

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2007

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

His Excellency Tommy E. Remengesau Jr.
President
Republic of Palau:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2007, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated June 24, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Palau Community College and the Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the National Development Bank of Palau, the Palau National Communications Corporation, the Palau International Coral Reef Center, the Palau Visitors Authority, and the Public Utilities Corporation, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Republic'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 the Republic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Republic'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 17 through 59) as items 2007-1 through 2007-12 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above, we consider items 2007-3, 2007-5, 2007-6, 2007-8 and 2007-11 to be material weaknesses.

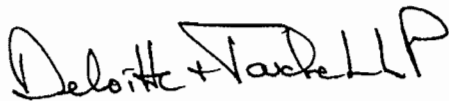
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Republic's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-13 through 2007-15.

We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated June 24, 2008.

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

This report is intended solely for the information and use of the management of the Republic of Palau, federal awarding agencies, pass-through entities and 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.



June 24, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

His Excellency Tommy E. Remengesau Jr.
President
Republic of Palau:

Compliance

We have audited the compliance of the Republic of Palau (the Republic) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Republic's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 17 and 18). Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Republic's management. Our responsibility is to express an opinion on the Republic's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the Republic's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2007. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Republic's compliance with those requirements.

As described in items 2007-16, 2007-20, 2007,21, 2007-22, 2007-24, 2007-25 and 2007-26 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding cash management, period of availability of federal funds, equipment and real property management, and reporting that are applicable to its OTIA Direct Grants major program (CFDA # 15.875), activities allowed or unallowed, matching, and equipment and real property management that are applicable to its Centers for Disease Control and Prevention - Investigations and Technical Assistance major program (CFDA # 93.283), equipment and real property management that is applicable to its Community Health Centers major program (CFDA # 93.224), cash management, reporting, and equipment and real property management that are applicable to its Airport Improvement Program major program (CFDA # 20.106), and cash management, and equipment and real property management that are applicable to its IDEA Special Education - Grants to States major program (CFDA # 84.027). Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Republic complied, in all material respects, with the requirements referred to above that are applicable to its OTIA Direct Grants major program (CFDA # 15.875), Centers for Disease Control and Prevention - Investigations and Technical Assistance major program (CFDA # 93.283), Community Health Centers major program (CFDA # 93.224), Airport Improvement Program major program (CFDA # 20.106), and IDEA Special Education - Grants to States major program (CFDA # 84.027) and its Compact of Free Association Sector Grants major program (CFDA # 15.875) for the year ended September 30, 2007. Also, in our opinion, the Republic complied, in all material respects, with the requirements referred to above that are applicable to its Compact of Free Association major program (CFDA # 15.875). The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-17, 2007-18, 2007-19, 2007-21 and 2007-23.

Internal Control over Compliance

The management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Republic's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-7 and 2007-16 through 2007-26 to be significant deficiencies.

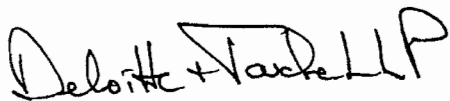
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-26 to be a material weakness.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2007, and have issued our report thereon dated June 24, 2008. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Republic's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 13) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Republic. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Republic of Palau, federal awarding agencies, pass-through entities and 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.

Handwritten signature of Deloitte + Touche LLP in black ink.

June 24, 2008

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007

Fund 350100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	Cash Receipts FY2007	Expenditures FY2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
U.S. Department of Agriculture					
<u>State Administrative Expenses for Child Nutrition CFDA #10.560</u>					
Sub-total CFDA #10.560	10,136	(688)	-	-	(688)
<u>Cooperative Forestry Assistance CFDA #10.664</u>					
Sub-total CFDA #10.664	949,460	60,224	65,957	147,893	142,160
<u>Community Facilities Loans and Grants CFDA #10.766</u>					
Sub-total CFDA #10.766	459,002	30,982	75,000	2,095	(41,923)
Total U.S. Department of Agriculture	1,418,598	90,518	140,957	149,988	99,549
U.S. Department of Commerce					
<u>Special Oceanic and Atmospheric Projects CFDA# 11.460</u>					
Sub-total CFDA #11.460	1,889,787	16,207	252,166	288,952	52,993
<u>Pacific Fisheries Data Program CFDA #11.437</u>					
Sub-total CFDA #11.437	31,000	26,036	-	-	26,036
<u>Unallied Management Projects CFDA#11.454</u>					
Sub-total CFDA #11.454	176,027	41,874	48,355	36,250	29,769
<u>NOAA Donation to IRC Meeting</u>					
Sub-total IRC Meeting	25,000	(700)	-	-	(700)
Total U.S. Department of Commerce	2,121,814	83,417	300,521	325,202	108,098
U.S. Department of Housing and Urban Development					
<u>Emergency Shelter Grants Program CFDA #14.231</u>					
Total U.S. Department of Housing and Urban Development CFDA 14.231	7,000	(30)	-	-	(30)
U.S. Department of Justice					
<u>Juvenile Justice and Delinquency Prevention - Allocation to States CFDA #16.540</u>					
Sub-total CFDA #16.540	16,283	(264)	-	-	(264)
<u>State Justice Statistics Program for Statistical Analysis Centers CFDA #16.550</u>					
Sub-total CFDA #16.550	11,090	(216)	-	-	(216)
Total U.S. Department of Justice	27,373	(480)	-	-	(480)
U. S. Department of Labor					
<u>Workforce Investment Act CFDA #17.255</u>					
Sub-total CFDA #17.255	82,150	(10)	-	-	(10)
<u>WIA Adult Program CFDA #17.258</u>					
Sub-total CFDA #17.258	206,244	16,455	113,294	100,738	3,899
<u>WIA Youth Activities CFDA #17.259</u>					
Sub-total CFDA #17.259	240,644	-	64,859	73,869	9,010
<u>WIA Dislocated Workers Program CFDA #17.260</u>					
Sub-total CFDA #17.260	448,148	11,600	183,499	184,836	12,937
Total U.S. Department of Labor	977,186	28,045	361,652	359,443	25,836
U.S. Environmental Protection Agency					
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>					
Sub-total CFDA #66.418	792,370	(714)	-	-	(714)
<u>Environmental Education Grants CFDA #66.951</u>					
Sub-total CFDA #66.951	156,253	(252)	-	-	(252)
Total U.S. Environmental Protection Agency	948,623	(966)	-	-	(966)
U.S. Department of Energy					
<u>State Energy Program CFDA #81.041</u>					
Total U.S. Department of Energy	349,749	(1,178)	-	-	(1,178)
FEMA					
<u>Public Assistance Grants CFDA #83.544</u>					
Total U.S. Department of Homeland Security	257,157	(14,524)	-	-	(14,524)
U.S. Department of Education					
<u>Adult Education - State Grant Progrm CFDA #84.002A</u>					
Sub-total CFDA #84.002A	400,595	14,374	38,666	42,353	18,061
<u>Special Education - Grants to States CFDA #84.027B</u>					
Sub-total CFDA #84.027B	5,201,843	31,393	173,638	182,948	40,703

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

Fund 350100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	Cash Receipts FY2007	Expenditures FY2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
<u>Special Education - Grants to States CFDA #84.027A</u>					
Sub-total CFDA #84.027A	2,520,260	72,473	977,215	1,067,201	162,459
<u>Rehabilitation Services - Client Assistance Program CFDA #84.161</u>					
Sub-total CFDA #84.161	-	-	-	-	-
<u>Special Education - Pre-School Grants CFDA #84.173A</u>					
Sub-total CFDA #84.173A	3,413	(219)	-	-	(219)
<u>Byrd Honors Scholarships CFDA #84.185A</u>					
Sub-total CFDA #84.185A	207,286	(20,250)	12,000	12,000	(20,250)
<u>Supported Employment Services for Individuals with Severe Disabilities CFDA #84.187A</u>					
Sub-total CFDA #84.187A	15,756	(3,754)	-	-	(3,754)
<u>Bilingual Education Support Services CFDA #84.194Q</u>					
Sub-total CFDA#84.194Q	300,000	(997)	-	-	(997)
<u>Freely Associated States - Education Grant Program CFDA #84.256A</u>					
Sub-total CFDA #84.256A	3,890,791	141,788	557,008	468,335	53,115
<u>Goals 2000 - State and Local Education Systemic Improvement Grants CFDA #84.276</u>					
Sub-total CFDA #84.276	79,187	(681)	-	-	(681)
<u>Twenty-First Century Community Learning Centers Program CFDA #84.287B</u>					
Sub-total CFDA #84.287B	193,795	1,146	-	-	1,146
<u>Gaining Early Awareness and Readiness for Undergraduate Programs CFDA #84.334S</u>					
Sub-total CFDA #84.334S	788,305	25,533	148,279	158,336	35,590
<u>Teacher Quality Enhancement Grants CFDA #84.336A</u>					
Sub-total CFDA #84.336A	462,000	59,350	110,348	53,431	2,433
<u>Vocational Education - Occupational and Employment Information State Grants CFDA #84.346A</u>					
Sub-total CFDA #84.346A	213,402	4,909	65,638	65,801	5,072
<u>Vocational Education - Basic Grants to States CFDA #84.048</u>					
Sub Total CFDA #84.048	1,407,263	(275,043)	170,628	214,730	(230,941)
Total U.S. Department of Education	15,683,896	50,022	2,253,420	2,265,135	61,737
U.S. Department of Health and Human Services					
<u>National Bioterrorism Hospital Preparedness Program CFDA #93.889</u>					
Sub-total CFDA #93.889	1,815,148	24,204	266,972	382,486	139,718
<u>Material and Child Health Federal Consolidated Programs CFDA # 93.110AR</u>					
Sub-total CFDA #93.110	915,243	35,615	245,222	238,427	28,820
<u>Project Grants and Cooperative Agreements for Tuberculosis Control Programs CFDA #93.116</u>					
Sub-total CFDA #93.116	540,244	14,757	155,869	149,693	8,581
<u>Family Planning - Services CFDA #93.217</u>					
Sub-total CFDA #93.217	538,989	20,079	209,628	206,704	17,155
<u>Consolidated Health Centers CFDA #93.224</u>					
Sub-total CFDA #93.224	2,725,846	64,543	677,566	678,293	65,270
<u>Substance Abuse and Mental Health Services - Projects of Regional and National Significance CFDA #93.243</u>					
Sub-total CFDA #93.243	1,680,000	24,304	386,815	389,379	26,868
<u>Universal Newborn Hearing Screening CFDA #93.251</u>					
Sub-total CFDA #93.251	375,000	16,068	84,106	70,609	2,571
<u>Immunization Grants CFDA #93.268</u>					
Sub-total CFDA #93.268	395,391	5,459	167,496	173,402	11,365
<u>CDC and Prevention - Investigations & Technical Assistance CFDA# 93.283</u>					
Sub-total CFDA #93.283	5,042,634	200,983	1,846,573	1,885,195	239,605
<u>Consolidated Knowledge Development and Application (KD&A) Program CFDA #93.230</u>					
Sub-total CFDA #93.230	188,583	8,735	87,843	87,430	8,322

