

PALAU VISITORS AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2010

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Palau Visitors Authority:

We have audited the financial statements of the Palau Visitors Authority (PVA) as of and for the year ended September 30, 2010, and have issued our report thereon dated February 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PVA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PVA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PVA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses (pages 3 and 4), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2010-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PVA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2010-1.

We noted certain matters that we reported to management of PVA in a separate letter dated February 21, 2011.

PVA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit PVA's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

February 21, 2011

PALAU VISITORS AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2010

Local Compliance

Finding No. 2010-1

Criteria: PVA has determined that the Republic of Palau (ROP) Procurement Office has taken the position that PVA is required to adhere to ROP procurement policy. Procurement of items purchased over \$10,000 must go through competitive bidding. All contracts procured or entered into with off-island vendors must be reviewed and approved by the ROP Office of the Attorney General. Additionally, procurement through small purchase procedures should be supported with price quotations from at least three vendors and vendor selection should be based on competitive price, quality, delivery time and other relevant factors. Furthermore, purchases of all goods and/or services from external vendors must be made and/or supported by purchase orders.

Condition: Tests of \$57,275 of expenses noted no evidence in file that price quotations were obtained for three items (voucher nos. 13475, 12502, 13584).

Cause: The cause of the above condition is lack of adherence to procurement policies and procedures.

Effect: The effect of the above condition is noncompliance with established procurement policies and procedures.

Recommendation: We recommend that PVA adhere to established procurement policies and procedures and ensure that vendor selections are supported by complete procurement files.

Prior Year Status: Lack of adherence to procurement policies and procedures was reported as a finding in the audits of PVA for fiscal years 2004 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: Strict adherence will be enforced to be in compliance with established procurement policies and procedures. For clarification, voucher numbers 13475 and 12502 relate to "Sole Source Procurement" but we failed to document this and will be specific moving forward. Voucher number 13584 relates to our fuel provider (Shell Company) with whom we have a credit line; regretfully, we failed to obtain a proposal from Mobil Oil and will do so in the future.

Proposed Completion Date: February 2, 2011

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Net Assets

Finding No. 2010-2

Criteria: Net asset accounts should only be adjusted for prior year errors and misstatements and when closing net income for the period.

Condition: During the year ended September 30, 2010, PVA either did not post or posted incorrectly proposed 2009 audit adjustments directly to net asset accounts. Additionally, PVA posted 2010 bank reconciliation adjustments directly to net asset accounts. We noted two system generated journal vouchers (AJE 0810-5 and AJE 0910-22), which did not evidence review or approval, that were based on bank reconciliation adjustments and were posted directly to net asset accounts. These conditions resulted in \$13,498 of bank charges and \$8,870 of other expenses being directly debited to net asset accounts, and were corrected through proposed audit adjustments.

Cause: The cause of the above condition is a lack of control over entries to net asset accounts.

Effect: The effect of the above condition is a misstatement of beginning net assets and other affected accounts.

Recommendation: We recommend that PVA reconcile net asset accounts to prior year audited balances and discontinue the practice of posting bank reconciliation adjustments directly to net asset accounts.

Prior Year Status: Lack of control over entries to net asset accounts was reported as a finding in the audit of PVA for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: We worked with the auditors during the fiscal year 2009 audit with a goal to correct accumulated net asset discrepancies within the audited net asset balance. The proposed audit adjustments were provided with the intention to correct the noted discrepancy; however, they were posted as an increase to net assets when it should have been a decrease to net assets. The Accountant and the Managing Director were not aware of the system generated journal vouchers which directly posted to the equity account, which is reason for the lack of evidence of review and approval of journal vouchers. All manually prepared journal vouchers for fiscal year 2010 were prepared, reviewed, and approved by management.

PVA will implement recommendation as stated.

Proposed Completion Date: October 1, 2010

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Unresolved Prior Year Comments
Year Ended September 30, 2010

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 and 4).