Legislature.

The audit revealed that subsequent to the tendering of bids, the contract for the construction of the multipurpose center was awarded to a local company on July 3, 2006 and a "Notice to Proceed" was issued on August 10, 2006, despite the State's grant application still pending before the Grantor Agency (United States Department of Agriculture, USDA). On August 3, 2006, the prime contractor sub-contracted the work to another local construction company. On August 23, 2006, the State disbursed \$10,000 to the contractor as mobilization and logistics costs, disregarding the fact that financing for the project remains uncertain. On or about February 21, 2007, the State made an advance payment of \$3,500 to the sub-contractor, a payment we questioned due to the fact that the State's contractual agreement is with the prime contractor. The foundation work on the project started but stopped shortly thereafter and, as of March 3, 2009, the progress of the project has stopped at its foundation as shown below:



Overview Multi Purpose Center Project

The OPA found several major problems with the bid process. First, the “Letter of Conditions” imposed by the Grantor Agency (USDA) requires that the project final plans and specifications, contract and bid documents be submitted for review and concurrence by the Grantor Agency before the project is put out for bid. No documented evidence was provided by the State to support that said documents were transmitted for review and concurrence by the Grantor Agency yet the State put out the project for bid.

Secondly, the Request for Qualifications/Proposals (RFQ/P) requires offerors to submit a Statement of Qualifications in accordance with the requirements set forth in RFQ/P. The proposal submitted by the successful offeror did not accompany a Statement of Qualifications.

Third, the RFQ/P requires that the project plans, design, and specifications be reviewed, approved, stamped and signed by a U.S. Registered Professional Engineer experienced in this type of work. We found no evidence to support that the project plans, design, and specifications submitted by the contractor were reviewed, approved, stamped, and signed by a U.S. Registered Professional Engineer.

Fourth, the RFQ/P stipulates that the successful contractor will be required to submit Performance and Payment Bonds, from a surety acceptable to the State, within 15 days of Notice of Award. No evidence was provided to support compliance with Performance and Payment Bonds requirement by the contractor.

Fifth, the construction contract was certified as to availability of funds before the grant was approved and the State lacks local revenues to fund the project. Finally, the State disbursed \$10,000 (local revenues) as first payment to the contractor without first securing grant funding for the project and without sufficient local revenues to continue the project.

Sixth, the State made an advance payment of \$3,500 to the sub-contractor with whom the State has no contractual agreement.

Seventh, the State budget did not contain appropriation for a multipurpose center.

It appears the State lacks the expertise to administer the grant application and the tendering process for construction of a multipurpose center. In addition, State officials responsible for the procurement process were not familiar with the terms and conditions contained in the Request for Qualifications/Proposals. Moreover, State officials may not understand the concept (requirement) of certification of funds availability.

As a result, the project for the construction of a multipurpose center has been suspended pending resolution of problems with the grantor agency (USDA). In addition, without Statement of Qualifications from the contractor, the State lacks information with which to evaluate the contractor’s ability and capacity to complete the project, which uncertainty was not mitigated by performance and Payment Bonds. Finally, the prolonged delay of work may result in price increases of supplies and materials and other incidentals for the project.

## ***Recommendation***

The OPA recommends that when projects are anticipated to be funded in whole or in part by grants, the Governor should preclude advertisement for bid on project, award of contract, and commencement of work until funding has been approved and received. In addition, State officials should study and become familiar with the terms and conditions of the grant application and the grant to ensure that any procurement processes in connection with the project adheres to those terms and conditions in order not to jeopardize funding for the project. Moreover, when the State issues a Request for Qualifications/Proposals (RFQ/P), state officials should become familiar with the requirements of RFQ/P in order to ensure that offerors submitting bids comply with the requirements. Finally, contracts should not be certified as to availability of funds until funds are authorized and appropriated for the particular project for which the contract is executed.

