

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2009

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

Board of Trustees
Republic of Palau Civil Service Pension Trust Fund:

We have audited the financial statements of the Republic of Palau Civil Service Pension Trust Fund (the Fund) as of and for the year ended September 30, 2009, and have issued our report thereon dated June 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 Fund'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 Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

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

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses (pages 3 and 4) as item 2009-1.

We noted certain matters that we reported to management of the Fund in a separate letter dated June 29, 2010.

The Fund's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche, LLC

June 29, 2010

REPUBLIC OF PALAU
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Schedule of Findings and Responses
Year Ended September 30, 2009

Procurement

Finding No. 2009-1

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 (ROP) procurement requirements and such approval shall be documented in the procurement file. Purchases over \$10,000 require a formal bidding process. Public notice of the invitation for bids shall be announced on all radio and television stations within ROP and shall be made at a reasonable time at least fifteen days prior to the date of the initial day of bidding time. Invitations for bid shall contain a clear, complete and accurate description of goods or services procured. This description shall not contain unnecessary restrictive requirements which may unduly limit the number of bidders. 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 on the invitation. The Procurement Officer shall record the amount to each bid together with the name of each bidder and prepare a written summary of the bid opening, to be countersigned by the witnesses.

Condition: Our tests of fixed asset additions, totaling \$61,071, noted the following:

- There was no evidence that a public notice was prepared and advertised in a newspaper and all radios and television stations within ROP for 15 days prior to issuance of two requests for proposal (RFP nos. CSPP-014 and CSPP 2009-01);
- There was no evidence that a request for proposal was issued for one purchase (RFP no. CSPP 2009-01);
- There was no evidence of bid opening summaries for two requests for proposal (RFP nos. CSPP-014 and CSPP 2009-01);
- Specification of goods procured identified a specific brand name, therefore, this would limit the number of bidders for one request for proposal (RFP no. CSPP 2009-01); and
- Specification of goods procured was not provided for examination for one request for proposal (RFP no. CSPP-014).

Cause: The cause of the above condition is that Fund does not follow ROP procurement policy.

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

Recommendation: We recommend that the Fund comply with ROP procurement policy.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Presley Etibek, Administrator

Corrective Action: The Board of Trustees in its meeting on May 6, 2010 unanimously voted to adopt the Republic of Palau procurement regulations for the Fund to adhere to in procuring assets and services. Effective May 6, 2010, the Fund will begin complying with ROP procurement procedures.

Proposed Completion Date: Starting when the Board adopted the ROP procurement regulations (May 6, 2010) until the Board and the Fund elect to implement its own procurement regulations.

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Unresolved Prior Year Comments
Year Ended September 30, 2009

There are no unresolved findings from prior year audits of the Fund.