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

Fund 350100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	Cash Receipts FY2007	Expenditures FY2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
U.S. Department of Health and Human Services, Continued					
<u>Injury Prevention and Control Research and State and Community Based Programs CFDA #93.136</u>					
Sub-total CFDA #93.136	5,008	-	5,007	5,007	-
<u>HIV Care Grants CFDA #93.917</u>					
Sub-total CFDA #93.917	100,000	943	27,636	40,865	14,172
<u>Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems CFDA #93.938</u>					
Sub-total CFDA #93.938	192,979	8,733	105,779	101,738	4,692
<u>Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups CFDA #93.943</u>					
Sub-total CFDA #93.943	487,114	11,965	209,721	214,983	17,227
<u>HIV/Aids Surveillance CFDA #93.944</u>					
Sub-total CFDA #93.944	58,870	646	22,517	22,429	558
<u>Block Grants for Community Mental Health Services CFDA #93.958</u>					
Sub-total CFDA #93.958	150,000	4,522	50,218	49,144	3,448
<u>Block Grants for Prevention and Treatment of Substance Abuse CFDA #93.959</u>					
Sub-total CFDA #93.959	614,684	6,881	122,186	118,807	3,502
<u>Preventive Health Services - STD Control Grants CFDA #93.977</u>					
Sub-total CFDA #93.977	90,633	1,843	54,455	53,227	615
<u>Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation and Surveillance Systems CFDA #93.988</u>					
Sub-total CFDA #93.988	225,417	4,276	76,425	76,675	4,526
<u>Preventive Health and Health Services Block Grant CFDA #93.991</u>					
Sub-total CFDA #93.991	172,614	3,846	25,952	22,792	686
<u>Maternal and Child Health Services Block Grant to the States CFDA # 93.994</u>					
Sub-total CFDA #93.994	582,738	13,171	156,543	150,653	7,281
<u>DEH-PHICI CFDA # 93.240</u>					
Sub-total CFDA # 93.240	106,297	-	-	1,737	1,737
<u>Civil Rights and Privacy Rule Compliance Activities</u>					
Sub-total CFDA #93.001	30,000	(5,787)	10,000	7,649	(8,138)
Total Department of Health and Human Services	17,033,432	465,786	4,994,529	5,127,324	598,581
Total Federal Grants (Fund 350100)	\$ 38,824,828	\$ 700,610	\$ 8,051,079	\$ 8,227,092	\$ 876,623

Note: All of the awards per the above are received in a direct capacity from the specified grantor with the exception of CFDA #84.048, which is received from the Pacific Resources for Education and Learning (PREL)

During the year ended September 30, 2007, the Republic passed through federal funding to the Workforce Investment Act.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

Fund 350200 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
OTIA Direct Grants					
<u>Non-Capital CFDA #15.875</u>					
Total Non-Capital	\$ 6,641,360	\$ 676,341	\$ 1,297,617	\$ 757,187	\$ 135,911

The above awards are received in a direct capacity.

During the year ended September 30, 2007, the Republic passed through federal funding to Social Security Administration and Palau Community College.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

Fund 420100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
U.S. Department of Homeland Security					
<u>Public Assistance Grants CFDA #83.544</u>					
Total U.S. Department of Homeland Security	37,072	657	-	-	657
U.S. Department of Housing and Urban Development					
<u>Emergency Shelter Grants Program CFDA #14.231</u>					
Total U.S. Department of Housing and Urban Development	180,000	(871)	-	-	(871)
U.S. Environmental Protection Agency					
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>					
Total U.S. Environmental Protection Agency	632,216	1,897	-	-	1,897
U.S. Department of the Interior Capital Projects					
<u>Capital Improvement Projects CFDA # 15.875</u>					
Total U.S. Department of the Interior Capital	395,400	(34,029)	-	-	(34,029)
U.S. Department of Transportation					
<u>Airport Improvement Program CFDA #20.106</u>					
Total U.S. Department of Transportation	23,340,133	516,337	6,006,016	8,261,484	2,771,805
Total U.S. Federal (CIP Project)	<u>\$ 24,584,821</u>	<u>\$ 483,991</u>	<u>\$ 6,006,016</u>	<u>\$ 8,261,484</u>	<u>\$ 2,739,459</u>

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
 YEAR ENDED SEPTEMBER 30, 2007

Fund 430100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/06	Cash Receipts FY 2007	Expenditures FY 2007	Receivable from Grantor (Deferred Revenue) at 9/30/07
Capital Improvement Projects CFDA 15.875					
Total Capital Improvement Projects	\$ 9,165,525	\$ (180,454)	\$ -	\$ -	\$ (180,454)

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2007 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>211(a) & 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000	\$ -
Compact Section 215	3,840,000	3,840,000	-
Total 211(a) & 215 Current Account	<u>\$ 9,840,000</u>	<u>\$ 9,840,000</u>	<u>\$ -</u>
<u>211(b) & 215 Energy Production</u>			
Investment Management Fees, 211(b) Funds	\$ 1,573	\$ 1,573	\$ -
Total 211(b) & 215 Energy Production	<u>\$ 1,573</u>	<u>\$ 1,573</u>	<u>\$ -</u>
<u>211(c) & 215 Communications</u>			
Executive Branch	\$ 246,000	\$ 246,000	\$ -
Investment Management Fees, 211(c) Funds	92	92	-
Total 211(c) & 215 Communications	<u>\$ 246,092</u>	<u>\$ 246,092</u>	<u>\$ -</u>
<u>211(d) Maritime/Health/Scholarship</u>			
Patrol boat operations	\$ 631,000	\$ 631,000	\$ -
Investment Management Fees, 211(d) Funds	61	61	-
Total 211(d) Maritime/Health/Scholarship	<u>\$ 631,061</u>	<u>\$ 631,061</u>	<u>\$ -</u>
<u>211(e) Maritime</u>			
Investment Management Fees, 211(e) Funds	\$ 200	\$ 200	\$ -
Total 211(e) Maritime	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ -</u>
<u>211(f) Trust Fund</u>			
Executive Branch	\$ 3,000,000	\$ 3,000,000	\$ -
Judiciary	1,000,000	1,000,000	-
Legislative	1,000,000	1,000,000	-
Total 211(f) Trust Fund	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>
<u>213 Defense</u>			
Investment Management Fees, 213 Funds	\$ 16,007	\$ 16,007	\$ -
Executive Branch	914,000	650,993	263,007
Total 213 Defense	<u>\$ 930,007</u>	<u>\$ 667,000</u>	<u>\$ 263,007</u>
<u>212(b) & 215 Capital Account</u>			
Investment Management Fees	\$ 181	\$ 181	\$ -
Total 212(b) & 215 Capital Account	<u>\$ 181</u>	<u>\$ 181</u>	<u>\$ -</u>

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2007 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>221(b)(1) & (2) Special Block Grant & Education Special Grant</u>			
Transfer to Palau Community College	\$ 2,000,000	\$ 2,000,000	\$ -
Investment Management Fees, 221(b) Funds	<u>161</u>	<u>161</u>	<u>-</u>
Total 221(b) Special Block Grant	<u>\$ 2,000,161</u>	<u>\$ 2,000,161</u>	<u>\$ -</u>
Total Compact of Free Association CFDA #15.875		\$ 18,386,268	
Less Compact Section 211(a) Current Account		(6,000,000)	
Less Compact Section 215 Current Account		(3,840,000)	
Less Compact Section 211(f) Trust Fund Investment Earnings		<u>(5,000,000)</u>	
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		<u>\$ 3,546,268</u>	

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

Schedule of Programs Selected for Audit
In Accordance With OMB Circular A-133
Year Ended September 30, 2007

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements:

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Expenditures and Transfers</u>
U.S. Department of the Interior	15.875	Compact of Free Association OTIA Direct Grants	\$ 3,546,268 757,187
U.S. Department of Health and Human Services	93.283	Chronic Disease Prevention and Health Promotion Program Public Health Preparedness and Response for Bioterrorism National Cancer Prevention and Control Program Epidemiology and Laboratory Capacity for Infectious Diseases Delivering Environmental Health Services	1,885,195
	93.224	Community Health Centers	678,293
U.S. Department of Transportation	20.106	Airport Improvement Program	8,261,484
U.S. Department of Education	84.027	Special Education – Grants to States	<u>1,250,149</u>
			\$ <u>16,378,576</u>
Total federal program expenditures (excluding Compact Section 211(a) Current Account, \$6,000,000; Compact Section 215 Current Account, \$3,840,000; Compact Section 211(f) Trust Fund Investment Earnings, \$5,000,000)			\$ <u>20,792,031</u>
% of total federal program expenditures tested			<u>79%</u>

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

(1) Scope of Review

The Republic of Palau (the Republic) is a governmental entity governed by its own Constitution. The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the OMB Circular A-133 audit (the "Single Audit").

The Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Transportation
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Labor
- U.S. Department of Agriculture
- U.S. Environmental Protection Agency
- U.S. Department of Housing and Urban Development
- U.S. Department of Justice
- U.S. Department of Commerce
- U.S. Department of Energy
- U.S. Department of Homeland Security
- U.S. Department of the Interior

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the Republic's reporting entity is defined in Note 1A to its September 30, 2007 basic financial statements and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2007.

c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2007. The approved rate was 7.55%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

(2) Summary of Significant Accounting Policies, Continued

d. Funding Passed Through to Other Entities

The Republic records as expenditures funding that is passed through to other entities.

As of September 30, 2007, none of the States had provided audit reports to the Republic. The Republic is considered to have responsibility for any questioned costs that could result from Single Audits of these entities.