***NSG's Response:*** *The State Government did follow bid procedures as it worked with CIP office to help in its bid process on this project. Project design was approved by the Governor and requested bid proposals. Selected winning bid and awarded bid. Before starting the project USDA delegation scheduled to come to Palau we then presented the design to the person in charge of "Community Facilities", Mr. Ted Matsuo and other members of the delegation. Mr. Matsuo upon reviewing the design agreed with it and indicated to us that it was a good design and was okay to use it. The project being new to Palau and to us we assumed that if was okay to proceed without knowing that there were other building code requirements (details) that were lacking in the design. We executed the bid as mentioned by OPA and started the initial stage of the project. After we submitted our first progress report to USDA on the project, Mr. Matsuo then wrote a letter to us saying that we should stop work on the project until USDA has approved the design of building. At that time the original design had been sent to him thru Guam Offices. The project construction was then ceased. But again, the requirement on funding was that we expend our share of funding first then request for funding from USDA. This and the fact that the design was okayed by the boss prompted us to proceed with construction.*

*The construction being ceased we began to look for money to find a U.S. certified architect to correct the deficiencies on the design and also U.S. certified engineers to certify the structure to meet USDA requirements. Due to lack of funding the project had no operation until a couple of years later and we finally found funds through Stimulus Grant given by President Remengesau. We then completed the design approved by Mr. Cliff Terry and Mr. Tiger and was sent to USDA. Until this day, Mr. Matsuo had not received the copies of revised plan both in hard copy and electronic copy and still asking for waiting for us to meet the requirement. We then have requested for extension of the Grant and were approved. USDA total fund obligation for the project is \$100,000.00*

**OPA's Comments:** Although the State did follow competitive bidding procedures to some extent, it did not conduct the bid evaluations in a manner that ensures that bid proposals complied with the requirements contained in RFQ/P. For example, the contractor awarded the contract did not submit a Statement of Qualification as required by the RFQ/P. In addition, the project plans, design, and specifications submitted by the winning bidder were not reviewed, approved, stamped and signed by a U.S. Registered Professional Engineer experienced in this type of work. Furthermore, the winning bidder failed to submit performance and payment bonds required by the RFQ/P. The State should not have proceeded with the bid advertisement and contract award on the project until its request for financial assistance from the USDA had been approved and funding secured.

**Finding 18: Travel Policies and Procedures**

Travel Policies and Procedures provide important guidelines on how State funds are used to fund official travel of the State including per diem rates of travel destinations, authorized travel expenses, submission of travel vouchers after completion of travel, trip reports, etc.

According to State officials, Ngarchelong State has adopted the National Government’s Executive Branch (NGEB) travel policies and procedures. However, State officials were unable to provide documentation to evidence formal adoption of the travel policies and procedures. The State expended a total of \$123,130.71 on travel for the period from fiscal year 2001 through 2006. The expenditures were incurred in fiscal years shown below:

FISCAL YEAR	TRAVEL EXPENDITURES	QUESTION COSTS
FY 2001	\$ 8,804.56	\$ -
FY2002	7,634.44	890.00
FY2003	16,907.50	500.00
FY2004	25,783.75	1,280.42
FY2005	29,058.36	7,194.48
FY2006	34,942.10	13,632.51
TOTAL	<u>\$ 123,130.71</u>	<u>\$ 23,497.41</u>

Of the \$123,130.71, we reviewed and tested \$78,818.83, or 64%, and found that \$23,497.41, or 30%, of the expenditures showed the following deficiencies:

- 1) No documentation to support Per Diem calculations of travel destinations
- 2) Travelers failed to file travel vouchers and related trip reports
- 3) No supporting documents (invoices/receipts) to support travel advances (car rental, representation funds, etc.)

The cause of the above condition is that the State has not established its travel policies and procedures.

As a result, questioned costs of \$23,497.41 exist.

***Recommendation***

The OPA recommends the Governor either adopt the National Government’s Executive Branch Travel Policies and Procedures or establish separate travel policies and procedures for the State. Travel Policies and Procedures are an essential component of the State’s overall internal control system as they prescribe guidelines on how public funds are to be used for official travel. In addition, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the above travels and to take appropriate action for conduct involving misuse or abuse of State funds.

***NSG’s Response:*** *Yes, we have been following the per diem rates of the National government as we have not established state travel policies. We intend to enact state travel policies before the end of fiscal*

year. It has been our practice to process TA signed by the Treasurer, Governor, and Speaker and traveler. Upon return, the traveler will submit a report along with invoiced receipts to substantiate his or her travel. We had not adopted the use of vouchers forms use required in the National Government. Our treasury office failed to follow up on these to make sure all such problems were corrected earlier on but we will correct all policy and procedures.

