

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

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

His Excellency Johnson Toribiong
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, 2008, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated July 1, 2009. 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 opinions 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 18 through 61) as items 2008-1 through 2008-4 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, of the significant deficiencies described above, we consider items 2008-2 and 2008-3 to be material weaknesses.

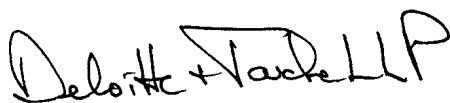
Compliance and Other Matters

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 2008-5 through 2008-7.

We noted certain matters that we reported to management of the Republic in a separate letter dated July 1, 2009.

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 them.

This report is intended solely for the information and use of the management of the Republic of Palau, others within the entity, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

July 1, 2009

**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 Johnson Toribiong
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, 2008. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 18 and 19). Compliance with the requirements of laws, regulations, contracts and grant 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, 2008. 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 2008-8, 2008-9, 2008-10, 2008-11, 2008-12, 2008-16, 2008-19, 2008-20 and 2008-23 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding cash management, equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 15.875 OTIA Direct Grants major program; allowable costs/cost principles, cash management, equipment and real property management, matching, level of effort, earmarking, period of availability of federal funds, equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 93.283 Centers for Disease Control and Prevention - Investigations and Technical Assistance major program; equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 93.224 Community Health Centers major program; cash management that is applicable to its CFDA # 20.106 Airport Improvement Program major program; cash management, and equipment and real property management that are applicable to its CFDA # 84.027 Special Education - Grants to States major program; and cash management, equipment and real property management, and procurement and suspension and debarment that are applicable to its CFDA # 84.256 Territories and Freely Associated States Education Grant major program. 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 CFDA # 15.875 OTIA Direct Grants major program, its CFDA # 93.283 Centers for Disease Control and Prevention - Investigations and Technical Assistance major program, its CFDA # 93.224 Community Health Centers major program, its CFDA # 20.106 Airport Improvement Program major program, its CFDA # 84.027 Special Education - Grants to States major program, and its CFDA # 84.256 Territories and Freely Associated States Education Grant major program. Also, in our opinion, the Republic complied, in all material respects, with the requirements referred to above that are applicable to its CFDA # 15.875 Compact of Free Association major program for the year ended September 30, 2008. 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 2008-13, 2008-14, 2008-15, 2008-17, 2008-18, 2008-21 and 2008-22.

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 2008-4 and 2008-8 through 2008-23 to be significant deficiencies.

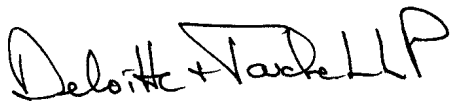
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2008-23 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 them.

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, 2008, and have issued our report thereon dated July 1, 2009. 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 14) is presented for purposes 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, others within the entity, 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.



July 1, 2009

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100 Grantor Account Title	Expenditures FY2008
U.S. Department of Agriculture	
<u>State Administrative Expenses for Child Nutrition CFDA #10.560</u>	
Sub-total CFDA #10.560	\$ -
<u>Cooperative Forestry Assistance CFDA #10.664</u>	
Sub-total CFDA #10.664	146,189
<u>Community Facilities Loans and Grants CFDA #10.766</u>	
Sub-total CFDA #10.766	7,345
Total U.S. Department of Agriculture	\$ 153,534
U.S. Department of Commerce	
<u>Special Oceanic and Atmospheric Projects CFDA# 11.460</u>	
Sub-total CFDA #11.460	\$ 306,600
<u>Pacific Fisheries Data Program CFDA #11.437</u>	
Sub-total CFDA #11.437	-
<u>Unallied Management Projects CFDA#11.454</u>	
Sub-total CFDA #11.454	22,729
<u>NOAA Donation to IRC Meeting</u>	
Sub-total IRC Meeting	-
Total U.S. Department of Commerce	\$ 329,329
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	\$ -
U.S. Department of Justice	
<u>Juvenile Justice and Delinquency Prevention - Allocation to States CFDA #16.540</u>	
Sub-total CFDA #16.540	\$ -
<u>State Justice Statistics Program for Statistical Analysis CentersCFDA #16.550</u>	
Sub-total CFDA #16.550	-
Total U.S. Department of Justice	\$ -
U. S. Department of Labor	
<u>Workforce Investment Act CFDA #17.255</u>	
Sub-total CFDA #17.255	\$ -
<u>WIA Adult Program CFDA #17.258</u>	
Sub-total CFDA #17.258	70,660
<u>WIA Youth Activities CFDA #17.259</u>	
Sub-total CFDA #17.259	70,713
<u>WIA Dislocated Workers CFDA #17.260</u>	
Sub-total CFDA #17.260	107,380
Total U.S. Department of Labor	\$ 248,753

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100 Grantor Account Title	Expenditures FY2008
U.S. Environmental Protection Agency	
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>	
Sub-total CFDA #66.418	\$ -
<u>Environmental Education Grants CFDA #66.951</u>	
Sub-total CFDA #66.951	-
Total U.S. Environmental Protection Agency	\$ -
U.S. Department of Energy	
<u>State Energy Program CFDA #81.041</u>	
Total U.S. Department of Energy	\$ -
FEMA	
<u>Public Assistance Grants CFDA #83.544</u>	
Total U.S. FEMA	\$ -
U.S. Department of Education	
<u>Adult Education - State Grant Progm CFDA #84.002A</u>	
Sub-total CFDA #84.002A	\$ 36,436
<u>Special Education - Grants to States CFDA #84.027B</u>	
Sub-total CFDA #84.027B	368,453
<u>Special Education - Grants to States CFDA #84.027A</u>	
Sub-total CFDA #84.027A	873,401
<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	-
<u>Byrd Honors Scholarships CFDA #84.185A</u>	
Sub-total CFDA #84.185A	36,000
<u>Supported Employment Services for Individuals with Severe Disabilities CFDA #84.187A</u>	
Sub-total CFDA #84.187A	-
<u>Bilingual Education Support Services CFDA #84.194Q</u>	
Sub-total CFDA#84.194Q	-
<u>Freely Associated States - Education Grant Program CFDA #84.256A</u>	
Sub-total CFDA #84.256A	772,267
<u>Goals 2000 - State and Local Education Systemic Improvement Grants CFDA #84.276</u>	
Sub-total CFDA #84.276	-
<u>Twenty-First Century Community Learning Centers Program CFDA #84.287B</u>	
Sub-total CFDA #84.287B	-
<u>Gaining Early Awareness and Readiness for Undergraduate Programs CFDA #84.334S</u>	
Sub-total CFDA #84.334S	175,666

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100	Expenditures
<u>Grantor Account Title</u>	<u>FY2008</u>
U.S. Department of Education, Continued	
<u>Teacher Quality Enhancement Grants CFDA #84.336A</u>	
Sub-total CFDA #84.336A	48,468
<u>Vocational Education - Occupational and Employment Information State Grants CFDA #84.346A</u>	
Sub-total CFDA #84.346A	-
<u>Career and Technical Education -- Basic Grants to States CFDA #84.048</u>	
Sub Total CFDA #84.048	224,382
Total U.S. Department of Education	\$ 2,535,073
U.S. Department of Health and Human Services	
<u>Public Health Emergency Preparedness CFDA #93.069</u>	
Sub-total CFDA #93.069	\$ 426,488
<u>National Bioterrorism Hospital Preparedness Program CFDA #93.889</u>	
Sub-total CFDA #93.889	304,654
<u>Material and Child Health Federal Consolidated Programs CFDA # 93.110AR</u>	
Sub-total CFDA #93.110	261,082
<u>Project Grants and Cooperative Agreements for Tuberculosis Control Programs CFDA #93.116</u>	
Sub-total CFDA #93.116	116,793
<u>Family Planning - Services CFDA #93.217</u>	
Sub-total CFDA #93.217	159,457
<u>Consolidated Health Centers CFDA #93.224</u>	
Sub-total CFDA #93.224	664,930
<u>Substance Abuse and Mental Health Services - Projects of Regional and National Significance CFDA #93.243</u>	
Sub-total CFDA #93.243	387,447
<u>Universal Newborn Hearing Screening CFDA #93.251</u>	
Sub-total CFDA #93.251	151,444
<u>Immunization Grants CFDA #93.268</u>	
Sub-total CFDA #93.268	148,391
<u>CDC and Prevention - Investigations & Technical Assistance CFDA# 93.283</u>	
Sub-total CFDA #93.283	1,073,015
<u>Consolidated Knowledge Development and Application (KD&A) Program CFDA #93.230</u>	
Sub-total CFDA #93.230	86,157
<u>HIV Care Formula Grants CFDA #93.917</u>	
Sub-total CFDA #93.917	31,557
<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	94,815