During the year ended September 30, 2007, the Republic passed through federal funding to the following entities:

Palau Community College, Compact Section 221(b), CFDA #15.875	\$ 2,000,000
Palau Community College, Vocational Education Training	<u>29,211</u>
	\$ <u>2,029,211</u>

These entities separately satisfy their OMB Circular A-133 reporting requirements.

e. Single Audit Excluded Funding

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding have been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the U.S. Department of the Interior, Office of the Inspector General (OIG). The OIG took this position since there were no compliance requirements imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There are no compliance requirements associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified, one of which is considered to be a material weakness.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Republic's major programs were as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association	15.875
OTIA Direct Grants	15.875
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283
Community Health Centers	93.224
Airport Improvement Program	20.106
Special Education – Grants to States	84.027

8. A threshold of \$623,761 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Republic did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>
2007-1	Revenues
2007-2	Expenditures
2007-3	Expenditures
2007-4	Collection Letters/Notices - Hospital
2007-5	Cash
2007-6	Receivables
2007-7	Federal Grants Receivable

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Part II - Financial Statement Findings Section, Continued

<u>Reference Number</u>	<u>Findings</u>
2007-8	Prepays
2007-9	Fixed Assets
2007-10	Fixed Assets
2007-11	Encumbrances
2007-12	Reporting
2007-13	Local Noncompliance
2007-14	Local Noncompliance
2007-15	Local Noncompliance

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2007-07	Nonmajor	Cash Management	\$ -
2007-16	15.875/ 20.106/ 84.027	Cash Management	\$ -
2007-17	93.224	Procurement and Suspension and Debarment	\$ 13,325
2007-18	93.283	Procurement and Suspension and Debarment	\$ -
2007-19	93.283/ 84.027	Procurement and Suspension and Debarment	\$ -
2007-20	93.283	Activities Allowed or Unallowed	\$ -
2007-21	93.283/ 84.027	Activities Allowed or Unallowed	\$ -
2007-22	15.875	Period of Availability of Funds	\$ 16,540
2007-23	93.283	Period of Availability of Funds	\$ 33,826
2007-24	93.283	Matching	\$ -
2007-25	20.106 15.875	Reporting	\$ -
2007-26	All major programs	Equipment and Real Property Management	\$ -

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Part II - Financial Statement Findings Section

Revenues

Finding No. 2007-1

Criteria: An effective internal control provides for collections to be deposited in a timely manner (i.e., the next business day).

Condition: The following Division of Customs collections were not transmitted to the National Treasury in a timely manner:

<u>Customs Receipt</u>		<u>National Treasury Receipt</u>		<u>Days Lapsed</u>
<u>Receipt No.</u>	<u>Receipt Date</u>	<u>Receipt No.</u>	<u>Receipt Date</u>	
131389	12/22/06	923107	12/27/06	5
132121	03/29/07	939729	04/02/07	4
132487	05/11/07	947550	05/15/07	4
132247	04/12/07	942151	04/16/07	4
131857	02/22/07	933708	02/26/07	4
132198	04/06/07	941337	04/11/07	5
131375	12/21/06	922897	12/26/06	5
132435	05/03/07	946350	05/08/07	5
131526	01/10/07	926507	01/15/07	5

Collections received on December 6, 2006 at the National Treasury amounting to \$41,567 were deposited on December 8, 2006.

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

Effect: The effect of the above condition is the potential for employees to misappropriate collections.

Prior Year Status: Lack of timely transmittal to the National Treasury was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2006.

Recommendation: We recommend that the Republic ensure that collections are transmitted to the National Treasury in a timely manner.

Auditee Response and Corrective Action Plan: Treasury Collection Section with Director of the Bureau of National Treasury has been logging deposits of the Division of Customs on a daily basis. Most of the collections not deposited on a daily basis at Finance are the collections by the Post Office, Airport Cargo and Sea Port Customs staff. These collections are deposited at Customs main office that in turn prepares a transmittal and deposits at Treasury Collection Division.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Revenues

Finding No. 2007-1, Continued

Auditee Response and Corrective Action Plan, Continued:

In the middle of fiscal year 2008, Bureau of National Treasury and Customs Division reached a decision where Customs is now making nightly deposits. The main office continues to prepare deposits for the other Customs collection offices that sometimes collect none or very little amount. Plans are being made to also have Customs other collecting offices make nightly deposits. Treasury Collection Section with the director's supervision continues to monitor the collections to ensure that they are deposited as they are collected.

Full name of the person responsible for the corrective action plan: Marino Rechesengel and John Tarkong, Jr

When will the corrective action plan be implemented: May 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Expenditures

Finding No. 2007-2

Criteria: The amendment specified by Republic of Palau Public Law 7-25 (amendment to procurement law) applies to small purchases under \$5,000. For all small purchases over \$2,000 and for the purchase of event hosting services over \$5,000 not put to bid, the procurement officer or his designee shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time and other relevant factors. Written documentation of the three price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. For small purchases under \$2,000 and for purchases of event hosting services under \$5,000, procurement officers are encouraged to obtain multiple price quotations, but it is not required.. Three price quotations are not required for any small purchases under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Condition: Of sixty general fund expenditures tested, totaling \$1,180,189, the following were noted:

- There were no evidence on file that quotations were obtained from an adequate number of qualified sources for the following :

<u>Voucher</u>	<u>Check no.</u>	<u>Amount</u>
604011	239775	\$ 3,525
617592	246569	\$ 3,000
619870	246546	\$ 1,600
602587	242794	\$ 4,955
627186	248401	\$ 8,991
617015	246232	\$ 9,390
613874	246346	\$ 7,995

Cause: The cause of the above condition is inadequate documentation of small purchases and a lack of documentation demonstrating that competition remains open among vendors. The ROP regulations indicate that if no more than two vendors possess the required merchandise or service, no competitive procurement is required. However, no documentation was available to indicate compliance with the criteria.

Effect: The effect of the above condition is noncompliance with applicable local procurement regulations.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons therefor should be documented in the procurement files.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Expenditures

Finding No. 2007-2, Continued

Auditee Response and Corrective Action Plan: Auditee concurs with this finding. Procurement Officer has local knowledge of vendors in regards to limitations of goods and services offered on island. Procurement officer will make sure to write down his determination and attach to purchase requisitions for documentation purposes.

Full name of the person responsible for the corrective action plan:

Millan Isack

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Expenditures

Finding No. 2007-3

Criteria: The accounting procedures and guidelines for receiving quarterly allotments by the off-island embassy offices, approved by the Minister of Finance, stipulate that all disbursements shall be in the form of a check in chronological sequence. A payment voucher is to be prepared for all checks issued and all supporting documents, such as invoices, etc. should be attached to the vouchers. All travel authorizations must be requested by the Minister of State and be approved by the President in accordance with Executive Order No. 199, the revised travel policy. Travel authorization approvals can be obtained via fax. A travel claim voucher is filed after travel is complete with all supporting documents attached.

Condition: Reimbursements for the first and fourth quarters of fiscal year 2007 (Journal voucher # DF70013) to three foreign based offices noted the following:

<u>Check no.</u>	<u>Amount</u>	<u>Descriptions</u>
1127	\$ 1,600	No approval of payment vouchers and supporting invoice
None(debit)	3,673	No supporting payment voucher and travel authorization
None(debit)	539	No supporting payment voucher and invoice
None(debit)	178	No supporting payment voucher and invoice
None	850	No travel authorization, 9/12/07
None	1,740	No travel authorization, 7/12/07
None	1,169	No supporting documents for car rental, 7/18/07
None	1,000	No supporting documents for advance which was charged to Salaries, 8/14/07
None	1,200	No supporting documents for advance which was charged to Salaries, 8/01/07

Cause: The cause of the above condition is the failure of the foreign based offices to implement accounting procedures and guidelines.

Effect: The effect of the above condition is the potential for material unauthorized expenditures. While the above cited dollars may not be material, the lack of procedures associated with this condition provides for material exposure to lack of compliance with the criteria.

Recommendation: We recommend that the Republic review and strengthen controls in place surrounding the expenditure cycle.

Prior Year Status: The failure of the foreign based offices to implement accounting procedures and guidelines was reported as a finding in the Single Audit of the Republic for fiscal year 2006.

Auditee Response and Corrective Action Plan: Despite repeated warning and action from the responsible staff to stop sending allotment to the Embassy not complying with procedures, the management has been overriding the staff's action. The staff in charge is visiting the Embassy in June 2008 to hopefully make the Ambassador understand the importance of complying with the rules.

Full name of the person responsible for the corrective action plan:

Ambassador Hersey Kyota, Hermana Idip and Marino Rechesengel

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Collection Letters/Notices – Hospital

Finding No. 2007-4

Criteria: Billings/statements of accounts (SOA) should be sent to customers in a timely manner. Additionally, good practice provides for monitoring billings/SOAs to ensure that such were sent to all patients with outstanding balances and that timely follow up is performed through sending necessary collection notices/letters.

Condition: Of \$1,923,544 in Hospital Trust fund revenues, twenty three receipts, totaling \$165,810, were tested. There were no subsequent collections for six patients and there is no logbook or other record maintained to ensure that billings/SOAs are actually forwarded to the patients (hospital receipt nos. 324168, 335928, 347930, 355763, 357103, 359922). The receipts have been included in the reserve for doubtful accounts.

Cause: The cause of the above condition is the lack of timely monitoring of billings/SOAs.

Effect: The effect of the above condition is a potential increase in uncollectible accounts and a misstatement of receivables.

Recommendation: We recommend that the Hospital establish policies and procedures to monitor billings/SOAs and ensure that billings/SOAs and collection letters through notices are provided to patients in a timely manner.

Prior Year Status: Lack of timely monitoring of billings/SOAs sent to patients was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan: The Hospital implemented a policy to print and mail out SOA's twice a year, however, this practice became very costly and was not effective to improve collections. In fiscal year 2006, a contracted lawyer was assigned to review the accounts receivable, started the collection process, thus, many patients were interviewed and signed promissory notes to begin periodic payments. Furthermore, statement of accounts are printed and provided to patients daily after services have been received. We will continue implementing this practice until a different policy is established for implementation.

Full name of the person responsible for the corrective action plan: Ministry of Health Billing and Collection Unit Staff with the assistance of Budget and Finance Officer

When will the corrective action plan be implemented: Corrective action plan is currently implemented.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash

Finding No. 2007-5

Criteria: Bank accounts should be reconciled and reviewed on a monthly basis and reconciling differences should be resolved. Adjustments should be reviewed and approved prior to posting to the general ledger.

Condition: An examination of the monthly bank reconciliations noted the following:

1. There was no evidence that the general account no. 108 bank reconciliation for October 2006, January 2007, April 2007 and July 2007 was reviewed by other than the preparer;
2. A variance of \$4,110 exists between the July 2007 general account no. 108 reconciled bank balance and the book balance and it was not possible to determine if the difference represents unidentified voided checks.
3. There was no evidence that adjustments were reviewed and approved prior to general ledger posting.