**OPA’s Comments:** The OPA will conduct follow up to ensure that the relevant Travel Policies and Procedures and companion forms are established.

**Finding 19: Excess Travel Funds not returned to State**

A Travel Authorization authorizes funds for official travel by a State official to pay travel expenses such as food and lodging, transportation, conference fees, and other authorized expenses in the best interest of the State. In addition, calculation of amount of travel advance issued to a traveler is based on estimated costs and, upon completion of travel, and filing of travel voucher, any excess funds should be returned to the State Treasury.

During the audit, the OPA found that several State officials were provided excessive per diem and ground transportation advances and, upon completion of travel, failed to return the excess funds to the State Treasury. The sum of excess funds not returned to the State Treasury was \$1,101.15 and were issued as travel advance for the following amounts and purpose: \$288.74 for per diem, \$522.41 for ground transportation, \$290 for purchase of supplies and materials.

DATE	CHECK NUMBER	Amount
10/11/01	12833	290.00
1/13/04	14308	112.21
3/30/04	14425	283.20
4/5/06	15829	288.74
1/24/06	15696	127.00
<b>TOTAL</b>		<b><u>\$ 1,101.15</u></b>

State finance office failed to enforce the filing of travel vouchers and, similarly, to collect the excess travel advances from State officials.

As a result, the excess funds may have been used for unauthorized purposes and the State failed to enforce their collection.

***Recommendation***

The OPA recommends that travelers use their travel funds for authorized purposes in accordance with an approved travel authorization. Furthermore, State finance employees should be provided training on the use of National Government’s Executive Branch Travel policies and Procedures, especially on per diem calculations, to ensure that the policies and procedures are enforced and that travelers are issued the

correct amount of travel advance. Moreover, the State should notify the travelers of the excess travel advances and try to recoup the advances from them.

*NSG’s Response:* We agree with the commendation of OPA and will arrange training of our staff on travel policies and procedures of the National government. We will try to seek means to retrieve the excess travel advances and will ensure that no more problems of the same may occur in the future.

**Finding 20: Representation Fund Expenses**

Representation funds given to State officials for official travel should be supported by invoices, receipts, and other supporting documents to show the official nature of expenditures incurred.

The audit revealed that on several occasions during the period from fiscal years 2001 to 2006 the Governor, Speaker of Ngarchelong State Assembly, and State Treasurer, in addition to receiving per diem for off-island travel, also received representation funds, which were expended without supporting documents (invoices, receipts) to show the official nature of expenditures incurred. The schedule below shows details and recipients of representation funds:

Travel Authorization No.	Check Date	Check No.	Rep. Fund Amount	Trip Purpose
TA6D0002	11-25-05	15586	\$109.50	Treasurer to attend affordable housing conference in Hawaii
TA6D0021	09-07-06	16071	83.17	Treasurer to Philippines to research, investigate, and decide best construction methods and materials for Self-Help Housing Program
TA6D0008	01-24-06	15696	220.10	Treasurer to Philippines to visit mud crab and confirm arrangement for transport of seedlings for farm project
TA4D0015	03-30-04	14425	488.00	Governor to attend meeting off-island for Self-Help Housing Program
TA4D0013	01-13-03	14308	200.00	Governor to visit Ngarchelong citizens in Guam and Saipan and report status of State projects and other related purposes
TA3D0001	11-29-02	13694	500.00	Governor to recruit farmers to work for the State Farm and procure supplies for the State such as State Flags, State Seal, Car Stickers, and License Plates
TA5D0028	08-15-05	15361	580.20	Assembly Speaker to Keelung-City, Taiwan to sign sister-city friendship agreement

**Total: \$ 2,180.97**

The cause of the above condition is lack of controls to ensure that representation fund expenditures are properly documented.

As a result, \$2,180.97 of public funds was expended without proper supporting documents to substantiate the official nature of representation funds.