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

Fund 350100	Expenditures
<u>Grantor Account Title</u>	<u>FY2008</u>
U.S. Department of Health and Human Services, Continued	
<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	250,674
<u>HIV/AIDS Surveillance CFDA #93.944</u>	
Sub-total CFDA #93.944	32,996
<u>Block Grants for Community Mental Health Services CFDA #93.958</u>	
Sub-total CFDA #93.958	50,117
<u>Block Grants for Prevention and Treatment of Substance Abuse CFDA #93.959</u>	
Sub-total CFDA #93.959	102,487
<u>Preventive Health Services - STD Control Grants CFDA #93.977</u>	
STD Program 2005	(145)
Sub-total CFDA #93.977	40,623
<u>Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation and Surveillance Systems CFDA #93.988</u>	
Sub-total CFDA #93.988	67,363
<u>Preventive Health and Health Services Block Grant CFDA #93.991</u>	
Sub-total CFDA #93.991	21,257
<u>Maternal and Child Health Services Block Grant to the States CFDA # 93.994</u>	
Sub-total CFDA #93.994	173,518
<u>State Capacity Building - DEH-PHCI CFDA # 93.240</u>	
Sub-total CFDA # 93.240	83,013
<u>Civil Rights and Privacy Rule Compliance Activities</u>	
Sub-total CFDA #93.001	9,713
Total U.S. Department of Health and Human Services	\$ 4,737,991
Total Federal Grants (Fund 350100)	\$ 8,004,680

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, 2008, the Republic passed through federal funding to the Workforce Investment A

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
 YEAR ENDED SEPTEMBER 30, 2008

Fund 350200 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
OTIA Direct Grants					
<u>Non-Capital CFDA #15.875</u>					
Total Non-Capital	\$ 6,670.805	\$ 135,911	\$ 995,482	\$ 1,355,494	\$ 495,923

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

Fund 420100 Grantor Account Title	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
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>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	\$ 29,188,224	\$ 2,771,805	\$ 8,813,727	\$ 6,912,628	\$ 870,706
Total U.S. Federal (CIP Project)	\$ 30,037,512	\$ 2,739,459	\$ 8,813,727	\$ 6,912,628	\$ 838,360

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

Fund 430100 Grantor Account Title	Grant PGA	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/07	Cash Receipts FY 2008	Expenditures FY 2008	Receivable from Grantor (Deferred Revenue) at 9/30/08
Capital Improvement Projects CFDA 15.875							
Total Capital Improvement Projects			<u>\$ 9,165,525</u>	<u>\$ (180,453)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (180,453)</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

	Authorizations	FY 2008 Expenditures and Transfers	Excess (Deficit) of Authorizations Over Program Expenditures
<u>Compact of Free Association CFDA #15.875</u>			
<u>211(a) & 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,021,000	\$ (21,000)
Compact Section 215	3,960,000	3,960,000	-
Total 211(a) & 215 Current Account	<u>\$ 9,960,000</u>	<u>\$ 9,981,000</u>	<u>\$ (21,000)</u>
<u>211(b) & 215 Energy Production</u>			
Investment Management Fees, 211(b) Funds	\$ 1,629	\$ 1,629	\$ -
Total 211(b) & 215 Energy Production	<u>\$ 1,629</u>	<u>\$ 1,629</u>	<u>\$ -</u>
<u>211(c) & 215 Communications</u>			
Executive Branch	\$ 249,000	\$ 249,000	\$ -
Investment Management Fees, 211(c) Funds	108	108	-
Total 211(c) & 215 Communications	<u>\$ 249,108</u>	<u>\$ 249,108</u>	<u>\$ -</u>
<u>211(d) Maritime/Health/Scholarship</u>			
Patrol boat operations	\$ 631,000	\$ 631,000	\$ -
Investment Management Fees, 211(d) Funds	63	63	-
Total 211(d) Maritime/Health/Scholarship	<u>\$ 631,063</u>	<u>\$ 631,063</u>	<u>\$ -</u>
<u>211(e) Maritime</u>			
Investment Management Fees, 211(e) Funds	\$ 209	\$ 209	\$ -
Total 211(e) Maritime	<u>\$ 209</u>	<u>\$ 209</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	\$ 12,180	\$ 12,180	\$ -
Executive Branch	-	-	-
Total 213 Defense	<u>\$ 12,180</u>	<u>\$ 12,180</u>	<u>\$ -</u>
<u>212(b) & 215 Capital Account</u>			
Investment Management Fees	\$ 177	\$ 177	\$ -
Total 212(b) & 215 Capital Account	<u>\$ 177</u>	<u>\$ 177</u>	<u>\$ -</u>

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2008

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2008 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	203	203	-
Total 221(b) Special Block Grant	<u>\$ 2,000,203</u>	<u>\$ 2,000,203</u>	<u>\$ -</u>
Total Compact of Free Association CFDA #15.875		\$ 17,875,569	
Less Compact Section 211(a) Current Account		(6,021,000)	
Less Compact Section 215 Current Account		(3,960,000)	
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>\$ 2,894,569</u>	

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Schedule of Programs Selected for Audit
In Accordance With OMB Circular A-133
Year Ended September 30, 2008

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	\$ 2,894,569
	15.875	OTIA Direct Grants	1,355,494
U.S. Department of Health and Human Services	93.283	Centers for Disease Control and Prevention - Investigations & Technical Assistance	1,073,015
	93.224	Consolidated Health Centers	664,930
U.S. Department of Transportation	20.106	Airport Improvement Program	6,912,628
U.S. Department of Education	84.027	Special Education – Grants to States	1,241,854
	84.256	Freely Associated States - Education Grant Program	<u>772,267</u>
			\$ <u>14,914,757</u>
Total federal program expenditures (excluding Compact Section 211(a) Current Account, \$6,021,000; Compact Section 215 Current Account, \$3,960,000; Compact Section 211(f) Trust Fund Investment Earnings, \$5,000,000)			\$ <u>19,167,371</u>
% of total federal program expenditures tested			<u>78%</u>

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2008

(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, 2008 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, 2008.

c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2008. The approved rate was 7.89%. 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, 2008

(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, 2008, 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, 2008, the Republic passed through federal funding to the following entities:

Palau Community College, Compact Section 221(b), CFDA #15.875	\$ <u>2,000,000</u>
	\$ <u>2,000,000</u>

This entity separately satisfies its 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, 2008

Part I - Summary of Auditors' Results

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|--|--|
| Internal control over major programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. Type of auditors' report issued on compliance for major programs: | |
| CFDA Program 15.875 Compact of Free Association | Unqualified |
| All other major programs | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. The Republic's major programs were as follows: | |
| <u>CFDA Number</u> <u>Federal Program</u> | |
| 84.027 | Special Education – Grants to States |
| 84.256 | Freely Associated States – Education Grant Program |
| 93.224 | Consolidated Health Centers |
| 93.283 | CDC and Prevention-Investigations and Technical Assistance |
| 15.875 | OTIA Direct Grants |
| 20.106 | Airport Improvement Program |
| 15.875 | Compact of Free Association |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$575,021 |
| 11. The Republic qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>
2008-1	Revenues
2008-2	Payroll
2008-3	Expenditures
2008-4	Federal and Non-federal Grants Receivable
2008-5	Local Noncompliance
2008-6	Local Noncompliance
2008-7	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>
2008-4	Nonmajor	Cash Management	\$ -
2008-8	15.875/ 20.106/ 84.027/ 84.256/ 93.283	Cash Management	\$ -
2008-9	93.224	Procurement and Suspension and Debarment	\$ 62,326
2008-10	93.283	Procurement and Suspension and Debarment	\$ 40,292
2008-11	84.256	Procurement and Suspension and Debarment	\$ 36,924
2008-12	15.875	Procurement and Suspension and Debarment	\$ 366,661
2008-13	93.283/ 84.027/ 84.256	Procurement and Suspension and Debarment	\$ -
2008-14	93.283	Allowable Costs/Cost Principles	\$ 3,960
2008-15	93.283	Allowable Costs/Cost Principles	\$ -
2008-16	93.283	Allowable Costs/Cost Principles	\$ 23,231
2008-17	93.283/ 84.027	Allowable Costs/Cost Principles	\$ -
2008-18	15.875	Allowable Costs/Cost Principles	\$ -
2008-19	93.283	Period of Availability of Funds	\$ 22,083
2008-20	93.283	Matching	\$ 22,500
2008-21	93.224	Special Tests and Provisions	\$ -
2008-22	93.224	Program Income	\$ -
2008-23	84.027/ 84.256/ 93.283/ 93.224/ 15.875	Equipment and Real Property Management	\$ -

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Revenues

Finding No. 2008-1

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 deposited to the bank in a timely manner (i.e., the next business day):

<u>Receipt no.</u>	<u>Date of Customs Daily Cash Transmittal Forms</u>	<u>Validated Deposit Date</u>	<u>Days Lapsed</u>	<u>Amount</u>
984052	11/12/2007	11/25/2007	13	\$ 30,208
1005525	03/06/2008	03/11/2088	5	\$ 27,029
1011973	04/10/2008	04/15/2008	5	\$ 20,775
1000363	02/08/2008	02/13/2008	5	\$ 15,857
983374	11/08/2007	11/13/2007	5	\$ 24,648
999574	02/04/2008	02/08/2008	4	\$ 69,604
1009251	03/27/2008	04/01/2008	4	\$ 114,000

Cause: The cause of the above condition is a lack of timely bank deposits.