An examination of Judiciary cash noted that a checking account was overstated by \$216,000. In addition, no cash cut-off procedures were utilized as of September 30, 2007. An audit adjustment was proposed to correct this condition.

The checking account of a foreign based office was not reconciled during the entire fiscal year 2007.

Cause: The cause of the above condition is a lack of review of monthly bank reconciliations, non-resolution of reconciliation differences, and lack of review and approval of posted adjustments. There are no bank statements provided for the checking account of a foreign based office.

Effect: The effect of the above condition is a potential misstatement of cash and revenues.

Recommendation: We recommend that monthly reconciliations be reviewed for accuracy and validity. Reconciling differences should be timely resolved. Adjustments should be reviewed and approved prior to general ledger posting.

Prior Year Status: Lack of review and proper reconciliation of monthly bank reconciliations was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: When Chief of the Division of Finance and Accounting position became vacant, approval of documents was divided among supervisors. The supervisor of the reconciliation section approved her staff transactions. She began to approve her own transactions with no one taking notice. In fiscal year 2007, the computer system began having problems that caused transactions to disappear from subsystems. Transactions were reentered causing double posting of transactions in the general ledger. Some of the double posting of transactions were found through reconciliations. The responsible person in question who made the correction admits she made the adjustment without finding exactly what caused the discrepancies between the bank and book balances. The practice for approval of bank transactions had been for the preparer to prepare and enter transactions prior to approval. When the approving official reviewed and found errors in the prepared document, the transactions in error were corrected prior to approval.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash

Finding No. 2007-5, Continued

Auditee Response and Corrective Action Plan, Continued:

Controller is now reviewing and approving bank reconciliations and corresponding transaction corrections prior to posting in general ledger as recommended. Controller will work with Judiciary Branch accountant to ensure the cutoff date for fiscal year is September 30th. We will work with the coming in Minister and Ambassador to Taiwan to ensure they provide bank statements.

Full name of the person responsible for the corrective action plan:

Ruth S. Wong

When the corrective action plan will be implemented:

FY2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Receivables

Finding No. 2007-6

Criteria: As a control procedure, the general ledger balance of accounts receivable should be reconciled to the subsidiary ledger and differences should be timely resolved. In addition, a monthly or quarterly reserve analysis should be performed and be documented.

Condition: An examination of the accounts receivable general ledger account detail in the General Fund (account no. 216) revealed a lack of activity throughout the year except for reconciling adjustments at September 30, 2007. The allowance for uncollectible accounts was understated by \$356,663. An audit adjustment was proposed to correct this condition.

A detailed schedule at September 30, 2007 could not be provided to support the grants receivable general ledger account balance in the Other Country CIP fund.

Cause: The cause of the above condition is the lack of policies and procedures to reconcile accounts receivable in a timely manner. There are no formal documented procedures and methods for developing accounts receivable reserves.

Effect: The effect of the above condition is potential misstatements in accounts receivable.

Recommendation: We recommend that management implement policies and procedures to provide for accounts receivable to be reconciled in a timely manner.

Prior Year Status: Lack of policies and procedures to reconcile accounts receivable was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Number of flights to Palau had recently increased making it harder for one person to handle all responsibilities of the Accounts Receivable Section. The staff did partial reconciliation during the year, and controller only reconciled at the end of the year.

We have hired a capable person to do the reconciliation of the receivable accounts on a timely manner.

A detailed schedule of Other Country CIP Fund is being worked on. There has not been a schedule of this fund previously, so a lot of reconciliation had to be done to prepare a correct schedule.

Full name of the person responsible for the corrective action plan:

Joyce Kyota has recently been hired to reconcile accounts receivables; Gandhi Ngirmidol is preparing a detailed schedule of Other Country CIP for fiscal year 2008.

When will the corrective action plan be implemented:

FY2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Federal Grants Receivables/Cash Management

Finding No. 2007-7

Criteria: Receivables from grantor agencies should be reconciled and differences resolved.

Condition: During tests of federal grants receivables, we noted the following:

- Three grants from the U.S. Department of Agriculture were inactive during the year ended September 30, 2007. A balance of \$6,096 due to the grantor agency remains on the books as follows:

<u>Grant</u>	<u>Grant no.</u>	<u>Cost Center</u>	<u>9/30/2007 Balance</u>
Rural Fire Prev/Control		J63630	\$ 1,505
Palau Fire Prev/Control		J93630	600
Urban Community Forestry		R03712	<u>3,991</u>
			<u>\$ 6,096</u>

- Three Capital Improvement Project awards (CFDA #15.875) closed and were inactive during the year ended September 30, 2007. A balance of \$180,454 due to the grantor agency remains on the books (grant nos. T-233, T-269, T-231);
- One grant award from the U.S. Department of the Interior (CFDA #15.875) closed and was inactive during the year ended September 30, 2007 with a balance of \$34,145 due to the grantor agency (cost center no. 4680);
- A grant award from the U.S. Department of Education (CFDA #84.256A) was reduced by \$13,451 (cost center no. E33595) at September 30, 2007 as a result of expenditures in excess of grant revenues from another grant (cost center no. E23595). The adjustments of the grant awards had not been communicated with the grantor agency;
- A grant award under the U.S. Department of Health and Human Services (CFDA #84.187A) was inactive during the year ended September 30, 2007. A balance of \$3,754 due to the grantor agency remains on the books;
- Grant awards under the U.S. Department of Homeland Security (CFDA #83.544) have closed. However, a balance due to grantor agency of \$14,524 has not been returned as of September 30, 2007;

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Federal Grants Receivables/Cash Management, Continued

Finding No. 2007-7

Condition, Continued:

- Twelve grant awards from OTIA Direct Grants, U. S. Department of the Interior (CFDA #15.875) were inactive during the year ended September 30, 2007 with balances due to and from the grantor agency as follows:

<u>Grant</u>	<u>Grant no.</u>	<u>Cost Center</u>	<u>9/30/2007 Balance</u>
PIRRAF Grants Balance		A33833	\$ 15,000
Fixed Asset Accounting System		A13850	34,735
Health Information Sys Impr MCI-6		H23851	10,869
PUC GRT OMIP-PPUC-200101		R13871	3,840
Palau Wastewater Collection System		R33876	26,000
ROP / PCC Joint Training		R23880	6,988
Voc Educ Trng (Pcc)		R53880	<u>45,256</u>
Total due from grantor agency			<u>\$ 142,958</u>
PPUC OMIP Drawdown's Holding Acct.		A33871	(17,180)
Highway O&M Engineer		R23886	(30,302)
Gis Development & Training PAL-85		R23897	(2,946)
Trmnt/Prev Block Grants		J53836	(14,880)
Voc Educ Trng (Pcc)		R63880	<u>(74,819)</u>
Total due to grantor agency			<u>\$(140,127)</u>

- One grant award from the U.S. Department of Commerce (CFDA #11.460) with a balance of \$33,107 due from the grantor agency has not been collected as of September 30, 2007, and there were no records to determine the grant status (cost center no. A23600);
- One grant award from Other USDA programs (CFDA #10.766) with a balance of \$42,365 due from the grantor agency has not been collected at September 30, 2007, and there were no records on file to determine the grant status (cost center no. R53728).

Cause: The cause of the above condition is a lack of reconciliation of the federal grants receivable subledger. In addition, balances due to grantors are not returned after program completion.

Effect: The effect of the above condition is a potential misstatement of federal grants receivable.

Recommendation: We recommend that management communicate with the affected grantor agencies to resolve and close the above mentioned programs.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Federal Grants Receivables/Cash Management, Continued

Finding No. 2007-7

Prior Year Status: The lack of reconciliation of the federal grants receivable subledger was reported as finding in the Single Audits of the Republic for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: Auditee concurs with this finding. Most of the grants are closed and inactive. Auditee has initiated communications with DOI to resolve the findings regarding with DOI grants. Auditee will also contact the other respective grantor agencies to resolve this finding.

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Prepays

Finding No. 2007-8

Criteria: As a control procedure, the prepaids general ledger balance should be reconciled to the subsidiary ledger and differences resolved in a timely manner.

Condition: The prepaids general ledger account does not appear to have been reconciled at September 30, 2007. During tests of prepaids, we noted the following:

- There were no records available to evidence the percentage of completion or equivalent for prepaids of \$73,932 at September 30, 2007, which was represented by a 75% advance payment (voucher no. 631357);
- Of total prepaids of \$535,303 at September 30, 2007, 17% or \$88,900 date from 2002 to 2006.
- Services for three prepayments (check nos. 247347, 253338, 243561) were rendered during the year ended September 30, 2007 but were still listed as prepaids at September 30, 2007. The amount is considered immaterial therefore no adjustment is proposed to correct this condition.

Cause: The cause of the above condition is the lack of policies and procedures to reconcile prepayments.

Effect: The effect of the above condition is potential misstatement of prepaids and related expenditures. Original invoices are not provided to the Division of Property and Supply to allow for accounting for completed services or procured items and, therefore, receiving reports are not completed.

Recommendation: We recommend that management implement policies and procedures to ensure that prepaids are reconciled in a timely manner.

Prior Year Status: Lack of policies and procedures to reconcile prepaids was reported as a finding in the Single Audit of the Republic for fiscal year 2006.

Auditee Response and Corrective Action Plan: Some of the old prepaids have been received, but the person in charge then expected to receive invoices from the vendors. When the companies ignored the request for an invoice, the prepaids were tabled. The controller who approves the prepaid transactions will work with the person in charge of reconciliation to correct the old prepaids. The controller will ensure proper supporting documents are in place prior to approving the transactions. There will be periodic review of prepaids to ensure only incomplete transactions are pending. Auditee has hired new employees to reconcile prepaid transactions and take appropriate action to resolve this finding.

Full name of the person responsible for the corrective action plan:

Ruth Wong, Noria Manahane, Farah Oiterong, Millan Isack, Gandhi Ngirmidol

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Fixed Assets

Finding No. 2007-9

Criteria: The Republic of Palau Property Management Policies and Procedures Chapter IV, Section 202.4 (g) stipulates that all property donations will be reported to the Republic of Palau Property Management (RPPM) on the *Notification of Donation of Property* form. Information on the form will include value, description, serial numbers, model numbers, and the manufacturer and from whom the donation was received. The RPPM property accountable officer will be called to the location to affix the RP or MP sticker.