### ***Recommendation***

The OPA recommends the Governor establish policies and procedures governing the use of representation fund. At a minimum, State officials given representation funds for official travel should be required to submit supporting document (invoices, receipts,) and trip reports to show how the funds were used. In addition, OPA recommends the Office of the Special Prosecutor or the Office of the Attorney General further investigate the above expenditures and to take appropriate action for any misconduct involving the use of public funds.

*NSG's Response: Fully agree with the recommendation of OPA. I will direct our attorney to work on comprehensive travel policies and procedures to be enacted by our State Assembly which will address all deficiencies as recommended.*

### **Finding 21: Taiwan Trip Expenditures**

In times of scarce resources, State funds should be utilized in a manner that maximizes return of benefits to the State.

The audit revealed that on August 15, 2005 the State spent a total of \$18,638 to send a delegation of fourteen (14) State officials to Taiwan to attend the signing ceremony commemorating a sister-city relationship between Ngarchelong State and Keelung City, Taiwan. Records show that of the 14 officials that traveled only three (3) attended the actual signing ceremony on August 17; namely the Governor, Speaker, and High Chief, the rest of the entourage arriving three days later.

For the eleven (11) members of the delegation who did not participate in the signing and exchange of treaties ceremony, the State spent \$11,220 (\$6,600 for per diem and \$4,620 for air fare) to send them to Taipei; arriving on August 20 where they met the other members of the delegation who had returned from Keelung City after the ceremony and the following day, Sunday, the entire group spent the day shopping. The next day, August 22, the whole delegation returned to Keelung City to meet with City officials and tour government offices. The following day, August 23, the delegation toured Taipei and left the following day to return to Palau. Thus, in essence, the 11-member delegation were provided four (4) days per diem and only spent one (1) day in Keelung City, but that 1 day occurred three (3) days after the signing and exchange of treaties ceremony.

Moreover, travel advance of \$1,094.28 for land transportation lacked proper supporting documents (invoices, receipts) to enable us to determine if the money was actually used for transportation or otherwise.

We were unable to determine why the Governor would send such a large delegation to a signing ceremony, especially at a time when resources are scarce, and its necessity questioned by the fact that 11

members of the delegation departed Palau three (3) days after the signing and exchange of treaties concluded.

As a result, we believe the \$11,220 could have been put to more productive use towards serving the people of the State.

### ***Recommendation***

The OPA recommends the Governor consider the financial condition of the State when making a decision to send a delegation of State officials to off-island functions. We believe a delegation consisting of the Governor, the Speaker, and High Chief would have sufficed the signing and exchange of treaties ceremony and save the \$11,220 for other State programs and activities. Finally, the OPA recommends the Office of the Special Prosecutor or the Office of the Attorney General further investigate the above expenditures and to take appropriate action for any misconduct involving the use of public funds.

***NSG's Response:*** *On this specific trip we had earlier planned for it and we did appropriate funds to cover the costs. This was a historic event for the State of Ngarchelong. It was our first Sister City Relation to be established and all of us wanted to witness the day signing. So everybody was booked including the members of the community who paid their own expenses just to visit our friends from Keelung City. Everyone was originally booked to depart on the same day but as that day drew near flights to Taiwan as we know are chartered flights and it quite hard to get booking for that many people but with all excitement the rest of the people decided to follow us on a later date while the three of us leave as we could not miss the scheduled signing date of the agreement. So the initial group that went to Keelung to attend the Signing Ceremony was President Toribiong who was then our Ambassador to Republic of China (Taiwan), Governor Salvador, Chief Uong and Speaker West. Ms. Lydia Ngirablosch was the official from our Embassy in Taiwan who also attended.*

*Again, the size delegation was by due to the fact the Delegation from Keelung that visited Palau and Ngarchelong before we went to Keelung was a big delegation which included many officials and business people. So every official from Ngarchelong State felt that this was an important visit for them.*

**OPA's Comments:** The main purpose of the delegation visit was to participate and witness the signing ceremony, which public funds were used to fund travel and related costs. However, when 11 members of the delegation fail to attend the ceremony, then the purpose of the travel was not accomplished. Furthermore, the State simply cannot reciprocate the actions of Keelung City (in terms of the size of its delegation in earlier visit to Palau) because it does not have the resources to afford such a huge delegation.