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

Recommendation: We recommend that the Republic ensure that collections are deposited within three business days.

Auditee Response and Corrective Action Plan: The Division of Customs improved their collection except for collecting offices outside their main office. Treasury Collection Section had been at fault sometimes for not entering the collection on the same day brought by the Division of Customs. We have resolved the issue by revising the collection procedures to have Customs office do night deposits and submit reports to Treasury Section for entry. Treasury monitors Customs office to ensure they make daily deposits by collecting the deposit bag from the bank on a daily basis.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Payroll

Finding No. 2008-2

Criteria: Changes to payroll master files should be approved by an independent party.

Condition: Changes to electronic payroll master files are not reviewed by an independent party.

Cause: The cause of the above condition is the lack of procedures to provide an audit trail for changes made to payroll master file data.

Effect: The effect of the above condition is the potential for invalid changes to payroll master files.

Recommendation: We recommend that management implement procedures to require independent review of changes to payroll master files.

Auditee Response and Corrective Action Plan: Procedures in the past required Personnel Office to receive changes approved by the appropriate officials and enter into the system. Copies of the documents were forwarded to Payroll Section to ensure the changes were entered correctly. This has been the process over several years. We see the issue raised by the auditor that there maybe changes to the masterfile that maybe overlooked by Payroll Section if there was no supporting document submitted. For this reason, we now have Payroll Section print and save the masterfile audit trail right before final payroll processing that shows the ID of the person making the change, the date, and old and new contents so the person making the change without documents can be questioned and errors prevented. Personnel Office also has access to print the audit trail to ensure they entered correct information before submitting documents to Payroll Section.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Expenditures

Finding No. 2008-3

Criteria: An effective system of internal control includes policies and procedures to ensure that expenditures are authorized, supported, approved prior to incurrence and recorded in the proper period.

Condition: Journal voucher entries and related supporting documents did not provide an adequate narrative description to explain the following entries made. Without adequate explanation, an outside party has substantial difficulty trying to understand the basis for the entry.

<u>Voucher no.</u>	<u>Amount</u>	
DF800170	\$ 1,669,000	There is no adequate and detail explanation documents attached
639888	\$ (36,642)	There is no adequate and detail explanation documents in the vendor file to support basis for entry and no rational reason why revised entry was made 3 months after the original entry.
DF800136	\$ 140,000	There is no evidence of service to date to justify transfer from prepaids to expenditures.
DF800187	\$ 1,396,863	There is no adequate and detail explanation documents.
DF800187	\$ 1,242,883	There is no adequate and detail explanation documents.

Cause: The cause of the above condition is the lack of control procedures for initiating journal voucher entries.

Effect: Transactions recorded through journal vouchers entries, although signed approved, are not adequately supported.

Recommendation: We recommend that all journal voucher entries be reviewed for propriety by appropriate management other than the preparer. The basis for all journal vouchers should be adequately documented.

Auditee Response and Corrective Action Plan: DF800170 was a transfer of electric charges from General Fund to a grant from Taiwan that covered electric expenses. Supporting document was a list of orgs and account the charge was transferred from. Detail report for these orgs and account would show detail information such as voucher and this can be traced to the file of paid vouchers.

There was no physical evidence attached to Journal Voucher (JV) DF800136 that supports the expenditures, but we were able to gather from various sources supporting documents to support the JV. We will ensure the expenditure will be supported by physical documents or reference to a physical document easily located.

DF800187 supporting documents were reports showing the transfer of expenditures from/to accounts. Detail report of the accounts would show reference to supporting documents. These were airport project expenditures funded by FAA. The agreement was to expense the account funded by ROC loan proceeds and when FAA projects were approved, expenses would be transferred to the appropriate account in the US CIP Fund. When supporting documents are requested of us we will provide.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management

Finding No. 2008-4

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

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

- Four grants from the U.S. Department of Agriculture (CFDA #10.664) closed and were inactive during the year ended September 30, 2008. A balance of \$11,691 due to the grantor agency remains on the books as follows:

<u>Grant</u>	<u>Cost Center</u>	9/30/2008 <u>Balance</u>
Rural Fire Prev/Control	J63630	\$ 1,505
Palau Fire Prev/Control	J93630	600
Forest Stewardship	R63713	5,595
Urban Community Forestry	R03712	<u>3,991</u>
		<u>\$11,691</u>

- Three Capital Improvement Project awards (CFDA #15.875) closed and were inactive during the year ended September 30, 2008. A balance of \$180,453 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, 2008 with a balance of \$34,145 due to the grantor agency (cost center no. 4680);
- A grant award under the U.S. Department of Health and Human Services (CFDA #84.187A) was inactive during the year ended September 30, 2008. 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 the grantor agency of \$14,524 has not been returned as of September 30, 2008;
- Three grant awards from the U.S. Department of Commerce (CFDA #11.460), with a balance of \$136,095 due from the grantor agency, have not been collected as of September 30, 2008, and there were no records to determine the grant status (cost center #A23600, A73600, F83600);
- Two grant awards from the U.S. Department of Commerce (CFDA #11.460) have closed. However, a balance of \$43,760 due to the grantor agency has not been returned as of September 30, 2008:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
National Weather Service	A33600	\$ 15,106
National Weather Service	A83600	<u>28,654</u>
Total due to grantor agency		<u>\$ 43,760</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- 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, 2008, and there were no records on file to determine the grant status (cost center no. R53728).
- Twelve grant awards from OTIA Direct Grants, U. S. Department of the Interior (CFDA #15.875) were inactive during the year ended September 30, 2008, with balances due to and from the grantor agency as follows:

<u>Grant</u>	<u>Cost Center</u>	9/30/2008 <u>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>

- Ten grant award amounts per the schedule of expenditures of federal awards, could not be agreed to grant award notification:

<u>U.S. Department of</u>	<u>CFDA #</u>	<u>Cost Center</u>	9/30/2008 <u>Award amount</u>
Health and Human Services	93.069	H73679	\$ 361,520
Health and Human Services	93.069	H78654	\$ 136,883
Health and Human Services	93.224	H73690	\$ 581,240
Health and Human Services	93.224	I73690	\$ 107,569
Health and Human Services	93.943	H83687	\$ 320,054
Health and Human Services	93.110	H73651	\$ 140,000
Health and Human Services	93.110	H63651	\$ 140,000
Health and Human Services	93.110	H83680	\$ 91,644
Agriculture	10.664	R88704	\$ 57,000
Education	84.256A	E3595	\$ 629,982

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- Requests for grant funds receipts and supporting expenditure reports could not be provided for ten grant awards:

<u>U.S. Department of</u>	<u>CFDA # - Cost Center #</u>	<u>FY08 Receipts</u>
Health and Human Services	93.069 - H73679	\$ 195,419
Health and Human Services	93.994 - H63676	\$ 6,582
Health and Human Services	93.994 - H73676	\$ 91,949
Health and Human Services	93.994 - H83676	\$ 5,085
Health and Human Services	93.959 - H63658	\$ 979
Health and Human Services	93.959 - H73658	\$ 68,585
Commerce	11.460 - A73600	\$ 28,710
Commerce	11.460 - A83600	\$ 204,189
Commerce	11.460 - F83600	\$ 34,438
Education	84.048 - E73591	\$ 188,307

- Five grant award notifications could not be provided:

<u>U.S. Department of</u>	<u>CFDA # - Cost Center #</u>	<u>Award</u>
Health and Human Services	93.069 - I73679	\$ 32,415
Health and Human Services	93.994 - H63676	\$ 151,638
Health and Human Services	93.110 - H83651	\$ 140,000
Commerce	11.437 - A33601	\$ 31,000
Commerce	11.460 - A73600	\$ 318,566

- Related expenditures of one grant award from the U.S. Department of Agriculture (CFDA #10.766 - cost center #B80806) amounted to \$100,000 however, further investigation revealed that the project has not commenced as of September 30, 2008. An audit adjustment was proposed to correct this situation.
- Status of two grant awards from the U.S. Department of Agriculture (CFDA #10.766), could not be determined as of September 30, 2008:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
EQPB Econ Fac Grant	R53728	\$ <u>49,710</u>
Total due from grantor agency		\$ <u>49,710</u>
Emergency communications equipment	J83642	\$ <u>27,500</u>
Total due to grantor agency		\$ <u>27,500</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- There were no records provided to determine the status of the following grant awards from the U.S. Department of Agriculture (CFDA #10.664):