Condition: Of twenty-one expenditures tested from the Hospital Trust Fund, totaling \$417,362, (of total Fund expenditures of \$1,900,084), shipping costs (check no. 242806) for two pieces of equipment were donated directly to the National Hospital and were not reported to RPPM.

Cause: The property custodian and the accountable officer did not report the matter in the condition to RPPM.

Effect: The effect of the above condition is a potential for a lack of accountability and control of government property.

Recommendation: We recommend that property custodians perform their responsibilities as set forth in the condition.

Auditee Response and Corrective Action Plan: The equipment in question was donated directly to the hospital. The hospital failed to fill the donated asset form and inform the Property Management Office to tag the equipment. The Chief of Property and Supply will remind all property custodians and accountable officers to report to RPPM as soon as their offices receive donated assets.

Full name of the person responsible for the corrective action plan:

Millan Isack

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Fixed Assets

Finding No. 2007-10

Criteria: The Republic of Palau Property Management Policies and Procedures Chapter IV, Section 203.4 (d) stipulates that the total value of capitalized property recorded in the property accountability records will be compared with the related balances shown in the general ledger control account at least quarterly. Property records must be integrated with or reconciled with the related general ledger account. Any differences will be documented, reconciled, and adjusted in accordance with sound accounting practices to bring the two records into complete agreement.

Condition: Property records were not reconciled at least quarterly throughout the year ended September 30, 2007.

Cause: The cause of the above condition is lack of a quarterly reconciliation of accounts.

Effect: The effect of the above condition is potential misstatements of fixed assets.

Recommendation: We recommend that management designate personnel to implement quarterly reconciliations of property accounts.

Auditee Response and Corrective Action Plan: The controller has been preparing the depreciation schedule at the end of each fiscal year. This is when the capitalized assets are reconciled. Reconciliation of capitalized assets will be done on a quarterly basis as stipulated by RPPM Policies and Procedures.

Full name of the person responsible for the corrective action plan:

Ruth S. Wong

When will the corrective action plan be implemented:

Quarter ending July 30, 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Encumbrances

Finding No. 2007-11

Criteria: An effective internal control provides for periodic and timely review of reserves for encumbrances. The reserve should be timely adjusted for cancelled and/or closed contracts.

Condition: Our tests of unliquidated encumbrances noted the following:

- One purchase (purchase order no. L61533) had been received as of September 30, 2007; however, the related encumbrance of \$93,792 was not adjusted. An audit adjustment was proposed to correct this condition;
- Encumbrances for two purchase orders, totaling \$110,402, were over two years old and had been cancelled but were still recorded. An audit adjustment was proposed to correct this condition (purchase order nos. G50019, P50105);
- The goods attendant to one purchase, totaling \$20,778 (purchase order no. P60024), had been received in the previous two years; however, the amount was still encumbered at September 30, 2007. An audit adjustment was proposed to correct this condition;
- Two contracts (contract nos. C20177, C30091) were complete as of September 30, 2007; however, the related encumbrance of \$96,147 was not adjusted. An audit adjustment was proposed to correct this condition;

Cause: The cause of the above condition is the lack of reviews of reserves for encumbrances.

Effect: The effect of the above condition is potential misstatements of the reserves for encumbrances.

Recommendation: We recommend that the Republic perform periodic reviews of reserves for encumbrances and that the reserve be adjusted on a timely basis for encumbrances that are no longer valid.

Prior Year Status: The lack of reviews of reserves for encumbrances was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: The current practice for encumbrance reconciliation has been that the staff in charge of certain purchases is responsible to reconcile related encumbrances. There is now a designated employee to follow up on old encumbrances.

Full name of the person responsible for the corrective action plan:

Masato Ushibata

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Reporting

Finding No. 2007 – 12

Criteria: The Republic's share of allowable costs or its matching share should be recognized as costs are incurred.

Condition: Although the Republic appears to meet its share of allowable costs under the Airport Improvement Program, amounts were not accounted for in the general ledger. It appears to be the Republic's policy to document the match only upon its year-end reconciliation process. Therefore, interim financial statements are presented incorrectly.

Cause: The cause of the above condition is lack of defined procedures to ensure the Republic's share of allowable costs is recorded throughout the fiscal year.

Effect: The effect of the above condition is noncompliance with reporting requirements.

Recommendation: We recommend that the Republic's management implement procedures to record the Republic's share of allowable costs as such are incurred.

Auditee Response and Corrective Action Plan: Auditee concurs with this finding with reservations. Auditee wanted to capture a hundred percent of total project cost before transferring out its share at the end of the fiscal year. Auditee wants to make it clear that it met its share of allowable cost under AIP and that no federal funds were used to pay the Republic's share of allowable cost. Auditee will implement procedures to record its share of allowable cost as such costs are incurred.

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol, Ruth Wong

When the corrective action plan will be implemented:

October 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-13

Criteria: It is the policy of the Republic that all purchases and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical practical procurement.

Condition: Of twenty one Hospital Trust Fund expenditures tested, totaling \$417,362, of total expenditures of \$1,900,084, we noted the following:

- Two proposals were received under RFP no. 07-07 with varying amounts of \$2,996,888 and \$2,002,474; however, the contract was awarded to both bidders in equal amounts of \$1,200,000 without documentation or analysis to evidence the basis of selection and the deviations from original proposals. Additionally, there is no mechanism in place within the Division of Procurement and Supply to ensure that purchases made to date are within authorized award level. The Ministry of Health is relied upon to ensure purchases are within authorized levels.
- Two proposals were received under RFP no. 09-07 in varying amounts of \$328,502 and \$319,000. The contract was awarded to both bidders in equal amounts of \$300,000 without documentation or analysis to evidence the basis of selection and deviations from the original proposals.
- Two proposals were received under RFP no. 10-07 with varying amounts of \$172,710 and \$248,479 for ten items. The contract was awarded to both bidders in the amounts of \$200,000 and \$172,000 without documentation or analysis to evidence the basis of selection and the deviations from original proposals. It would appear that both bidders will supply the ten items thereby doubling the number of items being procured.

Cause: There was no comparative analysis or written documentation to ensure that the basis of the award was the most economical practical procurement. It was verbally explained that the awards were based on the ability of vendors to deliver pharmaceutical supplies in a timely manner and to deal with the delay in vendor payments by the Republic. However, these matters were not specifically encompassed in the bidding requirements.

Effect: The effect of the above condition is potential local noncompliance with procurement rules and regulations.

Recommendation: We recommend that the Republic implement procedures to ensure compliance with the local procurement regulations. Negotiation and deviations from original proposals should be documented in writing and attached to bidding documents. The Division of Procurement and Supply should implement a monitoring system to ensure approved purchase orders are within authorized award levels.

Auditee Response and Corrective Action Plan: Auditee concurs with this finding. Procurement officer has met with the respective agencies to evaluate and coordinate bid evaluation process and to ensure that a review process is documented and basis for vendor selection is well supported.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-13, Continued

Auditee Response and Corrective Action Plan, Continued:

Procurement Officer is working on implementing new process in which one staff is assigned to keep track of each orders to ensure we do not exceed award amount.

Full name of the person responsible for the corrective action plan:

Millan Isack

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-14

Criteria: Executive Order No. 140 requires all travel advances to be liquidated no later than thirty days after the completion of travel. If the advances remain outstanding one month after the notification by letter, the Republic is to commence payroll deductions to recover the advance. Additionally, monitoring controls are necessary to avoid payroll deductions in excess of the advanced total.

Condition: Of \$210,857 of total travel advances at September 30, 2007, we noted the following:

- 39% or \$83,243 represent travel advances dated between 1998 and 2006 which include former employees of the Republic; 66% or \$139,386 could not be determined as complying with travel policy due to lack of an aging schedule;
- Employee payroll deductions for outstanding travel advances posted to General Fund account no. 511 amounted to \$13,172 at September 30, 2007, of which \$4,572 is dated between 2001 and 2006;
- One travel authorization (TA no. T70591) was for travel from 5/13/07 to 5/19/07 but was still listed as outstanding at September 30, 2007.

Cause: The cause of the above condition is the lack of adherence to prescribed policies and procedures. Travel advances are recorded in more than one general ledger account without overall reconciliation of travel advances and related payroll deductions/payments.

Effect: The effect of the above condition is that travel advances are not liquidated in a timely manner, thereby understating expenditures and overstating travel advance receivables.

Recommendation: We recommend that the Bureau of National Treasury enforce all travel policies and implement monitoring controls to ensure that travel advances are reconciled and collected.

Prior Year Status: The lack of adherence to prescribed travel policies and procedures was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: There has been no real direction to employees on how to handle old accounts. They have also not been told to prepare aging schedules for general ledger accounts. Procedures for using account 511 are not enough to address closure of the account.

An employee is designated to supervise travel advance reconciliation to ensure timely liquidation and collection of travel advances. Aging schedules will be prepared for receivable and payable accounts on a timely manner so that actions can be taken to correct the accounts.

Full name of the person responsible for the corrective action plan:

Hermana Idip will supervise reconciliation of advances and account 511.
Ruth S. Wong will ensure aging schedule is done for travel accounts.

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-15

Criteria: Per Title 40, Chapter 5, § 504 of the Palau National Code, the Republic, by and through the President, shall have the authority to borrow money or goods and incur long-term obligations and repay the same with interest, from any private persons. In addition, the annual unified budget shall reflect all private borrowings, obligations and issuances of securities and bonds of the Republic in detail, for every year such borrowing is in effect.

Condition: On June 28, 2002 the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$160,000. Although the loan was due on May 30, 2004, including interest at 7.00% per annum, \$198,142 remained outstanding at September 30, 2007. Additionally, on April 24, 2007 the Republic's Washington Embassy entered into a loan agreement with a bank in the amount of \$20,000 without evidence of authorization by the President of the Republic.

Cause: The cause of the above condition is a lack of authorization for loan repayment.

Effect: The effect of the above condition is noncompliance with Title 40, Chapter 5, § 504 of the Palau National Code.

Recommendation: We recommend that the Republic address the Republic's Washington Embassy loan.

Prior Year Status: The lack of authorization for loan payment was reported as a finding in the Single Audits of the Republic for fiscal years 2002 through 2006.

Auditee Response and Corrective Action Plan: The Ambassador of the Republic of Palau to Washington D.C. has been told that the loan agreement in the amount of \$160,000 he entered into back on June 28, 2002 is illegal, yet he again entered into another loan agreement two years later. There has been no action taken against the Ambassador to date. The Bureau of National Treasury can only inform the upper management of the matter.