### **Finding 22: Earmarked Capital Improvement Project (CIP)**

40 PNCA section 625 (b) requires that any purchases by the State Government greater or equal to \$5,000 shall be subject to competitive bidding. In addition, construction projects requires proper planning (i.e. design and materials specifications), execution, and management by qualified experts to ensure the quality and durability of projects.

In previous fiscal years Ngarchelong State received and expended earmarked appropriations from the National Government for State Capital Improvements projects shown below:

<i>Fiscal Year</i>	<i>Earmark CIP</i>	<i>Amount</i>
2001 and 2002	State Capital Building	\$ 48,734.00
2001 and 2002	Ngarbau Diangel	\$ 10,000.00
2001 and 2002	Public Works Building	\$ 35,000.00
2001 and 2002	Oketol Dock	\$ 6,230.00
2001	Badrulchau Rest House	\$ 9,969.71
2001 and 2002	Dock Facility	\$ 4,446.00

For the above CIPs, we found that the State elected to use State manpower to construct the facilities rather than outsourcing the projects. In doing so, however, the State did not put out for bid the materials requirements for the projects.

Moreover, the State failed to prepare plans, designs, and materials specifications for each project; thus, in some instances, causing changes in types of materials to be used during work-in-progress. For example, for the Ngarbau Diangel project, the State spent \$1,854.08 to purchase eighty (80) pieces of tin roofs, fifty (50) pieces of assorted lumbers, fifty (50) pounds of nails, and other materials. Subsequently, the State decided to purchase and use \$3,162.19 worth of thatched pandana leaves as roofing for the Diangel.

Additionally, OPA’s on-site inspection found that the assorted lumbers and tin roofs purchased were not used on the project and, thus, we were unable to determine which State projects these materials were applied to. The State spent a total of \$11,560.71 on the Ngarbau Diangel project. The picture below, taken on January 25, 2008, shows the deteriorating condition of the Ngarbau Diangel:



The OPA was unable to determine why the State did not put out the materials requirement for the above projects to competitive bidding. In addition, the State may not have on staff experts with which to manage and execute construction projects to ensure their quality and durability.

As a result, the State failed to administer the earmarked CIP funds in accordance with the ROP's Procurement Law and regulations. In addition, without qualified experts to advise the State on its construction projects, the quality and durability of the projects may be questionable.

***Recommendation***

The OPA recommends that the Governor establish controls to ensure that any procurement of goods or services by the State costing \$5,000 or more be let to competitive bidding. In addition, we recommend that the OEK mandate that State Governments Capital Improvement Projects funded in whole or in part by the National Government be subject to certification by the Design and Engineering Office (Bureau of Public Works) with respect to the planning and design documents prior to the release of funds by the Bureau of National Treasury. Finally, we recommend the Office of the Attorney General or the Special Prosecutor further investigate the above purchases of materials for State projects and to take appropriate action for conduct involving misappropriation of State properties.

*NSG's Response: Again, we take the commendation seriously as we know there are many deficiencies the area of procurement and we have to immediately take corrective actions to cure the problems. We understand now that most of those prior year projects were done by state employees and some are too big for our employees to handle and the quality is usually compromised especially if we do not have skilled laborers. We agree to bid all major projects and to follow Procurement Law.*

**Finding 23: Local Noncompliance/Prior Year Finding (s)**

Ngarchelong State should comply with 5 PNCA §401 by implementing audit findings and recommendations contained in audit reports of the Office of the Public Auditor.

Ngarchelong State did not take affirmative action to implement the following prior year audit findings and recommendations:

- Travel Policies and Procedures
- Open Charge Account on Fuel
- Cash Management

It appears the cause of the above condition is that the Governor did not prioritize corrective action to implement prior years' audit findings and recommendations.

As a result, some of the findings contained in this report are repeated from prior years' audit.

***Recommendation***

The OPA recommends the Governor prioritize corrective action to implement audit findings and recommendations contained in audit reports of the Office of the Public Auditor.

*NSG's Response: Yes, we agree that we have not thoroughly studied the recommendations of the 1996-1997 audit findings and recommendations but we are now fully aware of the problems and we will take immediate and positive action in correcting them.*

**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**

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

**(Closed on Legal Holidays)**