<u>Grant</u>	<u>Cost Center</u>	9/30/2008 <u>Balance</u>
CFHP Invasive Species	R53725	\$ 302
Conservation Education	R63723	6,952
Coop. Forestry Health Protection	R63724	3,310
CFA-Conservation Education	R78700	6,598
CFA-Coop Forest Hlth Protection	R78701	29,948
CFA-CFH Invasive	R78702	28,500
CFA-Forest Stewrarship	R78703	35,000
CFA-UCF	R78704	57,500
Coop. Forestry Health Protection	R88701	129
Forest Stewardshi	R88703	194
Urban & Community Forest	R88704	<u>126</u>
		<u>\$ 168,559</u>

- There were no records provided to determine the status of one grant award from the U.S. Department of Commerce (CFDA #11.437) with a balance of \$26,036 due from grantor agency as of September 30, 2008.
- One non-federal grant award was inactive during the year ended September 30, 2008, with a balance due to the grantor agency as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Humanitarian Assistance to PSB	F78974	\$ (51,616)
Total due to grantor agency		\$ (51,616)

- Two non-federal grant awards have closed at September 30, 2008, and it was represented that the amounts due from the grantor agency are not collectible. An audit adjustment was proposed to correct this situation:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Census of Pop & House Survey	F48966	\$ 109,767
China Grants - Sport Comm	A83966	<u>55,761</u>
Total due from grantor agency		<u>\$ 165,528</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- Two non-federal grant awards with balances due from grantor agencies have not been collected as of September 30, 2008, and there were no records on file to determine the grant status:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
UN Devel Programme (UNDP)	F53929	\$142,686
2nd National Comm. UNFCCC	A63930	<u>94,594</u>
		\$ <u>237,280</u>

- One non-federal grant award (cost center #A88984) closed as of September 30, 2008 with balance due to the grantor agency of \$231,000. It was represented that balance should have been moved to fund other project (cost center #F84812) as approved;
- Five non-federal grant awards were inactive during the year ended September 30, 2008. A balance of \$806,291 due to the grantor agency remains on the books as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Airport-Ngerikiil Rd. FY06	R64898	\$580,029
Peleliu Concrete Rd Ext	R34891	\$142,709
Inter-Island Water Trans	R44893	\$ 322
BPS Equip Improv. Grants	J34920	\$ 10,874
Palau Nat'l Museum Complx	R24940	\$ 72,357

- There were no records to determine the grant status as of September 30, 2008 for eleven non-federal grants as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Phase IV-Final A/N Road	R84898	\$ 1,464,951
Ngaraard Road FY'06	R64899	<u>150,000</u>
Total due from grantor agency		\$ <u>1,614,951</u>
State Economic Stimulus Package 2003	none noted	\$ (327,513)
State Economic Stimulus Package 2004	none noted	(368,414)
State Economic Stimulus Package 2006	none noted	(385,455)
School Facilities FY'06	R64873	(543)
Babeldaob Intra-State Roads & Dock Improvements	none noted	(406,578)
Okotol Dock Improve PH II	R74845	(211,699)
Hosp Solar Lighting Proj	H84854	(749,317)
Central Mrkt & Cult. Cntr	R24941	(40,164)
Stimulus Economic Package 2002		<u>(67,687)</u>
Total due to grantor agency		\$ <u>2,557,370</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Federal and Non-federal Grants Receivables/Cash Management, Continued

Finding No. 2008-4

Condition, Continued:

- One non-federal grant award (cost center #S8FFA1) with a balance due to the grantor agency of \$ 43,361 at September 30, 2008, did not have status on file.

Cause: There are no defined policies and procedures requiring the reconciliation of the schedules of expenditures of federal and non-federal awards. The schedules of expenditures of federal and non-federal awards are provided through the audit request process. Much time is spent in the audit request process due to lack of systematic filing system for grant-related documents, such as approved grant extension, grants drawdown request and recorded expenditures supporting the drawdown request. 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.

Prior Year Status: The lack of reconciliation of the federal grants receivable subledger was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan: ROP concurs with this finding, Ministry of Finance will contact appropriate grantor agency to resolve the balances of the closed grants. ROP have recently hired new staff to assist in reconciliation and documentation of all receivables related to assistance and grants.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-5

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 nineteen Hospital Trust Fund expenditures tested, totaling \$654,403, of a total population of \$1,794,443, we noted the following:

- A contract was awarded to both bidders (RFP no. 08-07) in equal amounts without documentation or analysis to evidence the basis of selection and deviations from the original proposal:

<u>Bidder</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
Vendor #30196	\$ 479,764	\$ 300,000
Vendor #30145	\$ 701,403	\$ 300,000

- Contract was awarded to three bidders (RFP no. 01-8) without documentation or analysis to evidence the basis of selection and deviations from the original proposal:

	<u>Hemodialysis Solution & Supplies</u>		<u>Pharmaceutical Supplies</u>	
	<u>Proposed Amount</u>	<u>Awarded Amount</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
Vendor #30196	-	\$ 242,150	\$ 3,096,377	\$ 3,000,000
Vendor #30145	\$ 302,143	\$ 300,000	\$ 2,926,348	\$ 2,500,000
Vendor #225	-	-	\$ 2,514,209	\$ 1,400,000

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.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-5, Continued

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audit of the Republic for fiscal year 2007.

Auditee Response and Corrective Action Plan: The above two bullets are similar contracts that had extensive documentation from RFP to the recommendation of the department to the awarding of the contract. The recommendation of the department was not to place any order to more than one company for the same item, unless, the first company was either out of stock or could not supply the product. Procurement Officer awarded each vendor for different group of class of product for different department at the Ministry of Health. Purchases were based on the recommendation of the department to purchase items from different vendor when items were out of stock from vendor who won the award. Procurement officer will ensure the purchase of items is consistent from the Request of Proposal to the awarding of the contract showing clear analysis of the basis for award.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-6

Criteria: Per Chapter IV, Section 205.1, it is the policy of the Republic to document receipt of all government property, regardless of the method of source of acquisition. This includes, but is not limited to, property that is acquired from commercial sources, donated, recovered or obtained by transfer. Property received will be recorded on a receiving report to:

- (a) Provide a record of receipt;
- (b) Provide a document of entry to the records and accounts; and
- (c) Substantiate the disbursement voucher.

Condition: Our test of disbursements noted lack of receiving report or equivalent to support one disbursement for \$389,800 (check no. 268837).

Cause: The cause of the above condition is a lack of documentation evidencing receipt of equipment.

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

Recommendation: We recommend that the Republic implement procedures for receipt of property.

Auditee Response and Corrective Action Plan: The disbursement was made consistent with the term of the contract. The process for payment of a contract is usually based on progress of the project. This particular payment did have a certificate of completion that equipment was delivered signed by three employees. However, because equipment was included in the contract, they were not picked up by Supply Office on a timely manner as the usual receiving report was not used and the equipment was not entered into the equipment account. We will begin checking all contracts to ensure if equipment is included, we make sure it is charged to equipment account and that there is evidence that equipment was received and given to Property and Supply Division for appropriate action.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-7

Criteria: Per Title 40, Chapter 5, § 504 of the Palau National Code, the National Government Private Borrowing Authority Act, 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, 2008.

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 the National Government Private Borrowing Authority Act.

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 2007.

Auditee Response and Corrective Action Plan: As of this date, nothing definite has been taken by the new administration regarding this outstanding loan. The senior financial advisor to the President and the Vice President/Minister of Finance has been informed of this issue. We have yet to see what the decision will be.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. : 2008-8
 CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories
 CFDA Program: U.S. DOT 20.106 Airport Improvement Project
 CFDA Program: U.S. ED 84.027 Special Education – Grants to States
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations & Technical Asst
 Grant no.: MOU-2007, MOU-Supplement 2008, NAT-I-4416-1-1-07, NAT-I-4416-1-1-01, NAT-I-4416-1-1-05, 3 -70-0001-09, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1
 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 56 (or 17%) of 330 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 1 to 170 days, as follows:

<u>CFDA # no.</u>	<u># of Transactions</u>
15.875	14
20.106	6
84.027	15
84.256	10
93.283	11

Receipt of Federal funds for two transactions, totaling \$3,516, for the month of June 2008, could not be traced, and therefore, we were not able to determine whether such transactions were paid within three days of receipt of Federal funds:

<u>Cost Center</u>	<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Clearing Date</u>
E63561	264592	685726	\$ 3,516	06/27/08

Receipt of Federal funds for four transactions, totaling \$28,245, for the months of October 2007 and March 2008, could not be traced, and therefore, we were not able to determine whether such transactions were paid within three days of receipt of Federal funds:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Clearing Date</u>
262436	675505	\$ 12,500	05/01/08
262436	675509	\$ 6,250	05/01/08
261401	675863	\$ 3,000	04/07/08
255459	662736	\$ 6,495	12/03/07

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. : 2008-8, Continued
CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Project
CFDA Program: U.S. ED 84.027 Special Education – Grants to States
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant no.: MOU-2007, MOU-Supplement 2008, NAT-I-4416-1-1-07, NAT-I-4416-1-1-01, NAT-I-4416-1-1-05, 3 -70-0001-09, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1
Requirement: Cash Management
Questioned Costs: \$0

Cause: The cause of the above condition is lack of internal controls over cash management and lack of audit trail for requesting reimbursements. 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 U.S. Department of Education, the U.S. Department of the Interior and the U.S. Department of Transportation is less than \$10,000 per major program.