Full name of the person responsible for the corrective action plan:

Ambassador Hersey Kyota

When will the corrective action plan be implemented:

Unknown at this time

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Part III - Federal Award Findings and Questioned Cost Section

Finding No. : 2007-16
CFDA No.: 15.875, 20.106, 84.027
Agency: U.S. Department of the Interior, U.S. Department of Transportation, U.S. Department of Education
Grant no.: H027A050006-6A, H027A060006-6A, H027B030001-04, H027B030001-05, NAT-I-4416-1-1-01, NAT-I-4416-1-1-02
Program Name: Economic, Social and Political Development of the Territories; Special Education, Airport Improvement Program
Requirement: Cash Management
Questioned Costs: \$0

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the payout of funds for program costs should be minimized.

Condition: For 13 (or 13%) of 99 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 1 to 35 days, as follows:

<u>CFDA # no.</u>	<u># of Transactions</u>
15.875	4
20.106	2
84.027	7

One disbursement represented a 75% advance payment or \$8,903 of the contract price (voucher no.609134 / check no. 241860). There was no record of the status of the service as of September 30, 2007 (CFDA #84.027).

Federal cash drawdowns are not sufficiently detailed or supported and therefore Federal cash receipts cannot be easily traced to check disbursements.

Cause: The cause of the above condition is lack of internal controls over cash management. Additionally, due to the Republic's remote location, it is not currently possible to utilize ACH as that service is not offered.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the the U.S. Department of Education, the U.S. Department of the Interior and the U.S. Department of Transportation is less than \$10,000.

Recommendation: We recommend that the Republic establish internal controls over cash management that ensure compliance with federal requirements. Cash drawdowns, related expenditures and other supporting documentation should be filed adequately and completely to improve audit trail. Additionally, we recommend that this matter be discussed with the applicable grantor officials and the Republic perform a requisite analysis of its clearance patterns.

Prior Year Status: Lack of internal controls over cash management was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2006.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. : 2007-16, Continued
CFDA No.: 15.875, 20.106, 84.027
Agency: U.S. Department of the Interior, U.S. Department of Transportation, U.S. Department of Education
Grant no.: H027A050006-6A, H027A060006-6A, H027B030001-04, H027B030001-05, NAT-I-4416-1-1-01, NAT-I-4416-1-1-02
Program Name: Economic, Social and Political Development of the Territories; Special Education, Airport Improvement Program
Requirement: Cash Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: Auditee concurs with this finding. Auditee continues to implement and improve its cash management policy. Auditee continues to encourage wire transfer payments to off-island vendors by contacting and obtaining bank information required for wire transfers.

Full name of the person responsible for the corrective action plan:

Marino Rechesengel, Gandhi Ngirmidol

When will the corrective action plan be implemented:

FY2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-17
 CFDA No.: 93.224
 Agency: U.S. Department of Human and Health Service
 Grant No.: H80CS02467-22-01
 Program Name: Consolidated Health Centers
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$13,325

Criteria: In accordance with applicable local procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. In addition, the procurement officer shall obtain price quotations from at least three vendors for small purchases over \$5,000 not put to bid. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required if there is adequate documentation that there are fewer suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Determination of airfare cost should be based on available airlines between Palau and the destination.

Condition: Of thirty expenditures tested, totaling \$118,924, of a total population of \$361,019, the following were noted:

- For one travel disbursement, purchase of an airline ticket was performed in line with local procurement regulations as price quotations from local travel agents were obtained; however, price comparisons with other available airlines between Palau and the final destination are not evident:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
253501	639692	\$ 3,880	Airfare	H80CS02467-22-01

- For one disbursement, written quotations on file were dated July 2006. Further, the lowest price quote was not selected due to availability of items but there was no documentation on file that the item quoted by other vendors is not available:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
253913	642837	\$ 2,295	projector	H80CS02467-22-01

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-17, Continued
CFDA No.: 93.224
Agency: U.S. Department of Human and Health Service
Grant No.: H80CS02467-22-01
Program Name: Consolidated Health Centers
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$13,325

- For one disbursement, there appears to be lack of open and free competition among vendors as the justification for selection did not appear to be for the best interest of the program:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
247324	619499	\$ 1,800	legal fees	H80CS02467-22-01

- For one disbursement, written quotations were obtained off-island for items available within the Republic; however, there is inadequate documentation as to why quotes were not obtained from local vendors:

<u>Check No.</u>	<u>JV No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
248713	DF700126	\$ 5,350	test kit- dengue cases	H80CS02467-22-01

Cause: The cause of the condition is inadequate documentation of small purchases and a lack of controls exercised over ensuring that competition remains open among vendors.

Effect: The effect of the above condition is noncompliance with applicable local procurement.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed, approved and be documented in the procurement file.

Auditee Response and Corrective Action Plan: Auditee concurs with finding. Procurement Officer will work closely with CHC office complies with the above criteria.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-17, Continued
CFDA No.: 93.224
Agency: U.S. Department of Human and Health Service
Grant No.: H80CS02467-22-01
Program Name: Consolidated Health Centers
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$13,325

Full name of the person responsible for the corrective action plan:

Millan Isack, Ann K. Singeo

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-18
 CFDA No.: 93.283
 Agency: U.S. Department of Health and Human Services
 Grant Number: U90/CCU921820-04-3, U55/CCU922043-05, U50/CCU923972-03,
 U50/CCU024356-03, U58/CCU922936-04
 Program Name: Centers for Disease Control and Prevention-Investigations and Technical
 Assistance
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$0

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. In addition, the procurement officer shall obtain price quotations from at least three vendors for small purchases over \$5,000 not put to bid. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required if there is adequate documentation that there are fewer suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Determination of airfare cost should be based on available airlines between Palau and the destination.

Condition: Of fifty-two disbursements tested, totaling \$371,359, of a total population of \$517,423, the following were noted:

- There was no evidence on file that quotations were obtained from an adequate number of qualified sources for six expenditures:

602393	239247	\$ 5,262	U90/CCU921820-04-3	H58654	Diawasher II Microplate washer
625585	247650	2,540	U50/CCU923972-03	H78652	Air parcel post shipment for an employee
606121	240717	<u>3,000</u>	U58/CCU922936-04	H63660	8 each 7.5"X10 ad to Tobacco Control
Total cost		\$ <u>10,802</u>			

- There was no evidence of written rationale on file for five expenditures:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Costcenter</u>	<u>Description</u>
610991	242968	\$ 2,453	U90/CCU921820-04-3	H53679	9 each design poster framework
600984	238860	3,729	U90/CCU921820-04-3	H53679	Dell AL-D410 Notebook: Platinum
627662	248454	<u>7,337</u>	U90/CCU921820-05-02	H63679	Disaster preparedness/ injury prevention education material
Total Cost		\$ <u>13,519</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-18, Continued
CFDA No.: 93.283
Agency: U.S. Department of Health and Human Services
Grant Number: U90/CCU921820-04-3, U55/CCU922043-05, U50/CCU923972-03,
U50/CCU024356-03, U58/CCU922936-04
Program Name: Centers for Disease Control and Prevention-Investigations and Technical
Assistance
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Cause: The cause of the above condition is inadequate documentation of small purchases and a lack of controls over ensuring that competition remains open among vendors. The ROP regulations indicate that if no more than two vendors possess the required merchandise or service, no competitive procurement is required. However, no documentation was readily available to indicate compliance with the regulation. Verbal explanations, rationale and references of the above expenditures were provided upon issuance of draft findings. The current filing system of disbursements does not provide an adequate audit trail to substantiate that compliance with procurement requirements and related documentation have been met. Given the verbal explanation, rationale and references, no questioned costs result from this matter.

Effect: The effect of the above condition is noncompliance with applicable federal or local procurement regulations.

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file. The filing system should provide adequate audit trail to substantiate evidence of compliance with procurement regulations.

Prior Year Status: Lack of adequate documentation of small purchases and controls over ensuring that competition remains open among vendors was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan: The amounts in question are filing problems that have been addressed. A person has been assigned to ensure all US Federal grant documents are in place prior to approving payment vouchers.

Full name of the person responsible for the corrective action plan:

Ibuuch Ngiriou and Victoria Sikyang – ticket quotations
Hermana Idip – approve payment vouchers fund by US Federal grants.

When will the corrective action plan be implemented:

Already implemented

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-19
CFDA No.: 93.283, 84.027
Agency: U.S. Department of Health and Human Services, U.S. Department of Education
Grant No.: U90/CCU921820-04-3, H027A060006-6A, H027B030001-04
Program Name: Centers for Disease Control and Prevention-Investigations and Technical Assistance, Special Education
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria: The grant terms and conditions require that when issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving federal funds, shall clearly state the (1) dollar amount of federal funds for the project, (2) the percentage of the total cost of the project that will be financed by federal funds, and (3) the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

Condition: Of fifty-two expenditures tested, totaling \$371,359, of a total population of \$517,423 (CFDA #93.283), request for proposals or bid solicitations issued for three purchases did not have procurement documents on file evidencing compliance with the above criteria or we were not able to substantiate through other means that the above criteria was met.

Of thirty-six expenditures tested, totaling \$105,069, of a total population of \$502,084 (CFDA #84.027), request for proposals or bid solicitations issued for three purchases (2007-RFP-002, PO no. L70718 and L71595) and program brochures/flyers issued for one purchase (PO no. L72234) did not indicate the percentage and amount of federal funds.

Of thirty expenditures tested, totaling \$118,924, of a total population of \$361,019 (CFDA #93.224), request for proposal issued for two disbursements (RFP #08-07) did not indicate the percentage and amount of federal funds.

Cause: The cause of the above condition may be a lack of awareness of this provision.

Effect: The effect of the above condition is noncompliance with procurement guidelines.

Recommendation: We recommend that the Republic comply with the criteria.

Prior Year Status: Noncompliance with grant terms and conditions was reported as a finding in the Single Audit of the Republic for Fiscal Year 2006.

Auditee Response and Corrective Action Plan: Auditee has designed a price solicitation form to incorporate the above criteria as stated in our previous response and corrective action plan. Auditee began using this form in the middle of fiscal year 2007. Auditee has incorporated this form into the procurement process and continues to enforce the usage of this form.

Full name of the person responsible for the corrective action plan:

Secilil Eldebechel, Millan Isack

When will the corrective action plan be implemented: Implemented

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-20
CFDA No.: 93.283
Agency: U.S. Department of Health and Human Services
Grant Number: U90/CCU921820-04-3, U50/CCU923972-02, U58/CCU922936-04,
U55/CCU922043-04
Program Name: Centers for Disease Control and Prevention-Investigations and Technical Assistance
Requirement: Activities Allowed or Unallowed
Questioned Costs: \$0

Criteria: The U.S. Public Health Service Grants Policy Statement Section 8-1 allows for cumulative amounts of transfers among direct cost categories for the current budget period without prior grantor approval not to exceed 25% of the total amount awarded, or \$250,000, whichever is less.