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. We realize that compliance with cash management requirements will be difficult to achieve until the Republic is afforded the ability to ACH transactions. Until that time, the Republic should continue to utilize its best efforts to comply with the criteria. 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 2007.

Auditee Response and Corrective Action Plan: ROP concurs and continues to make improvements on its cash management. List of all pending payments are immediately submitted to Treasury the day after drawdowns are requested. Treasury understands now that it has only three days to make sure checks are cleared thru the banks. ROP Continues to encourage off island vendors to provide their bank information so that Treasury can wire payments instead of mailing checks. ROP recently hired additional staff to assist in documentation and filing for audit trail.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-9
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant No.: H80CS02467-22-01, 2H80CS02467-23-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$62,326

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not put to bid, the procurement officer concerned 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 the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three 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 requirement restrict full and open completion.

Additionally, purchases over \$10,000 require formal bidding process. Public notice of the invitation for bids shall be announced on all radio or television stations and shall be made a reasonable time at least fifteen days prior to the date of the initial day of the bidding time.

Condition: Of the twenty-five expenditures tested, totaling \$121,335, of a total population of \$291,102, the following were noted:

- Price quotations were obtained from an adequate number of qualified sources. However, the price quotations provided were for one airline, while there is more than one airline that provides service from Guam to other destinations (for one disbursement):

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
688585	265358	\$ 2,618	2H80CS02467-23-00	H83690	airline ticket
678684	262560	<u>3,789</u>	2H80CS02467-23-00	H83690	airline ticket
	Questioned cost	<u>\$ 6,407</u>			

- Price quotations were obtained from an adequate number of qualified sources; however, there was no evidence of written rationale on file in support of two disbursements:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
678689	262560	\$ 3,790	2H80CS02467-23-00	H83690	airline ticket
678688	262560	<u>3,790</u>	2H80CS02467-23-00	H83690	airline ticket
	Questioned Cost	<u>\$ 7,580</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-9, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Consolidated Health Centers
 Grant No.: H80CS02467-22-01, 2H80CS02467-23-00
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$62,326

Condition, Continued:

- Public notice of the invitation for bid was not made a reasonable time at least fifteen days prior to the date of the initial day of the bidding time for the following:

<u>Voucher no.</u>	<u>P.O. no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF800127	L80748	\$ <u>37,559</u>	H80CS02467-22-01	H73690	medical equipment
	Questioned Cost	\$ <u>37,559</u>			

- There was no evidence in file that public notices were announced on all radio or television stations (for two purchase orders tested):

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF800127	261755	\$ 37,559	H80CS02467-22-01	H73690	medical equipment
676146	262373	<u>10,780</u>	H80CS02467-22-01	H73690	two vehicles
Total		\$ 48,339			
Less questioned above		(<u>37,559</u>)			
Questioned Cost		\$ <u>10,780</u>			

- Specifications provided in support of a request for proposal specified a brand name of items procured and did not specify "or equivalent"(for one disbursement):

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
676146	262373	\$ 10,780	H80CS02467-22-01	H73690	two vehicles
Less questioned above		\$ <u>10,780</u>			
Questioned cost		\$ _____			

Cause: The cause of the above condition is inadequate documentation for small purchases and weak controls over ensuring that competition remains open among vendors. 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 regulation.

Effect: The effect of the above condition is potential noncompliance with applicable Federal and local procurement regulations. A questioned cost of \$62,326 exists.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-9, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant No.: H80CS02467-22-01, 2H80CS02467-23-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$62,326

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.

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. Open purchase order for fuel file has all the required price quotations attached. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

Bullet 2 & 3, ROP does not concur with this finding. Price quotes from different airlines are filed with the airline ticket payment and not with the advance per diem payment. MOF will retrain staff to document their rationale in writing and file accordingly. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

Bullet 4, 5 & 6, Ministry of Finance will strengthen its controls on procurement documentation by using this finding in their staff training this year. This will increase capacity in regards to Federal and Local procurement knowledge. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-10
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: U55/CCU922043-05, 1U58/DP000776-01, U58/CCU922936-05
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$40,292

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements, and such approvals should be documented in the procurement file. For small purchases over \$2,000 and for the purchase of event hosting services over \$5,000 not processed through bid procedures, the procurement officer concerned 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 the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on 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 thirty-eight expenditures tested, totaling \$198,303, of a total population of \$571,265, the following were noted:

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

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
DF800004	71117850	\$ 7,283	U55/CCU922043-05	H63683	supplies for mammography processor
672425	259552	3,250	1U58/DP000776-01	H73683	2,600 brochures to be used in the clinics
DF800006	253304	3,500	U55/CCU922043-05	I63683	production and air public service announcement
661046	254535	3,500	U55/CCU922043-05	I63683	production and aired cancer messages, aired cancer talk show and other cancer educational messages to the public.
698980	269834	7,000	U58/DP922936-05	H73661	grant writing, monitoring capacity building.
687189	264900	<u>4,200</u>	1U58/DP000776-01	H73683	annual mammography equipment evaluation.
		<u>\$ 28,733</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-10, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: U55/CCU922043-05, 1U58/DP000776-01, U58/CCU922936-05
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$40,292

- Price quotations were obtained from an adequate number of qualified sources; however, there was no evidence of written rationale on file for three expenditures:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost center</u>	<u>Description</u>
678733	262560	\$ 3,765	1U58/DP000776-	H73683	airline ticket
662420	255474	3,747	01U58/DP922936-05	H73661	airline ticket
662416	255474	<u>4,047</u>	U58/DP922936-05	H73661	airline ticket
Questioned Cost		<u>\$11,559</u>			

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.

Effect: The effect of the above condition is noncompliance with applicable federal or local procurement regulations. A questioned cost of \$40,292 exists.

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 through 2007.

Auditee Response and Corrective Action Plan: Bullet 1, Supplies for mammography processor was procured through sole source procurement method. That is the reason why there were no price quotations in file. Ministry of Health stated reasons for sole source in its letter to ROP Procurement Officer, ROP Procurement officer accepted and certified reasons for sole source procurement.

Bullet 1 & 2, ROP accepted quotations from companies that stated “items out of stock” as one of the required three price quotations. Due to limited vendors on island, obtaining adequate number of qualified sources is a challenge that ROP has to address. ROP will strengthen its controls to maximize competition by retraining staff to become more aware of Federal and Local procurement policies. ROP will train staff to document their rationale in writing and file accordingly. ROP does not concur with questioned cost because the expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-11
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant No.: S256A060001, S256A060001-07
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$36,924

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not processed through bid procedures, the procurement officer concerned 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 the selection shall be maintained in the purchase order file. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required on small purchase under \$10,000 if there is adequate documentation that there are fewer than three 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 available airlines between Palau and the destination.

Additionally, the procurement law specifically provides for the following:

- For items purchased through competitive sealed bidding, invitation for bids shall be issued and shall contain a clear and, complete and accurate description of the goods or services to be procured. The law provides for the minimum requirements that an invitation for bids must have;
- Public notice of the invitation for bids shall be made a reasonable time at least 15 days prior to the date of initial day of the bidding time and shall be furnished to all required public sites as enumerated in the law, be published in a newspaper of general circulation, and shall be announced on all radio and television stations within the Republic;
- Bidding time of at least thirty days shall be provided unless the procurement officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The minimum time period should not be less than fifteen days after the notice of invitation for bids is posted;
- The bid opening shall be conducted by the procurement officer or his designee. The bids will be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation. The procurement officer shall record the amount of each bid together with the name of each bidder and prepare a written summary of the bid opening to be countersigned by the witnesses;
- The contract must be awarded with reasonable promptness, but in no event later than thirty days after opening the bids, by written notice to the responsive bidder whose bid fully meets the requirements of the invitation for bids.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-11, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant No.: S256A060001, S256A060001-07
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$36,924

Condition: Of thirty-two expenditures tested, totaling \$479,089, of a total population of \$695,066, the following were noted:

- For two disbursements related to one contract (contract #D70202), a copy of contract award letter was not made available, thus, awarding of the contract within the reasonable time could not be verified. Further, there was no evidence that the public notice was announced in all radio stations.

<u>Check No.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant Award No.</u>	<u>Description</u>
260237	663944	\$ 13,168	S256A060001	Independent contract services
262490	675339	\$ 13,168	S256A060001	Independent contract services

- For two disbursements related to one contract (contract # D80037), there was lack of evidence that the public notice was adequately advertised and publicized:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Grant Award No.</u>	<u>Description</u>
266040	685718	\$ 20,000	S256A060001	Independent contract services
unpaid	693281	\$ 30,000	S256A060001	Independent contract services

- For six disbursements related to two purchase orders (PO #P7003, P70038), the related request for proposal could not be located. Further, there was lack of evidence that the public notice was adequately advertised and publicized

<u>Wire Transfer No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
78187494	674002	\$ 605	Books and instructional materials	S256A060001
78186962	674003	\$ 6,588	Books and instructional materials	S256A060001
70154592	674004	\$ 165,712	Books and instructional materials	S256A060001
78186138	674007	\$ 17,302	Books and instructional materials	S256A060001
71181053	674006	\$ 18,772	Books and instructional materials	S256A060001
87186551	674005	\$ 9,883	Books and instructional materials	S256A060001

- For one disbursement related to one contract (contract #D70176), the contract was not awarded within thirty days upon bid opening. Further, there was no evidence that the public notice was announced in all radio stations:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
255692	663457	\$ 12,390	Independent contract services	S256A060001-07

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-11, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant No.: S256A060001, S256A060001-07
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$36,924

Condition, Continued:

- For two disbursements related to one contract (contract # D70189), the contract was not awarded within thirty days upon bid opening. Further, there was no evidence that the public notice was announced in all radio stations and posted to required sites and government offices:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
260236	665761	\$ 13,000	Independent contract services	S256A060001-07
253609	637911	\$ 7,000	Independent contract services	S256A060001-07

- For two disbursements related to one contract (contract #D80095), the independent contractor was not the last one to sign the contract. Further, a copy of contract award letter was not made available, thus, awarding of the contract within the reasonable time could not be verified. Finally, there was no evidence that the related public notice was announced in all radio stations:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
265776	685716	\$ 12,500	Independent contract services	S256A060001-07
unpaid	693280	\$ <u>12,500</u>	Independent contract services	S256A060001-07
Total Questioned Costs		\$ <u>25,000</u>		

- For one disbursement pertaining to one purchase order (PO#S80406), adequate number of price quotations was not obtained to ensure open and free competition:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
263865	682962	\$ <u>1,924</u>	Space and equipment rental	S256A060001-07
Total Questioned Costs		\$ <u>1,924</u>		

- For one disbursement related to one contract (contract #D70200), the project was completed after the agreed contract period, however, there was no contract amendment to support the extension of contract term. Further, a copy contract award letter was not made available, thus, awarding of the contract within the reasonable time could not be verified. There was also no evidence that the public notice was announced in all radio stations and posted to all required sites within the Republic:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant Award No.</u>
255696	663458	\$ <u>10,000</u>	Independent contract services	S256A060001-07
Total Questioned Costs		\$ <u>10,000</u>		

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-11, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant No.: S256A060001, S256A060001-07
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$36,924

Cause: The cause of the above condition is inadequate procurement documentation and weak controls over ensuring that competition remains open among vendors.

Effect: The effect of the above condition is noncompliance with applicable federal and local procurement regulations and questioned costs. Except for amounts identified as total questioned costs, all other matters are not questioned as we were able to determine that adequate competition occurred, however noncompliance with local laws result from these conditions.

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.

Auditee Response and Corrective Action Plan: ROP concurs with this finding with reservations. Contract D70202 (PCS-2007-14), ROP will strengthen its controls by retraining staff to adequately document procurements. This contract was advertised on one of three major news paper, and one of the three major radio station, and on television. ROP does not concur with the questioned cost because advertising is very costly and not all radio stations are understood by English or Palauan speaking people. Expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

ROP concurs with this finding with reservations, Contract D80037, public notice was publicized on one of the three major news paper and one of the three major radio station. Although local procurement policy states "all radio stations", it would be unnecessary and unpractical to advertise on all radio stations for such a small population and for the same reason previously stated. ROP does not concur with the questioned cost because expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

ROP concurs with all the findings with reservations. ROP will strengthen internal controls over procurement to maximize competition by retraining staff to become more aware of Federal and Local procurement policies. ROP does not concur with the questioned cost because expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-12
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant No.: OMIP-ROP-2007-2, OMIP-ROP-2007-1, PAL-115
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$366,661

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. For items purchased through competitive sealed bidding, invitation for bids shall be issued and shall contain a clear, complete and accurate description of the goods or services to be procured. The law provides for the minimum requirements that an invitation for bids must have.

Public notice of the invitation for bids shall be made a reasonable time at least 15 days prior to the date of initial day of the bidding time and shall be furnished to all required public sites as enumerated in the law, be published in a newspaper of general circulation, and shall be announced on all radio and television stations within the Republic.

Bidding time of at least thirty days shall be provided unless the procurement officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The minimum time period should not be less than fifteen days after the notice of invitation for bids is posted.

The bid opening shall be conducted by the procurement officer or his designee. The bids will be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation. The procurement officer shall record the amount of each bid together with the name of each bidder and prepare a written summary of the bid opening to be countersigned by the witnesses. The contract must be awarded with reasonable promptness, but in no event later than thirty days after opening the bids, by written notice to the responsive bidder whose bid fully meets the requirements of the invitation for bids.

Award shall be made to the reasonable offeror whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals. No other factors or criteria shall be used in the evaluation, and the contract file shall contain a detailed description of the findings and the basis on which the award is made.

Contracts which require an expenditure of \$10,000 or less may be awarded without competition when the Procurement Officer determines in a substantiated writing that there is only one reliable source of the required supply, service or construction item.

Condition: Of forty-three expenditures tested, totaling \$1,054,039, of a total population of \$1,299,565, the following were noted:

- For three disbursements related to one contract (contract #D80054), a copy of the proposal for one of the two bidders was not made available. The related award letter could not be provided, thus, we could not verify if the contract was awarded within a reasonable time frame. Although both bidders met minimum requirements, factors noted in the justification for selecting the higher bidder were not set forth in the request for proposal:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-12, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant No.: OMIP-ROP-2007-2, OMIP-ROP-2007-1, PAL-115
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$366,661

Condition, Continued:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
257680	\$ 41,500	Computer maintenance management system	OMIP-ROP-2007-2
257848	41,500	Computer maintenance management system	OMIP-ROP-2007-2
264013	<u>83,000</u>	Computer maintenance management system	OMIP-ROP-2007-2
	<u>\$ 166,000</u>		

- For two disbursements related to one contract (contract #C80011), the related procurement documents (request for proposal, public notice, copies of proposals received, bids summary, award letter, among others) evidencing competitive procurement were not made available:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
		Structural consultancy services	OMIP-ROP-2007-1
255758	\$ 29,880	Structural consultancy services	OMIP-ROP-2007-1
267974	<u>69,720</u>		
	<u>\$ 99,600</u>		

- For two disbursements under an agreement to transfer a sub-component of contract #D80111, there was no evidence of competitive procurement or written determination by the Procurement Officer that there is only one reliable source of the required service:

<u>Check No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
265076	\$ 48,000	Wireless connectivity	PAL-115 Amendment
268896	<u>48,000</u>	Wireless connectivity	PAL-115 Amendment
	<u>\$ 96,000</u>		

- For one disbursement, the bids summary, copies of public notice and newspaper advertisements and related invoices supporting newspaper, television and radio advertisements, and any evidence that the public notice was posted/distributed to required sites/government places were not made available:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant No.</u>
262909	677274	\$ 5,061	Professional services fees	R13873

Cause: The cause of the above condition is inadequate procurement documentation and weak controls over ensuring that competition remains open among vendors.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-12, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant No.: OMIP-ROP-2007-2, OMIP-ROP-2007-1, PAL-115
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$366,661

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

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.

Auditee Response and Corrective Action Plan: ROP does not concur with the questioned cost of \$166,000. ROP concurs that both bidders met minimum requirements. Recommendations from Ministry of Education Evaluation Team are documented and the ROP procurement officer concurred with the MOE Evaluation Team's recommendations in writing. ROP concurs that factors noted in the evaluation were not set forth in the request for proposal. However, ROP Procurement Officer determined that such factors are reasonable and appropriate for the interest of the Republic of Palau and Grantor Agency.

ROP does not concur with the questioned cost of \$99,600. CIP Office already had an open contract with an Engineer since 2005 before this project. ROP Concur that there are no evidence of competition for Engineering Services for this particular contract because this was done in 2005 when CIP office entered into an open contract with this Engineer. Both disbursements are reasonable, necessary, and allowable under this grant.

There were two vendors, Palau Telecoms and Palau Mobile. The committee selected Palau Telecoms because the company had registration provided by office of Communication and Transportation reflecting that Palau Telecoms had the frequencies to perform the service while, the other vendor had no Frequencies and or right to provide internet services. At the moment Palau Mobile CANNOT provide internet services. ROP does not concur with questioned cost because expenditures are reasonable, necessary, and allowable for the interest of the Federal Program and ROP.