Condition: Transfers among cost categories for the year ended September 30, 2007 were not documented and filed. No questioned cost result from this finding as we could not determine the cumulative amount of transfers based on available evidence (cost center nos. H53679, H63679, H68652, I63683).

Cause: The cause of the above condition is a lack of documentation substantiating the manner in which the program budget is allocated in the allotment process.

Effect: The effect of the above condition is lack of audit trail between the approved grant budget and the Republic's internal program budget.

Recommendation: We recommend that the program budget allocation/allotment form be prepared based on the actual cost categories of the grant award. Changes to the grant cost categories should be documented accordingly.

Prior Year Status: Lack of audit trail between the approved grant budget and the Republic's internal program budget was reported as a finding in the Single Audit of the Republic for fiscal year 2006.

Auditee Response and Corrective Action Plan: Auditee has met with the Palau Ministry of Health to discuss this issue and came with a plan to link Grant Award Budget Categories to the Republic's Budget categories in our Financial Management System. Tasks have been set up in the management accounting to track actual cost categories of the grant award. New cost centers will be assigned an appropriate task. In the mean time, existing grants will continue to be monitored to ensure compliance.

Full name of the person responsible for the corrective action plan:

Regis Emesiochel, Gandhi Ngirmidol, Ruth Wong

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-21
CFDA No.: 93.283, 84.027
Grant Number: U55/CCU922043-04, U58/CCU922936-03, U55/CCU922043-05-3,
U50/CCU923972-01-1, H027A060006-6A, H027B030001-05
Program Name: Centers for Disease Control and Prevention-Investigations and Technical
Assistance, Special Education
Requirement: Activities Allowed or Unallowed
Questioned Costs: \$0

Criteria: If an employee spends less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program serve, unless an alternative method has been authorized by the funding agency.

Condition: Of thirty-eight employees tested, totaling \$42,694, of a total population of \$654,794 (CFDA #93.283), we noted that not all personnel spend 100% of their time on the National Cancer Prevention and Control Program, Chronic Disease Prevention and Health Promotion Programs. Salaries unrelated to the program could not be determined based on available evidence and therefore, no questioned costs are estimated for the programs.

Of sixty-four employees tested, totaling \$29,980, of a total population of \$748,065 (CFDA #84.027), we noted two teachers who did not spend 100% of their time working on the Special Education program the entire salaries were charged to the program (employee nos. 32993, 404052). Salaries unrelated to the program could not be determined; therefore, there are no specific questioned costs that can be identified at this time.

Cause: The cause of the above condition is the lack of policy to maintain contemporaneous records documenting the time per applicable program.

Effect: The effect of the above condition is potential noncompliance with applicable cost allocation principles requirements.

Recommendation: We recommend that the Republic discuss this matter with the funding agency and an approved method of cost allocation be adopted.

Prior Year Status: Noncompliance with cost allocation principles requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan: Auditee concurs with this finding. Program Managers were tasked in the previous years to make sure all employees working for their program keeps a log of their time that agrees to the distribution of their salaries and time certification. Program Managers had a difficult time keeping track of the Doctors, Nurses, and Teachers hours and therefore, relied on time cards. Auditee will communicate with funding agencies to resolve this finding.

Full name of the person responsible for the corrective action plan:

Regis Emesiochel, Helen Sngebau

When will the corrective action plan be implemented:

October 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-22
CFDA No.: 15.875
Agency: U.S. Department of the Interior
Grant Number: OMIP-ROP-2006-1
Program Name: Economic, Social and Political Development of the Territories
Requirement: Period of Availability of Funds
Questioned Costs: \$16,540

Criteria: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Condition: Of three expenditures tested, totaling \$17,459, one was incurred later than 90 days after the end of the funding period:

<u>Costcenter</u>	<u>Date</u>	<u>Voucher no.</u>	<u>Amount</u>
A63880	08/01/07	632910	\$ 16,540

Cause: The cause of the above condition is lack of controls over period of availability of funds. There are no records on file evidencing grantor approval for a grant/extension and/or liquidation. There is no mechanism in place to freeze the accounts of expired grants.

Effect: The effect of the above condition is noncompliance with period of availability requirements.

Recommendation: We recommend that management establish policies and procedures to prevent obligation or expenditure outside of the period of availability.

Auditee Response and Corrective Action Plan: Auditee does not agree with this finding. This grant has been extended. Auditee does not have the extension approval in file. An attempt to contact funding agency contact person and program manager was unsuccessful as both of them are on vacation leave. Auditee has met with DOI representative stationed on island to contact DOI regarding extension for this grant.

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol

When will the corrective action plan be implemented:

N/A

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-23
CFDA No.: 93.283
Agency: U.S. Department of Human and Health Services
Grant Number: U55/CCU922043-04, U90/CCU921820-04-3, U50/CCU024356-02
Program Name: Centers for Disease Control and Prevention-Investigations and Technical Assistance
Requirement: Period of Availability of Funds
Questioned Costs: \$33,826

Criteria: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Condition: Of twenty-one expenditures, totaling \$308,605, the following were noted:

- Certain invoices were charged 90 days after the end of the funding period; however, the invoices were dated prior to execution of the related service contract:

<u>Cost center</u>	<u>Date</u>	<u>Voucher no.</u>	<u>Questioned cost</u>
H53683	05/31/07	DF700119	\$13,826

- One expenditure was incurred within 90 days of the end of the funding period; however, there was no evidence that such service was actually completed:

<u>Cost center</u>	<u>Date</u>	<u>Voucher no.</u>	<u>Questioned cost</u>
H53679	05/30/07	DF700117	\$20,000

Cause: The cause of the above condition is lack of controls over period of availability of funds. There are no records on file evidencing grantor approval for a grant/extension and/or liquidation, if any. There is no mechanism in place to freeze accounts of expired grants.

Effect: The effect of the above condition is noncompliance with period of availability requirements.

Recommendation: We recommend that management establish policies and procedures to prevent obligation or expenditure outside the period of availability.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-23, Continued
CFDA No.: 93.283
Agency: U.S. Department of Human and Health Services
Grant Number: U55/CCU922043-04, U90/CCU921820-04-3, U50/CCU024356-02
Program Name: Centers for Disease Control and Prevention-Investigations and Technical Assistance
Requirement: Period of Availability of Funds
Questioned Costs: \$33,826

Prior Year Status: Lack of controls over period of availability of funds was reported as a finding in the Single Audit of the Republic for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Clinical Laboratory: Bullet No. 1: The Palau Cancer Prevention & Control Program through Grant No: U55/CCU922043 annually contracts the Clinical Laboratory Services (CLS) of Hawaii to evaluate pap smear specimen and report based on Bethesda System. This is the only laboratory we know of that can provide this service. Aforementioned vendor require 100% advance payment at the beginning of each budget period, however, procurement process for renewal of contract was delayed. When there is a delay in contract processing, the Program cannot afford to discontinue services, while waiting for the contract to be processed. This process resulted in service invoices dated prior to the effective date of this contract. While the services are outside duration of the contract, they normally fall within the budget period for the grant, thus the Program elected to charge these invoices to this contract to get the equivalent worth of services to the total amount obligated for this contract. To resolve this issue, Program will discuss the possibility of executing a long-term contract, perhaps based on the project period for the grant with conditions and payment options dependent on availability of funding for each year.

Fiji School of Medicine: Bullet No. 2: Service Contract No. 06-073 between the Republic of Palau and Fiji School of Medicine, where Fiji School of Medicine (Dr. Fiu) was contracted to conduct several public health classes. Contract amount is \$40,000.00 with \$20,000 advance payment. The \$20,000 advance payment was used to pay for courses conducted on PH7411 Health Economics; PH711 Applied Epidemiology; and PH762 Evidence-based Health Policy and Health. The contractor's completion of the remaining classes were not performed on time, therefore the Minister of Health requested cancellation of the remaining \$20,000. Along with this, Program communicated to Dr. Fiu from Fiji School of Medicine for specific report to justify for the initial \$20,000 and have no received response. Program issued an email communication recently (Friday, June 13) to Dr. Fiu and have not received any response too. Program will continue to request this report from Dr. Fiu and will immediately cease processing of outside service contract's requiring advance payment.

Full name of the person responsible for the corrective action plan:

Yorah Demei, Pearl Marumoto, Ritter B. Udui, Joanne Maireng Sengebau, Ruth Udui, Regis Emesiochel, Gandhi Ngirmidol

When will the corrective action plan be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-24
CFDA No.: 93.283
Agency: U.S. Department of Human and Health Services
Grant Number: 1U58DP000776-01 Revised
Program Name: Centers for Disease Control and Prevention-Investigations and Technical Assistance
Requirement: Matching
Questioned Costs: \$0

Criteria: Per Section 6 of the grant terms and conditions, the level of non-federal financial participation for National Breast and Cervical Cancer Early Detection Program (NBCCEDP) and National Program for Cancer Registry (NPCR) are \$190,231 and \$20,000, respectively, or a total of \$210,231.

Condition: The non-federal financial participation for both NBCCEDP and NPCR is noted as follows:

<u>Description</u>	<u>Amount</u>
In kind personnel services	\$ 119,130
In kind space/facilities	<u>116,781</u>
Total	\$ <u>235,911</u>

The in-kind personnel services are based on estimated personnel hours. There are no personnel activity reports or equivalent to support the estimated hours. Of the in-kind space and facilities of \$116,781, \$42,525 represents 100% use of certain facilities even though there are other federal or non federal services provided in the same facilities.

Cause: The cause of the above condition is lack of records to support the in-kind non-federal participation.

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria. No costs are questioned as we are not able to determine the amount of the match that may be inappropriate.

Recommendation: We recommend that this matter be discussed with the funding agency and an approved method of cost allocation be adopted.

Prior Year Status: Lack of records to evidence compliance with matching requirement was reported as a finding in the Single Audit of the Republic for fiscal year 2006.