This contract was executed in 2002. All the required procurement documents for this project were forwarded to grantor agency per letter to DOI dated February 12, 2002. This is a part of reconciliation and closeout of old grants between DOI and grantee.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-13
 CFDA Program: U.S. HHS 93.283 CDC and Prevention - Investigations & Technical Asst.
 CFDA Program: U.S. ED 84.027 Special Education - Grants to States
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
 Grant No.: 3U58/DP922936-05W1, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07
 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 182 expenditures tested, totaling \$315,118, of a total population of \$513,060 (CFDA #84.027), two requests for proposals (RFP #2007-017 and RFP #07-201) for which the awarded amounts were \$27,003 and \$22,399, respectively, did not indicate the percentage and amount of federal funds. Further, for one local purchase order (PO #L80448) amounting to \$2,750, we could not verify if the percentage and amount of federal funds was indicated as the written request for price quotation was not made available.

Of thirty-eight expenditures tested, totaling \$198,303, of a total population of \$571,265 (CFDA #93.283), the following expenditure 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:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Contract amount</u>	<u>Description</u>
261427	666619	\$ 12,000	Rental payment for the Division of Behavioral Health, Tobacco Prevention and Control Program

Of thirty-two expenditures tested, totaling \$479,089, of a total population of \$695,066 (CFDA #84.256), public notice issued for four contracts and two purchase orders (contract #D70202, #D70176, #D70189, #D70200, #P70035, #P70038) did not indicate the percentage and amount of federal funds.. Further, one request for proposal (RFP #PCS-2007-01) did not indicate the amount and percentage of federal funds for the project.

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. No questioned costs result from the above conditions as we were able to determine that adequate competition occurred.

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 Audits of the Republic for fiscal years 2006 and 2007.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-13, Continued
CFDA Program: U.S. HHS 93.283 CDC and Prevention - Investigations & Technical Assistance
CFDA Program: U.S. ED 84.027 Special Education - Grants to States
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
Grant No.: 3U58/DP922936-05W1, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: ROP will use this finding in staff training to increase their knowledge on this provision. ROP have revised their price solicitation forms to include such provisions.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-14
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: U58/DP000776-01, U58/DP922936-05
 Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and
 Colorectal, Chronic Disease Prevention and Health Promotion Programs
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$3,960

Criteria: Expenditures charged to the program should be in accordance with approved grant award and the budget justification.

Condition: Of thirty-eight disbursements tested, totaling \$198,303, of the total population of \$571,265, two expenditures were charged to the program; however they were not included in the grant award’s approved budget justification:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
694480	267592	\$ 3,960	U58/DP00076-01	H73683	airline ticket of an elected legislative member to attend World Health Assembly in Geneva
698980	269834	<u>7,000</u>	U58/DP922936-05	H73661	service contract for grant writing, monitoring and capacity building
		\$10,960			
Less questioned at finding 2008-10		<u>7,000</u>			
Total questioned cost		<u>\$ 3,960</u>			

Cause: The cause of the above condition is lack of control over expenditures charged to the program.

Effect: The effect of the above condition is questioned costs.

Recommendation: We recommend that management ensure expenditures charged to the program are in line with the approved grant award budget justification.

Auditee Response and Corrective Action Plan: ROP concurs with the finding although the justification at the time related the travel to the overall program benefit. Finance Office will ensure program expenditures are approved in the grant award budget justification. Otherwise a grantor’s approval is requested and granted.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-15
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: U58/DP000776-01, U58/DP922936-05
Requirement: Allowable costs/Cost Principles
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, 2008 were not documented and filed (cost center nos. H73660, H73661, H73683, I73683, H83683, H78652).

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. No questioned cost result from this finding as we could not determine the cumulative amount of transfers based on available evidence

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 Audits of the Republic for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: ROP started assigning codes that matches grantor's budget categories for all new grants. Cost Centers mentioned above are the last ones that does not have the new codes. These codes will help with audit trail from grant cost categories to ROP cost categories.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-16
 Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 1U58DP000776-01
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$23,231

Criteria: The grant terms and conditions allow for administrative costs of maximum of 10% of the grant award.

Condition: Of six administrative costs tested, totaling \$28,155, of total population of \$81,410, four did not appear to have direct or indirect benefit to the grant:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
262560	678705	\$ 2,400	travel to Sydney, Australia to attend Diving and Hyperbaric Medicine Course for 12 days
263908	684267	7,631	Attend first annual conference "facing tomorrow" in Jerusalem with the President
267554	692334	3,700	32 chairs for Ministry of Health Library Conference Room
261374	676741	<u>9,500</u>	Retainer fee for representation of an orthopedist in a legal fees for case representation/retainer
		\$ <u>23,231</u>	

Cause: The cause of the above condition is direct costs of a local program and/or another federal grant are charged to this grant.

Effect: The effect of the above condition is questioned costs.

Recommendation: We recommend that management implement control procedures to prevent costs of local and/or other Federal grants from charging the grant.

Auditee Response and Corrective Action Plan: The above expenditures were charged to the administrative cost of the Cancer program. Earlier we received a clarification from a cancer program agency that we could use the administrative cost like we do with the indirect cost. The indirect cost recoveries we receive are spent for project or programs unrelated to the grants. We took it to mean that we could use the administrative cost this way too. We are yet to be told otherwise. In the mean time we will work with the cancer program to come up with ways to spend the administrative cost on related projects.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-17
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: U.S. ED 84.027 Special Education – Grants to States
Grant Number: 3U58/DP922936-05W1, 1U58/DP000776-01, H027B030001-05
Requirement: Allowable Costs/Cost Principles
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 forty payroll expenditures tested, totaling \$42,829, of the total population of \$501,750 (CFDA #93.283), we noted that not all personnel spend 100% of their time on the Chronic Disease Prevention and Health Promotion Programs and National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal (check nos. 1129896, 1157462, 1142328, 1172672, 1132409, 1163770, 1171349, 1171352, 1171353, 1173875).

Of forty-six payroll expenditures tested, totaling \$21,364, of a total population of \$728,793 (CFDA #84.027), we noted four teachers who did not spend 100% of their time working for the Special Education program but the entire salaries were charged to the program (employee nos. 9553, 65051, 49748, 32993)..

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. Salaries unrelated to the program could not be determined based on available evidence and therefore, no questioned costs are estimated for the programs.

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 2007.

Auditee Response and Corrective Action Plan: Ministry of Finance will conduct training workshop with Ministry of Health and Ministry of Education in regards to this finding. MOF, MOH, and MOE will draft policies to address cost allocations accordingly.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-18
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant No.: PAL-115 Amendment
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$ 0

Criteria: Per the Property Management Policies and Procedures manual, Chapter IV, Section 205.1, it is the policy of the Republic to document the receipt of all government property, regardless of the method or source of acquisition. This includes, but is not limited to, property that is acquired from commercial sources, fabricated in the government shops, donated, recovered or obtained by transfer. Property received will be recorded on a receiving report to:

- a) Provide record of receipt;
- b) Provide a document of entry to the records and account; and
- c) Substantiate the disbursement voucher.

Condition: Of forty-three expenditures tested, totaling \$1,054,039, of a total population of \$1,299,565, we noted the following:

- two disbursements represented payment for hardware and there was no receiving report or equivalent to substantiate that the hardware was actually received by the Republic:

<u>Check no.</u>	<u>Amount</u>	<u>Description</u>	<u>Voucher no.</u>	<u>Grant no.</u>
267147	\$ 17,488	Hardware	691111	PAL-115 Amendment
265339	17,487	Hardware	687697	PAL-115 Amendment
	<u>\$ 34,975</u>			

- expenditures in the amount of \$140,000 lacked evidence of work progress to date to substantiate the amount paid (JV #DF800136). Internal progress reports were provided upon request and there were no progress reports from the contractor to confirm project status. Progress report dated June 8, 2009 indicated under Phase I that cash drawers and hardware installation are completed however, various scanners, printers, cash drawers and computers were still packed in boxes in the stockroom of the National Hospital as of that date.

No questioned cost result from this finding as we subsequently sighted existence of the hardware and the overall contract has not completed as of report date.

Cause: The above criteria have not been implemented for acquisition of property based on executed contracts. Receiving reports are only utilized for property acquired through purchase orders. Disbursements and/or journal voucher entry are made based on the assumption of the status to date without requiring status report to date.

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

Recommendation: We recommend that the Republic implement procedures to comply with the above criteria.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-18, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant No.: PAL-115 Amendment
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$ 0

Auditee Response and Corrective Action Plan: The hardware in question was purchased through a contract. ROP Contracts are assigned differently from requisitions where the system does not print out a receiving report. Normally contracts are for services requiring progress reports used to request payments. Currently, MOF substantiates disbursement vouchers using the progress reports for the user department or Ministry. These reports certify that vendor has fulfilled their part of the contract and therefore, payment is due. Most of the executed contracts have payment schedules based upon progress and not each line item. Because there was no physical receiving report, progress report was used to as a proof to initiate payment. Property and Supply had records of tagging the equipment as evidence that the ROP had actually received the equipments. An oral agreement was reached where officer of contractual services that include equipment in a contract, should make a list of all equipment contained in the contract and submit to the procurement of goods and a copy to the department contracting the service to ensure the list of equipments are signed when equipments are received.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-19
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations & Technical Assistance
 Grant Number: U90/CCU921820, U55/CCU922043, 1U58DP000776-01
 Requirement: Period of Availability of Funds
 Questioned Costs: \$22,083

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 sixteen expenditures tested totaling \$83,157, the following were noted:

- Two expenditures on February 29, 2008, were supported by internal progress report, without supporting vendor invoice or equivalent and evidence of service completion:

<u>Cost Center</u>	<u>Date</u>	<u>Voucher no.</u>	<u>Amount</u>
H63679	02/29/08	DF800060	\$ 6,300
H63679	02/29/08	DF800060	<u>6,300</u>
			\$ <u>12,600</u>

- Two were paid later than 90 days after the end of the funding period or the extended date:

<u>Cost Center</u>	<u>Check Date</u>	<u>Voucher no.</u>	<u>Amount</u>
H63683	JV approved 11/06/07	DF800004	\$ 7,283
H73683	11/20/08	699498	<u>2,200</u>
			\$ <u>9,483</u>

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. In addition, internal progress report is supporting expenditures instead of vendor invoices or equivalent.

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

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

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 years 2006 and 2007.

Auditee Response and Corrective Action Plan: ROP does not concur with the questioned cost of \$12,600. ROP has been relying on Final Progress Reports for service type requisitions. Ministry of Health submitted their “After Action Report”, which clearly states the start date, end date, event site and location, purpose, event descriptions, and corrective action plans for upcoming events. ROP finds this report superior to a plain receiving report that signifies completion of project.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-19, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations & Technical Assistance
Grant Number: U90/CCU921820, U55/CCU922043, 1U58DP000776-01
Requirement: Period of Availability of Funds
Questioned Costs: \$22,083

Auditee Response and Corrective Action Plan, Continued:

ROP concurs with this finding. This was an advance payment moved to this grant after all the required document were submitted. This payment was considered as expenditures and drawn as it was within the budget period. ROP will make sure to make such transfers within the budget period.

ROP does not concur with the questioned cost of \$2,200. This payment was for services within the budget period. ROP concurs that although issuance of check and drawdown of funds were beyond liquidation period, obligations and services received were within the budget period

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-20
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations & Technical Assistance
Grant Number: 5U58DP000776-02
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$22,500

Criteria: Per the grant terms and conditions section 4, the level of non-federal financial participation for National Breast and Cervical Cancer Early Detection Program (NBCCEDP) is \$22,500.

Condition: There are no records evidencing non-federal match for the year ended September 30, 2008.

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. A questioned cost of \$22,500 exists.

Recommendation: We recommend that management implement policies and procedures to adhere to the above criteria.

Prior Year Status: Lack of records to evidence compliance with matching requirement was reported as a finding in the Single Audits of the Republic for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: Ministry of Finance will work with Ministry of Health to address documentation of in-kind. ROP does not concur with questioned cost as Ministry of Health is currently sending the required reports to Grantor Agency.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-21
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: H80CS02467-22-01, 2H80CS02467-23-00
Requirement: Special Tests and Provisions

Criteria: Unless the requirement for a governing board is waived by HRSA or the center is operated by an Indian tribe or tribal or Indian organization under the Indian Self-Determination Act or an urban Indian organization under the Indian Health Care Improvement Act, the health center must have a governing board that (1) is composed of individuals, a majority of whom are being served by the center and who, as a group, represent the individuals being served by the center; (2) meets at least once a month; (3) selects the services to be provided by the center; (4) schedules the hours during which services will be provided by the center; (5) approves the center's annual budget; (6) approves the selection of a director for the center; and (7) except in the case of a public center, establishes general policies for the center (42 USC 254b(k)(3)(H)).

Condition: During the test of special tests and provisions, we noted the following:

- We examined the board minutes from October 30, 2007 through April 14, 2009 and there was no evidence that the board approved the annual fiscal year 2008 budget;
- The board did not meet during the month of November 2007.

Cause: The cause of the above condition is a lack of compliance with program requirements.

Effect: The effect of the above condition is noncompliance with special tests and provisions. We are unable to quantify questioned costs, if any, resulting from noncompliance.

Recommendation: We recommend that the Republic establish procedures to ensure compliance with special provisions of grant awards.

Auditee Response and Corrective Action Plan: Ministry of Finance will work with Ministry of Health to ensure compliance with special provisions of grant awards are complied with.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-22
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 CDC and Prevention – Investigations and Technical Assistance
Grant Number: H80CS02467-22-01, 2H80CS02467-23-00
Requirement: Program Income

Criteria: Non grant funds (State, Local and other operational funding and fees, premiums, and third party reimbursements) which the project may reasonably be expected to receive, including any such funds in excess of those originally expected, shall be used as permitted under law and may be used for such other purposes as are not specifically prohibited under the law if such use further the objectives of the project.

Condition: During tests of program income, we noted that the program does not perform its own billing and collection. Rather, the National Hospital, which is part of the Special Revenue Fund of the ROP, performs this function. There was no formal agreement or understanding between the program and the hospital with respect to fulfilling the underlying CHC federal requirements.

Cause: The cause of the above condition is a lack of compliance with the program income requirements.

Effect: The effect of the above condition is unrecorded revenues collected through CHC programs. No questioned cost is presented from the above condition as we were not able to determine the program income received by the CHC program.

Recommendation: We recommend that the Republic establish procedure to ensure compliance with program income requirements.

Auditee Response and Corrective Action Plan: Program income of the public health was agreed to be retained by the hospital for medical purpose, but agreement has been misplaced and employees who knew of the agreement are long gone and no longer working for the Ministry of Health. That was the reason Hospital Trust Fund was created by law to account for all hospital income. Ministry of Health is reporting their program income to their appropriate agencies. A letter was written to Dr. Kuartei last year regarding options to account for their program income. We will work with the Ministry of Health to come up with appropriate spending plan for program income.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-23
 CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories
 CFDA Program: U.S. ED 84.027 Special Education – Grants to States
 CFDA Program: U.S. ED 84.256 Territories & Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations & Technical Asst
 CFDA Program: U.S. HHS 93.224 CDC and Prevention – Investigations & Technical Assistance
 Grant no.: MOU-2007, MOU-Supplement 2008, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1, H80CS02467-22-01, 2H80CS02467-23-00
 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 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: There was no evidence to indicate annual physical inventory performance by accountable officers at the department level. Attendant physical inventory records do not appear to be complete. Additionally, our tests of fixed assets noted the following:

- There was no evidence of effective maintenance of assets during the year ended September 30, 2008:

	9/30/2008
<u>CFDA #</u>	<u>Assets cost</u>
15.875	\$ 337,978
84.256	\$ 256,785
93.283	\$ 415,689
93.224	\$ 103,879
84.027	\$ 207,975

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No.: 2008-23, Continued
CFDA Program: U.S. DOI 15.875 Economic, Social and Political Development of the Territories
CFDA Program: U.S. ED 84.027 Special Education – Grants to States
CFDA Program: U.S. ED 84.256 Territories & Freely Associated States Education Grant
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations & Technical Asst
CFDA Program: U.S. HHS 93.224 CDC and Prevention – Investigations & Technical Assistance
Grant no.: MOU-2007, MOU-Supplement 2008, H027A070006-6A, H027B030001-05, S256A060001, S256A060001-07, U58/DP000776-01, 3U58/DP922936-05W1, H80CS02467-22-01, 2H80CS02467-23-00
Area: Equipment and Real Property Management
Questioned Costs: \$0

Condition, Continued:

- Of seven assets sighted totaling \$76,729 (CFDA #93.224), one in the amount of \$6,765 (tag no. RP-3387) could not be located; and there was no request for a Transfer of Property form or a transfer of Property Authorization form prepared for one in the amount of \$9,250 (tag no. RP3408);
- Of ten assets sighted totaling \$179,100 (CFDA #84.027), one in the amount of \$8,000 (tag no. RP-3431) was not operable as of September 30, 2008; however, there has been no report of survey as of November 2008; and one in the amount of \$6,385 (tag no. RP-98406) was noted on the property record but could not be located for testing as of November 19, 2008, however, there was no report of survey as of November 2008;
- Of seventeen assets sighted totaling \$234,217 (CFDA #84.256), one in the amount of \$23,000 (tag no. RP-98467) was not operable as of September 30, 2008; however, it was transferred to different org # as of September 30, 2008. There is no report of transfer documents provided for examination.

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

Effect: The effect of the above condition is noncompliance with fixed assets policies and procedures. There is no questioned cost as noncompliance with local laws result from these conditions.

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 2007.

Auditee Response and Corrective Action Plan: The Property Management Office has been understaffed for some time. The Vice President/Minister of Finance has hired a special assistant to ensure ROP properties are accounted for and adequately monitored.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2008

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, 2007:

Questioned costs as previously reported	\$ 801,692
Questioned costs for the year ended September 30, 2008	<u>577,977</u>
Unresolved questioned costs at September 30, 2008	\$ <u>1,379,669</u>

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 18 through 61).