Auditee Response and Corrective Action Plan: Matching share in the form of in-kind personnel services are based on estimated number hours spent by administration staff to support federal programs. It is very difficult to determine the exact cost of this support not to mention the time spent. Additionally, imposing detail documentation of in-kind personnel activity report can also jeopardize the level of services provided. To correct this problem, the Program will continue to use this method, while seeking an alternative method from granting agency. Program realizes that they regularly submit progress report to granting agency and will explore the possibility of using this method as a reporting mechanism to justify for personnel activity report to support estimated hours.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-24, Continued
CFDA No.: 93.283
Agency: U.S. Department of Human and Health Services
Grant Number: 1U58DP000776-01 Revised
Program Name: Centers for Disease Control and Prevention-Investigations and Technical Assistance
Requirement: Matching
Questioned Costs: \$0

Full name of the person responsible for the corrective action plan:

Yorah Demei, Cancer Program Administrator

When will the corrective action plan be implemented:

Corrective action require communication to grantor agency, thus the Program is to initiate communication to grantor agency no later than July 30, 2008.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-25
 CFDA No.: 20.106, 15.875
 Agency: U.S. Department of Transportation, U.S. Department of the Interior
 Grant Number: NAT-I-4416-1-1-06, NAT-I-4416-1-1-02, NAT-I-4416-1-1-05 NAT-1-4416-1-1-04, PAL-109, PAL-103, PAL-105, MOU-2006, PAL-93 and MOU-2005
 Program Name: Airport Improvement Program; Economic, Social and Political Development of the Territories
 Requirement: Reporting
 Questioned Costs: \$0

Criteria: Total outlays reported to the grantor should correspond to amounts reported per the general ledger. Additionally, specific grant terms and conditions require that a Financial Status Reports (SF-269) be submitted quarterly, semi-annually or annually depending on the requirement of a specific grant.

Condition: An examination of the reported expenditures (CFDA #20.106) noted four reported grant expenditures did not agree with expenditures recorded in the general ledger as follows:

<u>Cost Center</u>	<u>Grant No.</u>	<u>Expenditures Reported to the Grantor (Federal Share)</u>	<u>Recorded Expenditures (Federal Share)</u>	<u>Difference</u>
T6APR1	NAT-I-4416-1-1-06	\$ 183,889	\$ 48,184	\$ 135,705
T5BDC1	NAT-I-4416-1-1-02	824,359	822,543	1,816
T6RWR1	NAT-I-4416-1-1-05	4,085,942	4,088,772	(2,830)
T5RWR2	NAT-1-4416-1-1-04	440,661	435,624	5,037

Expenditures (CFDA #15.875) reported per the SF-269 differ from expenditures reported in the general ledger as of September 30, 2007 as follows:

<u>Cost Center</u>	<u>Grant No.</u>	<u>Expenditure reported in SF-269</u>	<u>Expenditure Recorded in the General Ledger</u>	<u>Difference</u>
R53897	PAL-109	23,760	24,646	886
F43855	PAL-103	30,771	29,551	1,220
F43858	PAL-105	0	13,944	13,944

Further, SF-269 reports were not submitted for the following grants:

<u>Cost Center</u>	<u>Grant No.</u>	<u>Requirement</u>	<u>Not Submitted</u>
A63880	OMIP-ROP-2006-1	Semi-annual report	Semi-annual report
F63844	MOU-2006	quarterly and final reports	2 nd quarter report
R63832	PAL-93	quarterly and final reports	1 st and 3 rd quarter reports
F53844	MOU-2005	quarterly and final reports	2 nd quarter report

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-25, Continued
CFDA No.: 20.106, 15.875
Agency: U.S. Department of Transportation, U.S. Department of the Interior
Grant Number: NAT-I-4416-1-1-06, NAT-I-4416-1-1-02, NAT-I-4416-1-1-05 NAT-1-4416-1-1-04, PAL-109, PAL-103, PAL-105, MOU-2006, PAL-93 and MOU-2005
Program Name: Airport Improvement Program; Economic, Social and Political Development of the Territories
Requirement: Reporting
Questioned Costs: \$0

Cause: The cause of the above condition is adjustments made to the general ledger after report submission.

Effect: The effect of the above condition is misstatement of reported expenditures.

Recommendation: We recommend that the federal financial reports reflect actual transactions recorded in the general ledger and that all transactions be properly supported.

Auditee Response and Corrective Action Plan:

Bullet No. 1: Auditee concurs with reservations. Most of contracts for these projects are awarded in large amounts while grant awards are received in phases. This forces the ROP to obligate these contracts in Fund 410100 (Local Capital Improvement Project Fund). Expenditures are also recorded in the same fund and are transferred to respective grant awards. Reports to funding agency take those expenditures that are still in the Local CIP fund into consideration. This is one of the reasons for the discrepancies.

Bullet No. 2: Auditee concurs with reservations. Financial Status Reports sent to funding agency are based on expenditure reports from our Financial Management System. Although there maybe some discrepancies in "This Period" column, the "Cumulative" amounts are accurate.

Bullet No 3: Auditee concurs with finding. Auditee has hired a new staff to assist the Grants Management Officer with reporting requirements.

Full name of the person responsible for the corrective action plan:

Gandhi Ngirmidol, Grace Oiterong

When the corrective action plan will be implemented:

July 2008

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-26
CFDA No.: All major programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: The Republic of Palau Property Management (RPPM) Policies and Procedures, Chapter IV, stipulates the following:

- Sections 203.7: Accountable officers will maintain complete property management records, and a physical inventory must take place annually.
- Section 203.8: The Property Management Officer (Chief, Division of Property and Supply) is responsible for ensuring that the accountable officers conduct physical inventories. A complete physical inventory will be conducted bi-annually for capitalized, non-capitalized and non-expendable government properties.
- Section 202.3: The Accountable Officer shall be the manager at the Director level of each respective organization entity (or Chief of Staff at the President's Office). The Boards, Commissions and Authorities will advise the Minister of Finance of the person delegated to control fixed assets. These officers will be responsible for:...(d) ensuring the proper and effective maintenance, control and safeguarding of government property assigned to or utilized by their respective entities;
- Section 202.4: The Property Custodians...assist the Accountable Officer, as designated in writing, to discharge his/her responsibilities relative to the property management system. This will also include proper record keeping for the system, with the following basic steps taken to provide up-to-date accurate information:...(d) When property is unserviceable...the accountable officer will issue a *Property Requested for Survey Action* form and send the item with the completed form to the RPPM...(e) Any item of property missing or not properly accounted for, as soon as known, will be made the subject of a report of survey with the issuance of a *Property Requested for Survey Action* form...(f) To insure proper record keeping practices, for each item that is to be transferred from any location, division or section, a *Request to Transfer Property* form will be completed and forwarded to RPPM office.

Condition: The entity wide biennial physical inventory of fixed assets was conducted by the Division of Property and Supply during 2007; however, there was no evidence to indicate annual physical inventory performance at the department level by accountable officers. Additionally, our tests of fixed assets noted the following:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-26, Continued
CFDA No. All major programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

- The biennial physical inventory was not adequately performed as the following fixed assets, which we sighted, were not included in the physical inventory records:

<u>CFDA no.</u>	<u>Tag no.</u>	<u>Description</u>	<u>Cost</u>
84.027	RP-2827	15 seater bus, LP# 773	\$ 23,875
84.027	RP-2826	15 seater bus, LP# 772	23,875
84.027	RP-3008	Van with wheelchair, LP#805	32,000
84.027	RP-3068	Pick up, LP# 815	24,000
84.027	RP-3329	SUV, LP# 876	19,995
84.027	RP-3431	Van, LP#907	8,000
84.027	RP-3515	SUV, LP#985	8,495
84.027	RP-3588	Canon copier	9,660
15.875	RP-3586	Dual server	61,130
15.875	SWR-1045	MS SQL Software	15,788
15.875	RP-3587	Scanner	28,389
15.875	RP-3653	Safe	7,613

- Of the above assets sighted, one (tag no. RP-3431) was inoperable as of September 30, 2007; however, there has been no report of survey as of May 2008;
- One asset (CFDA #93.224, tag no. RP-2689) that we noted on the property records did not exist as of September 30, 2007; however, there has been no report of survey as of May 2008;
- Two assets (CFDA #93.224, tag nos. RP-3408, RP-3523) were transferred to another section as of September 30, 2007; however, there have been no report of transfer to the RPPM as of May 2008;
- Pre-printed physical inventory forms were not numbered or controlled to ensure that all fixed assets are captured. Additionally, the forms were not consistently utilized. Physical inventory records of one department (CFDA #93.283) were in the form of a computer printed list which did not indicate the person conducting the inventory or the individual condition of each asset. One physical inventory form was not signed by the person conducting the physical inventory (CFDA #15.875, tag no. RP-3522). Physical inventory forms of one department (CFDA #93.224) did not indicate individual asset conditions.
- There was no evidence of effective maintenance of assets during the year ended September 30, 2007.

Cause: The cause of the above conditions is a lack of controls over fixed assets.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No.: 2007-26, Continued
CFDA No. All major programs
Area: Equipment and Real Property Management
Questioned Costs: \$0

Effect: The effect of the above condition is noncompliance with fixed assets policies and procedures.

Recommendation: We recommend that property management policies and procedures be implemented.

Prior Year Status: Weaknesses in controls over fixed assets were reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2006.

Auditee Response and Corrective Action Plan: Auditee concurs with finding. In order for property custodians for each Ministry to do bi-annual physical inventory, a support from Ministry level is very critical. Based on the past experience, lack of support from Directors and Ministers make this task extremely difficult. Property and Supply will come up with a pre-numbered inventory tag which each Ministry can utilize for their bi-annual physical inventory. A pre-numbered inventory tag should help each property custodians expedite physical inventory.

Full name of the person responsible for the corrective action plan:

Millan Isack, Joyce Corpuz

When will the corrective action plan be implemented:

September 2008

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2007

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments which were unresolved at September 30, 2006:

Questioned costs as previously reported \$ 993,651

Questioned costs resolved during the year ended September 30, 2007:

Per a February 28, 2008 letter from the U.S. Department of Health and Human Services (25,367)

Per letters from the U.S. Department of Treasury, collecting for U.S. Department Health and Human and Human Services:

<u>Date of Letter</u>	<u>TOP Trace no.</u>	
September 26, 2007	S41220910	(13,401)
November 15, 2007	S41775629	(109,853)
December 04, 2007	S41964677	(25,988)
December 04, 2007	S41964678	(47,583)
December 04, 2007	S41964679	(2,069)
January 25, 2008	P42567150	(3,271)
January 25, 2008	P42567151	(9,720)
February 11, 2008	P43186946	(9,167)
February 21, 2008	P43943958	(9,231)

Questioned costs for the year ended September 30, 2007 63,691

Unresolved questioned costs at September 30, 2007 \$ 801,692

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 17 through 59).